Report of the Committee on Integration of Co-operative Credit Institutions

agricultural refinance and development corporation
bombay

REPORT OF THE COMMITTEE ON INTEGRATION OF CO-OPERATIVE CREDIT INSTITUTIONS

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ABBREVIATIONS

ACD	Agricultural Credit Department of Reserve Bank of India
ARDC	Agricultural Refinance and Development Corporation
CCB	Central Co-operative Bank/s
CFA	Central Financing Agency/Agencies
DCDB	District Co-operative Development Bank/s
DPAP	Drought Prone Areas Programme
FSS	Farmers' Service Society/Societies
GOI	Government of India
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
LAMPS	Large-sized Multi-purpose Society/Societies
LDB	Land Development Bank/s
LIC	Life Insurance Corporation of India
LT	Long-term
LVO	Land Valuation Officer/s
MFAL	Marginal Farmers and Agricultural Labourers Agency/Agencies
MPCS	Multi-purpose Co-operative Society/Societies
MT	Medium-term
NA	Not Available
PACS	Primary Agricultural Co-operative Credit Society/Societies
PLDB	Primary Co-operative Land Development Bank/s or branch/branches of SLDB in Unitary Structure
RBI	Reserve Bank of India
RRB	Regional Rural Bank/s
SBI	State Bank of India
SCB	State Co-operative Bank/s
SCDB	State Co-operative Development Bank/s
SFDA	Small Farmers Development Agency/Agencies
SLDB	State Co-operative Land Development Bank/s
ST	Short-term
TADP	Tribal Area Development Programme

CHAPTER 1

INTRODUCTION

1.1 The co-operatives enjoyed a virtual monopoly in the provision of credit for agriculture till the commercial banks came on the scene. Until the late 'twenties, farmers could look to only one institutional credit agency in the co-operative sector to meet all their credit needs whether they related to seasonal agricultural operations, investment in land or redemption of debts. The great economic depression of the early 'thirties which led to a crash in agricultural prices resulted in a sharp increase in the real burden of debt on the farming community and while relief came to be provided through various debt relief measures, it was felt at that time that a more permanent arrangement could be made by creating institutions to help farmers by advancing them long-term loans for debt redemption so that the burden could be spread over a number of years and brought within their repaying capacity. The first co-operative land mortgage banks which were established during that period, as institutions separate from the existing co-operative credit institutions, therefore, confined themselves to providing loans for redemption of past debts. Similar banks established in the different parts of the country in the next two decades also concerned themselves with providing loans for debt redemption. The emphasis shifted to development and investment credit only from the 'sixties so much so that now 90 per cent of the loans advanced by the land development banks have to be for productive purposes as defined by the Reserve Bank of India (RBI).

1.2 Thus, for historical reasons, two parallel wings of co-operative credit institutions have come into existence and developed, one for purveying short-term and medium-term credit to the cultivators and the other for dispensing long-term credit at first for debt redemption and subsequently for investment in agriculture. The pattern of the short-term credit structure obtaining in most parts of the country is a federal one with a three-tier system. At the base level, primary agricultural credit societies (PACS) function mostly on the basis of a village or a cluster of villages as their area of operation. At the intermediary level, normally a central co-operative bank (CCB) functions, one for each district. At the apex of the federal structure is the state co-operative bank (SCB). This structure itself is an evolution over a period of decades, beginning with the enactment of the Co-operative Societies Act, 1904.

1.3 The earliest long-term co-operative credit structure had two tiers only: one at the state level and the other at the taluka/tehsil level. These were called the state land mortgage banks and the primary land mortgage banks, respectively. Later, many states introduced a bank at the state level with branches at the district or taluka levels. The long-term co-operative credit structure is thus both unitary and federal, the former existing in most of the western and northern states and the latter in almost all the southern states and most of the eastern states. With the increased emphasis on development and investment credit, the institutions are now known as state co-operative land development banks (SLDB) and primary co-operative land development banks (PLDB).

1.4 In the context of planned economic development, the quantum of finance expected to be made available for agricultural development through the short-term and the long-term wings of the co-operative credit structure has steadily increased. During the Fifth Five Year Plan, a large role has been assigned to the co-operatives in the provision of production and development credit as can be seen from the following figures :

Rs Crores

Type of loan	Fifth Plan Programme	1974-5		1975-6
		Target	Likely Achievement	Target
Short-term loan	1319.00	807.00	820.75	979.20
Medium-term loan	330.00	58.00	55.34	74.94
Long-term loan	1500.00*	248.73	226.97	256.45

* Includes not less than Rs 600 crores under special schemes of ARDC.
(*Source:* Government of India)

1.5 With the increasing emphasis on the provision of investment credit for agricultural programmes, certain imbalances have been noticed on account of the dichotomy now prevalent in the co-operative credit structure. The development of the two wings, viz., the short-term and the long-term wings, has not been simultaneous and uniform in many parts of the country and proper availability and utilisation of investment credit have thereby been adversely affected. When large investment credit is provided under area development schemes, the inadequacy of production credit renders full exploitation of the fruits of investment credit somewhat difficult. Conversely, the full and efficient utilisation of production credit can be ensured only if the requisite investment credit is also made available. Despite attempts made to ensure effective co-ordination, the two wings of the credit structure have grown in a rather mutually exclusive manner and such exclusive functioning and absence of synchronized growth of the two wings in many areas are liable to render investment credit unproductive or under-productive.

1.6 In recognition of the lacunae inherent in such a situation, under area development projects sanctioned by it, the Agricultural Refinance and Development Corporation (ARDC) prepares comprehensive banking plans ensuring provision of necessary credit facilities to meet the production credit requirements also in addition to investment credit. On account of the unequal development of the two wings of the co-operative credit structure, the co-operatives have been unable to obtain a larger proportion of the lending programmes envisaged under these projects.

1.7 It has become increasingly necessary to take a comprehensive view of the requirements of the development projects, as also the composite needs and repaying capacity of the borrowers in respect of both investment credit and working capital in the context of the massive programmes of agricultural investment in the country. The thinking has, therefore, gained emphasis that a farmer should be enabled to get all his credit, whether short, medium or long-term, and allied services in an integrated manner at one contact point. This line of thinking is reflected in the recommendations of the Agricultural Credit Board of the RBI, the Banking Commission, the National Commission on Agriculture, the Fifth Five Year Plan Working Group on Co-operatives, the Expert Group headed by Shri T. A. Pai and very recently the Committee on Co-operative Land Development Banks (details are given in the next chapter). This desire to provide the farmer with all types of credit and other services at one point has found its expression in the concept of the Farmers Service Societies (FSS) which are now being organised all over the country, and the steps that are now being taken to re-organise the primary agricultural co-operative credit societies (PACS) to make them viable and truly multi-purpose, particularly in the tribal districts. The involvement of commercial banks in financing PACS has also increased in recent years and is expected to increase further in the near future because of the recognition that it would be advantageous to these banks to lend through societies, if they are to meet the needs particularly of the small farmers. The ARDC has approved the routing of long-term credit by commercial banks through the societies adopted by them. The result will be that as more and more areas come for financing by commercial banks through PACS/FSS, the dichotomy which at present exists in the co-operative banking structure will disappear at least from these areas.

1.8 The World Bank's Mission which appraised the Agricultural Refinance Corporation Credit Project (March 1975) also observed that farmers in India were unable to obtain seasonal and long-term credit from the same organisation under the co-operative system of financing. During the negotiations of the Credit Project, the Government of India agreed that a study would be made to investigate the possibility of integration of the two wings of the co-operative credit system.

Composition of the Committee

1.9 It was against this background that the RBI, as desired by the Government of India (GOI) and in consultation with them, appointed in September 1975 a Committee for studying the feasibility of integrating the two wings of the co-operative credit structure in the country, under the Chairmanship of Dr R. K. Hazari, Deputy Governor of the RBI and Chairman of the ARDC. Including the Chairman, the Committee consisted of 15 members as follows :

1.	Dr R. K. Hazari Deputy Governor and Chairman Agricultural Refinance and Development Corporation Reserve Bank of India Central Office Bombay	Chairman
2.	Dr C. D. Datey Executive Director Reserve Bank of India Bombay	Vice-Chairman
3.	Dr K. Kanungo Dean and Joint Director Indian Agricultural Research Institute New Delhi	Member
4.	Shri B. S. Vishwanathan Chairman National Co-operative Land Development Banks' Federation Bombay	Member

5.	Shri Veershetty Kushnoor[1] Chairman All-India State Co-operative Banks' Federation Bombay	Member
6.	Shri P. F. Gutta Chairman and Managing Director Central Bank of India Bombay	Member
7.	Shri K. P. A. Menon[2] Joint Secretary to the Government of India Department of Revenue and Banking (Banking Wing) New Delhi	Member
8.	Shri R. Srinivasan[2] Director (Credit) Ministry of Agriculture and Irrigation Department of Rural Development Government of India New Delhi	Member
9.	Shri K. Madhava Das Chief Officer Agricultural Credit Department Reserve Bank of India Central Office Bombay	Member
10.	Shri M. A. Chidambaram Managing Director Agricultural Refinance and Development Corporation Bombay	Member
11.	Shri K. Subramanyam Secretary to the Government of Andhra Pradesh Food and Agriculture Department Hyderabad	Member
12.	Shri G. L. Bailur Secretary to the Government of Haryana Department of Agriculture and Co-operation Chandigarh	Member

[1]Relinquished his post as Chairman on 26 June 1976.

[2]Smt K. Bavani, Deputy Secretary originally nominated by the Ministry of Finance, Government of India, attended the second meeting of the Committee representing the Department of Banking. Similarly, Shri M. K. Mukharji, Joint Secretary originally nominated by the Department of Agriculture attended the first two meetings.

13.	Shri J. G. Kanga Commissioner for Co-operation and Registrar of Co-operative Societies Government of Maharashtra Pune	Member
14.	Dr J. P. Singh[1] Registrar of Co-operative Societies Government of Uttar Pradesh Lucknow	Member
15.	Shri S. G. V. Ramanan Director Agricultural Refinance and Development Corporation Bombay	Member-Secretary

Terms of Reference

1.10 The terms of reference of our Committee are reproduced below :

(i) To review the position of the two wings of the co-operative credit structure—the three-tier credit structure with the state co-operative bank at the apex, the central co-operative banks at the intermediate and the primary credit societies at the base levels and the land development banks—in the different states/union territories and to examine whether integration of the two wings will be advisable from the point of view of serving the objective of lending adequate support to the massive investment programme in agriculture.

(ii) To examine whether the integration may be brought about simultaneously at all the levels of the two wings of the co-operative credit structure or it may be done in a phased manner at the different levels.

(iii) To examine the structure of management and the staffing pattern at the intermediate and higher levels of the integrated units of the two wings of the co-operative credit structure, so that they may be able to handle satisfactorily short-term, medium-term and long-term agricultural credit.

(iv) To examine in particular the organisation and staffing pattern at the base level which is expected to deal with farmers so that it may be able to integrate the different types of credit with supplies of agricultural inputs, marketing of agricultural products, technical guidance, etc.

[1]At present Special Secretary, Animal Husbandry Department, Government of Uttar Pradesh, Lucknow.

(v) To examine the amendments necessary to the Co-operative Societies Act, the Co-operative Land Development Banks Act, the Rules framed thereunder, the Banking Regulation Act, 1949 (as applicable to co-operative societies), any other relevant laws, bye-laws and the business rules of the concerned institutions.

(vi) To make recommendations on other related aspects which, in the opinion of the Committee, are important.

1.11 The Secretariat of the Committee was provided by the ARDC.

Procedure

1.12 To fulfil the task entrusted to us, we adopted the following procedure :

Keeping in view the basic objective of maintaining the democratic character of the credit institutions in the co-operative sector and the fact that 'co-operation' is a state subject under the Constitution, we thought it desirable to ascertain the views of officials and non-officials of the various states in the country on the question of integration of the two wings of the co-operative credit structure. For this purpose, we held discussions between January and July 1976 with the Chief Ministers and/or Ministers for Co-operation, officials and non-officials in the states of Andhra Pradesh, Bihar, Gujarat,[1] Haryana, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Punjab, Rajasthan, Tamil Nadu[1] and Uttar Pradesh. We did not consider it necessary to visit other states, as very recently the Committee on Co-operative Land Development Banks appointed by the RBI under the chairmanship of Shri K. Madhava Das had examined, *inter alia,* the need for integration of co-operative credit institutions in those states. A detailed note was sent to the states visited to provide a basis for discussions. The Secretariat of the Committee also prepared notes analysing the position of the two wings of the co-operative credit structure with a view to helping us to examine the advisability of integrating the two wings from the point of view of serving the objective of lending adequate support to the massive investment programme in agriculture.

1.13 These visits were preceded by discussions in December 1975 with three Ministers of the Central Government, namely, Shri Jagjivan Ram, Shri T. A. Pai and Shri A. P. Shinde, from whom we received valuable advice and guidance.

[1]In this state, discussions were held with the Adviser to the Governor.

1.14 These discussions gave us an opportunity to obtain a clearer perspective of the pros and cons of the question set before us, from sources which were not only considered authoritative but also closely connected with the co-operative credit movement in the country. We could thus dispense with the usual but time-consuming detailed questionnaires ordinarily issued by Committees of this nature to elicit views on matters arising from their terms of reference.

1.15 We also decided to conduct studies in eight selected states, viz., Gujarat, Haryana, Jammu and Kashmir[1], Kerala, Maharashtra, Manipur, Orissa and Uttar Pradesh, with a view to examining the economies and other advantages likely to accrue from an integration of the two wings, at the intermediate and primary levels. These studies were also intended to throw light on the legal and other problems that might arise from integration and possible solutions therefor. For this purpose, Study Groups were appointed in each one of the selected states, consisting of representatives of the state government, apex level banks of the two wings, the RBI and the ARDC. The terms of reference issued to the Groups and their composition are given in Annexure 1.1. The findings of the studies were backed by field studies conducted by the officers of the RBI, ARDC and the apex level banks.

1.16 In addition to these Groups, we constituted two Subject Matter Groups, viz., Working Group on Legal Matters and Study Group on Management and Staffing Pattern. The Working Group on Legal Matters, appointed under the Chairmanship of Shri R. M. Halasyam, retired Legal Adviser to the RBI, was asked to study the present statutes governing the co-operative credit institutions in the field of short-term as well as long-term credit at the apex, intermediate and base levels and also to examine the amendments necessary to the co-operative law, rules, bye-laws and other relevant laws to facilitate smooth and efficient functioning of the integrated units at all or any levels. For this purpose model legislation, rules, bye-laws, etc., were to be prepared by the Working Group for adoption by the state governments. The Study Group on Management and Staffing Pattern which included Professor Varnasy S. Murty, a management expert from the Jamnalal Bajaj Institute of Management Studies, University of Bombay, was asked to examine and suggest suitable arrangements for evolving a proper management and staffing pattern at various levels of the integrated units. The terms of reference/guidelines and the composition of the Groups are given in Annexures 1.2 and 1.3. Quick field studies

[1]This study could not be completed in time for the consideration of the Committee.

were conducted by the Regional Offices of the Agricultural Credit Department (ACD) of the RBI at Ahmedabad, Bangalore, Hyderabad and Trivandrum to examine (i) the effect of overdues in respect of long-term credit on the PACS and (ii) the support extended by the short-term wing to investment credit.

Meetings of the Committee

1.17 Our Committee held in all four meetings as under :

Meeting	*Place*	*Date*
First	Bombay	7 November 1975
Second	New Delhi	11 December 1975
Third	Bangalore	14 June 1976
Fourth	Pune	30-31 July 1976

1.18 The draft report was finalised by the Committee at the fourth meeting and signed by the members.

Pattern of the Report

1.19 In this report, before detailing our recommendations on the terms of reference, in the second and third chapters, we have set out the historical perspective of the co-operative credit structure in the country and the pros and cons of integration, including a summary of the views presented to us during our visits to states. In the next chapter, we have briefly given the results of the studies conducted by the Study Groups. The following two chapters analyse the feasibility of integration in the light of the views collected and the studies made by us and present our recommendations on the main terms of reference. Chapter 7 deals with administrative and procedural reforms contemplated. The legal framework necessary for these reforms and for effecting integration of co-operative credit institutions is discussed in Chapter 8. We come out finally with a summary of conclusions and recommendations.

1.20 Shri B. S. Vishwanathan, one of the members of the Committee, did not agree with the views expressed and conclusions arrived at by the other members on the integration issue and has signed the report subject to a minute of dissent; the full text of his note is reproduced at the end of the Report. The arguments contained in the note against integration have been included in Chapter 3 and examined in Chapter 5, in appropriate places.

1.21 We are bringing out a separate volume containing in full (i) the Study Notes prepared by the Secretariat giving state-wise analysis of the co-operative credit movement for the use of the members and (ii) the Reports of the Study Groups and Subject Matter Groups.

Acknowledgements

1.22 The help received by us from various quarters in analysing this complex and difficult subject is invaluable and spontaneous. We are thankful to all those who had helped us in fulfilling the task entrusted to us.

1.23 In particular, we are grateful to Shri Jagjivan Ram, Minister for Agriculture and Irrigation, GOI, Shri T. A. Pai, Minister for Industry and Civil Supplies, GOI and Shri A. P. Shinde, Minister of State for Agriculture and Irrigation, GOI for the valuable guidance given by them during our discussions with them in December 1975. We are also grateful to the Chief Ministers and Ministers for Co-operation of the various states, which the Committee had the privilege to visit, for their spontaneous response to our requests for interviews and for the considerable benefit we derived from their views on integration. We are deeply thankful to the Advisers to the Governors of Gujarat and Tamil Nadu, officers of these and other state governments and the Chairmen of the State Co-operative Banks and the State Land Development Banks as well as other officials and non-officials of the co-operative credit movement who spared their valuable time to meet us and give us their considered views. A list of persons whom the Committee had the privilege to meet at New Delhi and state capitals is given in Annexure 1.4. Our special thanks are due to the conveners and members of the various Study Groups and the Working Group, for completing the assignments entrusted to them in the shortest possible time and best possible manner. We would like to particularly mention here the valuable services rendered by Shri R. M. Halasyam, Professor Varnasy S. Murty and the officials of the state governments and co-operative and commercial banks who were represented on the various Groups.

1.24 We are also thankful to the ARDC for the Secretariat it provided, and to the ACD, RBI for placing at our disposal the information and specialised knowledge available with them.

1.25 Special mention may be made of the staff attached to the Secretariat of the Committee and in particular of Sarvashri A. P. Mukundan, S. Dharmalingam and S. Krishnamurthy, Deputy Directors,

G. Mahalingam and S. G. Kashikar, Senior Analysts, ARDC, who took considerable pains to produce notes for the different states visited by the Committee and finally in preparing the draft of our report.[1]

1.26 The rest of us would like to place on record our sincere appreciation for the zeal with which the Member-Secretary, Shri S. G. V. Ramanan applied himself to the tasks before the Committee, co-ordinated the work of the various Groups appointed to conduct special studies or report on specific matters and directed the work of the Secretariat. He deserves our compliments also for the able manner in which he marshalled facts and presented a draft for our consideration. But for his efficient handling of the work, it would not have been possible for us to complete the assignment given to us within the stipulated period.

1.27 The Chairman wishes to record his deep appreciation of the co-operation and courtesy extended to him and the Secretariat by all members of the Committee. He is much obliged, in particular, to the Vice-Chairman, Dr C. D. Datey, for imparting his deep and wide-ranging knowledge of the co-operative movement to the deliberations of the Committee.

[1] A list of the staff of the Committee's Secretariat is given in Annexure 1.5.

CHAPTER 2

HISTORICAL PERSPECTIVE

2.1 An examination of the structural framework and procedural systems relating to the co-operative movement should, according to us, be done in the light of the present needs of the beneficiaries, the stage of development of the institutions and their capacity to adapt themselves to the changing needs of the country's economy. At the same time, we are fully aware that such an examination cannot altogether ignore the background against which the movement has evolved. Accordingly, we proceed in this chapter to briefly present the evolution of, and the reasons which supported, the dichotomous pattern in the co-operative credit structure.

2.2 The need for a dichotomous pattern in the co-operative credit structure was first anticipated and recommended by the Maclagan Committee (1915) constituted by the GOI to review the progress of the Co-operative Movement in the country. According to the Committee, the primary agricultural credit societies with the super-structure at the district and state levels were expected to provide loans for a term not exceeding 4 or 5 years only. These societies were primarily intended to cater to the small holders, tenants, etc. The Committee noted that no steps had been taken to extend co-operation for the benefit of the large proprietors and in this regard recommended the organisation of land mortgage banks/associations. The Committee also recommended debentures as an excellent method for securing money for the liquidation of old debts and for the redemption of mortgages where the law of land transfer offered no impediment.

2.3 A real beginning to give effect to the above recommendation was made only after the Registrars' Conference in 1926 which recommended the organisation of land mortgage banks for dispensing long-term credit to the agriculturists, under the Co-operative Societies Act. Later, the Royal Commission on Agriculture in India (1928) endorsed the resolution of the Registrars' Conference.

2.4 The organisation of land mortgage banks was taken up seriously in the late 'twenties and the 'thirties in the wake of the world economic depression. By this time, opinion in the country had crystallised around the idea that the two types of credit, i.e., short-term and long-term, could not be supplied by the same co-operative organisation. The Indian Central Banking Enquiry Committee (1931) took note of this consensus and observed as follows :

> "Almost all the Provincial Committees, and almost every competent authority on co-operative credit in India, are agreed that the existing primary societies, central banks and provincial banks, by reason of the character of their resources and other obvious limitations, from a banking point of view, can supply only the short and intermediate credit."
>
> (Majority Report : Para : 154 Page : 116)

The Majority Report of the Committee recommended the organisation of land mortgage banks for dispensing long-term credit for the following specific reasons :

"(1) the overshadowing of personal credit by mortgage may entail a neglect of co-operative principles,
(2) the deposits of co-operative societies including central and provincial banks are for short periods and it is unsound finance to utilise them for long-term loans,
(3) the enquiry and valuation preliminary to the grant of long-term loans have to be entrusted to a trained agency controlled by and responsible to some central organisation,
(4) the maintenance of valuable documents and title deeds cannot be entrusted to ordinary village societies and
(5) when defaults occur in the repayment of mortgage loans, the assets of the society become frozen and the obtaining and execution of mortgage decrees for the recovery of overdue loans becomes an extremely difficult operation."
(Majority Report : Para : 153 Pages : 125/126)

The Committee further summarised its views as under :

> "The fact, however, remains that the work of a mortgage bank is recognised on all hands to be extremely impersonal as devoid of the human element as possible and that the human and personal elements which are the chief characteristics of the Raiffeisen type of societies cannot be infused into them in any appreciable measure. While mutual knowledge of, and control over, one another among members is the insistent feature in the case of the unlimited liability credit society, the insistence in the case of land mortgage credit society with limited liability is on the capacity and business habits

of the directorate, in order to ensure sound valuation of security, careful investigation of titles, correct assessment of borrowers' credit and repaying capacity and efficient management of affairs."

(Majority Report : Para : 200 Page : 156)

2.5 Although the Indian Central Banking Enquiry Committee had recommended the organisation of land mortgage banks in the Majority Report, Shri Manu Subedar, in his dissenting Minority Report, had questioned the need for a separate institution as under :

"......A separate institution is helpful, if its turnover is large enough to justify the cost, and the position is not met by keeping the cost down to such an extent, as to have these matters fall into the hands of very small people, lacking in competence. In order to be carried out well, the work must be handled by capable people, and when this is a matter of cost, land mortgage banks could not have that amount of work year in and year out, which will justify engaging superior staff. There would be a lot of routine work, particularly with regard to the recoveries, but the judgment of the superior staff will not be requisitioned except on large and new issues, i.e., not very frequently. If there is not going to be a frequent call on the time and energy of the superior staff, there does not appear to be any adequate reason that those in charge of central banks of the co-operative movement and those in charge of branches of commercial banks outside the co-operative sphere, should not be entrusted with this task. It will serve at once the purpose of economy as well as efficiency, as the charges to be borne by the land mortgage section will be a portion only of the total charges of the superior staff. The full charges of the lower staff directly engaged in the work would, of course, have to be borne. There may be also economy with regard to office rents and for office incidentals."

(Minority Report : Para : 66 Page : 61)

The Committee had not studied the question from the angle of economy; nor could they "give detailed consideration" to Shri Manu Subedar's report as "it was received too late."

2.6 Till the beginning of the Five Year Plans, the unco-ordinated functioning of the two separate institutions for agricultural credit, one for long-term and another for short-term, did not create any problems as the land mortgage banks were primarily lending for discharge of old debts and redemption of mortgage of land. The primary societies were also providing short-term loans for various purposes including discharge of debts, consumption expenditure and seasonal agricultural operations. The clientele of these two credit institutions was also mostly mutually exclusive. But under the planned programme of development, the emphasis shifted more and more in favour of production-oriented and developmental credit. The All-India Rural Credit Survey Committee (1954) which reviewed the situation, observed that the land mortgage banks were raising inadequate funds "in a manner ill-related to demand and usually lends them in a manner unco-ordinated with development; acts as if prior debts, and not production, had prior claim on its attention; reaches mainly the large cultivator and reaches him late."[1]

2.7 The Survey Committee recommended that the land mortgage banks should orient their operations to give first priority to loans for productive purposes. While recommending the establishment of central land mortgage banks in each state and advocating the retention of two separate institutions, one for short and medium-term credit and another for long-term credit on account of the specialised character of land mortgage banking, the Committee had recognised the need for co-ordination between the two wings of the credit structure as follows :

> "While our recommendation regarding major State partnership will, we believe, provide the needed financial backbone to the superstructure of co-operative credit and enable it to extend full support to the rural base, it is also of great importance that the different components of the superstructure should function in co-ordination with one another. By and large, such co-ordination is now lacking......"
>
> (Para ; 4 Page : 433)
>
> "We recommend that, while the state co-operative bank and the central land mortgage bank should continue to remain separate entities for legal and financial purposes, direction and management should be common to the farthest extent possible and the same administrative staff operate under the two types of institutions. Thus, the state co-operative bank and the central land mortgage bank should have a common board of directors, a common administrative machinery and a common building to house them. If it is not practicable to have a common board of directors, at least some of the directors should be common to both. This recommendation applies in particular to States where either state co-operative banks or central land mortgage banks have to be newly established. Other

[1]General Report of the All-India Rural Credit Survey Committee (1954): Para : 17 Page : 228

States should, as far as possible, attempt to modify existing arrangements in approximation to this model."

(Para : 4 Pages : 433/434)

2.8 The next important review of the structure was made by the Informal Group on Institutional Arrangements for Agricultural Credit (1964) appointed by the RBI. It recognised "the need for integration between long-term credit structure on the one hand and short and medium-term credit structure on the other", "as well as fullest co-ordination and mutual support between them in their actual working" and observed that little had been done in actual practice towards achieving them. The Group suggested many lines of co-ordination and mutual support between the two wings. Apart from these, the Group made a specific recommendation in regard to the primary level societies as follows :

"......the management of the primary agricultural credit societies may be associated with the preliminary investigation and report in respect of applications of their members for long-term credit, the disbursement of such loans when sanctioned, supervision of their utilisation and recovery of the instalments of such loans. This should help to ensure that total co-operative lending to an individual is within his repaying capacity, the available security is enlisted to the best advantage and the total repayment performance is satisfactory."

(Para : 86 Page : 62)

2.9 The first concrete suggestion for integrated credit at the primary level came from the Conference of Chief Ministers and State Ministers for Co-operation held at Madras in June 1968. This Conference considered the position regarding co-ordination between the short and long-term credit structures and recommended that pilot steps might be undertaken to provide integrated credit covering short, medium and long-term credit through a single agency.

2.10 Subsequently, the All-India Rural Credit Review Committee (1969) ruled out the possibility of a single structure undertaking all the functions of short, medium and long-term credit. However, recognising the demand for a single agency to serve the cultivator in respect of his agricultural needs, they recommended that the primary credit societies should undertake long-term loans also on an agency basis, as follows :

"......We, therefore, recommend that in each state a limited number of societies satisfying appropriate criteria pertaining to financial strength and operational efficiency be selected for functioning as agencies of the land development banks in their areas of operation and that this type of arrangement be gradually extended to an increasing number of societies after experience is gained as a result of this experiment."

(Para : 41 Page : 795)

2.11 The Committee also reiterated the earlier Committees' recommendations for close co-ordination between the two wings of the co-operative credit structure and endorsed the measures of co-ordination recommended by the Informal Group on Institutional Arrangements for Agricultural Credit.

2.12 Two important Commissions set up later, viz., the Banking Commission and the National Commission on Agriculture, which had occasion to review the working of the co-operative credit institutions particularly at the primary level recommended altogether varying patterns. The Banking Commission (1972) recognised the principle of one single institutional agency for providing all credit services. Their recommendations in this regard are :

"It is sound in principle and convenient in practice for both the lender and the borrower to have an arrangement under which as far as possible a borrower gets his entire credit needs satisfied by one single institutional agency. This should be encouraged to the maximum extent possible. Rural banks and recognised primary credit societies should be enabled to make long-term loans also as agents of the Land Development Bank. It would be useful to avoid 'splitting of security' among the lenders and enable the lending institution to have complete control over the assets offered by the borrower and help improve his production and income."

(Para : 9.65 Page : 195)

2.13 The National Commission on Agriculture also examined this question in detail and recommended that the entire problem of agricultural credit needs should be approached from the angle of providing integrated agricultural credit and other services at one contact point for the farmers. Their recommendations are given below :

"An integrated agricultural credit system based on the concept of credit service, economic viability and development of borrowers to self-sufficiency for working funds would invigorate the process of capital formation in the rural economy. It would facilitate both resource mobilisation and investment. The primary aim of the integrated credit system is to provide to the farmer one contact point for obtaining his credit and input requirements. Besides co-operatives, there are certain other agencies which could render credit assistance to the small and marginal farmers. The land development bank, for instance, will act as a service agency for handling land development work and works connected with prevention of soil erosion, drainage, digging of wells, etc., for members of each Farmers' Service Society, and it will thus assist conversion of medium/long-term loans granted by banks into productive assets."

(Interim Report : Para : 4.26 Page : 37)

2.14 The Fifth Five Year Plan Working Group on Co-operation had recognised the importance of integration and recommended as follows:

"The National Commission on Agriculture and the Banking Commission have suggested the integration of short, medium and long-term credit at the village/tehsil level. Administrative arrangements have to be made for routing long-term credit through the primary societies. In the smaller States such as Tripura, Manipur, Meghalaya a unified banking structure for short, medium and long-term credit would be more appropriate."

(Working Group's Report : Para : 5.47 (C) Page : 63)

2.15 In pursuance of some of the recommendations made by the Banking Commission, the Central Cabinet constituted in July 1974 a Group under the chairmanship of Shri T. A. Pai, Union Minister for Industry and Civil Supplies to examine the question of defining and organising the most appropriate institutional structure for the rural areas for meeting the credit and other requirements of the farmers, especially small and marginal farmers and rural producers. The Group, *inter alia,* came to the following conclusions :

"It would be necessary for the farmers, especially small/marginal farmers and other groups of rural producers to have an institution as close to their farm-land/working site as possible which will be able to provide them with a full package of services and technical guidance."

"The farmer should not be required to run to different institutions for the full package of services. He will deal only with the multipurpose society/farmers service society and such a society should be enabled to borrow from a co-operative or a commercial bank, both for short/medium-term credit and long-term credit."

"An attempt should be made, initially in the co-operatively backward states, to merge the state land development/mortgage banks with the state co-operative banks to form one strong apex financing institution in the co-operative sector with a variety of functions."

2.16 In chronological order, the next important Committee, which examined these issues, was the Committee on Co-operative Land Development Banks (1975) appointed by the RBI. This Committee examined the suggestions made earlier for using primary agricultural credit societies as channels for providing long-term credit, that is, as agents of land development banks and the need for a closer nexus between the long-term and short-term co-operative credit institutions and observed as follows :

"Considering the complex nature of appraisal of loan proposals and the stage of progress already made in the organization of primary banks and branches of central land development banks, entrusting primary credit societies, as they are constituted and functioning as at present, with these functions is not practicable. In case it is decided that primary credit societies will merely receive and disburse loan amounts, it will be necessary for them to maintain proper accounts of moneys received and paid. However, this limited role will not be adequate and it will not result in any benefit to cultivators including a solution to some of their problems such as difficulty in regard to security to be furnished to the lending banks. Besides, this arrangement may create difficulties in regard to recovery of loans. Primary credit societies many of which are already bedevilled with a load of overdues may not take any interest in recovering long-term loans channelled through them on an agency basis."

(Para : 7 Page : 122)

"......it is impracticable to expect primary credit societies as they are constituted and functioning at present to provide long-term loans as agents of land development banks."

(Para : 17 Page : 127)

2.17 Examining the nexus between the short and long-term structures, the same Committee observed that co-ordination between the short-term and long-term co-operative credit structures was altogether absent.

Despite the recommendations of the various important Committees, it added, the problem of co-ordination between the two co-operative credit structures still remained to be solved. Neither channelling of long-term loans through primary credit societies nor other measures such as housing of the institutions in the same buildings and having common directors had so far solved the problem of co-ordination.

2.18 The Committee then proceeded to examine the suggestions for integrating the two wings and recommended that 'integration of the short-term and long-term credit institutions has to start at the village level, i.e., at the level of primary agricultural credit societies'. And for this, the Committee emphasised the need for viable primary societies and re-organisation of the existing societies with full-time paid secretaries.

2.19 Although the subject of integration of the two wings was not specifically referred to the Committee, in the context of the general review of the working of the land development banks in the smaller states and union territories and co-operatively less advanced states, the Committee came to the following conclusions :

(a) It will be wasteful to have separate co-operative land development banking structure for giving long-term loans to cultivators for agriculture in the states of Andaman and Nicobar Islands, Arunachal Pradesh, Delhi, Goa, Daman and Diu, Manipur, Meghalaya, Mizoram, Nagaland and Pondicherry. In the case of Pondicherry, where a central co-operative land development bank was functioning, necessary steps should be taken to effect merger of the central land development bank with the state co-operative bank.

(b) Taking into account the unsatisfactory working of the land development banks in the states of Assam, Himachal Pradesh, Jammu and Kashmir, Tripura and West Bengal, the Committee found that there were distinct advantages in integration of the short and long-term co-operative credit structures in those states. Without such a merger the two structures in those five states did not hold any prospect of becoming strong and effective.

2.20 The Agricultural Credit Board of the RBI which reviewed this important question in its meeting held in December 1974 accepted in principle the idea of integration of the short-term and long-term credit structures. They have further recommended as follows :

> "Whereas integration at all levels could be considered in the smaller States, such an integration initially at the primary level could be

considered for all the States. Strong and sound primary agricultural credit societies would be identified for undertaking the dispensation of not only short-term and medium-term credit but also long-term credit. It was recommended that pending the decision on the question of integration at all levels, viable societies might borrow directly from the central co-operative banks for short-term and medium-term purposes and the state land development bank for long-term purposes."

2.21 Annexure 2.1 reproduces relevant extracts of the recommendations made by the Committees referred to by us in this chapter.

2.22 A distinct trend emerges from the historical perspective portrayed in the preceding paragraphs. The special reason for which a separate institution for long-term credit was first recommended was 'to extend co-operation for the benefits of large proprietors'. Separate existence of these institutions was justified later on account of the 'expertise' needed for mobilisation of resources and lending. The Committees set up after Independence felt that separate and unco-ordinated existence of the two wings for over 25 years created problems for the farmers and hence strongly recommended measures for close co-ordination between the two wings. But till 1974, i.e., for nearly 20 years after such co-ordination was recommended, attempts towards achieving the results had completely failed. In the words of the Committee on Co-operative Land Development Banks, "Co-ordination between the short-term and long-term co-operative credit structures is altogether absent and the various recommendations made by the earlier Committees for effecting such co-ordination have remained on paper without any concrete action being taken thereon either by the state governments or by the co-operative banks themselves."[1] It is against this background and the need to provide all types of credit and other facilities to the farmers at one contact point that the idea of integrated credit and other services to farmers was mooted in one form or the other by a section of the co-operators and the various high level committees and groups appointed by the GOI and the RBI.

[1]Report of the Committee on Co-operative Land Development Banks: Para: 32 Page: 330.

Chapter 3

PROS AND CONS OF INTEGRATION

3.1 In this chapter, we give a gist of the views elicited by us on the question of integration during the discussions with the Central Ministers, the Chief Ministers and others in the course of our visits to the states. We also present briefly the views expressed on this question by the National Co-operative Land Development Banks' Federation, the All-India State Co-operative Banks' Federation, the Indian Co-operative Congress and by Shri B. S. Vishwanathan in his minute of dissent. They have been grouped under two headings, viz., (i) views in favour of integration and (ii) views against integration.

Views In Favour

Package Deal to Farmers

3.2 All the financial requirements of the agriculturist should be made available to him at one single contact point and the farmer should not be required to go to different institutions for his credit requirements. The present dichotomous pattern in the co-operative credit structure does not serve the interests of the cultivator in getting all his credit needs met fully, on account of the absence of proper co-ordination among the different credit institutions. If the PACS become the single contact point for meeting the requirements of the cultivator, the latter will get returns commensurate with his investment.

Area Development Programmes

3.3 The various programmes of investment credit demand a package deal by which short-term credit must go hand in hand with long-term credit. In the present set-up, such a tie-up is not assured. Giving long-term loans to a farmer and not ensuring him short-term credit would defeat the very purpose of institutional credit. Therefore, in the financial arrangements for agricultural investments, particularly under area development programmes, the provision of short-term credit becomes very necessary.

Need for Strong and Viable Societies

3.4 Many PACS and for that matter even PLDB, do not have adequate business and thus, quite a number of them are not presently viable. The unification of the functions will improve the prospects of the PACS attaining viability quickly and lead to strong and efficient units at the base level capable of providing integrated credit, supplies and services.

Better Supervision

3.5 The integration of credit functions at the primary level would enable most PACS to appoint full-time and adequately paid managers to maintain better contact with the borrowers and exercise better supervision over investment credit on account of their proximity to the borrowers. Most PLDB in the country do not have any technical staff of their own and rely on the staff provided by the government. Integration of credit functions will enable the unit at the intermediate level to appoint qualified technical staff to provide guidance to the farmers and exercise technical supervision over the implementation of the projects financed by them. Unification of the staff undertaking supervision work would avoid overlapping of jurisdiction and functions and would enable the existing staff to exercise a more intensive supervision over the end-use of funds provided by the PACS.

Resource Mobilisation

3.6 The necessity to have separate co-operative long-term credit institutions arose because the existing wing of the co-operative credit structure headed by the state co-operative bank commanded only short-term or medium-term resources, whereas loans for debt redemption, for which the land mortgage banks were initially established, required resources of a much longer duration extending upto 15 or 20 years. Long-term resources were, therefore, raised through the issue of debentures guaranteed as to the payment of interest and repayment of principal by the Government. The situation has considerably changed with the establishment of the ARDC. The bulk of funds is derived by the SLDB to-day from the ARDC by way of subscription to special development debentures; the refinance so provided by the ARDC has all the main characteristics of refinance by way of loans given to commercial banks, including annual repayments. The RBI and the ARDC could very well provide loans to one unit at the apex level, on the same basis as is applied to commercial banks, thereby eliminating the cumbersome procedures involved in the issue of debentures, appointment of the trustee, extension of government guarantee and the constitution of sinking fund for amortisation of debentures. If the system of obtaining mortgages and floating debentures is not found necessary, there will also be no need to retain the LDB as a separate institution.

Views of the All-India State Co-operative Banks' Federation

3.7 The All-India State Co-operative Banks' Federation had constituted in March 1974 a Committee to examine the pattern of co-operation between short-term and long-term wings of agricultural co-operative credit. This Committee appointed a sub-committee consisting of the representatives of the SCB, SLDB and RBI, with a view to examining various operational problems as well as the problems of management of funds at various tiers. The sub-committee conducted field visits in different parts of the country and completed the work in December 1975. It also organised meetings of cultivators and held discussions with the members and office-bearers of the PACS, CCB and PLDB in certain districts. The important findings of the sub-committee are given in Annexure 3.1.

3.8 According to the findings of this sub-committee, a majority of the borrowers who were interviewed expressed the view that it was more advantageous if they were given loans by one and the same agency. The sub-committee came to the conclusion that the most important factor in agricultural investment, which was the human factor, tended to be ignored in the loaning procedure as well as in the follow-up action adopted by the land development banks, not intentionally but because of built-in limitations of remote control.

3.9 The sub-committee noted that the PACS with their present set-up were not sufficiently equipped to translate the concept of supervised credit in really effective terms. But this limitation had already been taken into account and a programme of re-organisation and rehabilitation of the societies was being implemented. Further, the consensus was that the PACS would be in a better position to assess the credit needs of cultivators, ascertain the capacity of individual borrowers to introduce modern techniques and know their individual characteristics which were quite important in agriculture.

3.10 While the sub-committee favoured merger of the PLDB/branches of SLDB and the branches of CCB at the taluka level, it recommended better co-ordination between the two apex level institutions.

3.11 The State Co-operative Banks' Federation considered the recommendations of the sub-committee in its meeting held on 13 February 1976 and concluded that:

(a) At the village level, there should be complete integration and long-term loans should be channellised through the PACS.

(b) At the district level it should be left to the state governments to consider whether the CCB and the PLDB should be merged or not.

(c) At the state level, the *status quo* should be maintained.

Views Against

Historical

3.12 (i) The LDB came into existence as a result of a felt need and on the recommendations of a number of expert bodies like the Royal Commission on Agriculture, the Central Banking Enquiry Committee, etc. The PLDB and the branches of the SLDB have been effectively and adequately meeting the developmental credit requirements of the farmers.

(ii) The dichotomy in the co-operative credit structure is only a division of labour and ensures specialisation in operations.

(iii) The development of the two wings cannot be simultaneous and uniform in the different parts of the country because of the inherent diversity in socio-economic conditions.

(iv) The question of integration is not a recent one but has been considered at different times in the past. All the previous Committees, like the All-India Rural Credit Survey Committee, All-India Rural Credit Review Committee, etc., have ruled out the possibility of an unified structure for short, medium and long-term credit.

From the Angle of the LDB

3.13 (i) The long-term credit structure has built an impressive record of performance which is superior to even that of commercial banks in regard to investment lending for agriculture. During the Fourth Plan, the banks advanced as much as Rs. 270.77 crores. During the Fifth Plan, a lending programme of Rs. 1500 crores has been envisaged. The banks have successfully fulfilled the Plan targets and shown considerable dynamism in their working.

(ii) The provision of long-term investment credit in agriculture is of a specialised nature and needs expertise to handle. The LDB have acquired the desired expertise and technical competence for the purpose during the course of their long career. They have stood the test of time and come to stay as a specialised agency to take care of the developmental credit requirements of farmers.

(iii) The scope for new business by the LDB in minor irrigation is still large in many districts. There is ample scope for diversification of loans for other equally productive purposes such as farm mechanisation, command area development, horticulture, plantation, dairy farming, sericulture, processing of agricultural produce, etc.

(iv) The LDB have been organised as a separate wing because of the special pattern of resource mobilisation and since this may continue in the future, it will be advantageous to maintain the identity of the LDB.

(v) It is admitted that the overdues in the LDB in some states are heavy. The reasons are many and varied. Apart from floods, droughts, etc., affecting the repaying capacity of the farmers, there are also political and other reasons accounting for heavy defaults. But the position of the LDB is far more satisfactory in this respect than that of other agencies in most of the states.

(vi) It is often said that the LDB provide loans only to big and well-to-do farmers. This is not correct. Small farmers also are increasingly taking advantage of loans from the LDB. The banks have involved themselves fully in implementing the programmes under SFDA/MFAL/DPAP/TADP, etc., schemes.

(vii) The higher lending programmes prepared by the LDB could not be achieved and were curtailed in the past on the plea of resource constraint. Therefore, it is doubtful whether the required resources can be made available even if larger demand is generated as a result of integration. There will be certain limitations to credit expansion.

Availability of Credit from One Contact Point

3.14 (i) The possibility of 'one contact point' being provided to the farmers relates only to credit. But there are also other services for which the farmer may have to go to other agencies, since the PACS may not function as a 'shop' dealing in everything needed by farmers. Even after integration, the cultivator may have to approach different government offices at the block and taluka levels. Long-term loans will continue to be sanctioned only at the district or taluka level.

(ii) Long-term loans are availed only once in many years and hence, it is not necessary, from the cultivator's point of view, to have the institution located near his village.

(iii) The inherent danger is that in the event of failure of the integrated credit system for various reasons, the credit flow of all types would be choked. This may not happen under the present arrangement; when the short-term credit line gets choked on account of heavy overdues, the long-term credit line may continue to operate.

Primary Agricultural Credit Societies

3.15 (i) Even after a long period of existence, the PACS have not been able to deliver the goods expected of them. A majority of them have not become viable so far. Out of about 1.5 lakh societies, only about one-third have full-time paid secretaries. About 40 per cent of the societies function in loss. Many of them are dormant or defunct. Most PACS are financially and managerially weak and suffer from inadequate business, heavy overdues and faulty and inefficient management.

(ii) The PACS would have to be re-organised first before they can undertake the responsibility to provide long-term credit even as agents of the SLDB/PLDB.

(iii) The short-term credit structure at the base level has been subjected to frequent structural changes. Even after such changes and the existence over a period of seven decades a suitable pattern for the PACS has yet to be evolved. The numerous experiments have weakened the whole structure. The organisation of Farmers Service Societies has added further to the confusion by creating multiplicity and duplication of credit agencies at the base level.

(iv) If long-term loans also are routed through the PACS, it might involve a lot of administrative work at the level of the societies which do not have even a paid secretary. Further, it will be too much to expect that the secretary will have the technical competence to appraise the economic and technical aspects of the investment project of an individual farmer.

(v) Local rivalries in the PACS may deprive a section of the farmers from getting not only short-term credit but also long-term loans.

(vi) The addition of one more tier will increase the cost of long-term investment credit to the farmer who may have to pay as high a rate as he pays for short-term crop loans.

(vii) Integration at the base level may await the results of the functioning of LAMPS, FSS, Tribal MPCS and the Regional Rural Banks (RRB).

District Central Co-operative Banks

3.16 (i) The CCB are not fully equipped to take up the new responsibilities. The working of many CCB is not satisfactory and many banks are weak and/or under rehabilitation. The merger of the long-term credit wing with such a weak short-term structure will adversely affect the flow of long-term development credit.

(ii) The experience of composite CCB before 1960 in certain states was not happy. The composite banks were not able to record any progress in long-term loans worth mentioning.

Apex Level

3.17 (i) On account of the special pattern of resource mobilisation and expertise already built up by them, the apex LDB may have to remain as separate entities.

(ii) Even today in some states and union territories like Manipur, Himachal Pradesh, Delhi and Goa, there is no separate LDB, their function being performed by the SCB. The performance of these SCB in long-term loaning has been poor.

Multi-agency Approach

3.18 (i) As multi-agency approach for agricultural credit has been accepted as a national policy, there is no need for integrating the two wings in the co-operative credit structure. Mere integration of the co-operative credit institutions may not guarantee a single contact point, as a farmer will be free to approach commercial banks for one type of credit and the village co-operative society for the other.

(ii) Just as the 14 nationalised banks are kept as separate units, the LDB should also continue as separate units.

(iii) More or less similar reasons that justified the establishment of the ARDC would hold good for the retention of the LDB also as separate units.

Co-ordination

3.19 (i) No serious attempt had been made for bringing about proper co-ordination between the two wings of the co-operatives. It would be better to bring about co-ordination rather than experiment with the merger of the two wings.

(ii) Where there is co-ordination, there would be no need for integration.

(iii) In areas of weak PLDB, the PACS may be selected for routing long-term loans and similarly, in the areas of weak PACS, the PLDB may provide production credit also.

Overdues

3.20 The overdues of the short-term credit structure will affect the capacity of the integrated institutions to route long-term credit.

Other Problems

3.21 (i) Amalgamation of two large institutions will result in the creation of a new unwieldy organisation. There can be no guarantee that two weak organisations could turn out into a strong organisation by integration. The integrated structure may inherit the weaknesses of both the wings of the structure.

(ii) Integration would introduce three tiers for long-term credit instead of two or only one at present.

(iii) The contemplated arrangement would mean channelling of long-term loans from the state level to the village level through the district and taluka levels and, therefore, lead to the creation of a four-tier structure. Integration might raise the rate of interest to the ultimate borrower on account of the increased cost of administration.

(iv) The lending procedure will become more cumbersome and time-consuming because of the larger number of institutions involved.

(v) Certain unhealthy practices such as diversion of recoveries in respect of one type of credit for repayment of another type are likely to develop in the PACS.

(vi) There is no guarantee that the unified structure will prove better in the matter of effective coverage and expansion of business. The biggest disadvantage of integration is the risk and uncertainty about the success of the integrated unit. The richer sections may continue to get the benefits of long-term credit at the cost of others as it has been observed that the benefit of short-term loans has accrued mostly to medium and big farmers.

(vii) Prevalence of different rates of interest in the same institution will create problems.

(viii) Short-term loans alone will make most primary societies viable and for this purpose integration need not be suggested.

(ix) The staffing pattern in the two wings was different and will create staff problems for the integrated unit.

(x) The services of local leadership available to the long-term structure cannot be made adequate use of.

(xi) Most state governments have not agreed to the proposal of integration even on an experimental basis as they do not want to disturb the present arrangement. The non-official opinion represented by the National Co-operative Land Development Banks' Federation and the Seventh Indian Co-operative Congress has also been against integration.

Views of the National Co-operative Land Development Banks' Federation

3.22 (i) As the spokesman of the long-term credit wing, the National Co-operative Land Development Banks' Federation voiced its views against the proposal for integrating the two wings of the co-operative credit movement.[1] The Federation did not fully accept the recommendations of the Committee on Co-operative Land Development Banks:

(a) On the Committee's view that it would be wasteful to have a separate wing in the smaller states and the union territories, the

[1]For details please see Annexure 3.2

Federation's disagreement was based on its assessment that there was ample lending potential in these states/union territories so as to ensure economic viability of long-term credit institutions. A specialised bank for a specialised purpose could function effectively and efficiently like the small-scale units in the industrial sector. The Federation was not, however, against the present experiment being continued in the union territories, if the state co-operative banks were capable of delivering the goods effectively taking care of the developmental needs of the farmers. But it observed that the experiment of the SCB providing long-term loans had not been successful so far.

(b) On the Committee's view that the two wings should be integrated in five out of nine co-operatively weak states, viz., Assam, Himachal Pradesh, Jammu & Kashmir, Tripura and West Bengal, the Federation observed that "the co-operative movement as such was weak and underdeveloped in these states and the weakness and ineffectiveness was not singular in the case of LDB alone." The Federation was not convinced about the distinct advantages stemming from such integration in this context. The possibility of emergence of a strong structure as a result of merging the two weak structures was considered remote.

(c) The Federation endorsed the observations of the Committee that the primary credit societies would not be in a position to provide long-term loans as agents of the LDB in an effective manner. If the borrowers of the LDB were not able to get adequate production credit because the PACS were dormant, either the concerned CCB branch or the LDB should be allowed to provide production credit to support investment credit. While the Federation agreed on the need and scope for co-ordination between the two types of institutions, it felt that lack of co-ordination was not so alarming as to warrant a merger of the two institutions.

(ii) The Federation had also submitted a memorandum in April 1975 to the Prime Minister and the Union Ministers after discussing the recommendations of the T. A. Pai Group as well as the Committee on Co-operative Land Development Banks. In its memorandum it pointed out as follows:

> "It would be very much appreciated that for such an important issue, such serious and sudden shift of policy for the existing organisational pattern of co-operative credit would mean setting at naught, not only the progress achieved in certain states in the course of the last 20 years but also, creating a vacuum and a potential for confusion inasmuch as, no system can be replaced by a new one, unless the same is given a fair trial with a time lag, for its proper winding up and adjustment for the next change and

further all the implications of the impending change also properly studied, taken care of and duly assessed."

"With all this background in view, the National Conference of Land Development Banking which recently met in Bangalore has decided to continue the existing structure of long-term credit and to abandon the thinking of merger of short-term with long-term credit because of the technicalities involved in raising funds through floatation of debentures, its scientific and supervisory system of lending etc."

3.23 In the co-operative field, the Federation felt that no single agency would be in a position to meet the entire demand of the farm sector and that the multi-agency approach had been accepted as a national policy in the field of agricultural credit. The memorandum, therefore, urged the Government to consider the usefulness of the services of the LDB and consider to uphold the decisions of the National Conference of Land Development Banking, which among others, suggested the continuance of the existing structure of long-term credit and to abandon the thinking of merger of short-term with the long-term credit structure.

Views of the Indian Co-operative Congress

3.24 The Seventh Indian Co-operative Congress organised by the National Co-operative Union of India which met in February 1976 at New Delhi discussed the question of integration of the two wings of the co-operative credit structure and came to the conclusion that it was not necessary to effect integration at any level including the primary level. The recommendation of the Congress on this subject was as under :

"The Congress strongly feels and unanimously recommends that no efforts should be made for unification of short and long-term co-operative credit structures at any level including the primary level. However, in states/union territories, where long-term co-operative credit structure does not exist at all, such experiment may be tried."

CHAPTER 4

FINDINGS OF THE STUDY GROUPS

4.1 In this chapter, we give the main findings of the studies conducted by the Study Groups constituted by the Committee in the selected states of Gujarat, Haryana, Kerala, Maharashtra, Manipur, Orissa and Uttar Pradesh referred to in paragraph 1.15 of the Report. For examining the economies and other advantages likely to arise from integration up to intermediate level, the Groups were advised to study the working of the two wings of the co-operative credit structure in two or three selected districts having contrasting features relating to :

(i) potential for irrigation;
(ii) scope for capital investments other than minor irrigation;
(iii) types of crops and cropping pattern; and
(iv) stages of growth recorded by short-term and long-term wings of the co-operative credit structure, etc.

4.2 The districts selected by the Study Groups are given in Annexure 4.1.

4.3 After a general analysis of the working of the co-operative credit institutions in the districts, the Study Groups examined the following specific aspects:

(i) the coverage of cultivating families by the two wings;
(ii) the purposes for which and the types of beneficiaries to whom term finance was made available by the LDB, and reasons for imbalance, if any;
(iii) mutual support available between short-term and long-term wings;
(iv) the nature of duties assigned to the supervisors of the LDB and their performance;
(v) the expertise developed by the LDB in long-term lending; and
(vi) the effect of integration on the viability of the PACS and the district level units.

4.4 For purposes of intensive study, the Groups selected two PLDB in each district and five PACS in the area of each one of the selected PLDB. On the basis of their actual findings, the Groups were asked to examine whether integration would lead to reduction in the cost of operations and improve the overall efficiency of the combined unit; if cost reductions were not likely to take place, the Groups were expected to examine the other advantages that would accrue through integration. Detailed reports submitted by each of these seven Groups are given in a separate volume. In the following paragraphs, we summarise the main findings of the Groups.

Coverage

4.5 The coverage of rural cultivating families by the PACS and the LDB in the districts selected for studies is given in the table below:

TABLE 4.1

Coverage of cultivating families

Sr. No.	State	District	Percentage of coverage of cultivating families	
			LDB	PACS
1	2	3	4	5
1.	Haryana	Bhiwani	4.6	48.1
		Karnal	12.6	65.8
2.	Kerala	Cannanore	6.2	79.9
		Palghat	4.0	64.0
3.	Maharashtra	Ahmednagar	11.8	51.1
		Kolaba	3.9	41.6
		Parbhani	N.A.	61.6
4.	Orissa	Bolangir	3.2	41.0
		Ganjam	8.0	34.0
5.	Uttar Pradesh	Ghazipur	1.1	21.0
		Sitapur	4.1	36.2
		Muzaffarnagar	3.4	41.6

4.6 It is true that every farmer is not in need of investment in land or some are able to meet the cost thereof and, therefore, the coverage of cultivating families by the LDB has to be appreciably lower than that of the PACS. Even then, it is observed from the table above that the long-term credit wing in most of the districts selected for the studies has shown a poor coverage of the cultivating families. Except in Karnal district of Haryana and Ahmednagar district of Maharashtra, in all the other districts in the states of Haryana, Kerala, Maharashtra, Orissa and Uttar Pradesh, less than 8 per cent of the cultivating families was covered by the long-term credit institutions. In Ahmednagar and Karnal districts, the percentages were 12 and 13, respectively. As against this, the coverage by the PACS ranged in all these states between 21 per cent in Ghazipur district of Uttar Pradesh and 80 per cent in Cannanore district of Kerala.

PURPOSES FINANCED

4.7 In all the districts, except Cannanore district, the major purpose of long-term advance was minor irrigation which constituted 40 to 99 per cent of the total lendings as shown in the table below:

TABLE 4.2

PURPOSE-WISE LONG-TERM LOANS ADVANCED DURING THE YEAR 1974-5

Rs. Lakhs

Sr. No.	State	District	Total loans advanced	Minor irriga-tion	Farm mecha-nisation	Planta-tion	Others
1	2	3	4	5	6	7	8
1.	Gujarat	Bhavnagar	788.70	N.A.	N.A.	N.A.	N.A.
		Sabarkantha	881.43	N.A.	N.A.	N.A.	N.A.
2.	Haryana	Bhiwani	223.37	174.48 (78.1)	27.00 (12.1)	12.10 (5.4)	9.79 (4.4)
		Karnal	546.55	299.08 (54.7)	166.75 (30.5)	—	80.72 (14.8)
3.	Kerala	Cannanore	358.03	45.31 (12.7)	0.60 (0.2)	143.59 (40.1)	168.53 (47.0)
		Palghat	102.64	69.73 (67.9)	0.69 (0.6)	8.64 (8.4)	23.58 (23.1)
4.	Maharashtra	Ahmednagar	923.60	842.65 (91.2)	36.15 (3.9)	—	44.80 (4.9)
		Kolaba	99.56	40.05 (40.3)	5.52 (5.5)	3.49 (3.5)	50.50 (50.7)
		Parbhani	520.64	500.62 (96.2)	20.02 (3.8)	—	—
5.	Orissa	Bolangir	210.50	168.44 (80.0)	12.81 (6.1)	—	29.25 (13.9)
		Ganjam	345.22	194.09 (56.2)	27.53 (8.0)	11.51 (3.3)	112.09 (32.5)
6.	Uttar Pradesh	Ghazipur	150.31	136.16 (90.6)	5.02 (3.3)	—	9.13 (6.1)
		Sitapur	416.10	413.59 (99.4)	—	—	2.51 (0.6)
		Muzaffarnagar	355.73	335.69 (94.4)	19.86 (5.6)	—	0.18

Notes: 1. Figures in brackets represent percentages to totals.
2. 'Others' include LDB lendings for land levelling, bunding and fencing and also for other productive and non-productive purposes.

The imbalance noticed in the allocation of resources between different sectors of agricultural development was mainly attributable to lack of extension or promotional work on the one hand and the restrictive provisions in the existing bye-laws of the LDB on the other.

TYPE OF BENEFICIARIES

4.8 By and large, small farmers seemed to have received a reasonable share of the long-term advances made by the LDB. In Uttar Pradesh, the small farmer beneficiaries ranged between 36 and 55 per cent, while in Orissa the percentages were between 30 and 35. In Kerala, farmers with holdings less than 5 acres constituted the majority of the beneficiaries of long-term loans. There was further scope for improvement in the coverage of small farmers in all the states. It was pointed out by the Orissa and Kerala Study Groups that there were certain inherent difficulties standing in the way of the small farmers getting loans from the LDB; for example, the minimum acreages prescribed for eligibility for minor irrigation loans and other types of investment credit. Group loans were also not popular.

Mutual Credit Support

4.9 In most of the districts selected, the mutual credit support between the short-term and long-term wings was not satisfactory as can be seen from the table on the next page. The proportion of borrowing members of the PACS, who had availed themselves of loans from the LDB for long-term investments, was less than 1 per cent in Kerala while it was as high as 32 per cent in Bhavnagar district of Gujarat State. In other states, it varied between 3 and 15 per cent. The Groups have ascribed this low support of long-term wing to short-term credit to factors such as felt needs, eligibility, etc., which could not invariably be ensured in a large number of cases.

4.10 Though lack of adequate support from the long-term wing to the other wing does not by itself show any serious lacuna, the availability of production credit for the borrowers of investment credit is quite essential in order to ensure that the anticipated cropping patterns are actually adopted and adequate income is realised to justify the assumed repaying capacity. Without such a support the full benefits of investment would not be realised by the farmers. Analysing from this angle, the Study Groups have reported that the support of the short-term wing to investment credit was unsatisfactory. In a majority of the districts, less than 50 per cent of the borrowers of investment credit had availed themselves of production credit. Even in the other districts, the support cannot be said to be adequate. The main reasons for the low support in all the districts, as pointed out by the Study Groups, are broadly as under:

- (i) mutual exclusiveness and lack of effective co-ordination between the two wings;
- (ii) low coverage of cultivating households by the co-operative credit structure;
- (iii) lack of promotional and extension work;

TABLE 4.3

CREDIT SUPPORT BETWEEN SHORT-TERM AND LONG-TERM WINGS

Sr. No.	State	District	No. of PACS studied	PACS			LDB		
				Borrowing members	Out of col. (5) members who borrowed from the LDB	Percentage of col. (6) to col. (5)	Borrowing members in the area of the PACS studied	Out of col. (8) members who borrowed from the PACS	Percentage of col. (9) to col. (8)
1	2	3	4	5	6	7	8	9	10
1.	Gujarat	Bhavnagar	10	1215	394	32.4	605	394	65.1
		Sabarkantha	10	1558	387	24.8	1035	387	37.4
2.	Haryana	Bhiwani	5	790	101	12.8	150	101	67.3
		Karnal	5	1193	127	10.6	289	127	43.9
3.	Kerala	Cannanore	5	10714	100	0.9	860	417	48.5
		Palghat	5	10626	44	0.4	670	217	32.4
4.	Maharashtra	Ahmednagar	10	1568	232	14.8	433	219	50.6
		Kolaba	10	2133	165	7.7	392	156	39.8
		Parbhani	10	1240	181	14.6	466	224	48.1
5.	Orissa	Bolangir	7	2082	142	6.8	304	78	25.7
		Ganjam	12	2607	183	7.0	199	85	42.7
6.	Uttar Pradesh	Ghazipur	5	4130	172	4.2	305	162	53.1
		Sitapur	5	2986	93	3.1	448	135	30.1
		Muzaffarnagar	5	1547	66	4.3	155	51	32.9

(iv) reluctance of certain cultivators to incur additional debt burden;
(v) the weaknesses of short-term wing particularly the PACS functioning in the jurisdiction of the PLDB;
(vi) restrictive features of the PACS insisting on mortgage security even for short-term loans of Rs. 1,000; and
(vii) availability of own resources for meeting current farm expenditure.

Staff for Supervision—Assessment of Performance

4.11 In the districts covered by the studies, both the LDB and the CCB have their own staff for supervision (if not in adequate numbers) and do not, by and large, depend upon the state governments for the purpose. In the LDB, supervisors and valuation officers attended to duties like processing of loan applications, verification of utilisation of loan instalments, recovery of instalments and routine items of work. The Groups have observed that generally the jurisdiction of the supervisors/Land Valuation Officers (LVO) was too large to allow them to maintain personal contact with the farmers. For instance, in Haryana the LVO covered 30 to 40 villages and handled 250 to 300 applications per year. In Orissa, there were 276 supervisors for 55 PLDB covering 314 blocks as against 628 supervisors needed by the banks.

4.12 The quality of work turned out by the field staff has not been considered satisfactory by any of the Study Groups. There was much delay in verifying the utilisation of loans. Steps for recovery were also not prompt and effective. There was also considerable delay in taking coercive measures against the defaulters. There was practically no post-investment check to verify whether the investment had resulted in anticipated benefits to farmers. In this context, we reproduce below the views of some of the Study Groups.

Uttar Pradesh

"The field staff in each of the branches comprises one field officer and two or three Kisan Sewaks. ...... In terms of SLDB circular No. 150 dated 16 January 1974, the work relating to processing, appraisal and scrutiny of loan applications is required to be done by the field officer and Kisan Sewaks attached to each branch. This field staff is also required to make post-disbursement checks and submit utilisation certificates. The post-disbursement checks are done to verify the utilisation of the previous instalment before the disbursement is made of the next instalment. So far these checks are made only when the cultivators report utilisation of the previous instalment and want to draw the next instalment. There is no system of periodical post-investment checks and verification of the utilisation of last instalment by SLDB staff."

Orissa

"........The duties assigned to supervisors included processing of loan applications, verification of utilisation of instalments and recovery of instalments. While there was no long delay in regard to processing of fresh applications, there was much delay in conducting verification of utilisation of the end-use of the loan instalments. Post-investment checks were rarely being attended to........"

Haryana

"The Land Valuation Officers merely certify that the loan has been fully utilised........Thus apart from the visit for checking the utilisation of the loan instalments, no other post-disbursement/post-investment checks are made by the LVO to ensure the optimum use of the investment. The LVO do not make visit with any fixed periodicity. The visits are carried out as and when necessary at the time of scrutiny of the loan case, checking of utilisation of the loan instalments, annual land inspection and recovery."

Kerala

"The Study Group has no hesitation in coming to the conclusion that lack of adequate coverage is inhibited by lack of supervisory and promotional staff and the quality of out-turn of work of the existing staff. It was observed that the primary land mortgage banks in Kerala are not doing any substantial promotional work to enthuse the farmers to avail themselves of long-term credit facilities available for agricultural development. These banks do not have adequate arrangements in terms of numbers or expertise for promotional work and much is left to the individual farmer's initiative to approach the primary land mortgage banks for credit requirements. This was also confirmed by the interviews which the Study Group had with a cross-section of agriculturists in the districts of Cannanore and Palghat. ...... In the recent past the supervisors had also been enjoined to undertake a percentage verification of the end-use of funds advanced by the banks. But unfortunately these instructions remained only on paper and not applied on the field.

The supervisors are also expected to canvass for loan applications but this is seldom done save in the case of ARDC special schemes. Here also, they mainly depend upon the Block staff. It is mainly on account of these factors that the primary land mortgage banks have not been able to make any appreciable impact to project their image and cover a larger number of agriculturists."

Technical Expertise

4.13 Although the appraisal and the processing of long-term loan applications as also supervision over investments need technical evaluation, the Study Groups have reported that the PLDB have employed hardly any technical staff of their own for these purposes. The table below will indicate the position of banks' own staff available for technical assistance *vis-a-vis* other staff employed by them.

TABLE 4.4

Existing staff strength at the level of PLDB

Sr. No.	State	District	Managerial	Supervisory/ field staff	Technical	Clerical	Class IV
1	2	3	4	5	6	7	8
1.	Gujarat	Bhavnagar	26	50	–	69	N.A.
		Sabarkantha	16	28	–	47	N.A.
2.	Haryana	Bhiwani	2	11	–	19	10
		Karnal	2	23	–	31	11
3.	Kerala	Cannanore	5	11	2	22	11
		Palghat	2	4	–	6	3
4.	Maharashtra	Ahmednagar	22	92	3	62	40
		Kolaba	10	24	2	26	12
		Parbhani	14	65	2	79	49
5.	Orissa	Bolangir	5	21	–	11	14
		Ganjam	17	44	–	25	55
6.	Uttar Pradesh	Ghazipur	4	13	–	14	4
		Sitapur	4	10	–	12	4
		Muzaffarnagar	4	14	–	13	5

4.14 The banks have been heavily depending upon the state governments for the services of such staff, the cost of staff being fully borne by the governments.

Expertise Built up by the LDB

4.15 The view that the long-term wing had built up expertise in land development banking has also not been supported by the findings of the Study Groups. In this connection, we reproduce below the observations of some of the Groups:

Haryana

"Since the work of formulation of schemes in the area of the PLDB was being attended to by the Agriculture Department of the State Government and the HSLDB and the execution of work under the schemes involving technical knowledge was being done by the soil conservation department of the State Government, the PLDB did not feel the necessity for any technical staff. Thus the PLDB did not develop any technical expertise. The duties attended by the field staff, were non-technical in nature and can be attained from training and experience gained."

Kerala

"The technical services provided by the primary land mortgage banks are conspicuous by their complete absence. At the head office of the central land mortgage bank, there is a small technical cell consisting of one Chief Agricultural Officer of the rank of Deputy Director of Agriculture, one Junior Agricultural Officer and one Assistant Agricultural Engineer, all of whom are government hands on deputation with the bank. Handicapped as they are in the matter of technical expertise, the staff of the primary land mortgage banks are not involved at any stage in the formulation and preparation of special development schemes which are entrusted only to the technical cell in the head office of the central land mortgage bank. At the stage of implementation of the schemes at the field level, it is the Junior Agricultural Officer of the Department of Agriculture who gives the technical enquiry reports in respect of individual loan applications which are accepted by the primary banks implementing the schemes. Likewise, the utilisation certificates are also furnished by the government staff and no independent assessment is made by the supervisory staff of the primary banks. ...... Thus, the central bank and the primaries are heavily dependent on the government staff for formulation of schemes, technical appraisal of individual loan applications, supervision over utilisation and, to a great extent, for recovery also. Lack of adequate expertise in term lending has, therefore, been an inhibiting factor."

Uttar Pradesh

"For all other technical work like preparation of technical plans, technical guidance to the cultivators in location of wells and boring, selection of suitable motors/pumpsets, the SLDB branches were dependent on government staff of M. I. Department attached to the blocks. For technical guidance in agricultural matters like cropping pattern, propagation of high-yielding varieties and improved agricultural practices, the branches were dependent on Agriculture Department staff attached to the blocks. After integration, it is assumed that the long-term loan work can be undertaken by the staff of short-term credit structure and also that the supervisors can undertake post-investment checks."

4.16 In addition to examining the expertise available in the LDB, the Groups have also examined the nature of duties assigned to, and qualifications of, supervisors (field staff) in the PLDB. All the Groups have concluded that the field staff of the PLDB have almost the same qualifications as those at the CCB and that with some short duration training in scrutiny of loan cases, procedures to be followed, etc., in long-term lending, the field staff at the CCB could handle the long-term loan work. We quote from the report of one of the Study Groups to illustrate this point.

Haryana

"It would be seen from Part I of the report that the nature of duties performed by the field and other staff of the PLDB are not of any technical nature. The field staff of the PLDB are matriculates or graduates. Besides they are given training of 3-4 months of the field work. The qualifications of the sub-inspectors and secretaries (barring certain cases) of the societies are also matriculation and graduation in certain cases. As such, so far as the qualifications are concerned the field staff (sub-inspectors) of the central co-operative bank/government are on par with the field staff of the PLDB. The type of work attended by the field staff of the PLDB could, therefore, be attended by the field staff of the central co-operative banks/government. A short duration training in scrutiny of the loan cases, various procedures to be followed, etc., would be necessary to them. However, this problem may not arise immediately if the field staff of the PLDB is posted to the Central Co-operative Banks."

4.17 As has been pointed out by the Orissa Study Group, when the procedures for assessment of income and repaying capacity were simplified by stipulating proper norms and when valuation of land was done on a more scientific basis of capitalisation of income, much of the present work done by the valuers/supervisors would become less complex and less time-consuming. These functions could very well be attended to by the staff of the short-term wing, where necessary after providing adequate in-service training.

Projected Business

4.18 Most Study Groups attempted an exercise projecting the likely loan business (both production and investment credit) of district level banks after integration at the end of the Fifth Plan, i.e., 1978-9. For making these projections, the total production credit potential in each of the districts was estimated on a conservative basis, on the basis of certain minimum scales of finance depending upon the present level of performance of the PACS and a reasonable increase over the years. After taking into account the likely involvement of the PACS in such advances from their own resources, the likely borrowings from the CCB, i.e., the loans advanced by the CCB to the PACS were estimated. In regard to long-term credit, the estimates took into account, in addition to the normal loans, advances under the special development schemes already sanctioned, under consideration and under preparation. Details of projections made are given in the Annexures 4.2(a) and (b). Similar exercises in respect of certain selected PACS in the districts studied by them were also undertaken.[1]

4.19 The projections, wherever made, have proved beyond doubt that the PACS and the district level organisations would function as viable units after integration. In most districts, even without any further reduction in the number of PACS, the average business per society was likely to exceed Rs. 2.00 lakhs and in some districts it was likely to exceed Rs. 6.00 lakhs. In regard to district level institutions, not only the institutions as a whole would become viable but each of them would have a reasonable number of individual branches commanding a loan business of about Rs. 1.00 crore.

4.20 Projections were also made about the resultant economies of the district level banks. The assumptions made were as follows :

The district level bank would employ adequate number of managerial, technical, supervisory and other staff on its own payroll, without depending upon the state government for any expertise. Comparable salary scales were also adopted for the different categories of staff. It was presumed that the existing margin would continue for the production credit and other non-agricultural advances made by the CCB at present, while a margin of one per cent was assumed at each level for the long-term loans.

4.21 On the basis of these assumptions, it was found that almost all the district level banks would be able to earn adequate profit and in

[1] For details please see Annexure 4.2(c).

most cases more than the combined profits of the existing institutions. In Manipur, however, the position was slightly different, as the Study Group had not envisaged organisation of district level institutions. Hence, attempts were made to work out the economies of large-sized multi-purpose societies in the hill areas and Nyaya Panchayat level primary societies in valley areas. These societies are expected to employ a minimum supervisory staff of their own. The exercise so made showed that these societies were likely to run at loss during the first four years and were expected to function profitably thereafter.

4.22 Two significant results emanate from the exercises made by the Groups. These are : (i) Integrated institutions at the district level would be able to employ adequate managerial, technical and supervisory staff at head offices as well as branches which would not only quicken the process of loan sanctions and disbursements but also ensure effective end-use of credit by and post-investment benefits to the farmers; and (ii) there will be better deployment and utilisation of existing staff for supervision employed by the two wings through elimination of dual functions which would lead to qualitative improvement in banks' supervision arrangements. The following table illustrates how manpower utilisation will be more efficient and effective in the integrated banks at the district level.

TABLE 4.5

INTEGRATED BUSINESS AND MANPOWER UTILISATION BY THE DISTRICT LEVEL BANKS[1]

Sr. No.	State	District	Percentage increase in business	Percentage increase or decrease (—) in staff				
				Managerial	Field staff	Clerical	Subordinate	Total staff
1	2	3	4	5	6	7	8	9
1.	Haryana	Bhiwani	16.6	105.9	77.8	Nil	—4.2	20.5
		Karnal	17.2	130.8	23.8	15.0	—8.5	19.7
2.	Kerala	Cannanore	68.6	256.3	35.9	58.6	71.8	70.4
		Palghat	87.8	135.3	80.0	129.4	51.6	94.3
3.	Orissa	Bolangir	95.4	241.2	18.2	—25.5	N.A.	32.1
		Ganjam	19.4	132.5	—27.5	—35.6	N.A.	—7.8
4.	Uttar Pradesh	Ghazipur	93.1	50.0	—24.1	—4.4	—9.1	—5.8
		Sitapur	58.6	255.6	—5.9	6.7	30.8	23.7
		Muzaffarnagar	38.4	70.4	N.A.	—25.0	—12.7	27.1

[1]The important assumptions underlying the staff projections are given in Annexure 4.2(a).

4.23 Some of the Groups, e.g., Maharashtra, have pointed out incidental benefits in the form of reduction in expenditure of the Co-operation Department on supervision over the credit institutions and audit, through unification of functions. To the extent dependence on governments for technical staff is reduced by the integrated banks employing such staff, there will be some reduction in expenditure of the state governments.

4.24 Some Study Groups have also reported reduction in the cost of establishment at the intermediate level as follows:

Maharashtra

"On merger of the district branches and sub-branches of the LDB with the CCB a certain number of staff would be rendered surplus. Further, there would be considerable saving on account of expenditure on travelling, vehicles, fuel and expenses of the Advisory Boards. On an average a saving of Rs. 3.00 lakhs per district or about Rs. 75.00 lakhs for 25 districts has been estimated."

Haryana

"The comparison of col. 4 and 5 of the combined profit and loss account would indicate the economy resulting from the integration. It would be seen therefrom that there is reduction in the amount of expenditure to the extent of Rs. 3.98 lakhs in the Karnal district and Rs. 1.22 lakhs in Bhiwani district. The reduction has been possible due to the reduction in the staff as discussed in the earlier paragraphs and savings in expenses on Board of Directors, jeep, etc."

OTHER ADVANTAGES

4.25 The Groups have reported some advantages through better management of funds also. Though in many cases the CCB have sanctioned interim accommodation to the PLDB by way of cash credits, the latter have not availed themselves of the facility; on the other hand, they have drawn funds from the SLDB in advance and kept them idle without earning any interest whatsoever. Instances of this nature have been reported by many Groups particularly Uttar Pradesh and Haryana as set out below :

Uttar Pradesh

"Integration will also result in better management of funds. An analysis of the monthly bank balances maintained by the SLDB branches in the districts selected by the Study Group during the last two years reveals the following picture :

Rs. Lakhs

District	Bank balances maintained		
	Maximum	Minimum	Average
Ghazipur	1.54	7.90	2.61
Sitapur	0.43	4.86	2.32
Muzaffarnagar	0.62	6.59	2.52

The above bank balances were kept in current account by SLDB branches in CCB/UPSCB and did not yield any interest. With integration there will be no need to maintain these idle funds and to that extent the SLDB Head Office will benefit."

Haryana

"On an average the Karnal, Panipat and Bhiwani PLDB had idle funds of Rs 5.87 lakhs, Rs 3.35 lakhs and Rs 0.85 lakh respectively."

The loss of interest on these idle funds was Rs. 0.88 lakh for Karnal and Panipat together and Rs 0.08 lakh for Bhiwani PLDB

"Besides, on many occasions, due to the tight financial position, the PLDB have to stop further loaning till the funds are available from the SLDB, whereas the surplus with the central co-operative banks remains idle. Therefore, it is expected that the integration would bring about better management of funds."

PROBLEMS OF INTEGRATION

4.26 The Study Groups have listed certain problems likely to arise in the process of integration for specific examination by the Committee. These are summarised below; the more important ones are dealt with in the succeeding chapters.

(i) *Overdues*

As a result of integration, the overdues of either wing are likely to affect the integrated units by crippling the latter's capacity to borrow funds and issue loans. To overcome this difficulty, some Groups have suggested separate norms for determining the eligibility for lending programmes for production and investment credit.

(ii) *Bad and Doubtful Debts*

Special provision is necessary in Orissa for the bad and doubtful debts and other sticky debts of PLDB to be transferred to the PACS.

(iii) *Recovery of Dues of Commercial Banks*

In respect of PACS adopted by commercial banks, the latter will not accept responsibility for recovering the outstandings of long-term loans after integration.

(iv) *Interest Rates*

Prevalence of different rates of interest in the two wings would create problems after unification and hence there should be uniform rates for medium-term and long-term lendings for similar purposes.

(v) *Allocation of Recoveries*

Steps should be taken to avoid the possibility of recoveries in respect of one type of credit being diverted for repayment of dues to higher financing agencies for another type of credit.

(vi) *Staff*

Problems may arise regarding the fixation of seniority, scales of pay and allowances, etc., of staff already in position in the two wings.

(vii) *Others*

The Groups have also mentioned various other administrative and legal difficulties like restrictive provisions in the bye-laws relating to transfer of membership of the LDB to the PACS, transfer of existing mortgages collected in respect of long-term loans to a new institution, apportionment of share capital contribution made by individual members, etc.

Notes of Dissent

4.27 One member of the Gujarat Study Group representing SLDB, and two members of the Uttar Pradesh Study Group representing the state government and the SCB, respectively, have not concurred with the findings of the respective Study Groups and have recorded separate notes of dissent giving their views. A member of the Haryana Study Group representing the SLDB has disagreed with certain observations made in the Study Group Report. The important observations made by these members are given below in brief[1]:

(1) *Gujarat*

Representative of the SLDB

(i) A more detailed study regarding the position of the two wings should be undertaken before arriving at a decision regarding feasibility of integration.

(ii) The PACS should firstly be re-organised so as to be able to provide long-term loans in an effective manner.

[1]Full texts are reproduced along with the Study Group Reports in a separate volume.

(iii) Since the Revenue and Sub-Registrar's offices and the suppliers of pumpsets, etc., are situated at taluka level, there is no need for keeping the contact point for the farmer at lower level in the case of long-term loans.

(iv) It is not correct to say that long-term credit business is dwindling. It is the participation of the commercial banks in ARDC projects that has decreased LDB business. Even then the existing potential business is more than sufficient to sustain the LDB.

(2) *Haryana*

Representative of the SLDB

The representative has disagreed with the following observations made in the report :

(i) The low coverage indicated, among other things, lack of extension work on the part of the field staff.

(ii) The duties of the field staff were non-technical in nature and can be attended to by the CCB staff with training and experience.

(iii) The duties performed by the field and other staff of the PLDB are not of any technical nature.

(3) *Uttar Pradesh*

(a) *Representative of the SCB*

(i) The unitary pattern of the LDB assures effective and improved communication of the policies and orders to the lowest level, an advantage over the federal three-tier structure of the short-term wing.

(ii) Preparation of schemes for diversified long-term lending will be highly technical and the PACS cannot employ the required staff even after integration and re-organisation.

(iii) After merger, the heavy overdues of the short-term wing will adversely affect the pace of long-term lending.

(iv) The PACS can attain viability with production credit alone.

(v) The benefit arising out of economies of scale will be more than off-set by deterioration in the quality of lending and recovery.

(vi) The objective of providing all types of credit to the farmer from one source can be achieved if the PACS undertake the functions of receiving long-term loan applications and disbursing the loans as agents of the LDB.

(b) *Representative of the State Government*

(i) It is doubtful whether the PACS will work as viable units even if long-term lending is transferred to them.

(ii) The expenditure for posting additional staff for long-term lending may not be commensurate with the profit generated.

(iii) The merger will bring about unnecessary distortion in the financial structure of the long-term wing without any distinct gain.

(iv) There are differences in the resource mobilisation pattern as well as in the modes of disbursement and recovery of loans in the two wings.

(v) The Study Group has visualised better recovery performance of long-term loans after integration but the position may actually deteriorate.

SUMMARY

4.28 All the Study Groups in the states having long-term wings have concluded that integration at the primary and intermediate levels would provide comprehensive service to the farmers and lead to (i) overall efficiency of the combined unit, (ii) better management, (iii) overall efficiency in resource mobilisation and deployment of funds, (iv) employment of adequate personnel, etc.

4.29 The Manipur Group is of the unanimous view that bifurcation of the short-term and long-term credit structure in the state as contemplated in the Fifth Five Year Plan is not conducive to the viability of the credit institutions both at the apex and primary levels but would weaken them. They have, therefore, recommended their continued integration as necessary for making a strong and viable base for co-ordinated agricultural development in the state.

Chapter 5

EMERGING PICTURE

5.1 We examine, in this chapter, the main terms of reference of our Committee, viz., to review the position of the two wings of the co-operative credit structure and examine whether integration of the two wings would be advisable from the point of view of serving the objective of lending adequate support to the massive investment programme in agriculture.

5.2 For a proper analysis of this issue, we pose to ourselves three important questions, viz., (a) whether from the national angle, integration of the two wings is desirable and necessary to give adequate credit support for the agricultural development programmes; (b) whether it is necessary from the point of view of farmers' convenience; and (c) whether it would be beneficial to the co-operative credit structure as a whole to enable it to effectively meet the increasing demand for agricultural credit, both for investment and production. Answers to these questions would lead us to decide whether the dichotomy prevailing in the co-operative credit structure should be allowed to continue or the two wings of the structure should be integrated. In the following paragraphs, we examine the questions posed by us.

From the National Angle

5.3 The country is poised for a breakthrough in agriculture. The agricultural development programmes are drawn up on the principles of (i) planned modernisation and maximisation of output and (ii) integrated development of crop production, livestock and poultry, fishery and forestry. The objective of the country's agricultural policy is to bring about improvement simultaneously in all the fields of agriculture and allied activities for a diversified agricultural base duly supported by adequate marketing facilities. Institutional credit is one of the important factors that would contribute to the full achievement of the various programmes of agricultural development. The magnitude of the credit support expected to be provided for agricultural development can be seen from the following estimates made by the National Commission on Agriculture (1976).

5.4 The full credit needs of the farmers for agriculture by the year 1985 are estimated by the National Commission on Agriculture to be of the order of Rs. 16,549 crores which include short-term credit (annual) and medium and long-term loans (cumulative).[1] Recognising that it would be difficult for the credit institutions to meet the full requirements of this magnitude by 1985, the Commission has scaled down the institutional credit requirements assuming 100 per cent coverage for small, marginal and other farmers in regard to medium and long-term loans for irrigation, livestock and fisheries development and 50 per cent coverage envisaged in the unirrigated areas. On the above reckoning, the graduated requirements work out to Rs. 9,400 crores as under:

TABLE 5.1

GRADUATED REQUIREMENTS OF CREDIT FOR 1985

Rs. Crores

	Short-term	Medium and Long-term	Total
Marginal and small farmers	1,766	2,022	3,788
Medium and large farmers	2,242	3,003	5,245
	4,008	5,025	9,033
			+ 400*
			9,433
or, say,	4,000	5,000	9,400

*For agricultural machinery and implements.

5.5 The Commission is of the view that 45 per cent of the 1985 level of graduated requirements of short-term loans and 40 per cent of medium and long-term loans should be met by the end of the Fifth Plan itself. This has been estimated at Rs. 1,750 crores (net) by 1979 for term loans of which, the commercial banks' share has been placed at Rs. 850 crores and the share of the co-operatives at Rs. 900 crores. The Commission envisages that institutional finance for agriculture will rise from Rs. 1,537 crores in 1973-74 to Rs. 3,550 crores by 1979.

5.6 The Commission has indicated that the graduated credit requirements projected by it were modest in the context of urgent national needs and even then they implied growth of lending for agriculture in multiples of levels obtaining in 1973-74. The Commission has, therefore, observed: "We recommend that the Reserve Bank of India and

[1]The assumptions underlying these estimates (physical programme) are given in Annexure 5.1.

the Government of India should immediately initiate planning for business and manpower development in the commercial banking and co-operative systems to equip them to fulfil these expectations".[1]

5.7 What is called for from the institutional sources is not merely adequate credit support for this massive programme of investment but an agricultural credit policy which can bring about deliberate changes to initiate and accelerate the processes postulated by the overall agricultural development policy. In the words of the Commission itself, "the credit policy should be designed to provide an integrated agricultural credit service so as to facilitate the adoption of new technology, to extend its scope to cover all aspects of rural development including production, marketing, transport and processing, and to facilitate and provide linkages between finances and services for current inputs as well as investment in land improvement, minor irrigation and farm equipment".[2]

5.8 The important basic objectives of the new agricultural credit policy have been further amplified by the Commission as follows: "Firstly, it should provide a total system for building up and expanding all activities facilitating the modernisation of agriculture, including organisation of services and marketing and improving its productive capacity. Secondly, it must have a comprehensive connotation of 'agriculture' to make it almost co-terminous with rural development, covering all production needs of rural households. Thus its scope covers cultivation and dairying, livestock rearing, fishculture, sericulture, forestry, etc., as well as marketing, transportation and processing necessary for conversion of inputs into outputs and cash incomes at fair prices. Thirdly, it must facilitate and provide for linkages between finance and services for current inputs as well as for investments in land development, wells and pumpsets and farm equipment. It is only through the latter that there can be an expansion of the basic capacity to produce and to adopt improved practices and take risks attached thereto".[3]

5.9 In this context, we also emphasise the need for diversification and expansion of business and proper linkage between production and investment credit by the co-operative credit institutions. Their lendings should be so geared as to promote, extend and intensify modernisation of agriculture. According to us, the co-operative credit system can play the expected role in agricultural development only if the imbalances in

[1] Report of the National Commission on Agriculture (1976)—Part XII: Para: 55.7.11
[2] Ibid: Part II: Para: 7.3.42
[3] Ibid: Part XII: Para: 55.4.8

its growth are corrected and it is equipped to provide credit facilities in an integrated manner.

Convenience of Farmers

5.10 In a planned economy, no credit agency can set its goal exclusively on the profit motive. Its performance will have to be assessed, by and large, on its ability to forecast its demand for funds from its clientele and how best it meets their needs. Therefore, the basic criterion for judging the performance of agricultural credit agencies to-day is whether they are geared to serve the interests of the farming community. Hence the analysis of the problem has also to be done from the borrowers' angle.

5.11 At present, the farmer has to approach a credit society for his short and medium-term credit, the land development bank for long-term credit, functional societies, where they exist, for animal husbandry activities, a marketing society for marketing of crops and the extension agencies for other allied services. This compartmentalized approach has often denied certain complementary facilities to the farmers especially to the smaller among them.

5.12 This approach has created difficulties to the farmers not only from the point of view of their composite needs but also their repaying capacity in respect of both investment and working capital credit. This has become all the more glaring in relation to small farmers in whose case the repaying capacity for agricultural credit will have to be determined by their total income from agriculture as well as subsidiary occupations. Credit requirements and repaying capacity as well as development programmes cannot be viewed in isolation.

Comprehensive View of
Credit Requirements

5.13 Integration of all types of credit will enable a credit agency to take a comprehensive view of the credit needs of the farmer and avoid the splitting up of the security between two credit agencies and also competition between them in realisation of their dues. Some Co-operative Societies Acts give priority to the dues of a PACS over all other creditors including a LDB which may have lent against mortgage of land. Some others now have provisions comparable to those in the Maharashtra Co-operative Societies Act which gives priority to the dues of the LDB over that of the PACS. Most Acts have special provisions giving right of attachment of crops to the LDB without obtaining a formal decree through an award. There is thus a conflict of interests between the two wings of the co-operative credit structure which cannot be resolved so long as the dichotomy continues. For instance, under the cotton monopoly procurement scheme in Maharashtra, the government determined the share of the two bodies in the price payable to the farmer, as each wanted its dues to be settled fully before the excess was allowed to be passed on to the other. This conflict arises largely because each credit agency desires to improve its recovery so that its future lending programmes are not adversely affected. This conflict of interests would not exist when there is a single lending agency. A borrower will not stand to benefit by clearing all his dues to the short-term structure and remain in default in respect of long-term loan instalments if there is a single lending agency; in the latter situation he will be classified as a defaulter and made ineligible for a fresh loan. The situation is different when there are two different credit agencies meeting the needs of a borrower. A borrower can afford to remain in default to a long-term credit agency without being denied a short-term loan. This arises largely on account of the inherent inability to achieve co-ordination between two independent institutions. Such a state of affairs is not conducive to discipline among the borrowers and is harmful to the wider interests of the co-operative credit movement. For these reasons, the thinking has gained emphasis that the farmer should be given all his credit, whether short, medium or long-term credit and allied services in an integrated manner and at one contact point as already indicated in Chapter 1.

5.14 The concept of farmers' convenience gains considerable importance under the area development projects sanctioned by the ARDC. As on 30 June 1976, the ARDC had sanctioned refinance in respect of about 2,900 schemes involving financial accommodation of the order of Rs 1,147 crores of which it had already disbursed Rs 594 crores. This refinance has been sanctioned for various purposes including minor irrigation, land levelling, etc. Under these schemes, tubewells and dugwells numbering about 5.11 lakh units along with pumpsets of about 4.81 lakhs are expected to make available irrigation for double cropping for nearly 21 lakh hectares of land. In addition, the area which will be covered under major command area projects and through several soil conservation schemes will bring another 6.35 lakh hectares of land under double cropping. In all these schemes, the ARDC has fixed the period of loan on certain basic assumptions such as (i) the farmer will switch over to high-yielding varieties of crops and/or that substantial increase in intensity of cropping pattern would take place after investment and (ii) adequate and timely support by way of production credit would be available to the farmers for switching over to high-yielding varieties of crops and/or higher intensity of cultivation. To-day, inadequacy of production credit has rendered full exploitation of the fruits of investment credit somewhat difficult. Conversely, the full and efficient utilisation of production credit can be ensured only if the requisite investment credit is also made available. The studies conducted by us in selected states have produced sufficient evidence of the lack of adequate support from the short-term wing for investment credit provided by the LDB and *vice versa.*[1] These studies have also proved that in a large number of cases, farmers who have received long-term loans were either not even members of the PACS or have not been sanctioned any crop loans.

5.15 Keeping these factors in view, the ARDC stipulates, as one of its important terms of sanction, a condition which would ensure adequate provision of production credit for farmers availing themselves of long-term loans. In the projects sanctioned by the ARDC, the weakness of either of the wings proves a great handicap and results in loss of business to the co-operatives.[2] Where an alternative credit agency does not come forward, the development of the area gets delayed or does not take place at all.

Special Class of Borrowers

5.16 A special class of borrowers who have recently emerged in the sphere of investment credit is the public sector institutions set up by state governments for land development, minor irrigation work and building up the necessary infrastructure for the benefit of farmers. Several governments have also taken steps to establish forestry corporations, area development corporations, etc. These undertakings are at present outside the fold of the co-operative credit institutions, mostly on account of the absence of provision for providing finance to these institutions in the concerned bye-laws of the SLDB. Certain SLDB as in Maharashtra have recently amended their bye-laws to provide the necessary investment credit to them. Even then, these institutions have preferred to obtain funds from commercial banks instead of the co-operatives on account of the advantage of getting all their working capital and other needs from the same institution.

Benefits to Co-operative Credit Societies

5.17 We now discuss below the advantages likely to be realised by the PACS through integration.

1 For details please see chapter 4.
2 For state-wise analysis of the position of the PACS and co-operative banks in the two wings in 13 states, please see separate volume; please also see the statistical data in Annexure 5.2.

5.18 The immediate advantage for the PACS in integrating credit functions at this level is to improve their viability. Without reaching the viable status, the PACS will not be able to employ full-time paid secretaries and function effectively. Our studies indicate that after integration, the business of the PACS would improve considerably. In Annexure 5.3 we have given a table indicating how in certain districts the average loan business of the PACS would improve merely by taking over the existing long-term loans.[1]

5.19 The studies have also revealed that the transfer of existing long-term business by the PLDB would increase the profitability of the society as the additional work involved in long-term lending would not call for the appointment of extra staff. For example, in a state like Maharashtra, long-term loans of the order of Rs. 15 crores are disbursed annually and this would mean 30,000 loan cases on the basis of an average loan of Rs. 5,000. The total number of the PACS is likely to be anywhere between 12,000 and 15,000 after re-organization. This will give an average of about 3 applications per society, to be attended to in a year which cannot be considered to be very large. So far as the outstanding loans are concerned, no extra staff will be necessary for supervision, as it is expected that recipients of the term loans will also be the borrowers of short-term agricultural loans.

5.20 Another advantage of the integrated credit functions is that common supervision arrangements would facilitate better and continuous watch over the utilisation of loans and make recovery measures more effective. Mutual knowledge of the directors and members of the village societies would be very helpful for loan disbursements as well as recovery.

Examination of Arguments

5.21 We now examine the criticisms levelled against integration by various persons and organisations.

Competence of the PACS

5.22 A general criticism voiced during the discussions against integration at the primary level has been that the secretary of the PACS would lack competence to deal with the loan applications for investment credit. We have spelt out in the next chapter the functional distribution of work at various levels. The PACS or the secretary is not expected to undertake the functions at present done by the PLDB in regard to technical and financial appraisal of individual applications received

[1] Benefits to higher level institutions are discussed elsewhere.

from borrowers. The secretary is also not expected to examine the prospective borrowers' title to property. He is only to see whether the applications have been properly filled, check whether the required documents have been furnished as per list provided by the financing bank and forward the same to the latter for further scrutiny and sanction at the branch level. At present, the scrutiny of applications for long-term loans is attended to by the staff at the taluka level and the same position will continue after integration.

One Contact Point

5.23 The 'one contact point' approach is questioned on the ground that even after integration, the farmer would have to continue to approach different government offices and other institutions at the block and taluka levels for various purposes. The assumption behind this argument is far from true. For purposes related to credit, once an application for investment credit is accepted by the PACS, it will be the responsibility of the PACS and the financing bank to verify the title to property, obtain on behalf of the farmers the necessary encumbrance certificates, arrange for the registration of mortgages (where they are necessary), etc. In respect of non-credit requirements, the PACS are expected to function as multipurpose societies providing inputs of agriculture and also serving as outlets for the public distribution system in the rural areas. They will also provide consumption credit very shortly. A large number of PACS is already engaged in the distribution of fertilisers, insecticides, etc. A society may not be in a position to stock oil-engines and pumpsets; but the number of persons likely to avail themselves of a loan for the above purpose would be relatively insignificant, say, less than one per cent every year in a large society. Further, it should not be difficult for the financing bank and the PACS to arrange to deliver pumpsets, etc., to the farmer in his own village. Therefore, it is not correct to say that the farmer will have to run to different institutions and beyond the village in connection with his credit and allied requirements.

Achievements of the LDB

5.24 It is claimed that since the LDB have shown substantial progress in providing long-term agricultural credit, the long-term credit structure should not be disturbed. While the achievements of the LDB are well-known, the funds for achieving the remarkable progress have been provided by the ARDC, the RBI, the central and state governments, commercial banks, the LIC, etc. Even after integration is brought about at all levels, the funds will continue to flow from the various agencies for which what is needed is an efficient channel and not necessarily a particular financial institution. On the other hand, looking from the point of view of the PLDB, there is increasing evidence to show that the scope for additional business on traditional lines is dwindling and a stage would be reached when their viability would be gradually eroded. It is an established fact that minor irrigation constitutes the most important single purpose of loans granted by the PLDB in recent years, accounting for more than three-fourths of the banks' aggregate advances made out of market borrowings or funds provided by the ARDC. A matter of concern is that fresh advances from the banks in this field as well as in the aggregate have been showing a downward trend since 1971-2. Except in the Gangetic Plains, the scope for loans for this purpose appears to be gradually reaching a saturation point in many districts of the country on account of optimum utilisation and limitations on further exploitation of the groundwater potential. For example, some areas of Eastern Kutch and Mehsana districts in Gujarat, Karnal district in Haryana, Ludhiana district in Punjab, Barmer, Jalore and Jaisalmer districts in Rajasthan and Coimbatore, Salem, Tirunelveli and North Arcot districts in Tamil Nadu have been declared as having been intensively developed and hence requiring greater caution in further exploitation of groundwater. A stage might be reached in the not too distant future when in many districts loans for the conventional minor irrigation purpose can no longer claim any major part of the loan operations of individual PLDB; this will affect the viability, though not of the SLDB as a whole, but of several PLDB. The PLDB perforce will have to make vigorous efforts to diversify their loan portfolio.

5.25 In view of the dwindling scope for business, the RBI has advised the PLDB to diversify their loaning activities. Though the LDB have switched over to development lending, their operations are severely restricted to-day on account of the existing statutes and bye-laws which prohibit them from lending except on mortgage of land for developmental activities connected with the land. We have elsewhere recommended that this inhibition should be removed and the banks permitted to lend for any agricultural purpose and against any security, tangible as well as personal. Even when this is done, the LDB may not be able to handle the business, as can be seen from the succeeding paragraphs.

5.26 Development of agriculture increasingly requires project approach which envisages not only credit facilities for investment and working capital but also for development of the infrastructure necessary for its successful implementation, including assured processing and marketing facilities. For example, in a project aiming at increased output of sugarcane crop, establishment of a sugar factory and adequate working capital to run it are essential. For development of tree crops, besides loans required for planting and maintenance till the yielding stage, production loan for raising intercrops during the gestation period and working capital for processing and marketing units set up under the project would be necessary. It is in recognition of this principle that, under the integrated cotton development project, the ARDC has undertaken the responsibility of ensuring short-term credit facilities for production, processing, marketing, etc., side by side with investment credit.

5.27 The need for provision of credit in an integrated manner holds good equally for other allied agricultural activities like dairying, fisheries, sheep breeding, piggery development, etc., in which marketing becomes an essential adjunct to the development programme. For example, in a fisheries project, it would not be enough if long-term credit is provided for purchase of boats and setting up of freezing plants and other processing units; it would be necessary for them to obtain suitable cash credit limits for running the processing units and marketing of fish. The boat building yards would also require interim finance in the nature of cash credits for construction of boats. In dairying, the programme has to be supported by adequate working capital for the pasteurisation plant and marketing agencies. The SCB and commercial banks are to-day in a better position to lend funds for these purposes on account of their ability to provide all types of credit facilities. The LDB on the other hand will not be able to provide these facilities as they raise funds on a long-term basis and are not equipped to transact general banking business which includes remittance and bill purchase and discounting facilities. If the LDB are allowed to provide cash credit, remittance and bill facilities also, they will have to mobilise short-term resources and their character of operations will not be much different from that of the short-term wing of the co-operative credit structure. In fact, at that stage one would see an integrated co-operative credit agency at work and not the traditional LDB.

5.28 In our meetings with the representatives of the states and particularly of the LDB, we were told that the scope for long-term investment credit was very great and it would increase further when the banks diversified their activities and entered into the field of financing dairying, poultry keeping, forestry, etc. As has been indicated in the previous paragraphs, many of the activities will need working capital finance and the type of credit arrangements for which the LDB, not being full-fledged banking institutions coming within the purview of the Banking Regulation Act, are not equipped to provide. Nor can they be equipped to do so unless they assume the character of an integrated unit. Further, it is wrong to assume that the area of operations of every PLDB will have scope for lending for, say, forestry development, pisciculture, dairying and poultry keeping. ' In some cases the natural conditions may not themselves be present for undertaking the activity. In others, poor scope for marketing of the products, e.g., milk, eggs, etc., may itself limit further development of dairying and poultry keeping. Therefore, while there may, undoubtedly, be scope for diversification in the state as a whole, there may be very little or none in the area of the PLDB where really it matters from the point of its viability. Diversification of the loan business of the LDB is thus not really an answer to the dwindling scope of business of these LDB.

Increasing Role of Commercial Banks

5.29 Largely as a matter of national policy and partly on account of their ability to provide both short-term and long-term credit, commercial banks including the newly established Regional Rural Banks are having increasing participation in agricultural finance, more so in the fields which were so far a monopoly of the co-operatives. The following table will indicate broadly the performance of the commercial banks in the provision of agricultural credit in the last four years:

TABLE 5.2

Rs. Crores

Particulars	Loans issued during the year ended June 30			
	1972	1973	1974	1975
1. *Short-term loans*				
(a) PACS	541	613	683	769
Of which, by societies financed by commercial banks	7	10	12	13
(b) Government departments	99	177	91	101
(c) Scheduled Commercial Banks	N.A.	N.A.	105	143
2. *Medium-term and long-term loans*				
(a) PACS	74	163	72	96
Of which, by societies financed by commercial banks	1	1	1	1
(b) LDB (to Individuals)	154	182	146	161
(c) Scheduled Commercial Banks	N.A.	N.A.	114	141

Source: Report on Currency and Finance 1974-5 (page 121).

5.30 It may be observed from the table above that in 1974-5, the amount of short-term loans provided by scheduled commercial banks formed only 14.1 per cent of the total credit provided to the agriculturists by all institutional agencies concerned and the government. However, in the field of medium and long-term loans, the contribution made by scheduled commercial banks was very substantial. Out of the total medium and long-term credit of Rs. 398 crores issued during the year 1974-5, the scheduled commercial banks disbursed as much as Rs 141 crores (35.3 per cent). Though the data for the year ending 1975-6 are not yet available, a general indicator of the performance of the commercial banks is provided in the amount of refinance drawn by them from the ARDC. In recent years, the involvement of commercial banks in agricultural development schemes approved by the ARDC has increased significantly on account of the role assigned to them in the ARDC projects implemented in several states. As a result, the number of schemes sanctioned in favour of commercial banks as well as the amount of refinance disbursed has increased substantially during the recent years.[1] The availment of refinance by commercial banks has steadily increased from a mere 5 per cent in 1970-71 to 26 per cent in the year 1974-5 and as much as 41.3 per cent in 1975-6. Though generally there is ample scope for lending by both co-operative and commercial banks, there will tend to be a general preference for borrowing from commercial banks on account of the 'package of credit' facilities offered by them in areas where short-term credit structure is weak or the support available from it for investment credit provided by the LDB is poor.

5.31 The role of commercial banks in financing agriculture is increasing not only in the field of direct finance but also in indirect financing through the PACS. A development to be noted in this connexion is the decision of the GOI to organise a large number of FSS all over the country in the SFDA and DPAP areas, most of which are likely to be attached to commercial banks because of the inability of the CCB to meet the cost of the managing director, which is an essential requirement stipulated by the GOI and the RBI. Recently the GOI have also advised the concerned state governments to organise 20 FSS in the area of each of the 50 Regional Rural Banks (RRB) all of which would be in existence before 31 December 1976. Besides the FSS, steps have been/are being taken to organise special types of primaries like LAMPS in tribal areas and sericulture societies in states like Karnataka, where there is considerable scope for development of sericulture. An important feature of all these types of primaries is that they will handle long-term

[1]For details please see Annexure 5.4.

credit business also and are likely to be financed by the commercial banks and the RRB. No doubt, enough scope exists for both the LDB and the commercial banks (including RRB) to function side by side; here, as in other cases, what is important is the sharing of the business between the commercial banks on the one hand and the PLDB on the other. If the coverage of commercial banks assumes a much larger proportion than that of the PLDB in a taluka or a district, the viability of the PLDB will be adversely affected, even though the viability of the SLDB as a whole may be assured.

Level of Expertise

5.32 An argument supporting the existence of the LDB is that they have developed expertise in the field of long-term credit which will be difficult for the short-term wing to acquire or handle. As has been pointed out in the previous chapter, very few LDB have technical staff of their own functioning at the base level, i.e., the PLDB. The technical staff is generally provided by the various departments of government. The examination of the title deeds is entrusted to legal advisers approved/appointed by the SLDB/PLDB as the case may be. Apart from the manager, the staff engaged in the PLDB is mostly clerical or supervisory, i.e., having the basic qualifications and competence of similar staff appointed by the CCB. The Study Groups have pointed out that with some orientation course/training, the supervisory staff at the CCB would be in a position to handle long-term credit where, after integration, the staff at present working in the PLDB proves inadequate.

5.33 The over-dependence of the PLDB on state governments' technical and extension staff can no longer be justified. They have to function independently and work as commercially viable institutions. This will not be possible if they continue to exist separately, except by pushing up their interest margin and lending rates to farmers.

5.34 Even if it is admitted that some expertise has been developed by the staff of the long-term wing on account of experience gained in the past, we do not understand how such an expertise will be lost to the integrated banks. As will be seen from the next chapter, the entire staff of the LDB including legal staff will be absorbed by the new institutions and will, therefore, continue to be available to the integrated banks. Further, till such time as the unified structure employs its own technical staff necessary for investment credit, the state governments should have no hesitation in extending the same help to the new banks as they are now giving to the existing LDB.

5.35 The inspections of the LDB conducted by the ACD, RBI and the follow-up studies undertaken by the ARDC have brought out the need for considerable improvement in the techniques of appraisal at present being followed by the staff of the LDB. For example, the pre-development income is deflated and the post-development income inflated considerably so as to show a large net incremental income to justify the loan. An unrealistic cropping pattern or cropping intensity is assumed to show large post-development income. Technical and economic assessment on a more scientific basis is necessary and can be done if the staff is properly trained. If more such staff is needed it should be possible for the lending agency to employ them when the business turnover improves. In Chapter 7, we have examined the feasibility of the integrated banks employing adequate technical personnel to man them.

5.36 Some have contended that supervision over the end-use of credit will suffer if the loans are not handled by the LDB. Firstly, it does not require much of an expertise to ascertain whether a well has been dug and a pumpset installed thereon or a tractor or power-tiller purchased. Land levelling and bunding are generally executed by special departments of government or any specialised agency and their certificates can be accepted as evidence of proper utilization of loans. Secondly, very often supervision of loan is entrusted to departmental staff as, for example, in Tamil Nadu where it is not the responsibility of the bank staff. The banks cannot, therefore, claim at least in such states that supervision will suffer if it is entrusted to integrated banks. Actually the supervision over the utilisation of investment credit is expected to improve both in quality and frequency as the integrated banks will have technical staff stationed at the taluka level and as the borrower will be closer to the lending agency, viz., the PACS than at present where the agency, viz., the PLDB is situated in most cases at the taluka level.

Effect of Overdues

5.37 It has been argued that integration would result in further restricting the eligibility of the banks for long-term lending programme which is now regulated by recovery norms prescribed by the RBI/ARDC. Strictly speaking, integration should improve the eligibility of the banks rather than reduce it; assuming that a taluka comprises about 100 villages, the overdues which are now reflected in the position of PLDB at taluka level or even above will get distributed amongst 20 or more societies. Wherever the PLDB have heavy overdues exceeding the levels prescribed by the RBI for unrestricted lending programme, the present position is that the entire taluka is deprived of full refinance facilities from the RBI/ARDC for investment credit. On the other hand, in the integrated system, the overdues will be distributed amongst various societies and only a few societies would be rendered ineligible for new business and there may be many qualifying for an unrestricted programme. A large number of societies operating in the villages, where recovery of loans is good, would be in a position to provide long-term loans without difficulty. This has been proved in three sample studies conducted by the ACD, RBI in Gujarat, Karnataka and Kerala recently. These studies have also proved that in many cases an improvement in the overall recovery percentages would take place.[1]

5.38 The LDB are very well aware of this position. When their lending programmes were linked with the recovery performance for the first time, performance of the apex level was the basis for determining the eligibility for long-term lending. Later, on the basis of representations of the banks themselves, the PLDB was taken as the unit with the result that the units which had a better recovery performance individually than the apex bank as a whole stood to benefit.

5.39 The relatively better recovery made by the long-term wing is cited as an argument in some states in favour of retaining that wing. We do not see any correlation between the type of structure and overdues. As has been brought out by the Study Team on Overdues and the Committee on Co-operative Land Development Banks appointed by the RBI, by and large, default is wilful and universal in the sense that the proportion of defaulters is more or less the same among big, medium and small farmers and that the attitudes of the borrowers not to pay in time gets hardened very often as a result of the climate for recovery getting vitiated by extraneous considerations. If serious and determined efforts are made, overdues can be reduced considerably. This has been amply demonstrated during the current year by the good recovery made by both the wings of the co-operative credit structure in many states. However, if it is apprehended that the overdues of the PACS as a whole are likely to be higher than the PLDB and as a consequence the long-term lending programme in the area is likely to be adversely affected under the present discipline imposed by the ARDC/RBI, we see no difficulty in assessing the performance separately for long-term loans and the other loans advanced by the PACS and determining the future lending programme on that basis. We have recommended in Chapter 7, the maintenance of *status quo ante*

[1]For details please see separate volume.

in the determination of loan eligibility, for an initial period of two years after integration.

Cost of Lending

5.40 There is an apprehension that integration would increase the rate of interest on long-term loans by two per cent or more to the level obtaining in respect of short-term loans. This is based on the assumption that the rates of interest on short-term and long-term loans will have to be uniform. This assumption itself is wrong. It is not uncommon for banks to charge varying rates of interest taking into account the cost of funds derived from different sources or according to 'what the traffic can bear'. Commercial banks borrowing from the ARDC charge a lower rate on loans under the ARDC-refinanced schemes than what they charge on short-term production loans as well as on medium and long-term loans extended from their own resources. After integration of the two wings of the co-operative credit structure, the situation will be comparable to that obtaining in the commercial banks and there is no reason to believe that integration will push up the long-term lending rate to the level of the short-term rate. Changes in the interest rates structure, if and when they take place, will be part of an overall monetary and credit policy mechanism and will not be on account of integration.

5.41 It may be argued that while the disparity between the long-term and short-term rates may continue even in the integrated banks, the increase in the tiers from the present two tiers in the long-term wing to three tiers in the integrated system would push up the cost, thus, narrowing the gap between the two rates of interest. It is wrong to believe that elimination of a tier can reduce the rate of interest by the full extent of the margin retained at that tier. This margin is for meeting a certain amount of expenditure on establishment at that level which has to be incurred whether or not the legal entity of the unit at that tier is done away with. The Kerala Study Team on the Two-Tier Co-operative Credit Structure which examined this question in detail has come to the conclusion that if the CCB are eliminated and their place taken by the branches of the SCB, there may be a saving of not more than 0.25 per cent in cost; even this meagre saving may remain only so long as the scales of pay of the staff at the branches are not on par with the higher scales obtaining for the staff of the apex bank.

5.42 It is stated that the LDB at present have only two tiers, viz., the SLDB at the apex level and primaries/branches at the taluka level.

This statement is not wholly correct because the major state land development banks have established their regional/district offices which exercise general control over the PLDB and also sanction loans. In Maharashtra, Gujarat and Andhra Pradesh, for instance, there are already three levels in the long-term credit structure, viz., the SLDB, the district branch and the taluka level branch/PLDB.

5.43 We were ourselves particular that integration *per se* should not result in raising the rate of interest to the farmer either on long-term or short-term loans. The various Study Groups appointed by us were, therefore, asked to go into this aspect of the matter more closely. The exercises done by the Study Groups in the projections of routing long-term credit through a three-tier structure, details of which have been given in Chapter 4, have proved that the apprehension regarding the rise in the rate of interest on long-term loans in the integrated banks is not well-founded. To recapitulate, the Study Groups have assumed that the existing margin of 3 per cent prevailing in most of the LDB would be distributed among the three-tiers at the rate of one per cent for each tier. The projected income and expenditure worked out by them led them to conclude that even with this low margin, the institutions at the different levels would be able to adequately and effectively perform the functions expected of them in the integrated structure, without pushing up the cost of lending or incurring deficits.

5.44 Actually, the staffing pattern adopted by the Groups for integrated banks envisages appointment of a large complement of technical and supervisory staff after integration with a view to reducing reliance on governments for staff for appraisal of, and supervision over, long-term loans. The staff so appointed will not only be responsible for disbursement of loans, but also for recovery. If the dependence on government is continued, these banks should be able to lower the rate of interest on long-term loans. We, however, do not favour this practice of continued dependence on government indefinitely. If the quality of supervision and the effectiveness thereof can be improved without any additional burden on the farmer, the integrated credit arrangement can be considered an advantage. This would incidentally relieve the state budget of some expenditure on staff provided to the banks or of the subsidies provided by some state governments.

Relative Strength of the two wings

5.45 One of the arguments put forth is that the short-term wing is weaker compared to the long-term credit wing, particularly at the base level. We are fully aware that integration of credit function, if it has to be undertaken at the primary level, would call for re-organisation of the PACS. We concur with the view expressed by the Committee on Co-operative Land Development Banks that primary agricultural credit societies in general, as are constituted and functioning at present, would not be able to disburse long-term loans in a satisfactory manner. Weakness of the primary credit societies in general has already been admitted and a nation-wide programme of re-organisation and strengthening of the societies is being implemented seriously on the recommendations of the Expert Committee on Consumption Credit headed by Shri B. Sivaraman and the follow-up action by the GOI at the highest level. Several states have advised the RBI that this would be achieved latest by 31 December 1976. The re-organisation of PACS on the lines indicated by the RBI is, therefore, a *sine qua non* for effecting integration at the primary level.[1]

5.46 It is not correct to say that all the primary credit societies are weak and do not have full-time paid secretaries. To-day, of about 1,54,000 societies in the whole country, as many as 60,000 (39 per cent) have employed full-time paid secretaries. Another 37,000 societies (24 per cent) have the services of part-time secretaries. There are many districts in states like Kerala, Tamil Nadu, Gujarat and Maharashtra where the average loan per society is more than Rs 2.00 lakhs, the minimum suggested by the RBI for attaining viability. If the expectations about the vigorous drive for re-organisation of societies launched by the states materialise—and there is no reason to believe that this will not happen in the foreseeable future—many more societies would be in a position to have full-time secretaries before 31 December 1976.

5.47 Just as there are many societies which are not viable, there are many PLDB which are working at a loss. As at the end of 30 June 1974, out of 857 PLDB functioning in the country, 254 were working at loss and formed 29.6 per cent of the total. The position of the PLDB was particularly unsatisfactory in the states of Andhra Pradesh, Assam, Karnataka and West Bengal.[2] It is, therefore, not correct to state that primaries in the long-term wing are much better placed in regard to financial viability than their counterparts in the short-term wing. We are convinced that the weaknesses observed in the short-term wing to-day mostly arise out of low volume of business and lack of adequate staff. Once these are removed, which we are sure could

[1] Two circulars both dated 28 May 1976 issued by RBI in this connection are reproduced in Annexures 5.5 and 5.6.

[2] For details please see Annexure 5.7.

be achieved in the unified structure without much effort, weaknesses of the PACS are likely to disappear.

Experiments in Structure

5.48 It is stated that even after seven decades of experience and experimentation no finality has been reached about the nature of the base level co-operative organisation. The Rural Credit Survey Committee had recommended organisation of large-sized multi-purpose societies; there was, no doubt, some difference of opinion about the geographical jurisdiction of a society, but soon thereafter, on the recommendation of the Vaikunth Mehta Committee on Co-operative Credit, a new concept of 'viable service societies' was accepted. The recent experiment of farmers service society is a combination of the multi-purpose and viable society ideas.

5.49 The organisation of FSS has not led to multiplicity and duplication as is claimed. In the area of a FSS, no other credit society would be allowed to operate. Similarly, in Karnataka, the State Government have agreed that members of sericulture societies would be provided all types of credit facilities including long-term loans and PLDB will be out of the picture *vis-a-vis* the members of these societies. Even in respect of PACS, it has been accepted as a national policy that only these societies will provide loans for purchase of milch cattle, poultry birds, etc., and not dairy and poultry farming societies.

5.50 Further, experiments in organisation and structure have not been confined only to the short-term wing. As is well-known, the LDB have two different patterns—unitary and federal. In addition, in the smaller states and union territories, the SCB themselves have a long-term credit wing. In Maharashtra, the LDB which had a federal structure since its inception has recently been made into a unitary structure. There is also no uniformity in the organisation and jurisdiction of the PLDB. While, in Madhya Pradesh, the PLDB are operating at the district level with branches, in most of the states the PLDB are operating at taluka level and in Tamil Nadu even at block level. Each state seems to have developed its own pattern to suit its requirements. On the contrary, there is now an accepted pattern for the organisation at the base level in the short-term credit structure.

Multi-agency Approach

5.51 It is contended that multi-agency approach is a national policy and hence, consistent with that policy, the SCB and the SLDB should function side by side. This contention appears to have been based on a misunderstanding about the national policy which is designed to ensure that different lending agencies, and not a single one, should operate in the sphere of agricultural credit. In other words, unlike in the past, when the co-operatives alone were in the field, both commercial and co-operative banks should operate side by side in providing agricultural credit as there is ample scope for both to operate. The policy thus envisages two types of lending institutions providing credit facilities for the same purpose, although in a co-ordinated manner. This does not arise in the case of the two wings of the co-operative credit structure because they have mutually exclusive fields of activity. It will not, therefore, be correct to say that integration of the two wings will be against the national policy; on the contrary, it will be consistent with it. Under the multi-agency approach, a farmer cannot approach a commercial bank or RRB for one type of credit facility and the village co-operative society for the other. The commercial banks and the RRB will not entertain such a proposition; they would like the borrower to resort to only one credit agency for all his requirements.

Other Arguments

5.52 It is stated that the greatest inherent danger in the integrated credit system is that if for some reason the system fails in a particular area, the flow of all types of credit will be choked, whereas if the CCB and the PLDB function independently of each other, even if one fails, the other may continue to operate and meet at least a part of the credit requirements. This argument cuts at the root of the principle of integrated credit. As has been pointed out elsewhere, the interests of the farmer lie in ensuring uniform and continuous flow of both investment and production credit. If either of them is denied to the farmer as is happening to-day, the expected results in agricultural production cannot be assured to him.

5.53 It has also been pointed out that there was no guarantee that two weak organisations would make one strong unit after integration. The very basis of a co-operative organisation is that the weak by association amongst themselves can derive advantages which are available only to the strong. When the malady of weakness has arisen mostly out of low volume of business, there would be nothing wrong in integrating two weak units; the resultant one would sooner or later emerge as a strong organisation. Moreover, it would be advantageous to deal with one weak unit rather than two; the effort and expenditure involved in rehabilitating one institution may be less than that in the case of two separate weak units.

5.54 Taking into account all these factors we come to the conclusion that integration of credit functions at the primary level would be beneficial to the farmers as well as the base level organisations in the co-operative credit structure. Such a step would result in a larger flow of integrated credit for investment as well as working capital and also strengthen the business prospects of the co-operative movement as a whole.

SUPERSTRUCTURE

5.55 In the following paragraphs, we examine the need for integration in the superstructure of the co-operative credit movement, viz., at the intermediate (district) and apex (state) level institutions.

Intermediate Level

5.56 We do not see any valid grounds for keeping two separate institutions at the intermediate level, one for short and medium-term and another for long-term credit, wherever PACS provide all types of credit to cultivators. Effecting integration only at the primary level leaving out the intermediate and apex level institutions will not be appropriate and justifiable. According to us, integration of credit functions at the district level is a corollary to the acceptance of the idea of integration at the primary level, as can be seen below.

5.57 A temporary expedient suggested by the Kerala Government for intermediate level was that the PLDB may be allowed to function separately and not get merged with the CCB; however, individual membership and direct financing by these banks would be disallowed from an appointed date. The PACS will be admitted as members of the PLDB. The general implications of this proposal are as follows:

5.58 After its direct contact with the cultivators ceases, the PLDB would prove to be non-viable. Even with the present margin of 1½ to 2 per cent, the minimum business expected to be transacted by the PLDB for attaining viability is Rs 35.00 lakhs. After the business of long-term loans is taken over by the PACS, the margin available to the PLDB would have to be restricted to one per cent or even less. There will be no substantial reduction in the supervisory, technical and other staff at that level as they will have to continue to perform all the appraisal and follow-up functions in respect of investment credit. If they have to exist separately, their area of operation would have to be larger than at present in many cases, say, covering an entire district. As against this, the CCB have a network of branches in almost all states covering an area smaller than that of PLDB at present. Additionally, the advantage of better management of funds and staff would be lost in this process.

5.59 At the intermediate level, a fine distinction is sought to be made by states like Maharashtra and Andhra Pradesh between the taluka level branches and head office of the CCB. The thinking in these states appears to be in favour of complete integration of functions at the primary and taluka/block levels only. The credit functions at these two levels are expected to be broadly as under in Maharashtra:

5.60 The branches of the SLDB and CCB at taluka or sub-taluka (block) level will be merged and will form one or more amalgamated branches under the CCB. Besides production credit, the amalgamated branches are expected to receive applications for investment credit from the PACS, scrutinise them thoroughly from technical and economic angles and recommend them for sanction by the Head Office of CCB. The taluka/block level branches would be fully equipped with the necessary staff for the purpose. No delegation of powers for sanction of loans is thought of at this level. Long-term funds will be derived by these branches from the SLDB through the CCB and passed on to the PACS for disbursement. The CCB will merely act as an agent of the SLDB for providing long-term credit.

5.61 The implications of this proposal are that while there will be no branch or sub-branch of the SLDB functioning at the taluka level, real and effective integration of credit does not take place at the intermediate level. Mere scrutiny and sanction of proposals for investment credit without financial involvement is not a desirable proposition. For effective functioning, institutions at the district level should have a close involvement in investment credit and must have a stake in the financial transactions. Therefore, a limited "agency involvement" by the CCB will not serve any meaningful purpose. Further, this proposal would lead to one more tier being added to the co-operative credit structure.

5.62 Another proposal made was that while the credit responsibilities could be undertaken by the CCB, the responsibility for sanction of loans would be that of the district branch of the SLDB. This dual responsibility cannot also work satisfactorily, as any authority which sanctions loans should necessarily undertake full responsibility for disbursement, supervision and recovery thereof.

5.63 In Chapter 4, we have given the results of the studies which had examined the several advantages to the intermediate level institutions from integration. All the Study Groups have come to the conclusion that the integrated banks at the intermediate level would become viable and strong, be able to appoint their own staff, technical as well as other, and rely less on the state governments. In a few districts studied, the projected business showed increased profits after integration and most of the Groups have reported profits in spite of providing for larger staff both at the head office and branches and assuming better salary scales for them. Advantages due to better management of funds and overall efficiency in resource mobilisation, deployment of funds, etc., have also been indicated.

5.64 The question of integration at the intermediate level may be viewed from two angles :

(i) There may be districts where the financial position and operational efficiency of the central bank as well as the PLDB are quite satisfactory and where, therefore, the new institution emerging from the integration would be able to shoulder the responsibility devolving on it quickly and satisfactorily. In such cases, integration is desirable more from the point of the convenience of the farmer and providing him with all types of credit in an integrated manner.

(ii) There may be districts where the financial position and operational efficiency of either of the two wings of the co-operative credit structure or both are not up to the desired level. In such cases, it should be possible to improve the working of both the wings through better attention and integration of business. In these cases, therefore, the question of integration may be viewed not merely from the view-point of convenience of the farmer but also from that of imparting strength to the entire co-operative credit structure in a district. The Study Team on Institutional Arrangements for Agricultural Credit in Madhya Pradesh which recently submitted its report has recommended integration of the two wings at the intermediate and base levels in six districts largely from the view-point of imparting strength to the co-operatives in those districts.

5.65 Considering all these aspects, we come to the conclusion that integration at the intermediate level is as important as that at the primary level and should go side by side with it. In states with a two-tier short-term wing, as in Himachal Pradesh, Pondicherry and Tripura, integration at apex level is inevitable, as this institution undertakes the functions of intermediate level institutions also.

State Level

5.66 At the SLDB level, outside funds are drawn in two ways; firstly, from interim finance to accumulate mortgages and, secondly, from debentures carrying the guarantee of the state governments in respect of both principal and interest. Interim finance is drawn from the commercial banks as well as from the concerned SCB. In the integrated banks there will be no need to borrow funds from commercial banks, as can be seen from the funds flow analysis statements for a few states given in Annexure 5.8.

5.67 The cost of debentures will not be different after integration as the rate will be the same whether the issuing bank is the integrated unit or the SLDB. The present practice of the SLDB is to create a sinking fund for redemption of debentures. There is very often a time-lag between the recoveries from the borrowers and investments of such recoveries. Sometimes the issue of debentures also leads to a surplus since in many cases the amount issued exceeds the interim finance availed of. In both the situations, the SLDB find themselves with surplus funds which they are forced to invest as short-term deposits with commercial banks or SCB, pending their investment in the sinking fund or in banks. The SLDB do not, however, get the full advantage of such investments. The legal position is that LDB are not banks and are treated on par with public for the purpose of interest on deposits and, therefore, not given the same treatment which inter-bank deposits get. The rates of interest on the latter are not regulated by directives from the RBI and, theoretically speaking, can have no ceiling. Even with a voluntary ceiling effected by mutual agreement among the banks, the rate is as high as 12½ per cent as against 15 per cent last year. After integration, the apex level institution can get full advantage of the inter-bank deposit rates, if it cannot find an outlet for the surplus funds in loans and advances. Funds at the disposal of the integrated bank at the apex level can thus be assured of a better return than at present.

5.68 Another advantage in management of funds is as follows: It is obligatory on the SLDB to meet their annual sinking fund commitments with a view to enabling them to redeem the debentures on maturity. In the case of special development debentures subscribed to by the ARDC, the redemption is annual, set to coincide more or less with the amounts due from borrowers in each year. Since in these cases, the periods of the loans and debentures are co-terminous, any shortfall in the recovery will have to be met by drawing on the owned funds for meeting the sinking fund obligations fully. Where the shortfall exceeds the owned funds, the sinking fund will have to be met by drawing on interim accommodation, at best temporarily. Fortunately for the SLDB, there is some scope for adjustment because ordinary debentures are of 10 years' and 15 years' maturity, whereas considerable proportions of loans are for 7 to 9 years. In the case of special development debentures also, there is scope for adjustment because redemption of the debentures held by the state government is to be done only at the end of maturity and not at the end of each year. However, cases of SLDB not fulfilling their commitments to sinking fund on account of very poor recoveries in a year are not few; this is as good as default to the debenture-holders. If integration is full and takes place at all levels, the ability of the banks to fulfil their commitments will be much better, as they will have larger internal resources to utilise for the purpose, including their deposit resources. This explains why, while there are heavy overdues at the lowest rung of the three-tier short-term wing, their quantum as well as the percentage is generally progressively lower at the apex level; the shock-absorbing capacity at the higher levels is much greater than at the primary level, with the result that there has practically been no occasion for the SCB to default to the RBI. There will, thus, be a greater degree of flexibility in the operations of the integrated banks than is possible at present in the co-operative credit structure.

5.69 We do not subscribe to the view that integration at the state level would make the banks unwieldy in their operations. Most of the commercial banks have a size of business and extent of diversification which are much larger than the combined business of the two wings of the co-operative credit structure in any state. The commercial banks have been able to operate economically through better management and consequent reduction in the cost of funds, and through flexibility of operation. A single apex credit institution will also be in a position to plan and execute lending programmes in a co-ordinated and better manner than what two institutions could accomplish individually. We are, therefore, convinced that integration at the apex level would be advantageous to the entire co-operative credit system.

Conclusion

5.70 Flowing from the arguments cited in favour of integration in the preceding paragraphs, viz., in the context of national agricultural policy, from the point of view of the farmers' convenience, of taking a comprehensive view of the borrowers' requirements, of closer supervision over end-use of credit, of improvements in the quality of loans advanced and of better financial discipline among the borrowers, of the cost advantages accruing through better management and better deployment of funds, etc., the case for integration at all levels in the two wings of the co-operative credit structure is well established. We have discussed in the next chapter, the mechanics of integration and how best integration could be brought about.

Chapter 6

PROCESS OF INTEGRATION

6.1 In the previous chapter, we came to the conclusion that taking into account various factors, there was a strong case for integrating the two wings of the co-operative credit structure at all the levels, viz., the apex, the intermediate and the base. In this chapter, we propose to discuss first the functional distribution of work among the three levels of the integrated structure. The later part will be devoted to the phasing of the process of integration, for it is clear to us that it would not be feasible to bring about integration at all the levels simultaneously and the process of integration has to be undertaken step by step to avoid any possible dislocation of the arrangements that exist to-day for the supply of short-term/medium-term credit on the one hand and long-term credit on the other.

6.2 The short-term and long-term wings of the co-operative credit structure have different structural patterns. In the short-term wing—barring states like Tripura, Manipur and the union territories of Delhi and Goa—there are three tiers, one at the apex (state) level, the second at the intermediate (district) level and the third at the primary level. In the long-term wing, two different patterns exist; for example, the structure is unitary with a SLDB at the state level with a network of branches in the districts, as in Maharashtra, Gujarat, Bihar and Uttar Pradesh or is federal with only two tiers, viz., the SLDB at the state level and the PLDB at the taluka level or below as in Tamil Nadu, Karnataka, Andhra Pradesh and Kerala. This difference in the structural pattern makes it necessary for us to suggest a proper distribution of functions among the three tiers that will, by and large, emerge in most parts of the country as a result of integration, keeping in view the need to ensure convenience of the farmers and the maximum operational efficiency in the disposal of loan applications, disbursement of loans and supervision over the end-use of credit.

6.3 This also raises incidentally the question whether the integrated credit structure should have three tiers or whether it would be advantageous to have only two—one at the apex and the other at the base level, the intermediate level being taken care of by a network of branches of the former. We have proceeded on the basis that by and large in the near future, the three-tier structure comprising the apex (state) level, the intermediate (district) level and the primary level institutions will prevail in the integrated structure. We understand that the RBI has already completed a few studies and is conducting some more in different parts of the country on the arrangements for institutional credit in general including a review of the structure. Similar studies may be conducted in the remaining parts of the country to determine the structural pattern best suited to them, wherever found necessary.

NOMENCLATURE OF INTEGRATED BANKS

6.4 In the fitness of things, we feel that the present names given to the various co-operative credit institutions may not be appropriate for the integrated banks. We, therefore, suggest the following new names for adoption by all the integrated banks.

(i) *State Level*

State Co-operative Development Bank (SCDB)

(ii) *District Level*

District Co-operative Development Bank (DCDB)

DISTRIBUTION OF FUNCTIONS

6.5 We now discuss the functions and procedures that the integrated banks will undertake and follow at each level, in addition to short-term (production) credit.[1]

(1) *Primary Level*

After integration, the PACS will undertake **additional** work in respect of long-term loans (investment credit) as follows :

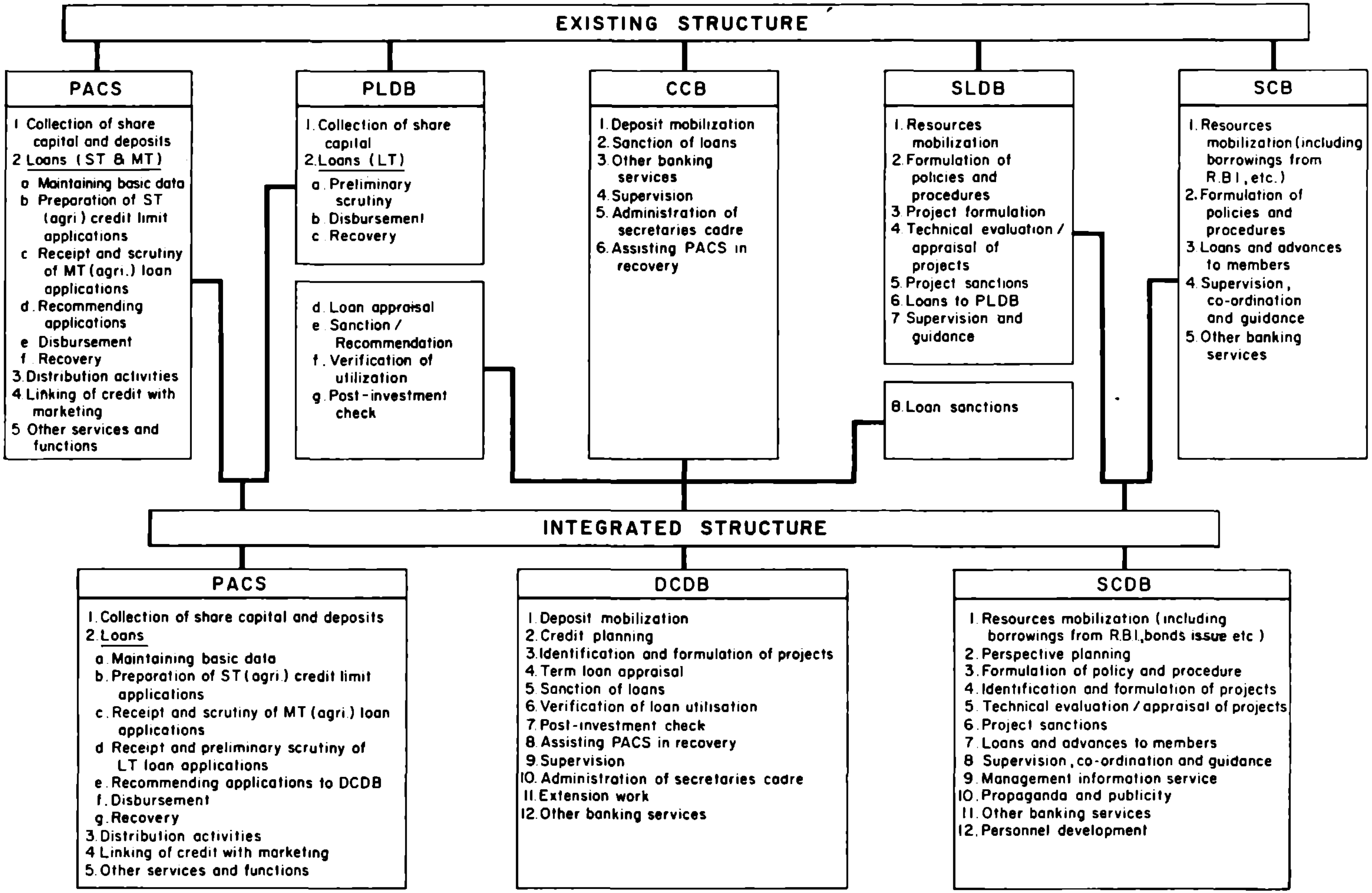
(i) *Collection of Loan Applications and Preliminary Scrutiny*

A farmer desirous of obtaining a long-term loan for any recognised purpose will apply to the society in the form prescribed for the purpose and furnish relevant details about his land and all the documents necessary to establish his title as well as his right to mortgage it in favour of the society. A list of the documents to be furnished by the borrower would already have been given to each society by the DCDB to which the application will be forwarded for sanction. The secretary of the society and where necessary the government staff, will render necessary assistance to the applicant for filling up the form and furnishing the documents. The application complete in all respects will then be placed before the Managing Committee of the society for consideration. The branch of the district bank (DCDB) to which it is affiliated

[1]Please also refer to Chart 6.1 on the next page.

CHART 6·1

DISTRIBUTION OF FUNCTIONS IN CO-OPERATIVE CREDIT STRUCTURE



Note. PLDB includes branch of SLDB in unitary structure of the long-term wing.

will forward to each society broad guidelines for assessing *prima facie* eligibility of a borrower formulated by the state level institution (SCDB). For instance, certain minimum standards have been laid down by the RBI and the ARDC for sanction of term loans. If the applicant satisfies them, the PACS will recommend his application to the branch of the DCDB to which it is attached and collect, at that time, the fees prescribed by that bank for the application. Even where the society is not satisfied about the *prima facie* eligibility of a person, the application should be forwarded by it with its comments to the DCDB branch to which it is attached.

(ii) *Disbursement and Verification of Loans*

After the loan is sanctioned, the DCDB branch to which the society is attached will communicate the same to the society. At the time of drawal, the society will execute a promissory note in favour of the financing bank and the borrower in favour of the society, and each will contribute the prescribed amount of the share capital. The funds for disbursement of the loan will be made available by the DCDB branch to the society after the borrower executes the relevant documents for the loan. The society will then make arrangements for disbursement of the first and subsequent instalments of the loan. Routine verification regarding utilisation of the first and subsequent loan instalments, which does not require technical knowledge, will have to be made by the secretary of the society along with the supervisor of the concerned DCDB branch before further instalments of loans are disbursed.

A Chart (6.2) showing the processing of investment credit application and disbursement of funds to the farmer is given on the next page.

(iii) *Recovery of Loans*

The next important function of the PACS would be in respect of recovery of the loan instalments. The society has to take the primary responsibility in this regard including issue of demand notices and initiation of recovery proceedings in case of default subject to the guidance and administrative instructions given by the DCDB and of the Co-operation Department. The supervisor of the DCDB branch is expected to provide necessary help to the society for this purpose.

(2) *Intermediate Level*

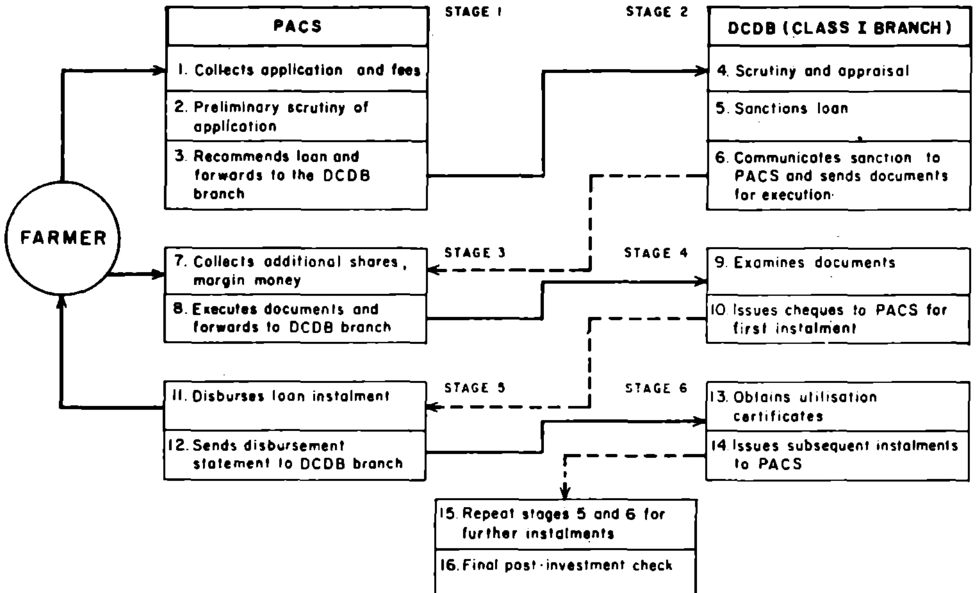
The functions at the DCDB level will fall in three parts as under:

(i) *Head Office*

(a) Resource mobilisation for investment credit (to supplement funds drawn from state level units).

CHART 6·2

INVESTMENT CREDIT TO FARMER – PROCESSING AND DISBURSEMENT



Note :

Class II branch will, after scrutiny, send the cases to the concerned Class I branch for appraisal and sanction, till powers of sanction are delegated to the former.

(b) Identification of projects in the district and help to state level unit in project formulation.
(c) Planning, co-ordination and supervision of work done by the PACS.
(d) Overall control and supervision over branches.
(e) Fixing the scales of finance per acre crop-wise for preparation of credit limit statements of the PACS and their members for short-term production loans.
(f) Fixing per acre, per unit norms for medium-term and long-term loans for various investment purposes.
(g) Fixing ceilings for loans for various purposes upto which the branches may sanction loans.
(h) Scrutiny and sanction of loan applications received from branches in excess of the authority delegated to them.
(i) Disbursement of funds to branches.

(ii) *Class I Branches*[1]

(a) Scrutiny (including examination of title), appraisal (economic and technical) of loan applications (ST, MT and LT) received from the PACS attached to it as well as from the PACS attached to Class II branches and received through them.
(b) Placing the applications for sanction before the Branch Committee.
(c) Communicating the sanctions to the PACS attached to it and to the Class II branches, as the case may be.
(d) Disbursement of funds to the PACS attached to it.
(e) Supervision over the end-use of loans and post-investment checks in respect of the loans advanced to the PACS attached to it.
(f) Help to the above PACS in the recovery of loans.
(g) Help to the above PACS in initiating action against defaulters and in respect of misutilised loans.
(h) Technical guidance and extension work.
(i) Custody of documents furnished through the above PACS by the borrowers.

(iii) *Class II Branches*[1]

(a) Preliminary scrutiny of loan applications received from the PACS attached to it for short-term, medium-term and long-term purposes.
(b) Forwarding the applications with its recommendations, if any, to the Class I branch for scrutiny and sanction.

[1]The distinction between Class I and Class II branches has been elaborated in Chapter 7.

(c) Communicating the sanctions to the PACS received from the Class I branch.

The rest of the functions will be the same as in the case of a Class I branch. (Please see (d) to (i) of Class I Branch above).

(3) *State Level*

(a) The SCDB would undertake all the functions of the SCB and the SLDB in the short-term and long-term wings, respectively and would continue to function as the 'friend, philosopher and guide' of the entire co-operative credit structure in the state. They will be expected to place greater emphasis on

(i) resource mobilisation and management of funds;
(ii) perspective planning;
(iii) laying down of norms and policies for providing various types of loans;
(iv) overall co-ordination of the functions and working of intermediate and primary level institutions; and
(v) propaganda and publicity towards better utilisation of resources available from co-operatives.

(b) In addition to these general functions, the integrated state level banks will have to undertake project formulation for the state as a whole and individual districts and also project appraisal, both technical and economic. These institutions will also get the necessary refinance sanctioned by both the RBI and the ARDC for various types of credit and towards this end, submit worthwhile projects for sanction.

(c) We would like to emphasise here that the functions of individual 'case by case appraisal', loan sanctions, etc., at present handled by some SLDB would have to be discontinued at this level.

PATTERN OF INTEGRATION

6.6 In view of the basic structural differences between the short and long-term wings, it would not be advisable to retain an institution in either wing and merge with it an institution in the other wing. We, therefore, suggest the establishment of new institutions at the district and state levels to undertake integrated credit functions.

Federal Structure

6.7 We suggest the following procedure for integrating the functions of the institutions at the primary, intermediate and apex levels, wherever the long-term wing has a federal structure.

(i) *Primary Level*

At the primary level, no new institution will be created unlike in the case of intermediate and apex levels, except under a re-organisation or rehabilitation programme of the state governments to strengthen the PACS. At this level, there are two alternatives open to the PACS:

(a) the PACS taking over only new business;

(b) the PACS taking over the existing as well as the new business of the PLDB.

According to us, the second alternative has a definite advantage over the first. If the existing business is not taken over by the PACS, it has to be transferred to the integrated bank at the intermediate level. As already discussed in Chapter 5 (paragraph 5.37), wherever the PLDB have heavy overdues exceeding the levels prescribed by the RBI for unrestricted lending programme, the entire district/taluk might be deprived of full refinance facilities from the RBI or the ARDC for investment credit under programmes approved by them. On the other hand, if the existing loans are taken over by the PACS, the overdues will get distributed amongst various societies and only a few societies might be rendered ineligible for new business.

Taking into account the recommendation made above, the business of the two wings, viz., the existing CCB and the existing PLDB will get transferred in the manner detailed below.

(ii) *Primary and Intermediate Levels*

(a) While the entire undertaking of the CCB, including staff, will be transferred to the new bank at the intermediate level, this will not be so in the case of the PLDB. The assets of the PLDB in so far as they relate to loans and advances to individual members would be transferred to the PACS as indicated above. Proportionate share capital contributed by members and the individual membership would also be transferred to the PACS.

(b) Borrowings of the PLDB from the SLDB and all other residuary assets and liabilities including reserves and the entire staff of the PLDB would get transferred to the DCDB. The PACS would be deemed to have borrowed from the DCDB an amount equivalent to the difference between the loans outstanding and the share capital.

(c) The branches of the two integrating banks would be deemed to be the branches of the DCDB.

(d) No individual membership would be permitted in the DCDB.

A legal framework for effecting such transfer of business to the PACS and the new bank to be established is discussed in Chapter 8.

(iii) *State Level*

At the state level, there will be no difficulty in effecting integration of the two apex institutions as it will be merely a transfer of the entire undertakings of both the apex level bodies to the newly established SCDB.

Unitary Structure

6.8 In states where unitary structure prevails in the long-term wing, the procedure of effecting integration will be the same as indicated above with the following difference:

Each branch of the SLDB will have to be treated as a separate PLDB functioning in a particular district. At present, the branch of the SLDB has no separate legal entity and does not, therefore, have share capital of its own and no amount is treated as having been borrowed from the Head Office. Therefore, before effecting integration, a notional division of assets and liabilities of the SLDB as between its various branches will have to be done, transferring to the individual branch share capital and borrowings to the extent of loans advanced by it to individual members in the area of operation of that particular branch. Reserves created out of profits should also be transferred to each branch after it is divided between Head Office and branches in certain agreed proportions. At the apex level, the residuary assets and liabilities of the long-term wing, after division is effected, will be treated as the assets and liabilities of the SLDB and would be transferred to the new bank, as such.

Phasing of Integration

6.9 As stated in the beginning of the chapter, integration cannot be brought about at all levels simultaneously. The process has to begin first at the base, viz., at the primary level. Even at this level, it cannot be implemented in all the districts of a state or even in the same district in all the talukas/tehsils simultaneously; a prerequisite for this is that the PACS should be re-organised, on the lines indicated by the RBI, to have a minimum business of Rs 2 lakhs and a full-time secretary with proper basic training in the functions expected to be undertaken by him for handling long-term credit business. Integration should, therefore, normally be preceded by re-organisation of the PACS and training of their secretaries. Progress in this regard would, therefore, depend upon the speed with which re-organisation of the PACS is effected. However, where the situation is favourable and ripe, integration should be encouraged along with the re-organisation of the PACS.

6.10 From the view-point of administrative convenience and efficient arrangements for supervision and more so from that of the viability consideration of the PLDB, one cannot think in terms of making a beginning, society by society, within the area of a PLDB. If only a part of the PLDB's business is transferred to a few societies, the loss of business of the PLDB will affect adversely its income without any corresponding reduction in its expenditure. We feel, therefore, that the minimum unit for the purpose of integration should be the area served by a PLDB. The action to be initiated immediately by the state governments would be to, first, identify the area of operation of a PLDB where re-organisation of PACS as indicated above has been completed and, then, start the process of integration of assets and liabilities of the PLDB with those of the PACS and the CCB on the lines discussed elsewhere. In these areas, the PLDB would then cease to function, their place being taken by the PACS on the one hand and the DCDB on the other. The same procedure should be followed in respect of the rest of the area served by the remaining PLDB in a district till integration is completed in the whole district. We would not like to suggest any time-bound programme in this behalf. We, however, feel that a period of three years should prove more than adequate from the time a decision is taken to bring about integration.

6.11 In many states, the FSS/PACS are being financed by commercial banks. If the PLDB is integrated with the DCDB, the question of the loans advanced by the former in the areas of the FSS and the PACS mentioned above will have to be solved. There are two solutions for this. One is to transfer the loans to the FSS/PACS concerned, in which case the commercial bank will pay off the amount involved to the DCDB. The alternative will be for the DCDB to allow the loans to remain in its own portfolio in which case individual members will have to be admitted to its membership by the DCDB. We would prefer the first alternative and hope that the commercial banks will not have any objection in accepting it because all the loans would be fully secured by first mortgage of land.

6.12 The programme may be taken up in clusters of districts or even simultaneously in all the districts if specific areas covered by the PLDB could be identified for commencement of integration. In selecting the districts, preference may be given to those districts where command area projects or area development schemes approved by the ARDC are in operation.

6.13 The state governments should quickly initiate measures for proper training courses for the secretaries of the PACS and the staff of the proposed integrated banks at the intermediate level in handling all types of credit.[1] Necessary financial support may be given by the state

[1]Please also see Chapter 7.

governments for this purpose. The banks should also strengthen the staff at various levels to undertake new responsibilities. A review of the steps taken and the progress made towards integrating credit institutions may be undertaken at frequent intervals. We suggest that the RBI may be associated with all such reviews so that their expertise is available for effecting improvements in phasing and methods of integration. The RBI may also set up a monitoring cell to assist and give guidance to the state governments in the process of integration.

6.14 As for state level institutions, suitable time schedules may be laid down by each state; there could be flexibility of approach in phasing. However, in respect of the states/union territories of Assam, Himachal Pradesh, Jammu & Kashmir, Pondicherry, Tripura and West Bengal, we fully endorse the recommendations of the Committee on Co-operative Land Development Banks suggesting integration of the two wings of the co-operative credit structure at all levels. For other states, the integration at the apex level could be effected after integration at the two levels below is completed in the state fully.

6.15 In regard to smaller states and union territories, namely, Andaman and Nicobar Islands, Arunachal Pradesh, Delhi, Goa, Daman & Diu, Manipur, Meghalaya, Mizoram and Nagaland, where there is no dichotomy in the co-operative credit structure, we are in full agreement with the recommendations made by the Committee on Co-operative Land Development Banks that "it will be wasteful to have a separate co-operative land development banking structure for giving long-term loans to cultivators for agriculture in these states/union territories."[1] Therefore, we recommend that no attempt should be made to establish a separate institution for long-term lending in these states/ union territories as is being attempted in states like Manipur. The functions of the PLDB which have already been registered in these states should be made multi-purpose in character providing for all types of credit from production to investment, i.e., they will have to be converted as PACS.

[1] Para: 6 Page: 303.

Chapter 7

ADMINISTRATIVE AND PROCEDURAL REFORMS

7.1 The basic objective of providing all types of credit and allied services to farmers and the other sections of the rural community in an efficient manner cannot be achieved merely by integrating the two wings of the co-operative credit structure at the various levels. Integration has to be supported by suitable reforms to tone up the administrative machinery of the emerging institutions. Side by side, reforms have also to be thought of to eliminate the time-consuming and cumbersome procedures prevalent to-day in the co-operative credit system, both in the mobilisation of resources and provision of loans, particularly in the long-term wing. Where necessary, these reforms have to be backed by appropriate changes in the existing law governing the co-operatives.

7.2 In this chapter, we address ourselves to the task of examining the more important and urgent administrative and procedural reforms necessary for an efficient functioning of the co-operative credit system. The first part will be devoted to the administrative and the second to the procedural reforms.

Administrative Reforms

Management and Staffing Pattern

7.3 The nature of the responsibilities likely to be undertaken by the integrated credit institutions would call for a study of the management and staffing pattern at various levels to undertake diverse functions. Keeping this in view, the terms of reference, *inter alia,* required the Committee to examine the following:

(i) The structure of management and the staffing pattern at the intermediate and higher levels of the integrated units of the two wings of the co-operative credit structure, so that they may be able to handle satisfactorily short, medium and long-term agricultural credit.

(ii) In particular, the organisation and staffing pattern at the base level which is expected to deal with farmers so that it may be able to integrate the different types of credit with supplies of agricultural inputs, marketing of agricultural products, technical guidance, etc.

7.4 As indicated in paragraph 1.16 a Study Group was appointed by us for analysing the problems involved and exploring appropriate solutions therefor. This Group has made several recommendations towards evolving a proper management and staffing pattern for the integrated credit institutions which are given in Annexure 7.1.*

7.5 We refer here to some of the changes we consider essential for strengthening the administrative machinery of the co-operative credit institutions.

Board of Directors of the SCDB

7.6 The Board of Directors of the SCDB needs to be more broad-based and representative in character than at present. The following suggestions may be considered in this context. The PACS, the ultimate purveyors of agricultural credit to the farming community, do not have any voice in the elections to the Board of Directors of the SCDB. It will be more appropriate and democratic if the PACS are provided in some way a voice directly in the functioning of the apex body, thereby preventing the emergence, growth and/or consolidation of vested interests at the intermediate level (DCDB). The state governments may consider devising a suitable system of electoral college to achieve this purpose.[1]

Special Nominees on the Boards of SCDB and DCDB

7.7 The activities of co-operative banks are becoming more complex and sophisticated calling for frequent technical advice in the formulation of their lending policies and procedures. At present, apex and district level banks do not have any technical experts on their Board. It may be advisable to include on the Boards of Directors of the SCDB and the DCDB, management and technical experts besides a leading agricultural economist.

*The full report is given in a separate volume.

[1] In the present system, the PACS elect the directors of the CCB; while this may continue, the Study Group and a few of our members have suggested that the elected directors of the DCDB may constitute an electoral college for electing the members of the Governing Council of the SCDB consisting of the representatives of PACS in the DCDB at the rate of two per district; out of these two, at least one representative should be chosen from each district. Since such a Governing Council may become a very large body in bigger states like Uttar Pradesh, Madhya Pradesh, Maharashtra, Rajasthan, etc., the Council should elect from amongst themselves a Board of Directors consisting of one-third of the members of the Council but not exceeding 15 in any case. The Council may meet at least once in six months and the Board at least once a month. With such a compact body the practice obtaining in many states of constituting several committees to look after staff matters, legal matters, buildings, etc., may be discontinued with advantage. If necessary, the Board may constitute a panel from amongst themselves or from outsiders specialised in the particular field to advise them. The final decision in all these matters should be taken by the Board and not delegated to the panel.

We have not examined the implications of these suggestions.

7.8 The co-operative principles and the national policy demand greater attention to weaker sections of the community like small farmers, scheduled castes/tribes and also women. At present, barring a few exceptions, no specific representation is given to these weaker sections. Persons belonging to these categories do not find a place on the Boards of these banks through the normal process of election.

7.9 Keeping these two requirements in view, we suggest that the state governments may nominate on the Boards of SCDB/DCDB one representative of the weaker sections of the community and two technical experts from any of the fields such as minor irrigation, land development, dairy or poultry farming, depending upon the nature of investment credit provided or likely to be provided by the bank in its area of operation.

Chief Executive of SCDB/DCDB

7.10 The integrated banks, both the SCDB and the DCDB, would be expected to shoulder greater responsibilities than hitherto in agricultural financing involving diverse and sophisticated banking functions. These functions call for deeper involvement, closer supervision and continuous guidance from the chief executive. To-day, in several banks, the chief executives are drawn from the co-operation department of the state governments and consequently are subject to transfer back to the department. Further, they have neither the needed experience in banking nor delegation of adequate powers to run the administration of the banks efficiently. We, therefore, recommend the creation of a special cadre of professional bankers to man the posts of chief executives (Managing Directors) in both the SCDB and the DCDB and clear division of functions between the chairmen and the chief executives of the banks on the following lines:

The democratic character of the co-operative banks should be fully maintained through a Board of Directors controlled by a majority of elected directors. While the chief executive will be one of the directors of the Board, he and the other nominated directors should have no voice in the election of the chairman. The Board will continue to give policy directions to the chief executive; it will, however, delegate full powers to the latter in the discharge of the executive functions. The chief executive or the Managing Director will be a full-time trained professional banker selected from the cadre suggested above and have qualifications comparable to those defined in Section 10B of the Banking Regulation Act for the Chairman of the Board of Directors of a banking company. The chief executive should be entrusted with the management of the whole of the affairs of the SCDB/DCDB and should exercise his powers subject to the superintendence, control and direction of the Board of Directors. At present the bye-laws of most banks vest the executive authority in the Chairman/President of the bank which arrangement is not considered satisfactory by us. We recommend that the Co-operative Societies Acts may be amended suitably to give effect to our recommendation made above.

Organisational Pattern

7.11 For the integrated banks at the intermediate and state levels, the Study Group has suggested a proper internal organisation for the management of banks and deployment of staff. The organisational charts 7.1 and 7.2 given in this Chapter indicate broadly the functional distribution of work among the proposed staff. We recommend the same for adoption by the integrated banks, with such modifications as are necessary to suit local conditions. The Group's suggestions regarding pay scales and fixation of pay indicated in Annexure 7.2 are illustrative and not mandatory.

7.12 One of the important recommendations of the Group relates to the opening of branches with adequate manpower to handle both production and investment credit. Two assumptions made in this suggestion are: (i) that the intermediate level institution will have at least one branch each at the taluka level with full complement of technical, legal and other staff, known as Class I branch and (ii) that a large number of branches will be opened below the taluka level known as Class II branches for the convenience of the PACS and also to spread banking habits to rural areas depending upon the business handled by them. These Class II branches will not have technical, legal and developmental staff but would draw upon the services of the staff from the Class I branches at taluka level.

7.13 The ability of the DCDB to open these branches with adequate manpower has been tested in an exercise done by the Group to determine the break-even point.[1] For this purpose, the Group has worked out 3 models on the following basis:

Model I — Bigger banks with 5 Class I branches and 20 Class II branches

Model II — Medium-sized banks with 5 Class I branches and 5 Class II branches

Model III — Smaller banks with 5 Class I branches only

[1]For details please see Annexures 7.3(a) and (b).

CHART 7·1

ORGANISATIONAL CHART OF STATE COOPERATIVE DEVELOPMENT BANK

(HEAD OFFICE)

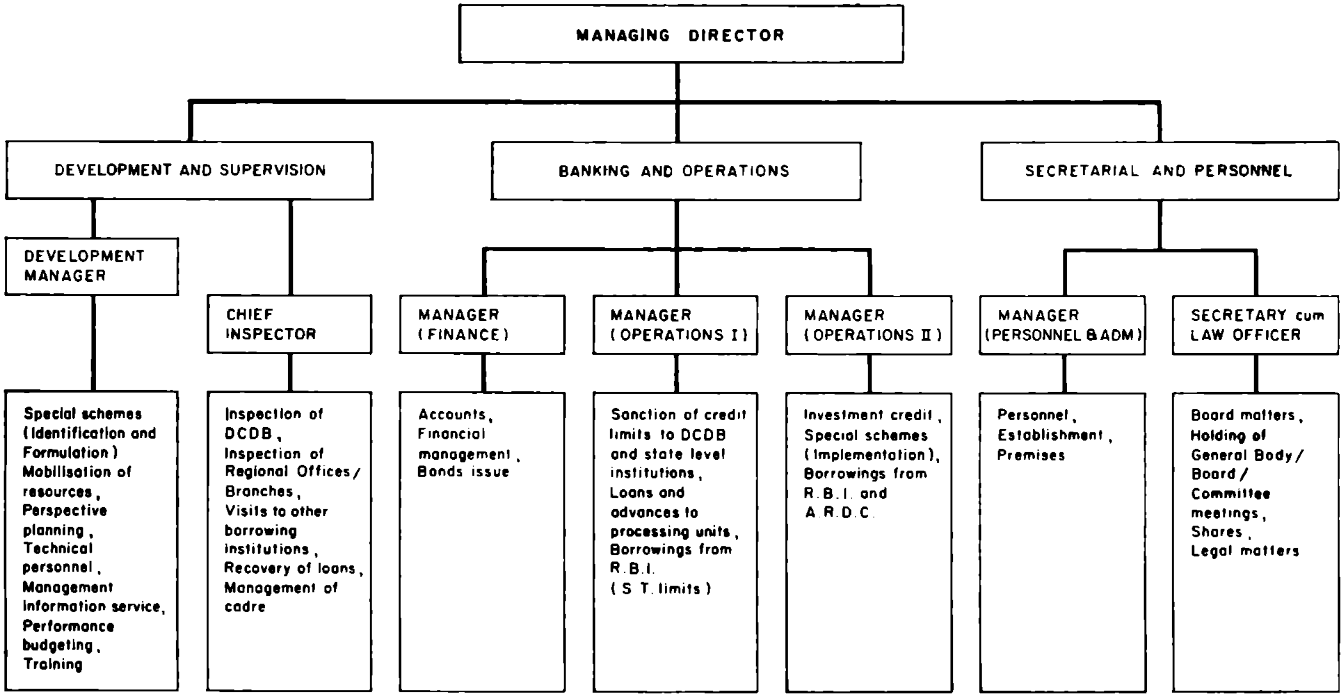
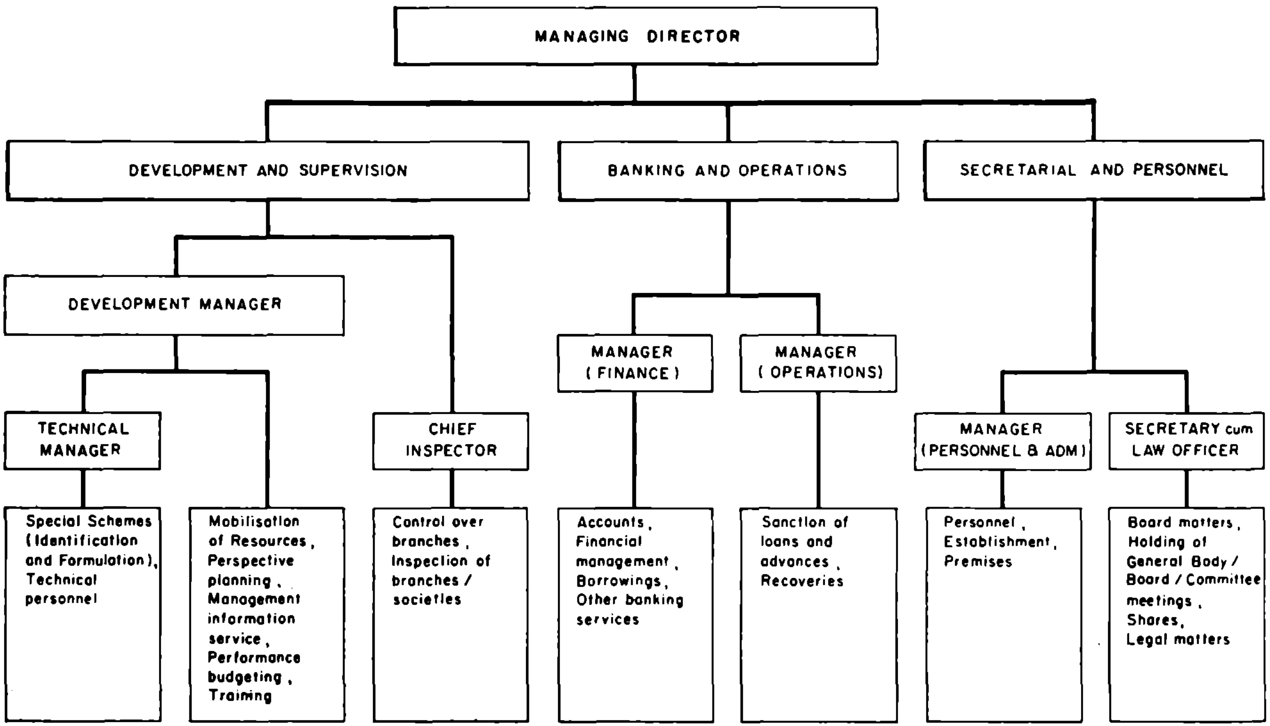


CHART 7·2

ORGANISATIONAL CHART OF DISTRICT COOPERATIVE DEVELOPMENT BANK

(HEAD OFFICE)



These models take into account the cost of raising resources, the return on investment and the minimum staff to be employed by the institutions for their proper and efficient functioning. Reasonable salary scales have also been adopted to give incentive to staff for undertaking higher responsibilities. On this basis, the minimum turnover of loan business has been estimated for the three models as given below:

TABLE 7.1

Rs. Crores

Model	Total management cost	Turnover of loan business (annual)	Viability in terms of loan business	Potential viability (50 per cent of Col. 4)
1	2	3	4	5
I	0.33	13.39	13.40	6.70
II	0.16	6.60	6.60	3.30
III	0.11	4.57	4.60	2.30

7.14 The Group has concluded that even the smallest of the banks in the three models with a turnover of Rs 2.30 crores could be treated as having potential viability and could work its way through to attainment of full viability in the course of a few years. It is on this basis that the Group has recommended (a) the opening of adequate number of branches and (b) the equipping of the head office of the bank and its branches with sufficient technical and other staff with reasonable emoluments.

We endorse the recommendation of the Study Group.

Delegation of Powers

7.15 We also endorse the Group's recommendation to delegate powers of sanction for both production and investment credit to the branches of the DCDB to ensure quicker disposal of the loan proposals. So far as production loans and loans for medium-term agricultural purposes are concerned, the most common practice is for the Board of Directors/the Executive Committee/Loan Sub-Committee of the CCB to consider the applications from the PACS and sanction them after considering the recommendations of the Branch Manager/ Branch Advisory Committee. In some cases, however, the branch manager is authorised to sanction credit limits for the PACS in his area on the basis of the scales of finance approved by the Board of Directors of the CCB. The practice in the LDB also varies from bank to bank. In some states all loan applications are approved by the Board of the SLDB or the loan committee of the Board. In some others, the applications are sanctioned by the district level officers of the SLDB on the recommendations of the PLDB. In still others, the PLDB are empowered to sanction loans upto a ceiling prescribed by the Board and loans above the ceiling are sanctioned by the Board of the SLDB or the loan committee.

7.16 The present practices obtaining in either of the wings of the co-operative credit structure are not conducive to prompt and satisfactory disposal of the loan applications. The remoteness of the sanctioning authority may also make a proper assessment of the local aspirations and requirements difficult. We, therefore, feel that the integrated credit structure should function with expeditiousness and a sense of awareness of the local needs and these will be possible if the power to sanction loans is decentralised and delegated to the extent possible to the branches. At the same time, one cannot break away from the practices prevailing in the two wings in most parts of the country. The process of decentralisation and delegation of authority may, therefore, have to be gradual. We have the following suggestions to offer in this behalf.

7.17 We have recommended elsewhere that each DCDB will have two categories of branches, Class I and Class II, the former operating generally at the level of a taluka and the latter below that level and that it is only the former type of branches which will have a full complement of technical staff for technical and economic appraisal of both short-term production credit, where such appraisal is considered necessary, and medium/long-term investment credit for agricultural development. It will be appropriate, therefore, to make a beginning with delegation of authority to sanction loans to Class I branches where the technical staff is stationed and will be available for guidance, if required. The sanctioning authority (committee) may consist of the following:

(i) One of the members of the Board of Directors of the DCDB from the taluka (to be appointed by the Board)	Chairman
(ii) One representative to be nominated by the Registrar of Co-operative Societies	Member
(iii) One of the branch managers of Class II branches to be appointed by the Chairman/President of the DCDB	Member
(iv) Branch Manager of Class I branch	Member-Secretary

Normal credit limit statements for short-term production loans and medium and long-term loans required by all the PACS in the taluka should be placed before the above committee for sanction with the recommendation of the concerned branch manager. In sanctioning the loans, the committee will follow the directions given by the Board of Directors of the DCDB and the limits prescribed by the Board. For instance, the branch committee will follow the per acre crop-wise scales of finance in approving the credit limit statements. Similarly, we suggest that the limit for individual loans for long-term purposes may initially be kept at Rs 15,000 which would take care of loans for most purposes other than the loans for tractors and power-tillers. In due course and after gaining sufficient experience of decentralisation upto Class I branch level, further delegation of authority to Class II branches may be made with the ultimate objective of vesting all the branches with authority to sanction loans for all the purposes and without any ceiling subject, of course, to the policy laid down by the Board of Directors of the DCDB.

Staffing Pattern

7.18 The Study Group has not made any specific suggestion regarding the staffing pattern of the PACS. The staff to be posted at the primary level would depend upon the magnitude of credit and other services handled by it. By and large, for a credit business of Rs. 2 lakhs, each PACS should have in its employment at least a full-time paid secretary. We do not suggest any particular scale of pay and emoluments for adoption for the full-time paid secretary as conditions will vary from state to state. The Group has recognised the need for caderisation of secretaries and has recommended a fund to be created at the state level and maintained by the apex bank with contributions flowing from the PACS, the DCDB, the SCDB and the state government on the lines recommended by the RBI. In Chapter 6, we have emphasised the need for re-organisation of the PACS with full-time paid secretaries. The caderisation fund suggested by the Group will ensure not only the appointment of such a secretary but also his continued employment; in the past, after the subsidies from the government were stopped, the services of the secretary were terminated by the societies as they could not afford to meet the cost from their own income.

7.19 We are also in broad agreement with the Group's recommendations regarding staffing pattern for the intermediate and apex level institutions and more particularly with the following:

(i) The banks should not continue to depend heavily upon the government for the staff they need for meeting their administrative, technical and supervisory requirements, a trend noticed more particularly in the co-operatively less advanced states. A permanent management cadre of officials for the senior and middle levels should be created by the co-operative credit institutions as suggested by the RBI.

(ii) The banks may retain the state government staff until their own cadre is established and trained. During the intervening period, control over the state government staff should vest with the management of the banks and not with the government. The staff should not also be transferred frequently while they are on deputation or duty with the bank. Those who have been specially trained by the bank in its working should be retained for a sufficiently long period. The government staff who have acquired expertise in the bank's working may be given an option to get absorbed in its service.

(iii) To replace government staff now posted to the banks for specific functions such as legal action for recovery of overdues, by distraint and sale of produce or by sale of land, the bank staff should be vested with the necessary powers by the state government.

(iv) The staff likely to be rendered surplus after integration, especially in the cadre of supervisors, need not be retrenched. They should be retained for improving the intensity, frequency and quality of supervision.

(v) A committee may be set up in each state to decide the proper fixation and placement of existing staff of both the wings in the integrated structure. Appointment of a Tribunal with proper legal status would also be necessary to settle disputes likely to arise in respect of pay scales, grades, seniority, etc., of staff members.

Personnel Development

7.20 The most important recommendation made by the Group, with which we agree, relates to the need for formulating a comprehensive policy for the management of co-operative banking personnel at all levels in each state. The personnel management functions comprise the following integral components:

(i) perspective manpower planning;

(ii) recruitment and placement;

(iii) appraisal and development; and

(iv) personnel research.

A detailed explanâtion of the various components is given in Annexure 7.4.

7.21 For effectively implementing this policy, the Study Group has suggested the setting up of a separate agency in every state under the Co-operative Societies Act, called the State Co-operative Banking Personnel Development Board, with constitution on the following lines :

(i) All the integrated district banks and state level banks should be the members of the Board.

(ii) The Governing Council of the Board shall comprise :

(a) The Chairman of the integrated apex level bank —	Chairman of the Board
OR	
The Chairman of the SCB and the SLDB (wherever they are allowed to exist separately) —	Chairman and Vice-Chairman of the Board respectively
(b) Three persons from among the Managing Directors of the integrated district banks by rotation —	Members
(c) The Registrar of Co-operative Societies —	Member
(d) One Management Expert to be nominated by the Governing Council —	Member
(e) Executive Secretary to the Board —	Member-Secretary

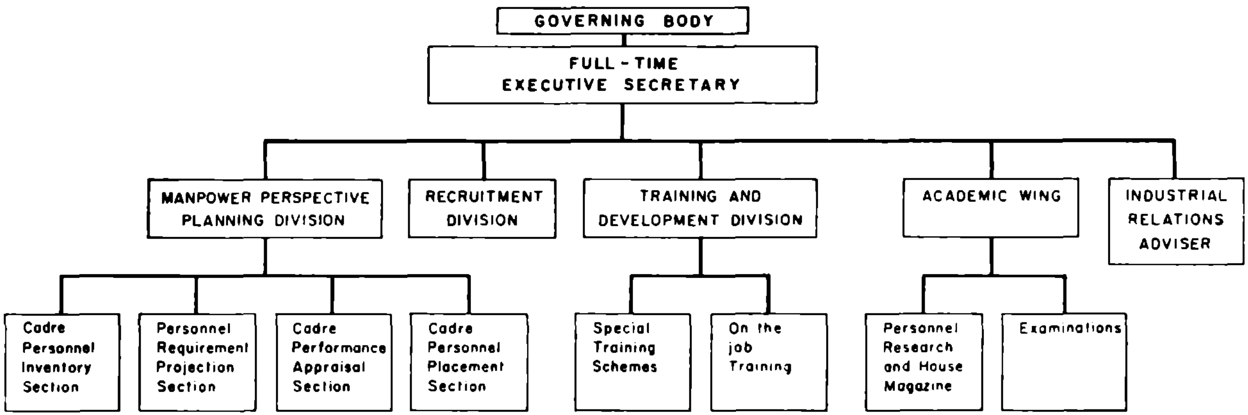
The Board should be entrusted with the entire range of personnel management functions in respect of all the co-operative banking personnel. The functions of the Board and its administrative machinery have been given in Chart 7.3 and Annexure 7.4.

Training Facilities

7.22 We place particular emphasis here upon the need for training the staff of co-operative banks. The implementation of our recommendations will necessitate a new orientation of the staff in the co-operative banking system. Already certain measures have been initiated by the RBI and the ARDC towards arranging training programmes for the senior and middle level officers of the banks. A fresh look at the course contents may be necessary in order to train the existing staff of the integrated structure for handling the full range of functions.

CHART 7·3

ORGANISATIONAL CHART OF
STATE COOPERATIVE BANKING PERSONNEL DEVELOPMENT BOARD



7.23 For the junior level staff also, besides the existing arrangement in the co-operative training institutions, the ARDC has initiated intensive on-the-job training. This arrangement will have to be suitably extended and course contents revised to the extent necessary. The most important category which would require immediate attention is the secretaries of the PACS. The state governments should review the existing arrangements, course contents, etc., of the training programmes in consultation with the proposed Personnel Development Board with a view to improving the programmes.

Procedural Reforms

7.24 Independent of the issue of integration, we examine in this part the procedures adopted by the co-operative credit institutions in the mobilisation of resources as well as their lending procedures for providing investment credit to beneficiary farmers.

Mobilisation of Resources

7.25 In examining the changes necessary in the procedure for resource mobilisation we have to take note of the following developments.

7.26 Till the establishment of the ARDC in July 1963, almost the entire resources needed by the LDB for providing long-term credit were raised from the market through debentures floated twice or thrice in a year. Initially, the LDB depended upon market support for contributions to their debentures through their own efforts. As raising resources through debentures was an entirely new system for the co-operatives at the time of establishment of the land mortgage banks, these were guaranteed by the state governments in order to inspire confidence in the public. In addition, the debentures were backed by mortgages of land and these and other assets stood vested in the Trustee. Later, with the switchover to productive lending, the resources portfolio had to be considerably strengthened as the capacity of the LDB to raise resources on their own was quite limited. This necessitated an assured support to the 'ordinary' debentures which is being organised for the past several years by the RBI from the Life Insurance Corporation (LIC), the commercial banks, the Provident Fund Commissioner and the state and central governments. With the establishment of the ARDC, a major proportion of the resources of the LDB is now provided by the ARDC in the form of subscriptions to 'special development debentures'.

7.27 The pattern of resource mobilisation obtaining at present is reflected in the following table :

TABLE 7.2

Rs Crores

Name of subscriber to the debentures of SLDB	Amount contributed					
	1973-4	Percentage to total	1974-5	Percentage to total	1975-6	Percentage to total
1. ARDC	77.77	48.2	77.02	49.6	99.09	52.3
2. GOI	7.40	4.5	7.00	4.5	5.93	3.1
3. State Governments ..	17.08	10.6	16.65	10.7	21.78	11.5
4. RBI	0.38	0.2	—	—	—	—
5. Commercial Banks (including SBI Group) ..	15.72	9.8	14.92	9.6	19.86	10.5
6. LIC	12.00	7.4	16.51	10.6	14.74	7.8
7. Co-operative Institutions	3.46	2.2	4.27	2.8		
8. Public	2.26	1.4	3.51	2.3	28.00	14.8
9. Sinking Fund Investment	25.36	15.7	15.36	9.9		
Total	161.43	100.0	155.24	100.0	189.40	100.0

7.28 Another change relevant to this issue concerns the manner of redeeming the debentures. While the ordinary debentures are redeemed on maturity varying between 10 and 15 years, the ARDC stipulates annual redemption for the special development debentures subscribed to by it to coincide more or less with the pre-determined repayment schedule for the ultimate borrowers. In a broad sense, this is comparable to the refinance granted by the ARDC to commercial banks and SCB by way of loans repayable in annual instalments.

7.29 Against this background, we examine here the need for continuing the system of raising resources by issue of debentures. While this system was recognised as the most suitable for mobilising support from the public at the time the LDB were formed and has been continued so far, it has lost the original significance largely because the support to them is not 'mobilised' by the banks themselves but is now 'assured' by financial institutions and the state and central governments. The ARDC subscribes to the special development debentures, as explained earlier, because of the legal provisions which give any other debenture-holder right over all the assets of the LDB. If the special privilege is taken away, the ARDC may as well grant loans repayable in annual instalments as is the case with the commercial banks. Further, the requirement of mortgage of land as security for the loans and cover for the debentures has prevented diversification of lending by the LDB for purposes other than those connected with land like dairying, pisciculture, sheep breeding, etc. Also, the procedure for creating an effective mortgage support to the debentures has tended to be time-consuming and laborious. It becomes, therefore, necessary to examine, whether the resources required for long-term loans could be raised in some other ways and not necessarily only through ordinary or special development debentures.

7.30 If integration is carried through up to the apex level, a major part of the long-term resources now available to the LDB from the ARDC as subscription to special development debentures could be provided as loans repayable in annual instalments over a given period. All the funds needed for long-term investment credit may not possibly come from the ARDC; they have to be supplemented from other sources. Term deposits could be another source, but this has to be ruled out as the rates of interest on long-term deposits for five years or more could be very much higher than those on the loans from the ARDC and, all the more so, on government and trustee securities. An alternative to the debentures in addition to the loans from the ARDC can be bonds. Although, legally speaking, both debentures and bonds are instruments of the same character, namely, acknowledgment of debt, bonds are to be preferred because the bond issue need not be linked to mortgages of land and will not be as cumbersome as debenture floatations. Several public sector financial corporations including the ARDC raise long-term resources through the issue of bonds. We, therefore, recommend that the present system of debenture floatations linked to mortgage of land may be substituted by the system of bonds.

7.31 The SCDB or the SLDB, if integration does not take place at the apex level, may be allowed to float bonds in advance twice or thrice a year on the basis of an agreed lending programme for long-term investment. This will avoid blocking of short-term resources in long-term lending even for temporary periods, and would incidentally help the integrated bank to tide over deficits in internal disposable resources of the short-term wing. To ensure proper mobilisation and deployment of resources meant for long-term lending, the RBI may stipulate suitable norms for regulating the issue of bonds.

7.32 The bonds so issued should be in the form of promissory notes transferable by endorsement and delivery and also exempted from payment of stamp duty as in the case of bonds floated by the Industrial Finance Corporation of India. They should be guaranteed fully by the respective state governments as in the case of debentures and treated as trustee securities. Unless this is done, the bonds may not be attractive investments for the banks for the purpose of maintenance of the minimum statutory liquidity. Further, bonds without government guarantee will have to carry a higher rate of interest, which will raise the rate on loans to the farmers. This will not be desirable from the view-point of promoting agricultural investment. In course of time, however, when the credit institutions become financially sound and strong, they can even dispense with state government guarantee for their bonds and obtain funds at a relatively low cost. They may also issue short-dated bonds in the market to reduce the cost of borrowing.

7.33 Unlike debentures, there should not be any floating charge in favour of the bond-holders on the assets of the apex institutions and more particularly the integrated bank. After integration, the apex institution will come under the purview of the Banking Regulation Act, 1949 which prohibits creation of a floating charge on the assets of a bank without the specific permission in writing from the RBI.[1] Further, if such a practice is continued, it will not be possible for the ARDC to change over to the system of loans, even if the integrated banks come into being at the apex level.

7.34 As bonds need not be directly backed by conventional type of security in the form of mortgages, it will not be necessary to create an office of trustee for protecting the interests of the bond-holders as obtaining at present in the case of debentures.

7.35 This system of bond floatation will be necessary only in respect of funds required for normal programmes of lending by the integrated credit institution. For special schemes approved by the ARDC, as already indicated in paragraph 7.30, we recommend that the ARDC may provide refinance in the form of loans on the same basis as is provided to commercial banks and SCB. In appropriate cases, depending upon the financial position of the institution, the ARDC may be able to lend without insisting on government guarantee which is at present necessary in respect of special development debentures. The contributions by the state governments now being made available to the special development debentures in certain agreed proportions may also be granted by the governments in the form of term loans on the same terms and conditions. Refinance by way of loans from the ARDC will help the integrated banks to raise resources quickly and effect saving in the cost of issue of debenture scrips/bonds of different denominations.

Lending Procedures

7.36 While the recommendations made above would go a long way in cutting down the time-lag in raising resources by the co-operative

[1]It is presumed that the RBI will give the necessary permission in respect of the floating charge of the existing debenture-holders, on the assets of the integrated banks, as the debenture liabilities are covered by government guarantee and sinking fund investments.

credit institutions, from the point of view of the borrowers, we feel that the procedures to be prescribed for medium and long-term credit for various agricultural and allied purposes should be simple enough for operation by the credit agencies. Keeping this in view, we suggest the following changes in the loan procedures, particularly in respect of loans for agricultural investments.

7.37 We recommend the system of "farmers' pass-books" as obtaining to-day in certain states like Maharashtra, Madhya Pradesh and Rajasthan for introduction throughout the country. It will be more useful if it is constantly updated. This may help in dispensing with detailed examination of title deeds and facilitate the quick disposal of applications for term loans and preparation of credit limit statements for crop loans.

Creation of Security

7.38 Wherever land cannot be offered as security, we suggest that hypothecation of movable assets created out of loans granted by the PACS, should form the security for loans. Where even hypothecation of movables is not possible, as is the case with several small farmers and landless labourers, loans may be backed by group guarantees. In the succeeding chapter, we have suggested suitable changes in the co-operative law whereby the co-operative credit institutions would be enabled to provide loans without insisting on security.

7.39 At the primary level, wherever land is available as security for loans, the procedure for creating security in favour of the PACS should be a simple charge by way of declaration whether it is a loan granted for production or investment credit. Till such time integration is effected at the state level, these declarations can be separately made, one in respect of production credit and another in respect of investment credit. The charge created in favour of the society for both production and investment credit should have all the characteristics of a valid mortgage without its cumbersome formalities. To differentiate this from the charge at present created for short-term (production) credit and the regular mortgage at present in force, we would like to term it as 'GEHAN' (गहन). Adequate statutory backing for such a procedure would be necessary to fully safeguard the interests of the lending institutions. The charge so created in favour of the society may be assigned in favour of the higher financing agencies for the purpose of obtaining necessary resources for lending. Details of the statutory backing necessary for creating valid security and assignments are given in the next chapter.

7.40 This method of creating only a charge instead of a mortgage would facilitate easy flow of credit to the cultivators as it dispenses with the time-consuming formalities involved in obtaining formal mortgages. A charge, unless otherwise specifically provided by law, does not involve any transfer of ownership or the interest in the land as in the case of mortgage and hence in the proposed Model Law referred to in the next chapter, a provision has been made by which a charge on land will be deemed to create an interest in the property. The new type of charge will have all the facilities of a charge as well as the incidents of a mortgage.

7.41 While making this recommendation, we have recognised the fact that land as security has ceased to be of any real significance to-day except to prevent the cultivator from running to several institutions for his requirements and to create a psychological repayment climate in him.

7.42 Another difficulty relating to security is that, very often under area development projects, several cultivators are unable to establish clear title to the properties and obtain investment credit under the existing system of mortgage of land. On account of this, the progress of development is either halted or slowed down considerably. We, therefore, recommend that the co-operative law should be so amended that in specific areas notified by the state government, and under specific programmes of development, the cultivator is enabled to get a right to incur debt for development of his land irrespective of the nature of title to his land or his alienation right in it. Such debts due to the financing institution should be fully protected under the law and should also automatically be attached to and passed on with the land.

Compensation for Land Acquisition

7.43 One of the difficulties experienced by the co-operatives in effecting recoveries fully and promptly arises from the inadequate compensation paid for lands forming security for the loans when such lands are acquired for public purposes under various legislations including the Land Reforms Acts. The compensation paid in such cases proves to be quite inadequate to meet the claims of the lending institutions.

7.44 The Working Group on Legal Matters has suggested that the concerned state or central government should bring about suitable amendments to the relevant enactments governing acquisition of properties for this purpose. It is necessary to ensure that in such cases the acquiring authority adopts, for the purpose of valuation, the same criteria as the lending institutions adopt for sanctioning loans on the security of such properties. We endorse this recommendation.

Other Changes

7.45 Some Study Groups have indicated the need for changes in the proportion of share linking to borrowings at various levels and rationalisation of interest rates for medium-term and long-term loans. In respect of production credit, we do not see any need for a change in the existing procedure as a consequence of integration. However, in regard to medium-term and long-term loans, some rationalisation may be necessary. Loans for the same investment purpose would have to be treated on the same footing, irrespective of the period of loans, as the period of loan will vary according to the repaying capacity of individual and not according to the purpose of investment. It would be anomalous for the same institution to have different proportions of share linking and to charge different rates of interest for loans for the same purposes simply because the period allowed for repayment of loans differs. We suggest to the RBI to review the position in this regard with a view to bringing about the necessary uniformity. Incidentally, in the context of the structural changes, the RBI may also review the proportion of share linking as well as the interest margins for the different levels of the integrated units and issue suitable guidelines to the institutions.

Eligibility Norms

7.46 In the integrated structure, we recommend that the PACS be the basic unit for applying the eligibility norms for lending programmes stipulated by the RBI/ARDC in respect of long-term loans. The Study Groups have, *inter alia,* suggested that for determining the eligibility for long-term lending programmes, the recovery performance in respect of long-term loans alone may be taken into account and not the percentage for the PACS as a whole. This recommendation is made on the apprehension that the overall performance may be poorer than that in respect of long-term loans and that the long-term lending programme will suffer on account of this. While the fear is not well-founded and has not been justified from the findings in the Study Reports, as a purely transitional arrangement, for a period of two years after integration is completed in a district, we recommend that the *status quo ante* should prevail in determining loan eligibility. In other words, the overdue percentages may be worked out separately for short-term, medium-term and consumption credit on the one hand and long-term credit on the other. This will not be difficult to implement as the PACS will be maintaining separate accounts of long-term loans. After the interim period, the norms of eligibility for both production and investment credit should be fixed in relation to the overall performance of the PACS taken as a single unit.

Chapter 8

LEGAL FRAMEWORK

8.1 This chapter deals with the legal provisions necessary for implementing the various recommendations made by us as well as some provisions which, we feel, will greatly facilitate the extension of term lending, particularly to small farmers, independent of the issue of integration. The recommendations made in this chapter are based on the Report of the Working Group on Legal Matters. One of the important recommendations made by the Group and endorsed by us relates to the creation of security for the purpose of borrowing. The legal provision suggested in this regard for creating a security in the form of a new kind of charge to be called 'GEHAN' (गहन) would not only eliminate the cumbersome procedure of mortgages but would simultaneously safeguard the interests of the financing society or institution by giving it all the facilities of a charge with the advantages of an English Mortgage.

Model Law

8.2 For the purpose of bringing about integration of the co-operative credit institutions, the Working Group has suggested that a separate enactment may be made for the constitution of integrated co-operative credit societies on the lines of the Model Law given in Annexure 8.1. The Model Law also provides for the management of integrated co-operative credit societies, the business to be carried on by them, etc. The Committee recommends the Model Law for adoption by the state governments either as a separate enactment or as a separate chapter in the existing Co-operative Societies Act. This would avoid the laborious task of amending the relevant provisions of the existing law.

8.3 Independent of the issue of integration, for implementing the procedural changes recommended for adoption by the long-term lending institutions in Chapter 7, we suggest that suitable amendments may be carried out in the LDB Act and/or the Co-operative Societies Act and Bye-laws, as the case may be, on the lines of the relevant provisions of the Model Law and Bye-laws in Annexures 8.1 and 8.3.

8.4 The following paragraphs set out the more important provisions made in the Model Law.

8.5 *Section 2 :* In order to enable the integrated banks to provide loans for various kinds of agricultural activities as also other diversified purposes as recommended in Chapter 7 of this Report, the definition of the expressions "agriculture" or "agricultural purposes" or "development of agriculture" has been given a very wide connotation in the Model Law so as to include activities such as forestry, plantation (including tree crops), dairy farming, piggery, poultry, etc., as also incidental activities such as processing, marketing, storage and transportation including acquisition of draught animals, implements and machinery, etc. Further, the meaning of the expression "financial assistance" has been given the widest connotation possible to bring the same on the lines of the definition given by the Talwar Committee in the model law suggested by it for facilitating financial assistance by commercial banks to agricultural activities.

8.6 *Section 3 :* The existing co-operative law contains time-consuming and elaborate procedures for amalgamation or division of co-operative societies. In some states there are no provisions for bringing about compulsory division or amalgamation of the societies by the Registrar. Section 3 of the Model Law, therefore, empowers the state government to bring about the proposed integration by issue of an order in the Official Gazette together with a scheme for such integration or division of the co-operative credit societies. This Section is wide enough to cover the division of functions and assets and liabilities of the PLDB amongst PACS and DCDB as discussed in Chapter 6.

8.7 *Section 4 :* In order to avoid the execution of transfer deeds and deeds of assignment for effecting transfer of assets and liabilities of one institution to another institution, Sub-section (2) of Section 4 of the Model Law provides for a statutory transfer thereof. The scheme suggested for this purpose has been given complete statutory protection against being challenged in any Court of Law or Tribunal or Authority.

8.8 *Section 8 :* In this Section, provision is made for an automatic admission of any individual, on his making an application to an integrated society. This, the Committee feels, is absolutely necessary to ensure admission of weaker sections and backward communities. If the person so admitted is later found to be ineligible to become a member, the Registrar is authorised to remove him from membership *suo moto* or on an application made by the society in this behalf.

8.9 *Section 9 :* This Section empowers the state government in the case of apex level integrated banks, and the Registrar in other cases, to nominate to the Boards of Directors or the Managing Committees, as the case may be, persons with special knowledge of, or experience in, minor irrigation, land development, animal husbandry, dairy farming, pisciculture, etc.

8.10 *Section 10 :* In Chapter 7, we have recommended appointment of chief executives (Managing Directors) in the integrated banks with full powers for executive functions, and with qualifications comparable to the Chairman of the Board of Directors of a banking company prescribed under the Banking Regulation Act. This Section provides a legal base for this recommendation.

8.11 *Section 11 :* In order to avoid detailed amendments to the existing co-operative law or LDB Act, as the case may be, in their application to the integrated banks, Section 11 deems the integrated co-operative credit societies as land development banks for the purpose of the relevant provisions of the existing law.

8.12 *Section 12 :* In terms of this Section, the Board or the Committee, as the case may be, has been vested with powers to sanction loans even without security in suitable cases.

8.13 *Section 13 :* We have discussed in Chapter 7 the need for enabling the integrated banks to raise resources by issue of bonds, with or without government guarantee. Section 13 makes suitable provision in this regard.

8.14 *Sections 14 and 15 :* In the previous chapter, we have suggested that even for long-term loans, a charge on immovable property would suffice. Section 14 is intended to make suitable provision in this regard. The charge so made is deemed to create an interest in the property, and the registration thereof, as set out in the Section, would constitute notice to the person dealing with such properties. However, in states like Maharashtra and Karnataka, where entry in the record of rights is deemed to constitute a notice, such registration may perhaps not be necessary. This aspect may be examined by these state governments.

8.15 As regards priority for this charge, the Group has suggested two alternative provisions. The first alternative provides similar priorities to the charge as in the case of a mortgage executed in favour of the LDB under the existing laws. This priority is restricted to loans granted by the state government under provisions of the Land Improvement Loans Act, 1883 or the Agriculturists Loans Act, 1884. The second alternative confers wider priorities both on the mortgage or charge created in favour of an integrated society, on the lines of priorities suggested by the Talwar Committee in the case of commercial banks. We recommend that the state governments may adopt the second alternative provision as given in Annexure 8.1.

8.16 *Section 17 :* While dealing with the creation of security for the loans by the integrated banks, we have recommended in Chapter 7 that any loan granted for improvement of any property for agricultural purposes should get attached to the land and pass on with it. Section 17 makes suitable provisions in this regard. Under this Section, the charges or mortgages created by individuals in occupation of land but not having full title to it to secure loans, would hold good even against the persons with superior title thereto. This, however, is subject to the condition that the loan has actually been utilised in developing the land and that the land is situated in any area or areas or covered by programmes of agricultural development notified by the government.

8.17 *Section 18 :* This Section enables the integrated societies to take over possession of the land charged or mortgaged to them by holders thereof having restricted rights of transfer over their holdings. Under this provision an integrated society can take possession of such property in the event of default and lease it to any person belonging to the same caste or tribe as the member belongs and may appropriate receipts from the lease in repayment of the moneys due to it. The member is prevented from recovering the possession of such property until the entire amount due to the society has been recovered in full from such lease.

8.18 *Section 19 :* In order to facilitate quick and easy recovery of dues, Section 19 enables the societies to bring to sale the properties charged to them, without intervention of the court. For this purpose, the charges obtained by the societies are required to expressly provide for such power in favour of the societies.

Model Schemes of Integration

8.19 Annexure 8.2 gives the Model Schemes of Integration for adoption by the state governments for bringing about integration at various levels. The schemes of integration for intermediate and primary level institutions authorise the Registrar to determine the manner and extent of transfer of the assets and liabilities from the existing banks to the integrated banks. In order to facilitate a free and unhindered implementation of the schemes, the state government or if authorised by the state government, the Registrar, is conferred with powers to issue such directions as may be necessary for proper implementation of the schemes.

Bye-laws – Model Amendments

8.20 In Annexure 8.3 we have suggested important amendments to bye-laws of various credit institutions. These are only illustrative.

Consequential Changes To Other Enactments

Banking Regulation Act, 1949

8.21 After integration, the moneys borrowed by way of bonds and debentures by the apex institutions would represent liabilities in India and, therefore, these institutions will have to take into account the said liabilities for the purpose of maintaining cash reserve or liquid assets under Sections 18 and 24 of the Banking Regulation Act, 1949. Suitable amendments have been suggested in Annexure 8.4 to ensure that Sections 18 and 24 of the Act do not apply to these liabilities as well as assets created by way of sinking fund.

8.22 In terms of Section 22 of the Act, no co-operative society can carry on banking business in India unless it holds a licence in that behalf granted by the RBI. When a new integrated bank takes over the business of a co-operative bank it cannot commence or carry on banking business unless it is granted immediately a licence for the purpose. To overcome this difficulty, it is suggested that a new clause (iv) in the proviso to Sub-section (2) of Section 22 of the Act may be inserted as proposed in Annexure 8.4.

Reserve Bank of India Act, 1934

8.23 An integrated bank at the state level, being primarily a banking company, will have to be included in the Second Schedule to the Reserve Bank of India Act, if it satisfies the requirements of Section 42(6) of the said Act. On such an inclusion, it would be required under Section 42(1), to maintain with the RBI, an average daily balance of not less than 3 per cent of the total of the demand and time liabilities in India. It would not be necessary for the integrated banks to maintain any cash reserve with the RBI in respect of their borrowings by way of bonds/debentures. A suitable amendment for this purpose has been suggested in Annexure 8.4.

8.24 Till the amendments suggested above are made, it will be necessary for the RBI to procure/grant exemptions from time to time under

Section 53 of the Banking Regulation Act and Section 42(7) of the Reserve Bank of India Act, as the case may be.

Deposit Insurance Corporation Act, 1961

8.25 Since the integrated banks would be co-operative banks for the purpose of Deposit Insurance Corporation Act also and as the provisions of the Deposit Insurance Corporation Act have been extended to several states so as to cover co-operative banks, it would be necessary to register the integrated banks under Section 13A of the said Act. However, in terms of that Section a new co-operative bank which carries on banking business pursuant to exemptions granted under Section 53 of the Banking Regulation Act, cannot be registered until it is granted licence by the RBI. To avoid this difficulty, it is suggested that an amendment to Section 13A(2)(b) of the Deposit Insurance Corporation Act may be made as suggested in Annexure 8.4. As this amendment has to be made immediately, the GOI may consider issuing an ordinance for the purpose.

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31 *July* 1976

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

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1 The credit requirements for agriculture which are likely to be met from institutional sources by 1985 have been estimated by the National Commission on Agriculture at Rs. 9,400 crores, comprising Rs. 4,000 crores of short-term credit and Rs. 5,400 crores of medium and long-term credit. The co-operatives have been assigned the leading role in the provision of production as well as investment credit for agriculture. It is in the context of this massive programme of agricultural investment and the role assigned to the co-operatives that we have examined the need for continuance of the dichotomous pattern in the co-operative credit structure.

Summary of Conclusions

Need for Integration

2 For giving adequate support to the programmes of agricultural investment, "the credit policy should be designed to provide integrated agricultural credit service so as to facilitate the adoption of new technology, to extend its scope to cover all aspects of rural development including production, marketing, transport and processing, and to facilitate and provide linkage between finances and services for current inputs as well as investment in land improvement, minor irrigation, and farm equipments." In this context, the co-operative credit structure needs diversification and expansion of business and proper linkage between production and investment credit. Its lending should be so geared as to promote, extend and intensify modernisation of agriculture.

3 To-day, for historical reasons, two parallel wings have come into existence and developed in the co-operative credit system, one purveying short-term and medium-term credit to the cultivators and the other dispensing long-term credit for investment in agriculture. With the increasing emphasis on the provision of investment credit for agricultural programmes, certain imbalances have been noticed on account of this dichotomy. The development of the two wings has not been simultaneous and uniform in many parts of the country and proper availability and utilisation of investment credit have thereby been adversely affected. Despite attempts made to ensure effective co-ordination, the two wings of the credit structure have grown in a rather mutually exclusive manner. Such exclusive functioning and absence of

synchronised growth of the two wings in many areas are likely to render investment credit either unproductive or under-productive.

National Angle

4 Looking at this problem from the national angle, viz., that of proper credit support for the overall agricultural development policy, we feel that the co-operative credit system can fully play its expected role in agricultural development if the imbalances in its growth are corrected and it is enabled to provide credit facilities in an integrated manner.

Farmers' Convenience

5 From the angle of beneficiary farmers also, the dichotomous pattern has created difficulties for them mainly on account of compartmentalised approach. Farmers have to approach different sources for various credit facilities and services, and absence of 'one contact point' has denied certain complementary facilities to them, especially to the smaller among them. This approach has created difficulties to them not only from the point of view of their composite needs but also their repaying capacity in respect of both investment and working capital credit. Integration of credit functions will enable co-operative credit societies to take a comprehensive view of the credit needs of farmers and avoid the splitting up of security between two credit agencies, as also competition between them in realisation of their dues.

6 The concept of farmers' convenience gains considerable importance under the area development projects sanctioned by the ARDC. In all these schemes, one of the basic assumptions being made by the ARDC while fixing the period of loan is that farmers would get adequate and timely support by way of production credit to enable them to switch over to high-yielding varieties of crops and/or to achieve high intensity of cultivation. To-day, inadequacy of production credit has rendered full exploitation of fruits of investment credit somewhat difficult. Conversely, the full and efficient utilisation of production credit can be ensured only if the requisite investment credit is also made available. This underlines the imperative need for mutual credit support between the short-term and long-term wings of the co-operative credit structure. The studies conducted by us in selected states have produced evidence of inadequate support from the short-term wing for investment credit provided by the LDB and *vice versa*. These studies have also shown that in a large number of cases, the farmers who have received long-term loans were either not even members of the PACS or have not been

sanctioned any crop loans. In the projects sanctioned by the ARDC, therefore, the weaknesses of either of the wings prove a great handicap and result in loss of business to the co-operatives.

7 A special class of borrowers, which has recently emerged in the sphere of investment credit, is the public sector undertakings set up by state governments for implementing certain key agricultural development programmes. These undertakings are presently outside the fold of the co-operative credit institutions mostly on account of the absence of provision in the concerned bye-laws of the LDB for financing these institutions; even when suitable amendments are effected, they prefer to deal with commercial banks instead of with co-operatives on account of the advantage of securing all their credit requirements from a single institution.

8 For the reasons stated above, integration of credit functions would be essential from the borrower's angle.

Benefits to Co-operatives

9 Integration would prove to be beneficial from the angle of the co-operative credit institutions also. The immediate advantage for the PACS in integrating credit functions at this level is to improve the scale of their business and consequently their viability, which would in turn enable them to employ full-time paid secretaries and function effectively. The studies conducted by the Committee have revealed that the transfer of existing long-term business by the PLDB would increase the profitability of the PACS, as the additional work involved in the long-term lending would not call for the appointment of extra staff. Another advantage of the integrated credit functions is that common supervision arrangements would facilitate better and continuous watch over the utilisation of loans and make recovery measures more effective. Mutual knowledge of the directors and members of the village societies would be more helpful for loan disbursements as well as recovery.

10 Looking from the PLDB's angle also, integration of credit functions would be necessary. A stage might be reached in not too distant future when, in many districts, loans for "conventional" minor irrigation purpose can no longer claim any major part of the loan operations of the PLDB; this will affect the viability, though not of the SLDB as a whole, but of several PLDB. Diversification of business to take care of this dwindling scope for "conventional" business would not also be an answer to their problem, as development of agriculture increasingly

requires project approach which envisages not only credit facilities for investment and working capital but also for development of the infrastructure necessary for successful implementation, including assured processing and marketing facilities. If the LDB are equipped to provide working capital needs in the form of cash credits, remittance and bill facilities side by side with investment credit, they will have to mobilise short-term resources and the character of their operations will not be much different from that of the integrated co-operative banks.

11 The role of commercial banks in financing agriculture is increasing not only in the field of direct finance but also in the field of indirect finance through the PACS. Though generally, there is ample scope for lending both by co-operatives and commercial banks, there will tend to be a general preference for borrowing from the commercial banks on account of the "package" credit facilities offered by them in areas where the short-term credit structure is weak or the support available from the latter for investment credit provided by the LDB is poor. Secondly, what is important is the sharing of business between commercial banks on the one hand and the PLDB on the other. If the coverage of commercial banks assumes a much larger proportion than that of the PLDB in a taluka or district, the viability of several PLDB will be adversely affected, even though the viability of the SLDB as a whole may be assured. In this context, we are of the view that, if the co-operative credit structure has to effectively play its role side by side with commercial banks, integration of credit functions would be necessary.

12 Such integration will not prove to be difficult at the primary level and the secretaries of the PACS will be able to handle the long-term business. They will not be expected to do the functions at present performed by the PLDB, viz., scrutiny and appraisal of applications for investment credit which will be attended to by the staff of the branch of the district bank at the taluka/tehsil level even after integration.

Integration at Intermediate Level

13 According to us, integration of credit functions at the district level is a corollary to the acceptance of the idea of integration at the primary level. If this is not done, the PLDB will have to continue to perform all the appraisal and follow-up functions in respect of investment credit and there will be no substantial reduction in the supervisory, technical and other staff at that level. The PLDB would prove to be non-viable as they will have to share the margin with the PACS; otherwise, their area of operation would have to be larger than at present covering an

entire district. As against this, the CCB have a net-work of branches in almost all states, covering an area smaller than that of the PLDB at present. Further, the LDB depend mostly on state government for technical expertise. Whatever expertise has been developed in long-term lending on account of experience gained so far will not be lost to the integrated banks, as the entire staff of the LDB including legal staff can be absorbed by the new institutions and will, therefore, continue to be available to them. On the other hand, the advantage of better management of funds and staff would be lost, if the PLDB and the DCDB are kept separate at the intermediate level.

14 The results of the studies conducted by us reveal that the integrated banks at the intermediate level would become viable and strong, be able to appoint their own staff, technical and other, and rely less on the state governments. In a few district studies, the projected business showed increased profits after integration and most of the Study Groups have reported profits in spite of providing for larger staff both at the Head Office and the branches and assuming better salary scales for them. Advantages due to better management of funds and overall efficiency in resource mobilisation and deployment of funds have also been indicated.

15 Integration at the intermediate level is, therefore, as important as that at the primary level and should go side by side with it. This would impart strength to the entire co-operative credit structure in the district.

Integration at State Level

16 Even at the state level, there are a number of advantages accruing through integration mainly in the form of better management and deployment of funds. The necessity to have separate co-operative long-term credit institutions arose, among others, on account of the special procedures to be adopted for mobilisation of resources through issue of debentures backed by security of land and government guarantee. Since the pattern of resource mobilisation has changed considerably after the establishment of the ARDC, this system of obtaining mortgages and floating debentures is not considered essential and, therefore, there will be no need to retain the SLDB as a separate institution. If integration is full and takes place at all levels, the ability of the banks to fulfil their commitments will be much better as they will have larger internal resources to utilise for the purpose including their deposit resources. There will be a greater degree of flexibility in the operations of integrated banks than is possible at present. A single apex credit institution will

also be in a position to plan and execute lending programmes in a co-ordinated and better manner than what two institutions would accomplish individually. Thus, integration at the apex level would also be advantageous to the co-operative credit system.

Cost of Lending

17 The apprehension that integration would increase the rate of interest on long-term loans on account of increase in the number of tiers, from two at present in the long-term wing to three in an integrated credit system, is unfounded. Changes in the interest rate structure, if and when they take place, will be part of an overall monetary and credit policy mechanism and will not be on account of integration. The studies made by us have proved that the existing margin of three per cent prevailing in most of the LDB would be adequate for the three different levels to effectively perform the functions expected of them in the integrated structure, without pushing up the cost of lending.

Summary of Recommendations

18 In the light of the foregoing conclusions, we recommend[1] that the two wings of the co-operative credit structure should be integrated at all levels, viz., the primary, the intermediate (district) and the apex (state). We summarise hereunder our important recommendations for effecting integration at all levels.

Process of Integration

19 The short-term and long-term wings of the co-operative credit institutions have different structural patterns. In the integrated structure, we feel that, by and large, in the near future, a three-tier structure comprising the apex (state) level, the intermediate (district) level and the primary level institutions would prevail. Where necessary, the RBI may study the structural pattern best suited to the states and recommend the suitable pattern to be adopted. (6.3)

20 In view of the basic structural differences in the short-term and long-term wings, we suggest the establishment of new institutions for the district and state levels to undertake integrated credit functions with the nomenclature of State Co-operative Development Bank (SCDB) and District Co-operative Development Bank (DCDB), respectively. At the primary level no new institution will be created except under the

[1] One of our members, Shri B. S. Vishwanathan, disagrees with this recommendation and has signed the Report subject to his Minute of Dissent which is appended.

re-organisation or rehabilitation programme of the state government to strengthen the PACS. (6.4 and 6.7)

21 The integrated PACS will, in addition to the existing functions, undertake work relating to investment credit, such as collection of loan applications, preliminary scrutiny, disbursement of instalments, routine verification and recovery of loans. (6.5)

22 The DCDB will undertake all the existing functions of the CCB and those of the PLDB relating to appraisal, supervision and sanction of long-term loans. (6.5)

23 The SCDB will undertake all the functions of the SCB and the SLDB and would continue to function as 'friend, philosopher and guide' of the entire co-operative credit structure in the state. The functions of individual 'case by case appraisal', loan sanctions, etc., at present handled by some SLDB would be discontinued at this level by them. (6.5)

Pattern of Integration

24 While the entire undertaking of the CCB including staff will be transferred to the DCDB, the assets of the PLDB so far as they relate to the loans and advances of individual members will be transferred to the PACS along with individual membership and proportionate share capital contributed by members. Borrowings of the PLDB from the SLDB and all other residuary assets and liabilities including reserves, and the entire staff of the PLDB would be transferred to the DCDB. (6.7)

25 In the unitary structure, for the purpose of effecting integration, a notional division of assets and liabilities of the SLDB to or amongst its various branches should be done and each branch should be treated as an independent unit for integration with the concerned DCDB and PACS. (6.8)

26 The branches of the two integrating units at or below the district level would be deemed to be branches of the DCDB. (6.7)

27 At the state level, the entire undertakings of both the apex level bodies would be transferred to the newly established bank (SCDB). (6.7)

Phasing of Integration

28 We consider that it will not be possible to bring about integration at all levels simultaneously and the process has to begin first at the

base, viz., at the primary level. Integration should be normally preceded by re-organisation of the PACS and training of their secretaries. However, where the situation is favourable, integration may be effected along with re-organisation of the PACS. (6.9)

29 From the point of view of administrative convenience and efficient arrangements for supervision and more so from the point of view of viability considerations of the PLDB, the minimum unit for the purpose of integration should be the area served by a PLDB. Therefore, the state governments should immediately initiate action to first identify the area of operation of a PLDB, where re-organisation of the PACS has been completed and then start the process of integration of the PLDB with the PACS and the CCB on the lines suggested by us. In this manner, all the areas covered by the PLDB in a district should be brought under integrated credit. Though no time-bound programme can be specified in this regard, we feel that a period of three years would be adequate to complete the integration from the time a decision is taken to bring about integration. (6.10)

30 In respect of the FSS and the PACS financed by commercial banks, we suggest that the PLDB may transfer the loans to the FSS/PACS concerned and the commercial banks may pay off the amount involved to the DCDB. (6.11)

31 The programme of integration may be taken up in clusters of districts or even simultaneously in all the districts if specific areas covered by the PLDB could be identified for commencement of integration. In selecting the districts, preference may be given to those districts where command area projects or area development schemes approved by the ARDC are in operation. (6.12)

32 The state governments should quickly initiate measures for proper training courses for the secretaries of the PACS and the staff of the proposed integrated banks at the intermediate level in handling all types of credit. Necessary financial support may also be given by them for this purpose. They should also strengthen the staff at various levels to undertake new responsibilities. (6.13)

33 A review of the steps taken and the progress made towards integrating credit institutions may be undertaken at frequent intervals and the RBI associated with all such reviews. The RBI may set up a monitoring cell to assist and give guidance to the state governments in the process of integration. (6.13)

34 For state level institutions, suitable time schedules may be laid down by each state for purposes of integration. However, in respect of the states/union territories of Assam, Himachal Pradesh, Jammu & Kashmir, Pondicherry, Tripura and West Bengal, we fully endorse the recommendations of the Committee on Co-operative Land Development Banks suggesting integration of the two wings of the co-operative credit structure at all levels. For other states, integration at the apex level could be effected after integration at the two levels below is completed fully. (6.14)

35 In regard to smaller states and union territories, viz., Andaman and Nicobar Islands, Arunachal Pradesh, Delhi, Goa, Daman & Diu, Manipur, Meghalaya, Mizoram and Nagaland, where there is no dichotomy in the co-operative credit structure, we recommend that no attempt should be made to establish a separate institution for long-term lending. The functions of the PLDB which have already been registered in these states/union territories should be made multi-purpose in character providing for all types of credit, i.e., they will have to be converted as the PACS. (6.15)

ADMINISTRATIVE REFORMS

Management

36 In order to make the Board of Directors at the higher levels more broad-based and representative in character than at present, it is recommended that the state governments may consider devising a suitable system of electoral college, with a view to ensuring that the PACS are provided in some way, a voice directly in the functioning of the apex body. (7.6)

37 We suggest that the state governments may nominate on the Boards of the SCDB/DCDB one representative of the weaker sections of the community and two technical experts from any of the specialised fields such as minor irrigation, land development, dairy or poultry farming, depending upon the nature of investment credit provided or likely to be provided by the bank in its area of operation. (7.9)

38 We recommend the creation of a special cadre of professional bankers to man the post of chief executives (Managing Directors) in both the SCDB and DCDB, with clear division of functions between the chairmen and the chief executives of the banks. The chief executive will be a full-time paid professional banker selected from the cadre suggested above and have qualifications comparable to those defined under section 10B of the Banking Regulation Act for the Chairman of

the Board of Directors of a banking company. He should be delegated full powers to discharge all executive functions subject to the overall control and policy directions of the Board. While the chief executive will be one of the directors of the Board, he and other nominated directors should have no voice in the election of the chairman. (7.10)

39 We recommend a proper internal organisation for the management of banks and deployment of staff for both the SCDB and the DCDB on the lines given in Annexure 7.1.(7.11)

40 The DCDB should open adequate number of branches and equip the head office as well as its branches with sufficient technical and other staff with reasonable emoluments on the lines suggested by us. (7.14)

Delegation of Powers

41 To enable the integrated credit structure to function with expedition and with a sense of awareness of the local needs, the power to sanction loans should be decentralised and delegated to the extent possible to the branches gradually. (7.16)

42 A beginning may be made with delegation of authority to sanction loans, to the Class I branch (taluka level) where the full complement of technical staff would be stationed and available for guidance. The sanctioning power may be vested in a committee set up on the lines indicated by us. The delegation of powers should cover both production and investment credit; the limit for individual loans for long-term purposes may initially be kept at Rs. 15,000. In due course and after gaining sufficient experience in decentralisation at the Class I branch level, further delegation of authority to the Class II branches (below taluka level) may be made for sanction of loans for all the purposes. (7.17)

Staffing Pattern

43 We endorse the recommendation of the RBI for caderisation of secretaries of the PACS. To maintain this cadre, a fund may be created at the SCDB level with contributions from the SCDB, DCDB, PACS and also the state government. A permanent management cadre of officials for senior and middle levels in the SCDB and DCDB should also be created as suggested by the RBI. (7.18 and 7.19)

44 Wherever the banks have to retain government staff, pending appointment of their own staff, the control over the government staff should vest with the banks and such staff should not be liable to frequent

transfers. In suitable cases, government staff who have acquired expertise and are working in the banks may be absorbed in the banks' services. (7.19)

45 To replace government staff now posted to the banks for specific functions such as legal action for recovery of overdues, by distraint and sale of produce or by sale of land, the bank staff should be vested with the necessary powers by state government. (7.19)

46 A Committee may be set up in each state to decide the proper fixation and placement of existing staff of both the wings in the integrated banks. A Tribunal with proper legal status may also be appointed to settle staff disputes likely to arise in respect of pay scales, grades, seniority, etc. (7.19)

47 We recommend the constitution in each state of a statutory body known as 'State Co-operative Banking Personnel Development Board' on the lines suggested by us. This Board should undertake the functions of: (i) perspective manpower planning, (ii) recruitment and placement, (iii) appraisal and development and (iv) personnel research. The Board should be entrusted with the entire range of personnel management functions in respect of all the co-operative banking personnel. (7.20 and 7.21)

Training Facilities

48 To implement the recommendations made by the Committee, a fresh look at the course contents of the training programmes arranged for senior and middle level officers of banks would be necessary, in order to enable the staff of the integrated banks to handle the full range of credit functions. (7.22)

49 The state governments may review the existing arrangements for the training programmes for junior level staff and the secretaries of the PACS and suitably extend the training facilities and revise the course contents in consultation with the proposed Personnel Development Board with a view to improve the existing training programmes. (7.23)

Procedural Reforms

50 Independent of the issue of integration, we recommend the following changes in the procedures for mobilisation of resources as well as for providing investment credit to farmers.

Resource Mobilisation

51 The manner of raising long-term resources through issue of debentures has lost its original significance. The requirement of mortgage of land as security for the loan and cover for the debentures has prevented diversification of lending by the LDB for purposes other than those connected with the land, such as dairy farming, pisciculture and sheep breeding. Further, the procedure for creating an effective mortgage support to the debentures has tended to be time-consuming and laborious. We, therefore, suggest a change in the procedure of raising resources on the following lines:

(a) For schemes approved by the ARDC, we recommend that the ARDC may provide refinance in the form of loans on the same basis as is provided to commercial banks and the SCB at present. The contributions by the state governments now being made available to the special development debentures may also be granted by the governments in the form of term loans on the same terms and conditions. (7.35)

(b) For other lending programmes (not covered by ARDC refinance), the system of raising resources by way of debentures may be replaced by bonds without any security cover other than state government guarantee. The bonds so issued should be in the form of promissory notes transferable by endorsement and delivery and also exempted from payment of stamp duty. There should not be any floating charge in favour of the bond-holders on the assets of the apex institutions and more particularly the integrated banks. (7.30 to 7.32)

(c) As bonds need not be directly backed by conventional type of security in the form of mortgages, an office of trustee for protecting the interests of bond-holders as obtaining at present in the case of debentures need not be created. (7.34)

Lending Procedures

52 To enable quick disposal of applications for term loans and preparation of credit limit statements for crop loans, we recommend the system of "farmers' pass-books" as obtaining in certain states with constant updating. (7.37)

53 Wherever land cannot be offered as security, we suggest that hypothecation of movable assets created out of loans granted by the PACS should form the security for loans. Where even hypothecation of movables is not possible, as is the case with several small farmers and landless labourers, loans may be backed by group guarantees. (7.38)

54 Where land is available as security for loan, to simplify the procedure for creating security in favour of the PACS, we suggest a new form of security, i.e., a special charge to be known as 'GEHAN' (गहन); this can be effected by a mere declaration by the borrowers and at the same time would have all the characteristics of a valid mortgage without its cumbersome formalities. The charge so created in favour of the society should be assigned in favour of the higher financing agency for the purpose of obtaining necessary resources for loaning. (7.39)

55 This new form of security will have all the facilities of a charge at present in vogue, with all the legal advantages of an English Mortgage. Thus, while it will avoid cumbersome formalities, it will simultaneously protect the interests of the lending institutions. (7.39)

56 Till such time integration is effected at the state level, declaration of charge should be made separately, one for production credit and the other for investment credit. (7.39)

57 With a view to ensuring that inability of certain farmers to establish clear title to properties does not halt the progress of area development schemes, we recommend that in areas specified by the state governments and under specific programmes of development, the cultivator should be enabled to get a right to incur debt for development of his land, irrespective of the nature of title to his land or his alienation right in it. Such rights accruing in favour of the financing institutions should be fully protected under law and should also automatically be attached to and passed on with the land. (7.42)

58 One of the difficulties experienced by co-operative banks in effecting recoveries fully and promptly arises on account of inadequate compensation paid for lands forming security for the loans given by them which are acquired by government for public purposes. We suggest that the state government should bring about suitable amendments to relative enactments governing acquisition of properties, to provide for compensation in respect of properties acquired by them for public purposes, on the basis of valuation of land adopted by banks for sanctioning loans. (7.44)

59 As of now, different norms are being followed by co-operative credit institutions in determining the value of shares to be held for issuing loans and interest rates charged on them according to the period of loan viz. medium-term or long-term, though the purpose financed is the same. In the integrated credit institutions, we recommend that loans for a particular investment purpose should be treated on the same

footing both in regard to the share holding as well as rates of interest charged, irrespective of the period of loan. We suggest that the RBI may review the position in this regard to bring about the necessary uniformity. The RBI may also review the proportion of share holdings to borrowings and interest spread for different levels of the integrated structure and issue suitable guidelines to institutions. (7.45)

60 It is recommended that, as an interim measure, for a period of 2 years after integration is completed in each district, *status quo ante* should prevail in determining the norms of eligibility of institutions for production credit and investment credit taken separately. After the interim period, the norms of eligibility for both production and investment credit should be fixed in relation to the overall recovery performance of all types of credit taking the PACS as a single unit. (7.46)

Legal Framework

61 For implementing the various recommendations made by us as well as for provisions which, independent of the issue of integration, will greatly facilitate the extension of term lending particularly to small farmers, a Model Law and consequential amendments to other relevant enactments have been suggested. The Model Law contains provisions, *inter alia,* for diversifying the functions of the co-operative credit institutions, for simplification of procedures for mobilisation of resources as well as lending, for the creation of a new type of charge on land instead of mortgage, for effecting administrative reforms and for integrating credit institutions at various levels.

62 Model Schemes have also been suggested for purposes of effecting integration. We have also recommended model amendments to the existing bye-laws of SCB, CCB and PACS for adoption by the integrated banks or PACS, as the case may be.

MINUTE OF DISSENT

MINUTE OF DISSENT

by

Shri B. S. Vishwanathan

Constitution and Composition of the Committee and its work

1 I am thankful to the Governor of Reserve Bank of India for appointing me as a member of the Committee on Integration of Co-operative Credit Institutions constituted by the Reserve Bank of India in September 1975 for studying the feasibility of merging the short-term and long-term co-operative credit institutions, in my capacity as the Chairman of the National Co-operative Land Development Banks Federation. But, I am not happy about the composition of the Committee and its terms of reference. The Committee was appointed in pursuance of a mention in the ARDC Credit Project for studying the feasibility of merging the short-term and long-term co-operative credit institutions.

2 Even before IDA desired a study and some of the expert Groups and Committees suggested integration, there were references and observations to the effect that land development banks had no scope for existence and that they should be merged with the state co-operative banks. It was for this reason that the Land Development Banks Federation had discussed the issue in their Conference held in January 1975 at Bangalore and expressed its views against the merger proposal. The Committee was constituted for the purpose of studying the feasibility of "Integration" but the terms of reference indicate that the Committee intended to work out the arrangements for "Integration" on the presumption that integration was a must.

3 In the Committee comprising of 15 members, only two non-officials from the co-operative credit institutions have found place. The land development banks, which will have to lose their identity if the proposal is recommended by the Committee and accepted by the concerned for implementation, were given only one representation, which I consider most unfair. Representation to the non-officials connected with the co-operative credit structure is negligible.

4 The Committee has mostly ascertained the views of Chief Ministers and Co-operation Ministers of State Governments on the integration

issue but sufficient opportunity was not given to non-official co-operators connected with the long-term credit structure and to the beneficiaries.

5 I accepted to be a member of the Committee in my capacity as the Chairman of the National Co-operative Land Development Banks Federation as I hoped that I would be able to present a true picture of land development banks and the views of officials and non-officials connected with the long-term credit sector. Unfortunately, recollecting the subsequent events after the Committee started functioning, I feel that the majority of members of the Committee as such have not appreciated the cause of the land development banks. I had pleaded for keeping our minds open so that we could assess the position both for and against the issue in the right perspective before coming to any conclusion. At the state level discussions, at times, it was a process of educating the officials and non-officials in favour of integration which, I feel, is very much biased as it gave an impression that integration was inevitable. With the exception of Andhra Pradesh, Kerala and Maharashtra which agreed to have an experimentation with the proposed integration, other States either did not favour the proposal or expressed reservations.

6 In the context of the above position and knowing fairly well the recommendations of the majority members of the Committee, I am obliged to present this dissent note with a view to make my views clear on the subject.

Performance of Land Development Banks

7 The land development banks have a history of over 5 decades in our country. It was the Rural Credit Survey Committee, 1954 which, after detailed study, recommended that each State should have a central land mortgage bank. The Committee had observed that the land development banking sector in the country raised inadequate funds in a manner ill-related to demand and usually lent them in a manner uncoordinated with development, acted as if prior debts and not production had prior claims on its attention, reached mainly the large cultivator and reached him late. This critical analysis on the working of the banks has only historical relevance to-day as the banks have improved the position by raising adequate funds, providing loans mostly for productive purposes, cutting down delays in disbursements of loans and by covering sizeable portion of small farmers. The structure was further strengthened by establishment of the Agricultural Refinance and Development Corporation in 1963 which provides bulk of the funds

required by the banks. Impressive growth of the structure could be seen from the following vital statistics of loan advances during Plan periods.

	Rs in lakhs
Pre-Plan (upto 1951)	1,253.00
1st Plan	640.72
2nd Plan	2,553.63
3rd Plan	15,940.35
3 Yearly Plans	29,162.41
4th Plan	78,077.10

8 During the Fifth Plan, a programme of Rs 1,500 crores has been envisaged and the banks have provided during the first two years over Rs 350 crores consistent with resources made available to them. The banks have successively fulfilled the Plan targets and by constant improvement in their loaning policy and procedure, have shown considerable dynamism in their working. These facts and steady growth recorded by the banks will have to be recognised and cannot be ignored.

9 There are 19 state land development banks in the country and most of the developed banks have their branches or primary units, covering all the tehsils/blocks. This net-work of branches and primaries effectively meets the developmental credit requirements of the farmers.

10 The land development banks came into existence as a result of the felt need and on the recommendations made by a number of expert Committees in the past. They have stood the test of the time and have come to stay as a specialised agency to take care of developmental credit requirements of farmers. These banks have acquired the technical competence during the course of their working. Taking their competence and experience into account, International Development Agency have recognised them as the main agency to implement various projects under the Agricultural Credit Projects. *Upto March 1976 the banks have availed Rs 415 crores as against the total refinance of Rs 530 crores provided by the Agricultural Refinance and Development Corporation and the same comes to 78% of the total. Of the total amount of Rs 270.31 crores disbursed under IDA/IBRD Projects, land development banks have drawn Rs 232.29 crores which works out to 85%. This reveals the efficiency and effective working of land development banks in the country.*

11 Inspite of the above position various criticisms are being levelled against land development banks and which is creating a wrong image and is detrimental to the interest of these banks. I deal with a few important issues under criticism hereunder:

(i) *Overdues*

It is true that the overdues in land development banks in some states are heavy. The reasons are many and varied. We experienced some very bad years due to continuous floods, cyclones, droughts, etc., which adversely affected crop production and the repaying capacity of the farmers. There are also political and other reasons responsible for overdues, besides wilful defaults in some cases. However, the banks with consistent efforts have made steady improvement in the position. Overdues in agricultural finance is not peculiar to the land development banks alone. The position of short-term structure is much worse and the commercial banks' position is no better. If a comparative assessment of overdues of various agencies in the field of agricultural credit is made, it would reveal that land development banks are not lagging behind and on the contrary, their position is far more satisfactory than other agencies in a number of states.

(ii) *Scope for Lending*

It was only during the year 1973-74 that the loaning business of the land development banks registered a fall; considering this as a trend, it was apprehended that the Banks would have not much scope for lending and their business would shrink in the years to come. This is not true in view of the fact that so far minor irrigation formed over 70% of loan disbursements of the banks and non-existence of adequate scope for this purpose in some areas due to inadequate groundwater did not mean that the banks would have no scope for loaning. In most of the states, even now, considerable scope for development of minor irrigation still exists and this apart, there are areas where the long-term loaning has remained unexplored and unexploited. There is also considerable scope for diversification of loans for other equally productive purposes: farm mechanisation, command area development, land reclamation, soil conservation, horticulture, plantation, dairy farming, sheep rearing, sericulture, pisciculture, agro-service, processing of agricultural produce, etc. Development is a continuous process and there is no question of reaching saturation point especially in our country when so little has been done by way of agricultural improvement so far. As per estimates, the banks would have advanced Rs 200 crores during 1975-76 which was about Rs 30 crores more than the previous year's advances of about Rs 171 crores. Moreover, the Planning Commission has prescribed a loaning programme of Rs 1,500 crores by state land development banks after taking all the factors into consideration during the Fifth Plan period and the state land development banks are sure to achieve this programme.

(iii) *Coverage of Small Farmers*

It is often said that the land development banks provided loans only to big and well-to-do farmers. The fact is that the banks do not deny credit to a farmer just because he has a big land holding. We have the social objectives of helping small and economically weak farmers besides raising farm production. All eligible farmers are covered under loan finance. Increasingly small farmers are taking advantage and the banks have involved themselves fully in implementing the programmes under SFDA/MFAL/DPAP/TADP etc., schemes. Some banks provide as much as 30-40% of their loans to small farmers and are aiming at increasing this to 50% as decided by the Land Development Banks Federation under the Prime Minister's 20 point economic programme. Thus, increasingly the small farmers are taking advantage from the banks and policies are drawn biased in favour of such farmers.

Short-term Credit Structure

12 Short-term credit structure has a longer history than the long-term in our country. The three-tier structure evolved after some experience, is still continuing. However, the institution at the primary level, i.e., village level, has been subjected to many structural changes. It is a pity than even after over 7 decades of experience and experimentation one could not say that the primary societies have taken a concrete shape. It has thus been an experiment of continuous nature. Structural changes that took place under different terminology were one village one society, large-sized societies, service societies, viable societies, viable multi-purpose societies, etc. By the organisation of Farmers Service Societies, the confused position has become a little more confounded by multiplicity and duplication.

13 Even after a long record of working, the primary credit societies have not shaped well to deliver the goods expected of them. They perform a variety of functions besides credit such as supply of agricultural requisites, distribution of consumers goods, marketing of agricultural produce, etc., but a majority of them have not become viable so far. The overdues are very heavy. Some societies are dormant. Of about 1.5 lakhs societies, only about 1/3 have paid secretaries on a full-time basis. Even with this position, about 40% of the societies

function in losses. The weak financial and administrative position has made these societies ineffective and inoperative.

14 Though re-organisation of these societies has been going on for quite sometime there has not been any real improvement in the position so far. The societies have not been able to discharge the functions expected of them. Because of inadequate business, heavy overdues, faulty management and inefficient functioning, they continue to be dormant, defunct, ineffective and non-viable.

15 The above unhappy position, to some extent, has been due to too frequent experiments so far made at the primary level without seriously considering the long range effect and likely repercussions.

Single Contact Point Approach

16 In order to make it convenient for the farmers to obtain credit at one contact point, the thinking is to integrate the credit functions at the primary societies level. We will be committing one more blunder, if we overlook the implications of such integration just for the purpose of providing credit at one contact point. We will have to draw our lessons from our earlier experiences.

17 In some parts, before the central land development banks were organised, short-term credit structure was providing long-term credit through the central co-operative banks. This experiment utterly failed as the banks were not able to record any progress worth mentioning. Subsequently, land development banks were organised so that they could concentrate and specialise in providing long-term developmental loans. The earlier experiment of integrated credit through one agency thus had failed to click. Even to-day in some states and union territories, there are no separate land development banks and the function of providing long-term loans is entrusted to the state co-operative banks. For obvious reasons, the performance in this regard has not at all been satisfactory. The question arises as to how far it is advisable to integrate the two structures of short and long-term credit at the village level without a strong base level organisation and specially so when the prior experiments have not proved successful. Whether we can take such a risk at the cost of eliminating a structure whose record of performance has been highly satisfactory? There are also other questions implied with the integration proposal as to the level of integration, method of integration, administrative arrangements, supervision of credit, basis of sharing margin, arrangements for channelling funds,

documentation, registration of mortgages, control points, duties and responsibilities, etc., etc. If these issues are analysed one by one it is difficult to find encouraging answers.

18 What is meant to be achieved by integration is "one contact point" for the convenience of the farmers. This perhaps relates to only credit part in the context of the Committee's work. Then there are also other services for which the farmer may have to go to other agencies, since primary society may not function as a 'shop' dealing in everything needed by farmers. He has also to go to taluka headquarters for registration of documents, obtaining pumpsets, agricultural implements, etc., as these items and services are not available in most of the villages. While the farmer has need for production credit continuously year after year or season after season, it is not so in regard to long-term finance. A majority of farmers may go in for long-term finance only once or twice in their life time. If there are no other benefits other than the convenience of getting credit through one agency, it might not make any material difference or inconvenience to a farmer to approach a different agency, once in a while, for long-term finance. On the contrary disadvantages may outweigh mere convenience.

19 If integration takes place the long-term loans might be channelled through primary credit societies at the base level. This might involve lot of administrative work at the societies' level which do not even have a paid secretary. Long-term loans require field inspection, verification of documents in regard to title deeds, valuation, assessment of repaying capacity, technical appraisal, supervision over end-use of credit, recovery of loan instalments, etc. It would be too much to expect these functions to be performed at the societies level at 1 to 1½% margin available on long-term finance. The volume of business at the societies level for long-term finance cannot be substantial in order to employ the required staff to deal with the functions enumerated above. Too many functions to be discharged at village level would also entail involvement of too many institutions to handle and supervise the work of the organisations at intermediary level or at the apex level. It would become unmanageable and ultimately the overdues might increase beyond tolerable limits. Assuming but not admitting integration at the societies level, next comes as to what should be the organisational arrangements at the higher levels. At present, branches of the central land development banks and primary land development banks are mostly based at taluka/block level. It would mean an additional tier. These taluka/block units will have to continue to function because the societies will have to depend on them for legal scrutiny, inspection,

appraisal, remittance of funds, etc. The meagre margin available will still get reduced by sharing by three instead of the existing two tiers. At the most, the societies could just function as post offices. Whether a primary could be integrated with a branch of the CFA is not only a legal question but a question to be pondered upon since such branches are not legal entities. The contemplated arrangement would mean a channel from state level to district level and from there to taluka level and ultimately to village level leading to a four-tier structure.

20 Another issue which needs much more serious consideration is as to what extent the contemplated integrated structure could improve the quantum of long-term finance. Whether a multi-purpose organisation would be more effective than a single-purpose organisation like the land development bank? I feel that the multi-purpose organisation would not be able to do justice to any particular function because of its divided attention and diversified functions. It cannot be expected to pay the same degree of attention as the land development banks are now giving for providing long-term developmental finance. Most of the loans are now covered by a schematic approach spread over a specified area. A multi-purpose society could not adopt such an approach.

21 Specialised institutions like land development banks would be better suited to take intensive care and look after the developmental needs of farmers as compared to the ineffective multi-purpose agencies we have today. This principle also holds good in other sectors for example in industries. We have various institutions like the state financial corporation, state industrial development corporation, small industries development corporation, state industrial investment corporation and others catering to the financial and developmental requirements of different industries. They are specialised in separate spheres of activity and we are not thinking of integrating them into one in order to provide all the requirements of all types of industries from one contact point.

Multi-agency Approach

22 Multi-agency approach in the field of agricultural credit is accepted as a policy by the Central Government. As a result, we have a number of institutions in the field providing credit and services to the farmers. Multi-agency approach was accepted in view of the fact that no single agency is in a position to cater to the growing needs of farm sector. Consequently commercial banks entered the field of agricultural credit in a big way. They provide all types of loans, viz., short, medium and long-term. The state co-operative banks provide

short and medium-term and land development banks long-term finance. Despite the fact that commercial banks provide developmental finance and the short-term credit structure provides medium-term loans for developmental purposes, the business of land development banks has in no way shrinked. They have withstood competition inspite of several restrictions and constraints imposed on them. Even to-day the loan advances of long-term co-operative credit structure account for a major portion of the total long-term developmental finance being provided for agriculture in the country. When the commercial banks, rural banks, etc., took up financing of farmers, it was expected that these organisations would play the supplementary role considering the immense potentiality and almost unlimited credit requirements of farmers. It was never envisaged to supplant any of the existing agencies. Under the multi-agency approach, I see no reason as to why the land development banks should not be allowed to function as specialised agency to provide long-term developmental finance. It will be in no way advantageous or desirable to disturb the present arrangement for the sake of establishing one contact point at the primary level.

23 Mere integration of short and long-term credit structures may not guarantee a single contact point inasmuch as, the commercial banks and rural banks continue to function in the field of agricultural credit. A farmer will have the choice to approach any of the organisations for his credit and other requirements. He may choose to approach the commercial banks for one type of credit and the village co-operative society for the other. The single contact point theory therefore becomes meaningless.

Advantages and Disadvantages of Integration

24 While analysing the advantages *vis-a-vis* the disadvantages of integration, I find that the disadvantages outweigh the advantages. The most important advantage as claimed is the establishment of a single contact point at the primary level. I have already dealt with the fallacy of this theory. The most inherent danger is that in the event of failure of the integrated credit system due to ineffective organisation, inadequate business, administrative bottlenecks, and lack of supervision, the credit flow of all types would be choked. This may not happen under the existing arrangement. If the short-term co-operative credit structure fails, the long-term co-operative credit structure might continue to function and meet at least a part of the credit requirements of farmers.

25 One more argument advanced in favour of integration is that in order to make the village co-operative credit societies strong and

viable the long-term loans will have to be channelled through them. It would mean sacrificing one structure for the other, and that too without any certainty that even after integration, the integrated structure would become viable. If with so many functions entrusted to village co-operative credit societies, they failed to become viable over a long period, who could guarantee that with transfer of one more function, they will be out of woods. With Rs. 2 lakhs of business expected to be transacted by the village co-operative credit society to be viable they could never attain viability by maintaining an office with a full-time paid secretary and other supporting staff.

26 Another argument is that the present two co-operative structures, both short and long-term are weak and in order to be effective, they should be amalgamated to form a strong structure. To me, this sounds ridiculous because there can be no guarantee that two weak organisations could turn out into a strong organisation by integration. The integrated structure on the contrary could inherit the weaknesses of both the structures and as a result, fail to handle effectively the long-term credit requirements of farmers.

27 Yet another claim favouring integration is to ensure wider and effective coverage of farmers and expansion of credit business. I fail to understand the implications thereof in view of the fact, the land development banks now are given a programme by the Planning Commission considering the overall resource availability in the national economy. The higher programmes projected and planned by the banks are curtailed on the plea of resource constraint. Under these circumstances, it is doubtful if the economy can make the required resources available for credit even if heavy demand is generated as a result of integration. There could be a programme only consistent with resource availability. In these circumstances there is no question of credit expansion beyond a certain limit as availability of funds is not unlimited.

28 The biggest disadvantage of integration is the risk and uncertainty about the success of the contemplated system. We have made frequent experiments with the primary village co-operative credit societies in the past and these experiments have cost us dearly. The present experiment might demolish the long-term credit structure as a separate entity, the record of performance of which has been fairly good and services rendered fairly satisfactory.

29 There might not be any benefit in respect of rate of interest, reduction in the number of the tiers, simplification of procedures, cutting down of delays, etc., by integration. On the contrary, it is likely that

to meet the increased cost of administration on account of addition of one more tier in the structure the rate of interest to the ultimate borrower may have perhaps to be raised. The integrated structure may add to the delays in processing of loan applications as it will have to pass through additional tiers. For execution of mortgage bonds, an applicant will continue to come to the taluka/block headquarters and the integrated structure is not going to make any difference.

30 Looking to the above disadvantages of integration, *vis-a-vis* the present position, I am convinced of the fact that neither the integration of short and long-term co-operative credit structures would benefit the farmer nor it would help to evolve a strong and viable co-operative credit structure. In view of the several problems confronted by us a sudden shift in policy in favour of an integrated structure of co-operative credit would only mean setting at naught the progress already achieved in most of the states. The remedy would be worse than the malady.

31 In the context of the above, I have come to the conclusion that integration is neither in the wider interest of the farmers nor beneficial to the co-operative credit sectors. No real advantages are seen by me in integration and I dispel all arguments made in favour as they are not based on realities of the situation. The National Co-operative Land Development Banks Federation which had on many occasions discussed this issue in the Conference held at Bangalore and in its Board Meetings had also not favoured the integration and had expressed grave concern over the move. State Land Development Banks are against integration at any level. Most of the state governments with the exception of a few who have agreed in favour of integration on an experimental basis, have not agreed to the proposal of even experimentations in their states as they do not want to disturb the present arrangements. The Seventh National Co-operative Congress held at Delhi in February 1976 and which represents the views and sentiments of non-official co-operators in the country has also unanimously resolved that no effort should be made for unification of short and long-term co-operative credit structures at any level including the primary level.

32 Based on my own conviction, I am opposed to integration and plead that the long-term credit structure should not be disturbed. On the contrary, efforts should be made to strengthen it to serve the farmers more effectively. If, however, it is still decided to integrate the structures, an experiment should be made to start with by giving a trial to this proposal in the states and union territories of Manipur, Nagaland, Meghalaya, Sikkim, Goa, Daman and Diu, Andaman Nicobar Islands, Delhi, Arunachal Pradesh, Lakshman Deep, Dadra and Nagar Haveli

and Mizoram where there is no separate structure for dispensing long-term credit. Based on the experience gained *vis-a-vis* the functioning of the long-term credit structure in other parts of the country, the position could be reviewed after a period of 5 years. In the context of strengthening the land development banks and making them more useful, I have to make the following suggestions :

(i) Efforts be made to consolidate the gains by strengthening the long-term co-operative credit structure as recommended by the Committee on Co-operative Land Development Banks, various other Committees and the study reports of the National Co-operative Land Development Banks Federation.

(ii) Land Development Banks by changing their names as Agricultural Development Banks as recommended at the Conference of Land Development Banks should be permitted to provide developmental finance for agriculture even for periods for less than 5 years. This sort of broad-basing the operations will be in the fitness of things in the context of multi-agency approach and for developing healthy competition with other agencies.

(iii) Period of developmental loans also needs to be extended to longer periods, so that, repayment becomes easier—of course consistent with the twin principles of repaying capacity and the life of assets. This would reduce the incidence of overdues and help in covering small farmers more effectively.

(iv) At present some of the policies of the Reserve Bank of India and the ARDC are quite discriminatory. The discipline relating to regulation of advances with reference to overdues of the previous year made applicable to land development banks is unknown to commercial and co-operative banks with the result that the latter can operate unrestricted and dislodge the former from certain areas. Further to penalise the land development banks on account of heavy overdues prevailing during a particular year for reasons beyond their control, viz., floods, droughts, famines, etc., is not fair. It would be reasonable to impose the discipline keeping at least three years' average record of recoveries. Similarly, some of the administrative and technical norms prescribed for loan operations under ARDC-schemes do not seem to be applicable to co-operative and commercial banks. It would be but fair to apply them uniformly to all the agencies providing long-term credit.

(v) The Reserve Bank of India/Government of India may appoint a Second Agricultural Credit Review Committee in the context of the 20 Point Economic Programme of the Prime Minister and with a view to ascertain the actual credit requirements of the agriculturists—specially of the small farmers—for all the purposes and suggesting ways and means to provide the required credit. The Committee may also examine the desirability and efficacy of establishment of an Agricultural Development Bank of India to which the state land development banks may be affiliated and which may provide finance and refinance to state land development banks for normal and special development schemes. The Committee may also examine the necessity of separating the Agricultural Refinance and Development Corporation from the Reserve Bank of India on the analogy of the Industrial Development Bank of India to make it more independent of the latter and autonomous, so as to enable it to evolve and pursue policies free from any pressure from the Reserve Bank of India. An independent and autonomous Agricultural Refinance and Development Corporation is expected to be more effective and serviceable to the banks than the Agricultural Refinance and Development Corporation with its present constitution and working.

33 I represent the land development banks through the Federation, and it becomes my duty and moral obligation to give expression to my thoughts consistent with the views and stand of the entire long-term credit structure. I would not like to be a party to a decision for integration, which sounds unconvincing and disastrous to the long-term credit structure which has its own long standing existence of over five decades and record of its successful growth in the service of the farmers and in the development of our country's agriculture. Over six million farmers have reposed their faith and confidence in building up of the structure, which cannot be dispelled by the majority decision of the Committee in its thirst for a new experiment.

B. S. Vishwanathan
31-7-1976

ANNEXURES

ANNEXURE 1.1

TERMS OF REFERENCE AND COMPOSITION OF THE STUDY GROUPS

Terms of Reference

The primary objective in constituting the Study Group is to make studies in two or three selected districts in the state with a view to examining the economies and other advantages likely to accrue from an integration of the short-term and long-term wings of the co-operative credit structure, at the *intermediary and primary levels*. The districts may be selected for the study taking into account a combination of situations or contrasting features such as the following:

(i) A district having considerable area under irrigation and another with relatively small area but with good irrigation potential as revealed from the available groundwater data. Another contrasting feature that may be taken into account is a district where scope for lending for minor irrigation is relatively limited on account of nearing saturation point of groundwater exploitation.

(ii) Besides the features mentioned above, one of the districts may have considerable area under cash crops, while the other under food crops.

(iii) A district where both the short-term and long-term wings of the co-operative credit structure are relatively strong and another where both are relatively weak, so as to represent, even within a state, a more developed region with a less developed region. Likewise, one of the districts may have a relatively good working central co-operative bank, but a relatively less developed long-term credit structure and *vice versa.*

Guidelines for Study

1 In the districts selected, the working of the Primary Land Development Banks (PLDB)/branches of the State Land Development Banks (SLDB) should be studied from the point of view of the coverage, the total number of cultivating families and of the different purposes for which they provide long-term loans. It will be necessary for the Group to examine whether there is a preponderance of big farmers among the beneficiary farmers (borrowers) and whether there is a preponderance of loans for a given purpose. If there is any imbalance in either case, the reasons thereof should be gone into.

2 It may be examined whether lack of adequate coverage is on account of lack of supervisory and promotional staff. Here, the nature of duties assigned to supervisors at present and whether they are effectively supervising the end-use of funds have to be examined in detail; the Group may find out how frequently visits are made by supervisors and what kind of post-disbursement/post-investment checks are being made to ensure that the investment is completed as per schedule and is put to optimum use.

3 The nature of technical service provided at the bank's level and to what extent the bank is dependent on State Government's help for such a technical service have to be examined. If the bank's own staff are available, give details of the assistance available. The Group may specifically examine to what extent the land development banks have developed expertise in dealing with long-term investment credit.

4 If the existing procedure followed by the PLDB is to examine the title to property and scrutinise the technical and economic viability as per pre-determined (accepted) norms in accordance with the detailed instructions given by the central land development banks/refinancing agency, the Group may examine whether the work cannot be handled by the branch manager and the other complementary staff of the central co-operative bank; also whether the field staff for supervision over the PACS could

not also supervise regularly the beneficiaries of long-term loans so that (i) there will be more continuous and close supervision and (ii) there will be saving in costs by avoiding duplication.

5 It will be necessary for the Study Group to prepare a combined balance sheet and profit and loss account of the integrating units namely CCB and the PLDB/ branches of the SLDB in the former's area of operation. Thereafter, it has to be examined whether the integration would improve the overall financial position of the combined unit. While studying this aspect, the savings likely to accrue on account of supervisory and other staff, overheads, better management of funds, etc., may be examined. Integration may reduce the expenditure on supervisory staff, the staff for maintenance of accounts and particularly on the meetings of the Boards and general body meetings of the PLDB. The effect of this on the profitability of the combined unit may be favourable. Some savings may result from a better management of funds in that there will be no idle funds earning very little or no interest. For this purpose, it would be advantageous to find out for the last 8 quarters, the amounts lying in the current accounts of the PLDB/branches of the SLDB and study generally the flow of funds in the CCB and the PLDB.

6 While studying the coverage of the PLDB/PACS, it will be necessary to prepare a map illustrating the branch network of PLDB/branches of SLDB and the existing PACS in the area to show the relative coverage and distribution of the two wings.

7 It will also be necessary for the Group to make a sample study of some specific PLDB (not more than 2 per district) to find out whether the beneficiary farmers availing long-term loans from the PLDB have received support from the short-term credit structure through the PACS. For this, it will be necessary to examine the position with reference to atleast five PACS in the area of operation of the selected PLDB. Likewise, the Group may also find out to what extent the borrowing members of the PACS have received support from the PLDB for long-term investments.

8 In each of the districts, five societies with a minimum loan business of Rs. 2.00 lakhs (existing or potential, including long-term loans) may be selected to find out how the viability of the societies would be improved by taking over the additional function of providing long-term loans through them. While working out the viability of the societies, the potential business for the next 5 years would have to be assessed. For this purpose, an interest margin of 1 per cent each for the long-term loan at the primary level and the intermediary level respectively may be assumed. In respect of these societies, the Group may also study whether the overdues of the societies and PLDB/branches of SLDB (when taken over by the former) will adversely affect the capacity of the PACS to serve as channels for funds, both short-term and long-term. Alongside, the adequacy of the borrowing power may be examined.

9 The Group may also find out whether any other problems would arise by integration of the two wings of the credit structure at intermediary and primary levels taking into account the need to provide comprehensive service to farmers.

10 In this connection, the Group may give their suggestions about the procedures that may have to be adopted if integration is to be brought about at the lowest and intermediary levels. The Group may also suggest specific legal problems arising out of integration, which have a bearing on the Bye-laws, Co-operative Societies Act, Banking Regulation Act, Reserve Bank of India Act, etc., for examination by the Working Group formed for the purpose.

11 Particulars of the districts and the co-operative credit institutions in the district may be collected as per statements Nos. 1 to 6* which will be useful to the Group in

* Not appended

its study and for giving its observations and findings. After collecting the necessary data, cost analysis statements (Nos. 7-12)* may be sent to the Committee for processing.

12 In the ultimate analysis, it has to be examined whether integration would lead to reduction in the cost of operation and improve the overall efficiency of the combined unit. It is quite likely that the cost of operation of an integrated unit in some cases is more or less the same. In such a situation, it has to be examined as to what are the advantages that would accrue through integration in the form of (i) comprehensive service to farmers, (ii) ability to have better management, (iii) overall efficiency in resource mobilisation and deployment of funds, (iv) employment of adequate personnel, etc.

* Not appended

COMPOSITION OF

Sr. No.	Name of the Institution or Department represented	Names of the states/members		
		Gujarat	Haryana	Kerala
1	2	3	4	5
1.	Agricultural Refinance and Development Corporation, Regional Office[1]	C. C. J. D'SOUZA (Director)	I. H. TRIVEDI (Director)	T. R. VENKATARAMAN (Dy. Director)
2.	Co-operation Department of the State	P. V. BHATT (Registrar)	J. S. CHAUHAN (Jt. Registrar)	K. BHARGAVAN PILLAI (Jt. Registrar)
3.	Agricultural Credit Department, Reserve Bank of India, Regional Office	M. R. KOTDAWALA (Dy. Chief Officer)	R. N. BHAN (Dy. Chief Officer)	T. A. VISVANATHAN (Asstt. Chief Officer)
4.	Department of Banking Operations and Development, Reserve Bank of India, Regional Office	E. G. NORONHA (Deputy Chief Officer)	S. SUNDERARAJAN (Asstt. Chief Officer)	P. I. JOHN (Asstt. Chief Officer)
5.	State Co-operative Bank	C. C. MEHTA (Manager)	H. L. SONDH (Managing Director)	C. S. SUBRAMANIAN (Secretary)
6.	State Land Development Bank	M. K. JIVANI (Manager)	B. S. CHAUHAN (Addl. Secretary)	M. S. JOSEPH (Managing Director)
7.	Committee on Integration of Co-operative Credit Institutions	S. G. V. RAMANAN	Member-Secretary of the Committee was the	

1. The Director/Deputy Director, ARDC was the convener of the respective Groups except in Maharashtra where Deputy Chief Officer, ACD, RBI and Director, ARDC, Bombay were joint conveners.

2. Shri K. Prongo associated himself with the first meeting on 13 January 1976 and the field studies. Shri Shanker Lal, Registrar of Co-operative Societies, Manipur who succeeded him, was nominated by the State Government to serve on the Study Group and he attended the subsequent meetings.

THE STUDY GROUPS

Names of states/members			
Maharashtra	Manipur	Orissa	Uttar Pradesh
6	7	8	9
A. N. MUKHERJEE (Director)	J. S. BISHT (Dy. Director)	G. VENKATANARAYANA (Dy. Director)	J. BARBOZA (Director)
P. G. KORANNE (Jt. Registrar)	K. PRONGO[2] (Registrar)	S. MISHRA (Registrar)	M. RANJAN (Addl. Registrar)
K. G. PATKAR (Dy. Chief Officer)	M. L. T. FERNANDES (Dy. Chief Officer)	V. SURYANARAYANA (Asstt. Chief Officer)	J. P. AWASTHI (Dy. Chief Officer)
F. O. DOSS (Dy. Chief Officer)	M. K. SHAH (Banking Officer)	P. KRISHNAMURTHY (Asstt. Chief Officer)	M. V. BIJAPURKAR (Dy. Chief Officer)
V. M SATHE[3] (General Manager)	Y. BRAJAMANI SINGH (Manager)	F. C. PANDA (Managing Director)	O. P. SHARMA (Secretary)
A. S. SAVKAR[4] (Manager)	—	N. BISWAL (Managing Director)	D. S. VERMA[5] (Secretary)

co-ordinating member on all the Study Groups.

3. Shri V. B. Sabnis, Manager (CFA), MSCB, attended the first meeting of the Study Group held in April 1976.

4. Shri D. G. Tungare, Managing Director, Maharashtra State Co-op. Land Development Bank Ltd. attended the final meeting held in July 1976.

5. Consequent upon his appointment as the Secretary of the Uttar Pradesh Rajya Sahakari Bhoomi Vikas Bank Ltd., in January 1976, Shri Shyamji Srivastava became a Member of the Study Group.

ANNEXURE 1.2

Terms of Reference and Composition of the Study Group on Management and Staffing Pattern

The Terms of Reference of the Committee on Integration, *inter alia*, included

(a) an examination of the structure of the management and staffing pattern at the intermediate and higher levels of the integrated units of the two wings of the co-operative credit structure so that they may be able to handle satisfactorily short-term, medium-term and long-term agricultural credit; and

(b) an examination, in particular, of the organisation and the staffing pattern at the base level which is expected to deal with farmers so that it may be able to integrate the different types of credit with supplies of agricultural inputs, marketing of agricultural produce, technical guidance, etc.

The Study Group consisted of the following members:

1.	Shri K. R. Subrahmanyan Senior Director Agricultural Refinance and Development Corporation Bombay	Joint Conveners
2.	Shri Y. S. Borgaonkar Joint Chief Officer Agricultural Credit Department Reserve Bank of India Central Office Bombay	
3.	Shri S. A. H. Razvi Managing Director Andhra Pradesh Co-operative Central Agricultural Development Bank Ltd. Hyderabad	Member
4.	Shri M. S. Kulkarni Manager (Adm) Maharashtra State Co-operative Bank Ltd. Bombay	—do—
5.	Prof. Varnasy S. Murty Professor of Business Management Jamnalal Bajaj Institute of Management Bombay	—do—
6.	Shri C. L. Khemani Chief Officer Department of Agricultural Banking State Bank of India Central Office Bombay	—do—
7.	Shri S. G. V. Ramanan Member-Secretary of the Committee	—do—

ANNEXURE 1.3

Guidelines and composition of the Working Group on Legal Matters

Guidelines

The primary objective in constituting the Working Group is (i) to examine to what extent the legal framework obtaining to-day concerning the co-operative credit movement stood in the way of providing short, medium and long-term credit to farmers in an integrated manner at one contact point and (ii) to suggest ways and means of removing the legal impediments, if any. For this purpose, the Working Group may, *inter alia*, examine the following:

(1) The Group may examine whether there are any restrictions in the Co-operative Societies Act, the rules framed thereunder and any other relevant laws, bye-laws and business rules of the co-operative credit institutions which would prohibit the primary agricultural credit societies from undertaking long-term credit functions. If so, they may suggest modifications/amendments necessary in the relevant Acts, bye-laws, rules, etc.

(2) The Group may also examine whether there are similar or any other legal restrictions in the intermediate level and apex level co-operative credit institutions of the short-term structure, i.e., the district central co-operative banks and the state co-operative banks undertaking the long-term credit functions. As in the case of primary agricultural societies, the Group may also suggest suitable modifications/amendments necessary in the relevant Acts, bye-laws, etc.

(3) The Group may study the legal implications of the merger of *business* of the two wings of the structure, i.e., the short-term credit wing, and the long-term credit wing. This has to be examined in two different situations: (i) when integration takes place at all levels, i.e., primary, intermediate and apex levels, and (ii) when integration takes place only at the primary and intermediate levels leaving the apex level to remain intact. In this context the Group may examine the effect of transfer of business from one institution to another, for example, from the primary land development banks or branches of state land development banks to the district central co-operative bank or transfer of assets and liabilities of these two institutions to a newly formed intermediate level institution. Specifically, how best such a transfer should take place without affecting the present rights and privileges of the debenture holders and other creditors of these institutions has to be examined. Further, the legal implications of the transfer of loans of the PLDB to either the PACS or the CCB have to be examined. Also, in what manner loans already granted by the long-term wing of the credit structure should be assigned in favour of an existing institution or a new institution has to be studied. The legal implications of the long-term business on the working of the PACS may be examined specifically with reference to their fresh lending.

(4) After studying the existing legal framework which governs the functioning of the credit institutions in the two credit structures, the Group may prepare model bye-laws, rules, Acts, etc., for adoption by the state governments/integrated units, with a view to facilitating their integration at the apex, intermediate and primary levels.

(5) The Group may review the present legal framework regarding the working of the LDB with reference to their method of raising resources and their lending procedures and suggest suitable changes with a view (i) to streamlining the lending procedures and to facilitating quick flow of credit to farmers and easy recovery thereof and (ii) to enabling the integrated units to raise resources quickly and without difficulty.

(6) The Committee has constituted eight Study Groups for conducting studies at the intermediate and primary levels of co-operative credit institutions in the States of Gujarat, Haryana, Jammu and Kashmir, Kerala, Maharashtra, Manipur, Orissa and Uttar Pradesh. These Groups have been asked to suggest specific legal problems arising out of integration for examination by the Working Group. These suggestions may also be examined by the Working Group as and when the problems are referred to it.

The Working Group may submit its findings and recommendations latest by 31 July 1976.

The Working Group consisted of the following members:

1.	Shri R. M. Halsyam Retired Legal Adviser Reserve Bank of India Bombay	Chairman.
2.	Shri Jayakumar Anagol Registrar of Co-operative Societies Government of Karnataka Bangalore	Member
3.	Shri S. N. De,[1] Senior Director Agricultural Refinance and Development Corporation Bombay	—do—
4.	Shri Y. S. Borgaonkar Joint Chief Officer Agricultural Credit Department Reserve Bank of India Bombay	—do—
5.	Shri S. G. V. Ramanan Member-Secretary of the Committee	—do—
6.	Shri M. V. Gupta Assistant Legal Adviser Legal Department Reserve Bank of India Bombay	—do—

[1]Shri S. N. De served on the Group upto 12 March 1976.

ANNEXURE 1.4

LIST OF PERSONS WITH WHOM THE COMMITTEE HAD DISCUSSIONS

(Arranged in the chronological order of the meetings)

Government of India, New Delhi
(11 & 12 December 1975)

1.	Shri Jagjivan Ram	Minister for Agriculture and Irrigation
2.	Shri T. A. Pai	Minister for Industry and Civil Supplies
3.	Shri A. P. Shinde	Minister of State for Agriculture and Irrigation
4.	Shri S. S. Puri	Additional Secretary, Department of Co-operation
5.	Dr. N. A. Agha	Additional Secretary, Department of Agriculture and Irrigation
6.	Shri K. P. A. Menon	Joint Secretary, Department of Banking, Ministry of Finance

Madhya Pradesh
(28 January 1976)

1.	Shri Tejlal Tembhre	Minister for Agriculture and Co-operation
2.	Shri S. C. Varma	Chief Secretary
3.	Shri N. B. Lohani	Special Secretary, Agriculture and Co-operation
4.	Shri K. J. S. Bhatia	Registrar of Co-operative Societies
5.	Dr. P. S. Parsai	Director of Agriculture
6.	Shri J. T. Dikey	Director, Directorate of Tubewells and Groundwater Surveys
7.	Shri R. L. Gargava	Deputy Secretary, Co-operation Department
8.	Dr. R. V. Ramakrishna	Deputy Secretary, Agriculture
9.	Shri K. N. Dube	Additional Registrar of Co-operative Societies
10.	Shri M. M. Batra	Joint Registrar of Co-operative Societies
11.	Shri A. G. Khare	Joint Director of Agriculture (ARDC Schemes)
12.	Shri M. M. Mahodaya	Superintending Hydrogeologist, Directorate of Tubewells and Groundwater Surveys
13.	Shri L. P. Bhargava	Chairman, Madhya Pradesh State Co-operative Bank
14.	Shri R. P. Satpute	Managing Director, Madhya Pradesh State Co-operative Bank
15.	Shri T. C. Agarwal	Chairman, Madhya Pradesh State Co-operative Land Development Bank
16.	Shri N. S. Pandya	Managing Director, Madhya Pradesh State Co-operative Land Development Bank
17.	Shri M. L. Soni	Manager, Madhya Pradesh State Co-operative Land Development Bank
18.	Shri S. H. Naidu	Development Officer, Madhya Pradesh State Co-operative Land Development Bank

Maharashtra

(2 February 1976)

1. Shri Y. J. Mohite	Minister for Co-operation
2. Shri N. S. Sakpal	Minister of State for Co-operation
3. Shri V. Subramanian	Development Commissioner
4. Shri G. H. Lalvani	Secretary, Agriculture and Co-operation
5. Shri B. K. Chougule	Secretary, Agriculture
6. Shri S. Shankar Menon	Deputy Secretary, Co-operation
7. Shri D. S. Joshi	Chairman, Maharashtra State Co-operative Land Development Bank

Bihar

(26 February 1976)

1. Dr. Jagannath Mishra	Chief Minister
2. Shri Md. Hussain Azad	Minister for Agriculture and Co-operation
3. Shri A. J. S. Sodhi	Agricultural Production Commissioner
4. Shri R. K. Srivastava	Secretary, Department of Co-operation
5. Shri B. K. Sinha	Additional Registrar of Co-operative Societies
6. Shri D. D. Chotrai	Joint Registrar of Co-operative Societies (Credit)
7. Shri I. K. Sharan	Deputy Secretary, Department of Co-operation
8. Shri S. B. Lal	Deputy Director (Statistics) Department of Co-operation
9. Shri Nagina Rai	Chairman, Bihar State Co-operative Bank
10. Shri S. K. Sinha	Managing Director, Bihar State Co-operative Bank
11. Shri Tapeshwar Singh	Chairman, Bihar Rajya Sahakari Bhumi Vikas Bank
12. Shri A. K. Mukherjee	Managing Director, Bihar Rajya Sahakari Bhumi Vikas Bank
13. Shri S. M. Singh	Deputy Managing Director, Bihar Rajya Sahakari Bhumi Vikas Bank

Orissa

(9 March 1976)

1. Smt. Nandini Satpathy	Chief Minister
2. Shri Laxman Mallick	Minister for Agriculture and Co-operation
3. Shri V. S. Mathews	Chief Secretary
4. Shri K. Ramamurthy	Agricultural Production Commissioner
5. Shri P. Tripathy	Secretary, Agriculture and Co-operation Department
6. Shri S. Mishra	Registrar of Co-operative Societies
7. Shri P. S. Rao	Additional Registrar of Co-operative Societies
8. Shri B. B. Roy	Deputy Registrar of Co-operative Societies
9. Dr. J. C. Rout	President, Orissa State Co-operative Bank
10. Shri F. C. Panda	Managing Director, Orissa State Co-operative Bank
11. Shri N. Biswal	Managing Director, Orissa State Co-operative Land Development Bank

12. Shri S. K. Sahu	President, Orissa State Co-operative Union
13. Shri Debaprasad Das	President, Puri Co-operative Land Development Bank
14. Shri Prem Raj Mishra	President, Bolangir Co-operative Land Development Bank
15. Shri Harmohan Padhi	President, Chatarpur Co-operative Land Development Bank

Andhra Pradesh

(11 March 1976)

1. Shri J. Vengala Rao	Chief Minister
2. Shri K. B. Lal	Second Secretary to Government & Agricultural Production Commissioner
3. Shri K. Subramanyam	Secretary, Food & Agriculture Department
4. Shri C. R. Krishnaswamy Rao Sahib	Secretary to the Chief Minister
5. Shri B. P. R. Vithal	Secretary, Finance
6. Shri T. Vedantam	Joint Secretary, Food and Agriculture Department
7. Shri T. Lakshma Reddy	Registrar of Co-operative Societies
8. Shri B. C. Gangopadhyay	Secretary, Forests and Rural Development Department
9. Shri R. Rajamani	Joint Secretary, Finance and Planning Department
10. Shri P. N. Srivastava	Managing Director, Andhra Pradesh State Co-operative Bank
11. Shri B. Ratnasabhapathy	Person-in-Charge, Andhra Pradesh Co-operative Central Agricultural Development Bank
12. Shri A. Vasudeva Rao	Person-in-Charge, Andhra Pradesh State Co-operative Bank
13. Shri S. A. H. Razvi	Managing Director, Andhra Pradesh Co-operative Central Agricultural Development Bank
14. Shri S. V. S. N. Raju	Deputy Secretary, Andhra Pradesh State Co-operative Bank

Rajasthan

(22 March 1976)

1. Shri Harideo Joshi	Chief Minister
2. Shri Mohan Mukarji	Chief Secretary
3. Shri V. I. Rajagopal	Commissioner for Co-operation
4. Shri M. S. Sadasivan	Financial Commissioner
5. Shri B. K. Zutsi	Special Secretary, Special Schemes
6. Shri D. R. Mehta	Secretary to the Chief Minister
7. Shri Anil Vaish	Deputy Secretary, Institutional Finance
8. Shri Surendra Kumar	Additional Registrar of Co-operative Societies
9. Shri J. K. Sharma	Joint Registrar of Co-operative Societies (Banking)
10. Shri P. K. Soral	Assistant Secretary (Co-operation)
11. Shri Nathi Singh, M.P.	Chairman, Rajasthan State Co-operative Land Development Bank

12. Shri V. P. Malhotra	Managing Director, Rajasthan State Co-operative Land Development Bank
13. Shri S. K. Mathur	General Manager, Rajasthan State Co-operative Land Development Bank
14. Shri G. A. Bhimnathwala	Managing Director, Rajasthan State Co-operative Bank
15. Shri K. L. Mehta	General Manager, Rajasthan State Co-operative Bank

Punjab

(5 April 1976)

1. Shri Giani Zail Singh	Chief Minister
2. Shri H. S. Chhina	Chief Secretary
3. Shri N. Khosla	Financial Commissioner and Secretary, Co-operation
4. Shri S. S. Bedi	Registrar of Co-operative Societies
5. Shri Amarjit Singh	Managing Director, Punjab State Co-operative Bank
6. Shri R. S. Grewal	Managing Director, Punjab State Land Development Bank
7. Shri M. S. Sadhrao	Chief Auditor, Co-operative Societies
8. Shri A. S. Pooni	Managing Director, MARKFED
9. Shri H. S. Brar	Additional Registrar
10. Shri P. N. Bahl	Joint Registrar
11. Shri G. S. Parmar	Vice-President, All-India State Co-operative Banks' Federation
12. Shri Amar Singh Harika	Co-operator and ex-Director of Land Development Bank

Kerala

(9 April 1976)

1. Shri Baby John	Minister for Revenue and Co-operation
2. Shri N. Chandrabhanu	Chief Secretary
3. Shri G. Bhaskaran Nair	Additional Chief Secretary
4. Shri P. G. Muralidharan	Agricultural Production Commissioner
5. Shri K. L. N. Rao	Secretary, Agriculture Department
6. Shri T. N. Jayachandran	Registrar of Co-operative Societies
7. Shri K. M. Chandrasekhar	Deputy Secretary, Agriculture Department
8. Shri K. Bhargavan Pillai	Joint Registrar of Co-operative Societies
9. Shri C. S. Neelakantan Nair	President, Kerala State Central Co-operative Land Mortgage Bank
10. Shri M. S. Joseph	Managing Director, Kerala State Central Co-operative Land Mortgage Bank
11. Shri E. Chandrasekharan Nair	President, Kerala State Co-operative Bank
12. Shri C. S. Subramanian	Secretary, Kerala State Co-operative Bank

Karnataka

(14 June 1976)

1. Shri D. Devaraj Urs	Chief Minister
2. Shri K. H. Ranganath	Minister for Co-operation
3. Shri G. V. K. Rao	Chief Secretary
4. Shri D. J. Balraj	Development Commissioner

5. Shri Y. Roopla Naik	Secretary, Rural Development and Co-operation
6. Shri Jayakumar Anagol	Registrar of Co-operative Societies
7. Shri V. K. Chinmulgund	Joint Registrar of Co-operative Societies
8. Shri G. L. Nallure Gowda	President, Karnataka State Co-operative Apex Bank
9. Shri R. L. Jalappa	Vice-President, Karnataka State Co-operative Land Development Bank
10. Shri P. D. Shenoy	Managing Director, Karnataka State Co-operative Land Development Bank
11. Shri H. K. Chindaiah	Managing Director, Karnataka State Co-operative Apex Bank

Uttar Pradesh

(18 June 1976)

1. Shri N. D. Tewari	Chief Minister
2. Shri S. P. Sharma	Minister for Co-operation
3. Shri Mahmood Butt	Chief Secretary
4. Shri K. N. Srivastava	Agricultural Production Commissioner
5. Shri S. B. Lal	Special Secretary (Co-operation)
6. Shri Nripendra Mishra	Registrar of Co-operative Societies and Chairman and Managing Director State Land Development Bank
7. Shri B. V. Tandon	Commissioner and Secretary, Finance Department
8. Shri R. K. Khosla	Commissioner and Secretary, Industries Department
9. Shri L. K. Nagar	Commissioner and Secretary (Finance) and Director of Institutional Finance
10. Shri V. K. Saxena	Cane Commissioner
11. Shri R. K. Gupta	Joint Secretary, Agriculture Department
12. Shri O. P. Sharma	Secretary, Uttar Pradesh Co-operative Bank

Gujarat

(23 June 1976)

1. Shri A. N. Banerji	Adviser to the Governor
2. Shri H. K. L. Kapoor	Chief Secretary
3. Shri H. M. Joshi	Special Secretary and Commissioner for Co-operation
4. Shri H. K. Khan	Secretary, Agriculture, Forest and Co-operation Department
5. Shri P. V. Bhatt	Registrar of Co-operative Societies
6. Shri P. H. Shah	Joint Registrar of Co-operative Societies
7. Shri Jinabhai Darji	Chairman, Gujarat State Co-operative Land Development Bank
8. Shri Dwarkadas Patel	Chairman, Gujarat State Co-operative Bank
9. Shri S. J. Shah	Managing Director, Gujarat State Co-operative Land Development Bank
10. Shri Vallabhbhai Patel	Director, Gujarat State Co-operative Bank
11. Shri Dahyabhai Naik	Director, Gujarat State Co-operative Bank
12. Shri Ramanbhai N. Patel	Director, Gujarat State Co-operative Land Development Bank

13. Shri Gokuldas D. Parmar	Director, Gujarat State Co-operative Land Development Bank
14. Shri C. C. Mehta	Manager, Gujarat State Co-operative Bank
15. Shri M. K. Jivani	Manager, Gujarat State Co-operative Land Development Bank

Haryana

(7 July 1976)

1. Shri Banarasi Das Gupta	Chief Minister
2. Smt. Sharada Rani	Minister of State In-Charge of Co-operation
3. Shri S. D. Bhambri	Chief Secretary
4. Shri G. L. Bailur	Commissioner & Secretary, Department of Agriculture and Co-operation
5. Shri K. R. Punia	Registrar of Co-operative Societies
6. Shri Naseem Ahmed	Deputy Secretary, Agriculture and Co-operation Department
7. Shri Sees Ram	Chairman, Haryana State Co-operative Land Development Bank
8. Shri Sheokaran Singh	Secretary, Haryana State Co-operative Land Development Bank
9. Shri H. L. Sondh	Managing Director, Haryana State Co-operative Bank

Tamil Nadu

(19 July 1976)

1. Shri R. V. Subramanian	Adviser to the Governor
2. Kum. M. S. Ramesh	Secretary, Co-operation
3. Shri H. B. N. Shetty	Registrar of Co-operative Societies
4. Shri A. K. Rastogi	Deputy Secretary, Co-operation
5. Shri D. A. S. Prakasam	Additional Registrar, Co-operative Societies
6. Shri H.M. Pande	Special Officer, Tamil Nadu Co-operative State Land Development Bank
7. Shri M. Ahmed	Special Officer, Tamil Nadu State Co-operative Bank
8. Shri T. S. K. Chari	Managing Director, Tamil Nadu State Co-operative Bank
9. Shri S. N. De	Managing Director, Tamil Nadu Co-op. State Land Development Bank

ANNEXURE 1.5

SECRETARIAT OF THE COMMITTEE—STAFF*

(As on 31 July 1976)

Director

S. G. V. RAMANAN—Member-Secretary

Deputy Directors

A. P. MUKUNDAN
S. DHARMALINGAM
S. KRISHNAMURTHY
M. V. GUPTA (Attached to the Working Group on Legal Matters)

Senior Analysts

G. MAHALINGAM
S. G. KASHIKAR

Junior Analysts

R. G. JOSHI
M. J. DAMLE
A. J. SHUKLA

Economic Assistant/Clerk

D. R. UJAGARE
M. K. PRABHU

Stenographers

C. K. KRISHNAN
G. G. GODSE
Smt. KAMALA SRINIVASAN

Typists

K. B. MELWANI
Kum. LALAN ARONDKAR

Daftary/Peons

V. L. KADAM
P. S. DESAI
M. A. PRABHU

*T. R. Srinivasan and T. A. Kamble, Stenographers, V. B. Tawde, Typist, D. B. Karjawkar and A. U. Pagare, Peons, also worked earlier for short periods during the tenure of the Committee.

ANNEXURE 2.1

VIEWS ON STRUCTURAL FRAMEWORK OF CO-OPERATIVE CREDIT INSTITUTIONS
(Excerpts from Reports of various Committees)

1. *Report of the Indian Central Banking Enquiry Committee*, 1931

"Almost all the Provincial Committees, and almost every competent authority on co-operative credit in India, are agreed that the existing primary societies, central banks and provincial banks, by reason of the character of their resources and other obvious limitations from a banking point of view, can supply only the short and intermediate credit."

(Majority Report: Para 154, Page 116)

"Many Provincial Committees are of opinion that mortgage loans for long periods are unsuitable business for the rural credit societies............The reasons for this view are:

1. the overshadowing of personal credit by mortgage may entail a neglect of co-operative principles,
2. the deposits of co-operative societies including central and provincial banks are for short periods and it is unsound finance to utilise them for long-term loans,
3. the enquiry and the valuation preliminary to the grant of long-term loans have to be entrusted to a trained agency controlled by and responsible to some central organisation,
4. the maintenance of valuable documents and title deeds cannot be entrusted to ordinary village societies and
5. when defaults occur in the repayment of mortgage loans, the assets of the society become frozen and the obtaining and execution of mortgage decrees for the recovery of overdue loans becomes an extremely difficult operation."

(Majority Report: Para 163, Pages 125/126)

"The fact, however, remains that the work of a mortgage bank 'is recognised on all hands to be extremely impersonal as devoid of the human element as possible', and that the human and personal elements which are the chief characteristics of the Raiffeisen type of societies cannot be infused into them in any appreciable measure. While mutual knowledge of, and control over, one another among members is the insistent feature in the case of the unlimited liability credit society, the insistence in the case of a land mortgage credit society with limited liability is on the capacity and business habits of the directorate, in order to ensure sound valuation of security, careful investigation of titles, correct assessment of borrowers' credit and repaying capacity and efficient management of affairs."

(Majority Report: Para 200, Page 156)

"The importance of making provision for long-term loans, both for redemption of old debts and for improvements having been granted, and the machinery for securing the necessary money on the cheapest and best basis having been fixed, the next question to consider is, through whom this money should reach the borrowers at minimum cost and with an assurance of sound administration. With regard to the co-operative banks, it has been suggested by the foreign "experts" and endorsed by the majority, that separate institutions of land mortgage should be set up. I regard this as a counsel of despair. A separate institution is helpful, if its turnover is large enough to justify the cost, and the position is not met by keeping the cost down to such an extent, as to have these matters fall into the hands of very small people, lacking in competence. In order to be carried out well, the work must be handled by capable people, and when this is a matter of cost, land mortgage banks could not have that amount of work year in and year out, which will justify engaging superior staff. There would be a lot of routine work, particularly with regard to the recoveries, but the judgment of the superior staff will not be requisitioned except on large and new issues, i.e., not very frequently. If there is not going to be a frequent call on the time and energy of the superior staff, there does not appear to be any adequate reason that those in charge of central banks of the co-operative movement and those in charge of branches of commercial banks outside the co-operative sphere, should not be entrusted with this task. It will serve at once the purpose of economy as well as efficiency, as the charges to be borne by the land mortgage section will be a portion only of the total charges of the superior staff. The full charges of the lower staff directly engaged in the work would, of course, have to be borne. There may be also economy with regard to office rents and for office incidentals."

(Minority Report: Para 66, Page 61)

2. *General Report of the All-India Rural Credit Survey Committee*, 1954

"While our recommendation regarding major State partnership will, we believe, provide the needed financial backbone to the superstructure of co-operative credit and enable it to extend full support to the rural base, it is also of great importance that the different components of the superstructure should function in co-ordination with one another. By and large, such co-ordination is now lacking. A theoretically ideal solution might be for one single agency to deal with short-term, medium-term and long-term credit, but past experience, if nothing else, points to the desirability of having two separate institutions for dealing with short-term (and medium-term) agricultural credit on the one hand, and long-term credit on the other. Land mortgage banking is highly specialized, and it will not be desirable to saddle the short-term co-operative credit structure, which will be called upon to play an increasingly complex part within its own sphere, with additional responsibilities of so specialized a character. Short-term agricultural loans may be defined as those limited to 15 months, medium-term agricultural loans as ranging from 15 months to 5 years and long-term agricultural loans as extending beyond 5 years. At the apex level, short-term loans should continue, as at present, to be provided through state co-operative banks. Medium-term loans should also be the responsibility of the short-term co-operative credit structure; in this context, special attention should be paid to loans for the purchase of livestock, which, as shown by the Survey, are an important medium-term requirement in many parts of the country. Long-term loans should be provided by land mortgage banks.

We recommend that, while the state co-operative bank and the central land mortgage bank should continue to remain separate entities for legal and financial purposes, direction and management should be common to the farthest extent possible and the same administrative staff operate under the two types of institutions. Thus, the state co-operative bank and the central land mortgage bank should have a common board of directors, a common administrative machinery and a common building to house them. If it is not practicable to have a common board of directors, at least some of the directors should be common to both. This recommendation applies in particular to states where either state co-operative banks or central land mortgage banks have to be newly established. Other States should, as far as possible, attempt to modify existing arrangements in approximation to this model."

(Para 4, Pages 433/434)

3. *Report of the Informal Group on Institutional Arrangements for Agricultural Credit*, 1964

"The need for integration between the long-term credit structure on the one hand and short-term and medium-term credit structure on the other, as well as the fullest co-ordination between them in their actual working, has always been recognised but little has been done in actual practice towards these aims. We do not consider it necessary that there should be any departure from the present pattern of the land mortgage banking structure for this purpose but believe that, even within this frame-work, many lines of co-ordination and mutual support between these two wings of the co-operative credit structure can be found and pursued, as illustrated below:

Firstly, the land mortgage banks should extend their support to the state co-operative banks by investing the permissible part of their sinking funds in fixed deposits with the latter.

Secondly, the state co-operative banks may support the land mortgage banks by investing in their debentures to the extent of a part of their fluid cover requirements and, also where possible, providing interim accommodation to the latter.

Thirdly, the offices of the central and the state co-operative banks may be used by the land mortgage banks for expeditious disbursement of loans sanctioned as also for canvassing support for the rural and other debentures and for the payment of interest on such debentures.

Fourthly, the management of the primary agricultural credit societies may be associated with the preliminary investigation and report in respect of applications of their members for long-term credit, the disbursement of such loans when sanctioned, supervision of their utilisation and recovery of the instalments of such loans. This should help to ensure that total co-operative lending to an individual is within his repaying capacity, the available security is enlisted to the best advantage and the total repayment performance is satisfactory."

(Para 86, Pages 62/63)

4. *Report of the All India Rural Credit Review Committee*, 1969

"....While we rule out the possibility of a single structure undertaking all these functions, the objective underlying this demand can be met in practice if the village credit society can be enabled, on the payment of suitable commission, to operate as the agency of the land development bank at different stages of the loan operations of the latter, viz., scrutiny of application, disbursement of credit, supervision and recovery of instalments. We are aware that only a few of the agricultural credit societies are as yet in a position to take up these additonal responsibilities but the number of such societies will increase as viable units begin to emerge as a result of the programme of reorganization. We, therefore, recommend that in each state a limited number of societies satisfying appropriate criteria pertaining to financial strength and operational efficiency be selected for functioning as agencies of the land development banks in their areas of operation and that this type of arrangement be gradually extended to an increasing number of societies after experience is gained as a result of this experiment."

(Para 41, Page 795)

5. *National Commission on Agriculture—Interim Report on Credit Services for Small and Marginal Farmers and Agricultural Labourers*, 1971

"We recommend that the entire problem of agricultural credit needs should be viewed in the light of providing an integrated agricultural credit service, i.e., provision of credit along with organisation of facilities for its conversion into inputs and services required by the farmers to use the credit effectively. This service should be made accessible to small and marginal farmers and agricultural labourers who want to upgrade their technology and productivity. The service must cover not only the complete range of farm produce upto the marketing stage but also ancillary farm occupations, such as those of rural artisans and craftsmen which provide services to the farmers. In fact, it should also serve to develop the artisans to take up small village industries producing the farm and consumption needs of the farmers. The services will have to be developed in each area, in phases, according to their importance for the economic uplift of the weaker section in the area. The proposed agricultural credit services should, in addition, look after the requirements of credit, inputs and other services needed by animal husbandry (including poultry farming, piggery, sheep rearing, etc.), dairying, fisheries, farm forestry and other enterprises allied to agriculture."

(Para 4.5, Page 24)

"Experience of co-operatives and commercial banks has clearly shown that despite efforts, cumbersome procedures and legal requirements make it generally difficult for small and marginal farmers and agricultural labourers to get credit on time and in adequate quantity. Simplification of procedures has, therefore, to be considered as an essential part of the scheme of Integrated Agricultural Credit Service."

(Para 4.17, Page 32)

"An integrated agricultural credit system based on the concept of credit service, economic viability and development of borrowers to self-sufficiency for working funds would envigorate the process of capital formation in the rural economy. It would facilitate both resource mobilisation and investment. The primary aim of the integrated credit system is to provide to the farmer one contact point for obtaining his credit and input requirements. Besides co-operatives, there are certain other agencies which could render credit assistance to the small and marginal farmers. The land development bank, for instance, will act as a service agency for handling land development work and works connected with prevention of soil erosion, drainage, digging of wells, etc., for members of each Farmers' Service Society, and it will thus assist conversion of medium/long-term loans granted by banks into productive assets."

(Para 4.26, Page 37)

6. *Report of the Banking Commission*, 1972

"It is sound in principle and convenient in practice for both the lender and the borrower to have an arrangement under which as far as possible a borrower gets his entire credit needs satisfied by one single institutional agency. This should be encouraged to the maximum extent possible. Rural banks and recognised primary credit societies should be enabled to make long-term loans also as agents of the Land Development Bank. It would be useful to avoid 'splitting of security' among the lenders and enable the lending institution to have complete control over the assets offered by the borrower and help improve his production and income."

(Para 9.65, Page 195)

7. *Report of the Working Group on Co-operation (Fifth Five Year Plan)*, 1973

"The National Commission on Agriculture and the Banking Commission have suggested the integration of short, medium and long-term credit at the village/tehsil level. Administrative arrangements have to be made for routing, long-term credit through the primary societies. In the smaller States such as Tripura, Manipur, Meghalaya a unified banking structure for short, medium and long-term credit would be more appropriate."

(Para 5.47 (c), Page 63)

8. *Recommendations of T. A. Pai Group*

"It would be necessary for the farmers, especially small/marginal farmers and other groups of rural producers to have an institution as close to their farmland/working site as possible, which will be able to provide them with a full package service and technical guidance."

"The farmer should not be required to run to different institutions for the full package of services. He will deal only with the multipurpose society/farmers service society and such a society should be enabled to borrow from a co-operative or a commercial bank, both for short/medium-term credit and long-term credit."

"An attempt should be made, initially in the co-operatively backward States, to merge the State Land Development/Mortgage Banks with the State Co-operative Banks to form one strong Apex Financing institution in the co-operative sector with a variety of functions."

9. *Report of the Committee on Co-operative Land Development Banks*, 1975

"Experience in regard to the working of the co-operative credit structure has shown that even in well-developed states the structures for short-term and long-term are working more or less in water-tight compartments. This has resulted in certain problems such as difficulties in assessing the total credit needs of cultivators and non-availability of short-term credit to the borrowers of long-term loans. From the cultivator's point of view he finds it difficult to deal with two institutions viz., village credit society and the primary land development bank or the branch of central land development bank each of which has its own loan policies and procedures. Another serious problem relates to security. Land is required to be mortgaged or a charge is created thereon for all short-term loans provided by primary societies. For medium-term loans also, beyond a specified limit, security of land is necessary."

(Para 5, Page 121)

"The functions to be undertaken by primary credit societies in regard to long-term financing would depend upon the question as to whether they will be replacing primary land development banks or they would be merely receiving and disbursing the loan amounts to borrowers purely as agents of primary banks. In the case of the former, they will be required to undertake all the functions which primary land development banks undertake at present, viz., appraisal of loan proposals, valuation of land, follow-up action and effecting recoveries. Considering the complex nature of appraisal of loan proposals and the stage of progress already made in the organization of primary banks and branches of central land development banks, entrusting primary credit societies, as they are constituted and functioning as at present, with these functions is not practicable. In case it is decided that primary credit societies will merely receive and disburse loan amounts, it will be necessary for them to maintain proper accounts of moneys received and paid. However, this limited role will not be adequate and it will not result in any benefit to cultivators including a solution to some of their problems such as difficulty in regard to security to be furnished to the lending banks. Besides, this arrangement may create difficulties in regard to recovery of loans. Primary credit societies many of which are already bedevilled with a load of overdues may not take any interest in recovering long-term loans channelled through them on an agency basis. Thus, the role of primary credit societies will have to extend beyond mere agency functions. They will have to undertake certain basic functions such as canvassing of loan applications, preliminary scrutiny of particulars furnished therein, verification of security and recovery of loan instalments at the proper time along with the recovery of the short-term loans provided by them. These are the minimum functions which primary credit societies will have to undetake if long-term loans are to be routed through them. Otherwise, in our view, mere routing of long-term loans will not serve any particular advantage either to the cultivator or to the primary credit society or to the primary land development bank."

"The question arises as to whether the existing primary credit societies can undertake these minimum functions as they are constituted and functioning at present. Experience regarding the working of primary credit societies, if it provides any guide, shows that excepting in a few states which are co-operatively well developed, they will not be of any help due to several reasons such as absence of a full-time paid secretary, lack of other staff and office premises. At present, primary credit societies depend, by and large, on the services of honorary staff. In order to undertake the functions referred to in the preceding paragraphs, a primary credit society should have some minimum staff of its own, especially a trained and fairly well-paid secretary and should have some links with the technical staff of the state government at the local levels."

"With regard to operational efficiency and financial soundness it may be said that generally primary credit societies do not have adequate and trained staff, and in most states they suffer from serious deficiencies such as low share capital base, poor deposits, low scale of operations and prevalence of a high level of overdues. Despite efforts made from time to time, most of these societies have not been able to function as multipurpose societies or achieve viability although the state governments have assisted them financially for employing secretaries. To saddle the existing primary credit societies with additional and specialised functions in regard to long-term loans would lead us nowhere."

(Paras 7, 8 & 9, Pages 122/123)

"In the light of the findings of the study initiated by us in regard to the arrangements for provision of long-term credit for agriculture in Delhi and taking into account the agro-economic conditions obtaining in various smaller states, we feel that in these states and union territories, it will be wasteful to have a separate co-operative land development banking structure for giving long-term loans to cultivators for agriculture. Our specific recommendations, state-wise, are as under:

(1) In the case of Pondicherry where a central co-operative land development bank is functioning, it is observed that the loaning business of the bank has been showing a declining trend and during 1972-3, it had come down to Rs. 11 lakhs. The overdues of the bank are on the increase and as on 30 June 1973 they formed 46 per cent of the demand for 1972-3. The bank's membership was less than 3,000 (individuals) as on 30 June 1973. We feel that there is no need for a separate land development banking structure in Pondicherry and necessary steps may be taken by the state government to merge the central land development bank with the state co-operative bank in order to have a unified co-operative credit structure which will be in a position to function more effectively.

(2) In the case of Delhi and Goa, Daman & Diu, the state co-operative banks are already providing long-term loans though the amounts involved are not very significant. In the case of Nagaland also, the state co-operative bank is reported to be implementing a scheme for financing sugarcane development sanctioned in 1972-3 by the Agricultural Refinance Corporation although the progress in its implementation is reported to be very slow. The bank has also not established a separate land development banking section. We suggest that all the 3 state co-operative banks, viz., Delhi, Goa, Daman & Diu and Nagaland, should be encouraged to undertake financing of the long-term credit needs of cultivators based on viable schemes of agricultural development. The concerned state governments should provide them with the necessary support, financial and administrative, in this direction. Further, the Delhi State Co-operative Bank is having certain weaknesses such as vulnerable financial position and heavy overdues. The state government has to take suitable steps to improve the financial position and working of the bank and follow the detailed advice given by the Reserve Bank of India in the matter.

(3) In Andaman & Nicobar Islands, Meghalaya and Manipur, state co-operative banks have already come into existence, but they are not providing any long-term loans to cultivators. These banks may be encouraged by the state governments concerned to undertake financing of the long-term credit needs of the cultivators, based on specific schemes for productive lending. Since the working of the Manipur State Co-operative Bank in particular is not satisfactory due to heavy overdues and erosion in the value of assets, the state government has to take necessary steps to strengthen its financial position and improve its operational efficiency on the lines indicated by the Reserve Bank of India.

(4) In Arunachal Pradesh and Mizoram, there are no state co-operative banks at present. The concerned state governments may consider the desirability of establishing such banks in these states. In due course, when agricultural development gains momentum, suitable steps may also be taken to enable these banks to undertake provision of long-term loans for agriculture.

In the case of all the smaller states and union territories referred to above for which we have recommended that either the existing state co-operative banks should be encouraged by the governments to take up the provision of long-term credit for agriculture or new state co-operative banks, when set up, should undertake the provision of long-term credit also, it will be necessary to ensure the necessary legal frame-work as well as other prerequisites referred to below, in order to facilitate the working of these arrangements on satisfactory lines:

Separate Land Development Banking Section

State Co-operative Banks in Delhi and Goa are already having a separate land development banking section but the state co-operative banks in Andaman & Nicobar Islands, Manipur, Meghalaya and Nagaland do not have a separate land development banking section. As the provision of long-term loans by these banks gathers momentum, we recommend that these banks also should have separate land development banking section."

(Paras 28 to 30, Pages 57/58)

"We are thus left with the hard fact that the co-operative land development banking structure in these 9 states will have to be made strong to enable it to undertake the onerous responsibilities cast upon it under the Fifth Plan. In this connexion we should like to point out that out of the 9 states under review in this Chapter, 4 states viz., Assam, Himachal Pradesh, Jammu & Kashmir and Tripura are relatively small states. Further, the working of land development banks in these states is far from satisfactory inasmuch as their financial position has been crippled considerably by heavy overdues. In the case of West Bengal also the position of the land development banks is, by and large, not satisfactory and they have ceased to give any effective support to the programmes of agricultural development in the state. The loans outstanding of the land development banks in these states is very small at a little over Rs. 5 crores or below. After considering all these aspects of the matter, we see distinct advantages in an integration of the short-term and long-term co-operative credit structures being brought about immediately in 5 states out of the 9 states, viz., Assam, Himachal Pradesh, Jammu & Kashmir, Tripura and West Bengal. Without such a merger, the two separate structures in these 5 states do not hold any prospects of becoming strong and effective. We, therefore, recommend that in these 5 states, the state governments should immediately set up committees consisting of representatives of the banks, governments, the Reserve Bank of India and the Government of India to work out the details of the merger. We also recommend that the initiative in the above matter should be taken by the Reserve Bank of India in view of its crucial role in rural credit.

However, irrespective of the question of the merger, i.e., whether there is an integrated structure for both short-term and long-term credit or two separate structures, the fact remains that the internal weaknesses of the land development banking structure in all the 9 states will have to be removed without further delay. Otherwise, even if integration takes place, it will be integration of a weak structure with possibly an equally weak short-term co-operative credit structure. This is most undesirable and will, in fact, wreck the successful functioning of the integrated institution. It is, therefore, of utmost importance that without waiting for any further time, the state governments and the banks should address themselves to the task of removing the weaknesses of the long-term co-operative credit structure in all the 9 states under review."

(Paras 28/29, Pages 78/79)

ANNEXURE 3.1

Extracts from Report of the Sub-Committee of the All-India State Co-operative Banks Federation

The Sub-Committee considered it necessary to cover the three typical areas *vis-a-vis* organisational structure of Land Development Banks, viz., (i) unitary (ii) federal and (iii) areas like some union territories where short-term credit structure is entrusted with the long-term agricultural credit business. It examined in detail the various aspects of the problems of the institutional structure at the primary level, viz., primary agricultural credit societies and Primary Land Development Banks.

The Sub-Committee also noted the various other developments that had been taking place since its constitution and the current trends of thinking, important ones being (1) measures taken in the various states to re-organise the Primary Agricultural Credit Societies with a view to making them viable and well-equipped enough to cater to all the needs of the cultivators, (2) measures to organise farmers service societies for meeting short-term, medium-term and long-term credit needs and other services, (3) problems of Land Development Banks in various States, notably Andhra Pradesh, Maharashtra, Karnataka and Gujarat where saturation point has reached in terms of conventional purposes of long-term lending viz., minor irrigation, land improvement, etc., in several pockets which would consequently affect their own viability and necessitate concrete steps in the direction of diversification of their loaning business.

The members of the Sub-Committee in the course of their visits to the villages organised meetings of the cross-section of the cultivators who were (1) borrowers of both long-term and short-term co-operative credit structure, (2) borrowers of only one structure, viz., either short-term or long-term and (3) who were not borrowers of any organisation. The consensus of the borrowers of both the types of organisations as revealed in the course of the discussions could be summed up as follows: (1) The majority of the borrowers interviewed expressed the view that they would have considered it more advantageous if they had been given loans by one and the same agency. They offered the following reasons for this contention:

(*a*) In the matter of processing of the loan applications and completing various procedural formalities like getting extracts of the record of right, examining the title of the land to be mortgaged, obtaining sanction and also the procedure of disbursement, the entire process would be expedited if they were required to deal with the Primary Agricultural Credit Societies disbursing the short-term loans because of the factors like proximity, personal knowledge regarding credit-worthiness, enterprise, capacity, etc., of the borrowers and built-in continuous contact.

(*b*) The borrowers of both these organisations also generally expressed a view that availing of loans from long-term credit institutions is a time consuming process and this difficulty was especially experienced by the cultivators who were in the villages situated far away from the Primary Land Development Banks usually at the Taluka level. Generally with the exception of Tamil Nadu, the branches of the State Land Development Banks or the Primary Land Development Banks are located at Taluka level and the feeling was that Taluka is too large an area for ensuring expeditious processing of loan applications as well as continuous contact with the borrowing members. The borrowers, therefore, by and large felt that while they were not concerned with the organisational arrangement at the district level or Taluka level, it would be more advantageous for them if all their credit needs including the term loans were met by the Primary Agricultural Credit Societies. In fact, some of the borrowers who had borrowed medium-term loans from Primary Agricultural Credit Societies said that though their repaying capacity in terms of incremental income generated from investments like installation of pumping sets, etc., necessitated longer repayment period beyond 5 years, they preferred to go to the Primary Agricultural Credit Society for medium-term loans because of the above factors. Even cultivators who have borrowed short-term loans mentioned that they had to postpone their decision of going in for long-term investments to increase the production potential of their farms mainly because of the difficulties which they anticipated in obtaining loans from long-term credit structure expeditiously. Another aspect which was brought out categorically by the borrowers of both institutions was lack of close and continuous contact by the long-term credit institutions. Some of the borrowers said that once they obtained loans from the long-term credit structure, viz., Land Development Bank, the only contact they had with that structure was once in a year when they got demand notice for the recovery. In other words, the moment the loan is disbursed, because of inadequacies inherent in the situation in terms of location, inadequate supervision, etc., the borrower of long-term credit institution was more or less forgotten by them. In respect of drought affected areas, especially in Maharashtra where the borrowers of both the organisations had to go in for conversion in respect of short-term loan into medium-term loan, and re-scheduling of long-term loans, the borrowers felt that in the duplication of conversion/re-scheduling process, realistic assessment of their repaying capacity subsequent to the severe drought and famine condition could not be made. The borrowers appeared to be rather unconcerned about processing of applications by the long-term credit agencies and they generally felt that the assessment of repaying capacity, cropping pattern which they were expected to adopt after investment, feasibility of their investment, etc., were the factors which were determined by and large on the basis of certain norms evolved by the Land Development Banks for geo-climatically homogeneous pockets and the limitations and constraints of cultivators with reference to individual factors were not taken into account. The Sub-Committee, therefore, got an impression that the most important factor in agricultural investment was human factor which was comparatively ignored in the loaning procedure as well as follow-up action of long-term credit institutions, not intentionally but because of built-in limitations of the remote control.

The number of borrowers of short-term institutions alone is proportionately quite large in all the States. The Sub-Committee realised that this had a bearing on a number of factors like size of the cultivator's holding, investment incentives individual cultivator had *vis-a-vis* assured market for his produce in the changed cropping pattern, availability of assured irrigation facilities and so on. It could be roughly estimated that of the total number of borrowers of short-term credit institutions, the percentage of borrowers of long-term credit institutions would vary from 10 to 25.

The discussions also revealed that the demand for long-term loans was gradually declining in some areas. This aspect has also again a bearing on local situation. For instance, in regions like coastal Andhra Pradesh where irrigation facilities are fully developed and most of the cultivators have also energised their minor irrigation facilities and adopted double if not triple crops, there is hardly any scope for long-term loans for conventional purposes. In States like Maharashtra where the total potential for minor irrigation is estimated to be very limited (25 per cent as estimated by Barve Committee) since the long-term credit structure has already carried out the programme on very large scale in several areas especially commercial crop areas there is little scope left for long-term investment in some districts. This problem has further aggravated because of certain sophisticated norms introduced in long-term lending, i.e., the discipline imposed by the I.D.A. and A.R.C. which stipulates technical norms like ground water feasibility, spacing between two wells, etc., to ensure that by digging more wells the water table of the existing wells does not go down.

The cultivator-borrowers with whom the Sub-Committee had discussions mentioned that the so called supervision, technical guidance, etc., from the existing structure was rather inadequate but it would be better facilitated if it was channellised through organisations which were nearest to them viz., Primary Agricultural Credit Societies.

To sum up the consensus of the borrowers of all types, large and small, was that they would prefer their entire credit needs, viz., short-term and long-term met by one and the same organisation which was close to them, viz., Primary Agricultural Credit Societies.

....The Primary Agricultural Credit Societies would be in a better position to assess the credit needs of the cultivators, ascertain the capacity of the individual borrower to introduce modern techniques and due to closer contact would also know individual characteristics of the borrower which was quite important in agriculture. In fact the Sub-Committee came across the cultivators working in comparable conditions with the same kind of facilities available having quite large variations in their out-put because of this individual factor. Long-term credit structure at Taluka level had a distinct disadvantage of not having such a close touch and the same limitation was being experienced by their paid Managers.

Discussions with Taluka level workers of both the short-term and long-term structures revealed that inspite of the talk of co-ordination which had been going on for last several years, they were working in isolation, and they did not have even the preliminary knowledge of working, procedures, business potential, etc. of their respective organisations. The consensus of the representatives of the long-term credit structure working at Taluka level was that it would be very difficult to think in terms of integration at Taluka level because of the likely resistence from the official and non-official workers of the respective organisations. The Sub-Committee, however, took the view that while making the recommendations the ultimate objective, i.e., smooth flow of credit and better utilisation of credit to ensure increased agricultural production was the primary object and political and other difficulties would have to be sorted out in the interest of effectiveness of the credit programme. The Sub-Committee also noted that the integrated type of organisation at the primary level was already contemplated in the shape of Farmers' Service Societies which irrespective of sources of funds which they would get would cater to the short-term and long-term needs of agriculture and also look after the aspects such as availability of inputs, seeds and fertilisers, etc.

The Sub-Committee, therefore, came to the conclusion that emanating from the views and experience of the ultimate borrowers, i.e., cultivators of all types, integration of long-term and short-term credit functions at the primary level is desirable. Without going into semantics of terminology, the Committee came to the conclusion that real "Co-ordination" which would be necessary for effective implementation of agricultural credit programme would be possible only by functional integration mainly at the primary level. It was also felt that integration of management at the primary level had to be initiated in the context of three aspects, namely (1) supervision (2) procedures and (3) viability.

The findings of the Sub-Committee in the course of their discussions with the cultivators were confirmed by the Taluka level workers also, viz., that in respect of long-term credit structure it had been not possible to implement the concept of supervised credit effectively and Primary Land Development Banks would greatly benefit either by process of integration or initially with the process of mutual arrangement if supervisory man-power at the disposal of the District Central Co-operative Banks and Primary Agricultural Credit Societies join hands with them for processing the applications, assessing feasibility, disbursement and utilisation of loans and recovery of dues.

The Sub-Committee noted that barring a few exceptions, all over the country there were branches of the District Central Co-operative Banks and branches of the State Co-operative Banks or Primary Land Development Banks at Taluka level. Due to the factors mentioned in the preceding paragraphs, viz., near saturation of business of long-term credit institutions in some areas, remote control in the long-term structure at present, and possibility of closer supervision and local knowledge by virtue of integration with short-term and long-term structures, the primary land development banks/branches should merge with the branches of the District Central Co-operative Banks at Taluka level and wherever there were District Branches of Land Development Banks they should be merged with District Central Co-operative Banks. In the process of such integration, no doubt a number of problems like equating the pay scales, fixing the seniority, etc., will have to be sorted out. The Sub-Committee, however, felt that these problems were not at all insurmountable. The Sub-Committee did not consider it necessary to work out the details of the scheme of such integration but at the same time noted that such integration was quite possible if the concerned authorities, particularly State Governments were serious about the implementation. Such integration would thus facilitate supervision.

Such integration would also facilitate procedures of disbursement as well as recovery in the following manner in terms of sanction, disbursement and recovery.

The Primary Agricultural Credit Societies will receive the applications for short-term and long-term loans, complete the preliminary scrutiny excluding the technical feasibility part of it and recommend the applications for sanction to the integrated Taluka/District level organisation. The technical feasibility part of long-term loans is in any case presently taken care of in an omnibus way. It would be essential that reports of ground water potential, spacing stipulated and other technical details like changed post-investment pattern in the respective areas are made available by the concerned authorities of the State Government like Ground-water Directorates or the technical staff of the institutional structure to the sanctioning authorities at the State/District/Taluka level. The Primary Credit Society would then recommend sanction even to long-term loans and communicate their recommendation to the integrated Taluka level organisation. It shall also be the responsibility of the Secretary of the Primary Agricultural Credit Society to expedite and facilitate procedures like examination of record of rights, ascertaining the title etc. At the level of Primary Agricultural Credit Society, therefore, there will be a complete picture which would be recorded (if not already being done) in the form of passbook or credit card which would indicate the entire assets and liabilities of cultivators, his holdings, his present cropping pattern and cropping pattern contemplated after long-term investment. Taluka level organisation will thus have more comprehensive picture of the ultimate borrowers and they will sanction/recommend loans on the basis of delegation of powers which vary from State to State. In the case of long-term loans the Sub-Committee noted that comprehensive powers for sanctioning loans upto specified amounts were already decentralised in the case of a number of States. The size of loans which the Taluka level organisations are presently authorised to sanction may be reviewed in terms of increased cost of investment and more comprehensive control by technical agencies and extension agencies. The Sub-Committee hopes that this would facilitate sanction and disbursement of loans by avoiding delays and also ensuring better supervision. In the matter of recovery also the integration would greatly facilitate the various facts of recovery programmes, especially that of linking credit with marketing.

Another aspect to be examined is in relation to the resources. The Sub-Committe felt that there were no problems involved in this respect because it was immaterial for either the Primary Agricultural Credit Society or Taluka level or District level credit institution as to whether they get the resources for lending for specific purposes from State Co-operative Bank, State Land Development Bank or from the commercial banks.

The Sub-Committee noted that as far as the resources were concerned, for the purpose of term loaning there was no scarcity of funds and it also noted that in recent years resources for the purpose by way of debenture programme at national and state levels, allocation of funds for medium-term loaning from the long-term operations fund of the RBI, and funds channelled through ARC were not fully utilised. The Sub-Committee also felt that the present reimbursement character of finance at the primary as well as Taluka and District levels can continue without any complication in the integrated structure.

The Sub-Committee noted that in various states like Maharashtra, Rajasthan, Madhya Pradesh, Bihar, etc., re-organisation/rehabilitation programmes were being implemented and similar programmes would be initiated in many other states which would result in emergence of viable structure at primary level. The Sub-Committee felt that in terms of viability of primary credit structure the integration would bring about optimum use of man-power and funds and would subsequently help in improving its viability. The extent of benefit which would accrue to the primary structure would again depend on the rationale of local situation. The Sub-Committee also recognised that cost of servicing the agricultural loans being high because of very large number of small accounts they had to manage, at least in terms of technical and extensional service, the State Governments would have to take the responsibility of providing the necessary personnel to follow up the credit programme. The Sub-Committee noted that ultimate success of the integrated structure would depend on the availability of full time, competent paid Secretaries and adequate supervisory staff. This aspect is being taken care of in the re-organisation/rehabilitation programme which is being recommended and carried out in different parts of the country.

If the recommendations of the Sub-Committee are implemented, final picture which would emerge would be as follows:

1. There would be stronger primaries taking care of entire credit needs of borrowers with the advantage of local knowledge and continuous contact and democratic organisation at the primary level.
2. It would facilitate better use of manpower resources and extension and technical services which are presently available to two different organisations at the Taluka and District level and
3. It would facilitate linking of credit with marketing as detailed in the preceding paragraphs.

The re-organisation would also bring about the necessary compactness and homogeneity of functions at different tiers.

The Sub-Committee felt that there was not any serious problem of co-ordination at the State level and pending successful implementation of the integration programme at Taluka and District levels the State level organisations viz., State Land Development Banks and State Co-operative Banks can continue as a separate entity.

While the Sub-Committee did not see any immediate need for integration or merger of the state level organisations in view of their respective specialised roles, it noted that in the following specific areas there was need to develop better mutual understanding and arrangements at least in some states.

1. Management of funds in the context of aspects like making available interim accommodation to the State Land Development Banks, investment of sinking fund by the Land Development Banks with the State Co-operative Banks, etc.

2. Formulation of integrated policies and procedures with reference to the overall plan for agricultural development. In particular, close co-ordination is necessary to strengthen the short-term credit structure and provide short-term loans in areas where financing for long-term agricultural purposes has been undertaken on a large scale.

3. Ensuring common dialogue at the level of higher financing agencies like the RBI, ARC and other authorities like the State Governments, Electricity Boards, etc.

4. Ensuring proper arrangements to forge a link between marketing, processing and procurement agencies with credit institution at the field level with a view to facilitating recoveries.

5. Wherever possible, pool the manpower especially for preparing technical feasibility reports or undertaking research and surveys in the nature of techno-

economic studies for different areas as well as other priority programmes like financing of weaker sections, etc.

Conclusions

The Sub-Committee was aware of the difficulties likely to be encountered in the implementation of the above recommendation. The first and foremost would be political factor. Merging of institutions which are democratic in character would naturally result in resentment on the part of the persons who are presently controlling these institutions. However, one has to look at the problem from the point of view of (1) benefit to the ultimate borrower in terms of improving his production potential, (2) streamlining the credit, marketing and processing institutions. The Sub-Committee felt that these twin objectives are far too important to be ignored just to protect the personal interests of a few, which has resulted in mere duplication of efforts and consequently avoidable waste of resources and energies.

ANNEXURE 3.2(*a*)

EXTRACTS FROM THE MEMORANDUM SUBMITTED TO THE PRIME MINISTER OF INDIA BY THE NATIONAL CO-OPERATIVE LAND DEVELOPMENT BANKS FEDERATION IN APRIL 1975

Future of Land Development Banks

The decisions taken at the Third Conference which met at Bangalore were further discussed at the Meeting of the Board of Management of the National Co-operative Land Development Banks' Federation held on 25th February 1975 when the Board had occasion to review the developments taking place at various levels in the direction of rationalisation of Institutional Credit Structure for rural areas. These points were discussed in the light of the recommendations of the group headed by Sri T. A. Pai, Hon'ble Minister for Industries and Civil Supplies on the subject matter of "most appropriate institutional credit structure for rural areas", some of the recommendations made in this behalf by the Committee headed by Sri K. Madhava Das, Chief Officer, Agricultural Credit Department, Reserve Bank of India and also further discussions in this respect in the Agricultural Credit Board. From some of the statements made thereunder, it appeared as if, even the merger at the top level was envisaged. It would be very much appreciated that for such an important issue, such serious and sudden shift on policy for the existing organisational pattern of co-operative credit would mean setting at naught, not only the progress achieved in certain States in the course of the last twenty years but also, creating a vacuum and a potential for confusion inasmuch as, no system can be replaced by a new one, unless the same is given a fair trial with a time lag, for its proper winding up and adjustment for the next change and further all the implications of the impending change also properly studied, taken care of and duly assessed. The points made out hereunder are on the basis of the experience and studies of the office-bearers of the organisation and we are sure, the Government of India at the proper level, will give their due consideration accordingly.

Multi-agency approach in the field of agricultural credit was accepted as a policy measure, and it was felt that no single agency would be in a position to meet the entire demand of a farm sector. What was transpired all of a sudden to depart from the accepted policy is not known, but there is a talk going on at certain levels to integrate the existing short and long-term credit sector for a new experiment. The development of Co-operative Movement itself has been an experimentation in structural changes and modifications. There may be a genuine case for meaningful structural reform. What is envisaged is radical change at the base level organisations. The sudden decision, if taken, may cause more confusion than do good. With all this background in view, the National Conference of Land Development Banking which recently met in Bangalore has decided to continue the existing structure of long-term credit and to abandon the thinking of merger of short-term with long-term credit because of the technicalities involved in raising funds through floatation of debentures, its scientific and supervisory system of lending, etc.

ANNEXURE 3.2(b)

Views of the National Co-operative Land Development Banks Federation on the Recommendations of the Committee on Co-operative Land Development Banks

Extracts from the Committee's Report	Views of the Federation
Chapter 4: *Arrangements for Provision of Long-term Agricultural Credit in Smaller States*	
Taking into account the agro-economic conditions in various smaller states and union territories, viz., Andaman and Nicobar Islands; Arunachal Pradesh; Delhi; Goa, Daman & Diu; Manipur; Meghalaya; Mizoram; Nagaland and Pondicherry, it will be wasteful to have a separate co-operative land development banking structure for giving long-term loans to cultivators for agriculture in these states/union territories. (No. 28)	We are not in agreement with the Committee in its views that it will be wasteful to have a separate Co-operative Land Development Banking Structure in small States and Union Territories. We feel that even in smaller States and Union Territories, agriculture has great potential for development which needs investment of considerable amount in an intensive manner. The main argument seems to be that there will not be adequate scope for lending and that the structure cannot be economically viable. The fact is that the Land Development Banks have not explored so far all spheres of agricultural development. In the context of constraint on resources and priority for development of minor irrigation over other developments, they could not intensify their activities in some of the States in the past. There is no dispute that the scope is enormous even for provision of developmental credit. In smaller States and union territories the volume of business to the Land Development Banks may not be as much as in bigger States, but will be sufficient to set the pace of growth and make the unit viable. The size of the Bank also need not be big. A separate Land Development Bank can take intensive care of the farmer's demand and concentrate its attention on exploring the scope for development of agriculture. This sort of intensification or care in regard to developmental credit cannot be expected from an organisation like the State Co-operative Bank, which has various other banking functions to transact besides short and medium-term credit.

Extracts from the Report	Views of the Federation
	Precisely for these reasons the State Co-operative Banks in Delhi, Goa and Nagaland have not been able to put up any appreciable business though enormous scope exists in the areas. A specialised bank for a specific purpose, though it might be a small unit for a small area to be covered, like a small scale unit in the industrial sector, could function effectively and efficiently and can be a viable unit. The Land Development Banks will have to broad base their functions and should be treated as institutions for providing all developmental loans for agriculture and not confined merely as a structure for giving long-term loans.
In the case of Pondicherry where a central co-operative land development bank is already functioning, it is observed that the loaning business of the bank has been showing a declining trend and, during 1972-3, it had come down to Rs. 11 lakhs. The overdues of the bank are on the increase and as on 30 June 1973 they formed 46 per cent of the demand for 1972-3. The bank's membership was less than 3000 (individuals) as on 30 June 1973. In view of all these factors, there is no need for a separate land development banking structure in Pondicherry and necessary steps may be taken by the state government to merge the central land development bank with the state co-operative bank in order to have a unified co-operative credit structure which will be in a position to function more effectively. (No. 28)	In the case of Pondicherry, it is surprising that the Committee has recommended for the unification of the Land Development Bank and the State Co-operative Bank for more effective functioning. The arguments made for such a move like declining trend of advances, mounting overdues are not all convincing. For a small area, a small bank is functioning quite effectively. The bank was established only in 1960 and till the end of 1968-69 i.e., in 8 years, the Bank had advanced only about Rs 32 lakhs whereas during the 5 years of IV Plan, it advanced Rs 60 lakhs. The advances in the last two years have shown a declining trend not because there has been no scope but more because of the various restrictions and conditions like regulatory measures on fresh advances in relation to recovery performance and delay in identifying areas for diversification of loans. In the matter of recovery, the Bank has made good progress and overdues have come down from 46% in 1972-73 to 31% in 1973-74. As already said in the earlier paragraph, just because a bank has not done sufficient volume of business cannot be the justifiable reason for merger. There is no guarantee that the unified structure will do better in the matter of effective coverage or expansion in business. On the contrary it is just possible that even the present volume of business will not be turned

Extracts from the Report	Views of the Federation
	out by the unit because of lack of concentration in regard to long-term credit. It is interesting to know that Pondicherry is neither a backward area co-operatively nor the bank is backward. In Pondicherry, the long-term loans outstanding per hectare with reference to the net sown area is Rs 154 which is incidentally the highest in the country. From the point of view of viability also, the bank is not in red and showing a modest surplus in its working. The area covered by the Bank is small and thus the Bank's size and its business is also small in proportion to the area. The Bank is functioning efficiently and there is no reason why it should not be allowed to function as a separate specialised institution. Neither the Bank nor this Federation is in agreement with the recommendation for merger of the Bank with State Co-operative Bank.
The state co-operative banks in Delhi, Goa, Daman & Diu and Nagaland where they are already providing long-term loans should be encouraged to undertake financing of the long-term credit needs of cultivators based on viable schemes of agricultural development. The concerned state governments should provide them with the necessary support—financial and administrative—in this direction. The Delhi State Co-operative Bank is having certain serious weaknesses such as vulnerable financial position and heavy overdues. The government should take suitable steps to improve the financial position and working of the bank and follow the detailed advice given by the Reserve Bank of India in the matter. (No. 28)	In Delhi, Goa, Daman & Diu and Nagaland, the State Co-operative Banks are providing long-term loans in the absence of separate Land Development Banks. We feel that for intensive development of agriculture, concerted efforts are needed from the financing institutions and this can only be realised if there is an agency exclusively meant for taking care of the developmental credit needs of the farmers. State Co-operative Banks have to meet short and medium-term credit needs as also transact all other banking functions. State Co-operative Banks charged with the functions of providing long-term credit have not been able to show any appreciable result in their business. Often, they find it easier to provide medium-term loans for the so called long-term purpose because they have not to go through the formalities of legal scrutiny of title, execution of mortgage deed, floatation of debenture etc. Even in an union territory like Goa, Daman & Diu there is enormous scope for development of agriculture and if a separate Land Development Bank is established, it can take good care of credit needs and function as a viable unit. The experi-

Extracts from the Report	Views of the Federation
	ment of State Co-operative Banks providing long term loans has not been successful so far. In this context, even in the union territories of Delhi, Goa, Daman & Diu and in Nagaland there is need for establishing a separate land development bank. However, this Federation is not against the present experiment being continued in these areas if authorities feel that the State Co-operative Banks are capable of delivering the goods effectively, taking care of developmental credit needs of the farmers.
In Andaman and Nicobar Islands, Meghalaya and Manipur, the state co-operative banks which do not at present provide any long-term agricultural loans may be encouraged by the governments concerned to undertake financing of the long-term credit needs of cultivators, based on specific schemes for productive lending. As the provision of long-term loans by these banks gathers momentum, they should have separate land development banking sections. Since the working of the Manipur State Co-operative Bank in particular is not satisfactory due to heavy overdues and erosion in the value of assets, the state government has to take necessary steps to strengthen its financial position and improve its operational efficiency on the lines indicated by the Reserve Bank of India. (Nos. 28 and 30)	Our views are given elsewhere.
In Arunachal Pradesh and Mizoram the governments may consider the desirability of establishing state co-operative banks. In due course, when agricultural development gains momentum, suitable steps may be taken to enable these banks to undertake provision of long-term loans for agriculture. (No. 28)	In union territories of Arunachal Pradesh and Mizoram there is neither State Co-operative Bank nor Land Development Bank. It would be necessary to conduct a detailed study to establish whether there is need and scope for establishing a separate Land Development Bank. These areas have remained underdeveloped so far and if the studies justified that there is adequate potential for development of agriculture, there is no reason why a separate Land Development Bank could not be established. In areas where there is no institutional arrangement for providing agricultural credit, we would not like to make any specific

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	comment about the future set-up of co-operative institutions in the absence of a detailed study. If necessary, this Federation would be too willing to sponsor a team of experts to study the conditions and potential for establishing Land Development Banks in those areas.
Chapter 5: *Land Development Banks in Co-operatively Less Advanced States*	
There is large scope for agricultural development in Assam, Bihar, Himachal Pradesh, Jammu & Kashmir, Madhya Pradesh, Orissa, Rajasthan, Tripura and West Bengal for which long-term institutional finance is required. But the working of the land development banks in all these 9 states except Bihar and Madhya Pradesh, relatively speaking, is very poor both in regard to their financial position and operational efficiency. Thus, there is a yawning gap between the performance of land development banks in these states and what is expected of them. Creation of a new type of credit structure will not result in any appreciable improvement over the present position. Commercial banks too are not in a position to get over the various constraints which are affecting the operations of land development banks in these states. Moreover, the approach of commercial banks in providing long-term credit may tend to be selective as they cannot reach thousands of small and marginal farmers without a widespread network of branches in the rural areas. Thus, commercial banks will not be able to replace the land development banks for a long time to come. The land development banking structure in these 9 states will have, therefore, to be made strong to enable it to undertake the onerous responsibilities cast upon it under the Fifth Plan. (Nos. 26-28) Out of the 9 co-operatively less developed states, viz., Assam, Bihar, Himachal Pradesh, Jammu & Kashmir, Madhya Pradesh, Orissa, Rajasthan, Tripura and West Bengal, 4 states, i.e.,	While we appreciate the need for strengthening the Long-term Co-operative Credit structures in the States of Assam, Himachal Pradesh, Jammu & Kashmir, Tripura and West Bengal, we fail to see how this could be achieved by merging the two credit structures. We are also not convinced about the distinct advantages of such a merger. It is a fact that the long-term credit structure is weak in these States. But the position is also so in regard to other institutions. It is essential to note that these States as a whole are co-operatively weak and under-developed. Weakness and ineffectiveness is not confined to Land Development Banks only. In recommendation No. 12, it is observed by the Committee that in all these States there is large scope for agricultural development and neither creation of new type of structure will result in any appreciable improvement over the present position nor the commercial banks will be able to replace the Land Development Banks and it is suggested to make the Land Development Banking structure strong. It is however surprising that in the subsequent recommendation the merger is proposed in some of the States as a solution, which defeats the very observations made in the preceding para. We strongly feel that by merging the two weak structures, there cannot be a strong structure as expected. On the contrary, the State Co-operative Banks are likely to prove ineffective as far as long-term credit is concerned, because they cannot concentrate on providing long-term credit as intensively as land development banks do. The experiment

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Assam, Himachal Pradesh, Jammu & Kashmir and Tripura are relatively small. Further, the working of the land development banks in these states is far from satisfactory inasmuch as their financial position has been crippled considerably by heavy overdues. In the case of West Bengal also, the position of the land development banks is, by and large, not satisfactory and they have ceased to give any effective support to the programmes of agricultural development in the state. The loans outstanding of the land development banks in these states is very small at a little over Rs 5 crores or below. After considering all these aspects, it is found that there are distinct advantages in an integration of the short-term and long-term co-operative credit structures being brought about in 5 states out of the 9 states, viz., Assam, Himachal Pradesh, Jammu & Kashmir, Tripura and West Bengal. Without such a merger, the two separate structures in these 5 states do not hold any prospect of becoming strong and effective. The state governments in these 5 states should set up committees consisting of representatives of banks, governments, the Reserve Bank of India and the Government of India to work out the details of the merger. The initiative in the matter should be taken by the Reserve Bank of India in view of its crucial role in rural credit. (No. 28)	in some of the union territories like Delhi and Goa and in the State of Nagaland has not in any way proved the effectiveness of State Co-operative Banks in providing long-term credit. On the contrary, to give the example of West Bengal Land Development Bank, not only the Bank has shown considerable improvement in providing loans and recovering the dues, but has taken a number of measures recently, to streamline the procedural aspect and operational efficiency. The bank's advances recorded almost 100% rise in the year 1974-5 over the previous year's performance and in the matter of recovery also (from 57.68% in 1973-4 to 74.53% in 1974-5 at primary level) the performance was most impressive. The Bank has not only wiped out the accumulated losses, but likely to make a profit of over Rs 10 lakhs during the year 1974-5. Sinking fund commitments were met in full as on 30th June 1975. In short, the position of the Bank to-day is quite different than that prevailed two years back and on which the observations of the Committee were based. When it is admitted that scope for agricultural development is large in these States, it becomes necessary for us to examine how the existing Land Development Banking structure could be made more effective to perform the expected task. The Committee should have gone into the reasons why the credit structure could not grow in these States and suggested measures for improving the conditions rather than proposing a merger hoping that the unified structure would be strong and function effectively in providing long-term credit. We are not at all convinced of the rationale behind the proposal of merger. These aspects were earlier discussed in a Conference as also in the Board Meeting of the Federation and we are unanimous in our views and stand that the existing units of long-term credit structure in States and union territories should not be disturbed. We are thus not in agreement with the proposal of merger of Land Development Banks and State

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	Co-operative Banks. We suggest that the Reserve Bank of India, because of its crucial role in rural credit as pointed out in the Report, should study the position and conditions existing in these States and take concrete steps to help the banks and strengthen them to undertake programmes of agricultural development more effectively and efficiently. Positive steps in this direction are called for rather than think of a new experiment as a solution to the problem. This Federation, which has played its role, though in a small way, in helping the banks, will be too happy to be associated in any programme concerning measures to be evolved for strengthening the Long-term Credit Structure and expansion of loaning business.
Chapter 7: *Routing of loans through Primary Credit Societies and Nexus between Short-term and Long-term Structures*	
Primary credit societies, as they are constituted and functioning at present, will not be in a position to provide long-term loans as agents of land development banks in an effective manner, particularly since the task has now become complex with the application of modern technological methods to farming which has generated demand for investment credit for various purposes. (No. 17)	We welcome the findings and agree with the views that the primary credit societies will not be in a position to provide long-term loans as agents of the Land Development Banks in an effective manner.
The scheme for organization of Farmers Service Societies, if implemented, raises hopes of adequate operational efficiency and financial soundness so as to enable them to provide long-term loans. But the number of such societies set up or to be set up is limited and does not in any way affect the conclusion that primary credit societies in general as they are constituted and functioning at present will not be able to disburse long-term loans in a satisfactory manner. (No. 18)	Even in areas served by the Farmers Service Societies, for developmental credit, the Land Development Banks should be the agency if a Primary or branch unit is functioning in the area. In the alternative, some arrangement should be made under which the Farmers Service Societies will function as an agent of the Land Development Banks or the primary banks.
Co-ordination between the short-term and long-term co-operative credit	No comments.

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structures is altogether absent and the various recommendations made by the earlier Committees for effecting such co-ordination have remained on paper without any concrete action being taken thereon either by the state governments or by the co-operative banks themselves. The state governments should take early steps to reorganize the working of the existing primary agricultural credit societies which are weak or dormant. Similar effort on the part of the state governments is needed in respect of weak central co-operative banks and weak primary land development banks, the term 'weak' connoting poor borrowing membership, low capital base, low level of deposit mobilization, high level of overdues, weaknesses in management and supervision and lack of attention paid to meeting the credit requirements of small farmers. In this effort, the state co-operative bank, central co-operative banks and central land development bank should not remain passive spectators, leaving the entire responsibility to the state governments. The banks should actively involve themselves in the quick implementation of schemes for the revitalization of primary agricultural credit socieites, central co-operative banks and land development banks. (No. 30)	No comments.
Land development banks should make suitable modifications in their loan policies and procedures so as to ensure, while processing loan applications, that the prospective borrower has already an access to adequate production credit from his local primary credit society to support the proposed cropping pattern. If not, it should be ensured by the land development bank that necessary arrangements in this behalf are made before at least the last instalment of the loan is released. (No. 30)	If the borrowers of the Land Development Banks are not able to get adequate production credit because of a dormant primary credit society, either the concerned District Co-operative Bank should finance through its branch directly or the Land Development Banks should be allowed to provide credit in support of the investments made by the farmers to realise the full benefits from the investments.
Despite the recommendations of various important Committees, the problem of co-ordination between the two co-operative credit structures still remains to be solved. Neither channel-	This para though mainly deals with the co-ordination aspect between the short-term and long-term credit structures, has ended in the form of recommendation for merging the two

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ling of long-term loans through primary credit societies nor other measures such as housing of the institutions in the same building and having common directors have so far solved the problem of co-ordination. It is in this context that it is being felt in certain quarters that a long-term solution to the problem of co-ordination probably lies in the complete integration of the two structures, i.e., short-term and long-term credit institutions. It has, however, to be pointed out that the integration of the two structures means basically that the primary agricultural credit society will have to provide short-term, medium-term and long-term credit. In other words, it inevitably means the need for having a viable society at the village level which may be formed as a result of the amalgamation of the weaker or smaller societies or organization of Farmers Service Societies. Thus, a change in the structure and functioning of existing primary agricultural credit societies is called for, involving amalgamation of weak societies, liquidation of dormant societies, recruitment of full-time paid secretaries and of supervisory and technical staff. The formation of viable primary credit societies with adequate staff to undertake multipurpose functions is absolutely necessary for the successful working of an integrated co-operative credit structure. Further, for the integration to be effective, steps will have to be taken to complete the programmes for the rehabilitation of weak central co-operative banks and primary land development banks which have already been identified, without further delay. A merger, if it is confined only to the apex or intermediate level institutions, will be fruitless. In other words, the integration of the short-term and long-term credit institutions has to start from the village level, i.e., at the level of primary agricultural credit societies. Although the various steps taken in the past have not brought about the desired results in the direction of co-ordination between the short-term and long-term structures, there is increasing awareness

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credit structures as a solution to the problem of co-ordination. While we agree that there is need and scope for co-ordination, lack of co-ordination is not so alarming as to warrant a merger of the two credit institutions. Though the Committee admits that the subject of integration of the two structures was outside the purview of the terms of reference, it is surprising that at all possible places it has suggested for integration of the credit institutions. It is all the more surprising that even on the subject of co-ordination it has concluded sounding ultimate integration of two structures not only in weaker States but also in other developed States as a last solution to the problem. Co-ordination is essential and desirable, but we fail to see any serious problem that may have arisen due to lack of co-ordination and which justify merger as the only solution. We consider the observations of the Committee out of context.

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among the institutions, viz., land development banks and state and central co-operative banks and also the state governments about the need for such co-ordination. It is noted in this connexion that efforts such as setting up of co-ordination committees, having common directors, etc., are being pursued in some states. Further, the National Co-operative Land Development Banks Federation and the All-India State Co-operative Banks Federation are now actively seized of this matter of involving suitable arrangements for securing necessary co-ordination between the two wings of the co-operative credit structure. Although the subject of integration of the two structures dealing with short-term credit and long-term credit is outside the purview of the terms of reference of the Committee, nevertheless, as emerging from the review of the existing position of the co-operative credit stiucture in the smaller states and the co-operatively weak states, it is recommended that in 5 states, viz., Assam, Himachal Pradesh, Jammu & Kashmir, Tiipura and West Bengal the integration of the short-term and long-term credit structures is the only way of enabling the co-operative credit structure in these states to play an effective role in meeting the credit needs of cultivators for production and development. It has, further, been recommended that in Pondicherry also it is necessary to integrate the short-term and long-term co-operative credit structures. With regard to co-ordinaton between the two structures in the other states, it is suggested that earnest efforts should be made both by the state governments and the institutions to implement the recommendations for improving the existing arrangements for co-ordination. However, in case it is found after a reasonable time that there is no improvement in the situation, as a last resort, the need for integration of the short-term and long term co-operative credit institutions may have to be examined by the state governments, the state co-operative banks and	

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central land development banks concerned. (No. 32)	
Steps are being taken to make existing primary credit socieities viable units by liquidation of moribund societies and amalgamation of small socieities, and also to provide full-time secretaries to the reorganized societies. It is recommended that wherever viable primary credit societies have been set up and they have been provided with adequate full-time and trained staff, including technical staff, such societies may take up provision of long-term loans also. This will require identification of such societies by the state governments and the apex and central co-operative banks on a block-by-block basis. (No. 33)	Past experience has shown that performance of long-term credit structure as a whole is far better than other agencies including in recovery of loans. There have been so many hasty experiments in the past in the short term credit structure and establishment of the Farmers Service Societies is one more of such experiments though meant to provide not only integrated credit but also other services. We have already opined earlier that considering the fairly satisfactory and successful performance of Land Development Banks in most of the States, developmental credit for agriculture should be kept separate from other types of agricultural credit and services because of its specialised nature. Even as an experiment, the proposed Farmers Service Societies could be entrusted with the work of long term credit as an agent of the Land Development Bank/Primary Bank as suggested earlier, only after these societies are found capable of handling the business of long-term loans.

ANNEXURE 4.1

DISTRICTS SELECTED FOR STUDIES BY THE STUDY GROUPS

State	Names of Districts
1. Gujarat	1. Bhavnagar 2. Sabarkantha
2. Haryana	1. Bhiwani 2. Karnal
3. Kerala	1. Cannanore 2. Palghat
4. Maharashtra	1. Ahmednagar 2. Kolaba 3. Parbhani
5. Manipur	1. Central District 2. East District
6. Orissa	1. Bolangir 2. Ganjam
7. Uttar Pradesh	1. Ghazipur 2. Sitapur 3. Muzaffarnagar

ANNEXURE 4.2(a)

Growth of business and projections of staff requirements at the district level integrated banks

Particulars	Haryana		Kerala		Orissa		Uttar Pradesh		
	Bhiwani	Karnal	Cannanore	Palghat	Bolangir	Ganjam	Ghazipur	Sitapur	Muzaffar-nagar
1	2	3	4	5	6	7	8	9	10
A. **Business** (Rs lakhs)									
1. Existing ..	512	1228	934	639	307	645	347	558	878
2. Projected ..	597	1439	1575	1200	600	770	670	885	1215
3. Percentage increase	16.6	17.2	68.6	87.8	95.4	19.4	93.1	58.6	38.4
B. **Staff** (Number)									
1. *Managerial*									
(i) Existing	17	13	16	17	17	40	20	9	27
(ii) Projected	35	30	57	40	58	93	30	32	46
(iii) Percentage increase	105.9	130.8	256.3	135.3	241.2	132.5	50.0	255.6	70.4
2. *Field staff*									
(i) Existing	18	42	64	40	44	138	58	51	NA
(ii) Projected	32	52	87	72	52	100	44	48	76
(iii) Percentage increase	77.8	23.8	35.9	80.0	18.2	(—) 27.5	(—) 24.1	(—) 5.9	NA
3. *Clerical*									
(i) Existing	63	60	70	34	51	104	45	45	92
(ii) Projected	63	69	111	78	38	67	43	48	69
(iii) Percentage increase	Nil	15.0	58.6	129.4	(—) 25.5	(—) 35.6	(—) 4.4	6.7	(—) 25.0
4. *Subordinate*									
(i) Existing	48	47	39	31	NA	NA	33	26	55
(ii) Projected	46	43	67	47	NA	NA	30	34	48
(iii) Percentage increase ..	(—) 4.2	(—) 8.5	71.8	51.6	NA	NA	(—) 9.1	30.8	(—) 12.7

5. *Total staff*									
(i) Existing	146	162	189	122	112	282	156	131	188
(ii) Projected	176	194	322	237	148	260	147	162	239
(iii) Percentage increase ..	20.5	19.7	70.4	94.3	32.1	(—) 7.8	(—) 5.8	23.7	27.1

Notes: 1. Information not available in respect of Gujarat, Maharashtra and Manipur.

2. Existing business indicates the aggregate of loans advanced by DCCB and PLDB/branches of SLDB in the respective districts.

3. Existing staff represents the combined staff strength of DCCB and PLDB/branches of SLDB in the respective districts.

4. *Assumptions for Staff Projections*

(*a*) The PACS would undertake, *inter alia*, collection and preliminary scrutiny of long-term loan applications, disbursement of loans and recovery thereof.

(*b*) The district integrated banks (DCDB) will attend to, *inter alia*, processing of loan applications, verification of end-use of credit, provision of technical guidance, legal scrutiny and sanctioning of all types of loans. The functions specified above are expected to be performed at taluka branch level and, therefore, each full-fledged taluka branch will have full complement of the necessary technical, extension and other staff.

(*c*) The DCDB will have their own technical staff and reduce their dependence on government staff. Where government staff are taken on deputation basis in initial years, their cost will be met by the DCDB.

(*d*) After integration, the field staff of both CCB and LDB will be taken over by the DCDB and their functions will be unified and jurisdiction redefined so that the number of societies per supervisor will be between 6 and 10.

(*e*) The staff of the two wings belonging to similar cadres will receive the better of the salary scales prevailing in the two wings at present, wherever there are differences.

ANNEXURE 4.2(b)

INCOME, EXPENDITURE AND PROFITABILITY OF THE DISTRICT LEVEL BANKS AFTER INTEGRATION

Rs lakhs

Sr. No.	State	District	Income			Expenditure			Profits		
			Existing	Projected	Percentage increase	Existing	Projected	Percentage increase	Existing	Projected	Percentage increase
1	2	3	4	5	6	7	8	9	10	11	12
1.	Haryana	Bhiwani	50.47	69.00	36.70	45.17	61.21	35.51	5.30	7.79	47.0
		Karnal	128.94	173.64	34.70	103.14	134.54	30.44	25.80	39.10	51.6
2.	Kerala	Cannanore	101.00	183.00	81.19	95.00	179.00	88.42	6.00	4.00	(—)33.3
		Palghat	91.00	152.00	67.03	89.00	147.00	65.17	2.00	5.00	150.0
3.	Orissa	Bolangir	31.00	65.00	109.70	27.00	61.00	125.93	4.00	4.00	Nil
		Ganjam	79.00	91.00	15.20	68.00	86.00	26.47	11.00	5.00	(—)54.5
4.	Uttar Pradesh	Ghazipur	41.54	73.94	78.00	41.31	71.31	72.62	0.23	2.63	1043.5
		Sitapur	57.72	93.77	62.50	55.91	89.99	60.96	1.81	3.78	108.8
		Muzaffarnagar	98.87	132.78	34.30	89.08	121.03	35.87	9.79	11.75	20.0

Notes: 1. Figures shown in Columns (4), (7) and (10) indicate the combined position of DCCB and PLDB/branches of SLDB in the respective districts.

2. Information not available in respect of Gujarat, Maharashtra and Manipur.

ANNEXURE 4.2(c)

Growth of business after integration at PACS level

Rs lakhs

Sr. No.	State	District	No. of PACS	Existing business		Anticipated business after integration			Increase in business		Average anticipated business per PACS			
				Total	Average per PACS	ST	LT	Total	Total quantum	Percentage change	ST	LT	Total	Percentage change
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1.	Haryana	Bhiwani	208	237	1.14	355	228	583	346	146.0	1.70	1.10	2.80	145.61
		Karnal	185	423	2.29	604	575	1179	756	178.7	3.26	3.11	6.37	178.17
2.	Kerala	Cannaore	206	598	2.90	900	725	1625	1027	171.74	4.37	3.52	7.89	172.07
		Palghat	95	814	8.57	1100	300	1400	586	71.99	11.58	3.16	14.74	72.00
3.	Orissa	Bolangir	219	223	1.02	320	400	720	497	222.9	1.46	1.83	3.29	222.55
		Ganjam	530	547	1.03	400	500	900	353	64.5	0.75	0.95	1.70	65.05
4.	Uttar Pradesh	Ghazipur	193	194	1.01	460	285	745	551	284.0	2.38	1.48	3.86	282.18
		Sitapur	219	156	0.71	490	495	985	829	531.4	2.24	2.26	4.50	533.80
		Muzaffarnagar	115	460	4.00	815	535	1350	890	193.5	7.09	4.65	11.74	193.50

Notes: 1. The number of PACS indicated in Col. (4) in respect of Haryana and Uttar Pradesh represents the position after re-organisation.

2. The number of PACS indicated in Col. (4) in respect of Kerala and Orissa represents their existing number.

3. Information is not available in respect of Gujarat, Maharashtra and Manipur.

ANNEXURE 5.1

Mobilisation of Institutional Financial Resources

5.1.1 In estimating the broad magnitude of credit requirements in the agricultural sector due cognisance has to be taken of the production and investment requirements of all types of farmers—small and marginal farmers as also medium and large farmers. Credit cannot, however, be distributed over the different socio-economic classes in the rural economy on a pro-rata basis according to land. It has necessarily to be related to the intensive investment needs for optimum utilisation of the meagre land resources of the rural poor. If due to overall national constraints and policy governing expansion of credit, it becomes necessary to ration institutional finance for agriculture, due weightage will have to be given to the small and marginal farmers, agricultural labourers and rural artisans, in respect of interest rates and period of repayment as well as quantum of assistance. These sections constitute the majority of the rural households and have a claim on the national resources for enabling them to rise above the poverty line. The overall pattern of sectoral and regional distribution of credit must be gradually brought in line with the output and mobilisation of resources by way of deposits.

5.1.2 These general principles have been kept in view in estimating the overall credit requirements in this chapter. The requirements of credit for crop production differ for irrigated and rainfed agriculture. In keeping with the principles enunciated above, it is also necessary to work out separately the requirements for small and marginal farmers and others. For this purpose, the net irrigated area and unirrigated area have been apportioned between the size of holdings (a) upto 2 ha and (b) above 2 ha in the same proportions as were prevailing in 1971. According to agricultural census (1970-71) data, these two categories of holdings accounted for the following percentage shares in the net irrigated and unirrigated areas:

Percentage Share in Net Irrigated and Unirrigated Areas—1971

Size of holding	Net irrigated area	Unirrigated area
Upto 2 ha	31.0	19.6
Above 2 ha	69.0	80.4
All holdings	100.0	100.0

Applying these percentages, the distribution of the total net area sown will be as under:

million hectares

Size of holding	Net area sown		
	Irrigated	Unirrigated	Total
Upto 2 ha	15	19	34
Above 2 ha	32	79	111
All holdings	47	98	145

5.1.3 The proportions of the irrigated and unirrigated areas in 1985 among small and marginal farmers and medium and large farmers may, however, turn out to be different from those obtaining in 1971. It has not been possible to take a view regarding these proportions in view of the present state of flux in regard to land holding patterns. To the extent the actual proportions differ from those assumed, the estimates of credit requirements may have to be revised.

5.1.4 The magnitude of credit requirements for crop production programmes by 1985 has been estimated separately for the two types of areas, viz., (a) presently irrigated or newly irrigated areas and (b) unirrigated areas. In regard to short-term loans it has been assumed that credit would be required at the rate of Rs. 600 per hectare in the first category of areas and Rs. 450 per hectare in the second category. As regards medium and long-term loans the yardsticks of credit requirements per hectare used are as below:

	Rs per ha
For preparation of land covered under major and medium irrigation (8 Mha)	1,350
For improvement in 5 Mha already developed under major and medium irrigation	200
For improvement in area covered by minor irrigation (1 Mha)	200
Groundwater development (9 Mha)	1,000
Land development in unirrigated areas: levelling, soil conservation, ponds, etc.	500

Estimates in regard to the extent of area coverage under the above type of works are given in Statement I. Bullocks will continue to be the main source of draught power for cultivation. It is, therefore, necessary to ensure that adequate credit is available to farmers for purchase of bullocks. Under the present co-operative law it is not necessary to mortgage land as security for loans upto Rs. 2,000 and as such the farmers can freely avail of credit from co-operative societies for purchase of bullocks. Further, there is a provision that 25 per cent of short-term credit can be availed on medium-term basis, *inter alia,* for purchase of bullocks. These provisions should be availed of for extending necessary credit support for purchase of bullocks. No specific earmaking of funds, however, seems to be necessary for this purpose.

5.1.5 It is estimated on a rough basis that the requirements of medium and long-term loans for machinery and implements would be of the order of Rs. 400 crores by 1985. These would be shared by the state agro-industries corporations, farmers' service societies or other co-operative/custom service units and individual farmers equally. If marginal and small farmers are helped by agro-industries corporations and co-operatives, the individual loans could be for bigger farmers who could be asked to contribute 25 per cent margin money.

5.1.6 Requirements of credit for various programmes of livestock development, namely, milk production, poultry, sheep and pig production as also fisheries development have been estimated on the following basis:

(i) Milk Production—It is anticipated that by 1985 in about 150 districts identified as having potential for milk production and marketing, 5.70 million small and marginal farmers and agricultural labourers (at the rate of 38 thousand farmers per district) would require medium-term credit at the rate of Rs 500 per farmer. Further, about 2,000 farmers per district belonging to other sections of the farming community would also look for credit for undertaking milk production programmes. Their medium-term requirements have been put at Rs 2,000 per farmer.

(ii) Poultry, Sheep & Pig Production—The programmes[1] envisaged in regard to the establishment of pig production, poultry and sheep development units through small and marginal farmers and agricultural labourers in selected districts and the per unit requirement of credit are as follows:

[1] 1973. Poultry, Sheep & Pig Production through Small & Marginal Farmers and Agricultural Labourers for supplementing their income. Interim Report, National Commission on Agriculture, Government of India, New Delhi.

	Number of units (lakhs)	Per unit requirement of credit	
		Short-term	Long & Medium-term
		Rs	Rs
Piggery	2.0	5,900	1,530
Poultry	5.0	1,560	1,800
Sheep	4.2	480	2,160

With regard to other sections of the farming community who would also require credit for the establishment of poultry, sheep and pig production units, the estimates have been worked out on the following basis:

	Number of units (lakhs)	Per unit requirement of credit	
		Short-term	Long & Medium-term
		Rs	Rs
Piggery	1.0	11,800	3,060
Poultry	2.5	3,120	3,600
Sheep	2.1	960	4,320

(iii) Fishery Development—It is envisaged that by 1985 small fishermen will require short-term loans at the rate of Rs 2,220 per hectare and the total coverage under this programme would be one million hectares. Further, medium and long-term loans will be required for repair of existing ponds covering a total area of 0.54 million hectares (at the rate of Rs 7,500 per hectare). Medium and long-term credit will also be required for reclamation of fresh and brackish water swamps. The coverage under each type of programme namely fresh water swamps and brackish water swamps is envisaged at 36 thousand hectares. Credit will be required at the rate of Rs 12,500 per hectare.

Statement II presents the scale of credit requirements assumed for various livestock and fisheries development programmes.

5.1.7 As regards forestry development it is estimated that the institutional finance of the order of Rs 450 crores (Rs 110 crores in 1980 rising by another Rs 340 crores during the period 1980-85) will be required in addition to the investment requirements met out of plan funds. Since this requirement has to be negotiated with the ARC, it has not been included in the present estimates of credit requirements which have to be derived from the co-operative system and the commercial banks.

5.1.8 The requirements of credit for meeting the full requirements of crop production have been worked out in Statement III. The following Table sums up these estimates:

CREDIT REQUIREMENTS BY 1985 FOR FULL COVERAGE

Rupees crores

	Marginal and small farmers	Medium and large farmers	Total
Short-term loans	2,193	5,691	7,884
Medium & long-term loans	2,497	5,768	8,265
Total	4,690	11,459	16,149
Provision for machinery and implements			400
			16,549

The above estimates of credit requirements are in respect of programmes of development both in irrigated and unirrigated areas including investment in land improvement and irrigation as also allied programmes relating to livestock and fisheries development.

5.1.9 The estimates of 'full' requirements have to be translated into a realistic financial programme to be met by the co-operative and commercial banks. This has to be done on the basis of the following factors:

(i) provision has to be built in for ploughing back of surpluses particularly in the higher land holding and earning strata to operationalise the concept of graduation;

(ii) limitations of financial, personnel and organisational resources have to be kept in view, particularly as the question is one of providing a package of integrated services including funds and of organising the weaker sections to use the services effectively;

(iii) it would be unrealistic to expect a hundred per cent response from all the prospective users of credit; and

(iv) within the framework of 'full' requirements, priorities have to be given either on technical considerations (such as quick development and use of full irrigation potential) or national aspirations regarding social justice in development.

For the purpose of working out realistic estimates of credit requirements in 1985 to be met from institutional sources, the following graduation has been effected in case of crop production programmes:

BASIS OF GRADUATION OF FULL REQUIREMENTS

Per cent

	Marginal and small farmers	Medium and large farmers
Areas already or to be irrigated		
(i) Short-term loans:		
Coverage by 1985	100	100
Scale of financing	100	50
(ii) Long & medium-term loans:		
Coverage by 1985	100	100
Scale of financing	100	100

(*contd.*)

BASIS OF GRADUATION OF FULL REQUIREMENTS—*Contd.*

Per cent

	Marginal and small farmers	Medium and large farmers
Unirrigated areas:		
(i) Short-term loans:		
Coverage by 1985	50	50
Scale of financing	100	60
(ii) Medium and long-term loans:		
Coverage by 1985	50	50
Scale of financing	100	60

In respect of the livestock and fisheries development programmes no graduation is considered necessary since the programme coverage envisaged is considered to be the minimum ....Due deduction has also been made for subsidy element to which the small and marginal farmers and agricultural labourers are eligible under SFDA and MFAL programmes. The graduated requirements work out to Rs 9,400 crores as follows:

GRADUATED REQUIREMENTS OF CREDIT FOR 1985

Rupees crores

	Short-term	Medium and long-term	Total
Marginal and small farmers	1766	2022	3788
Medium and large farmers	2242	3003	5245
	4008	5025	9033 + 400*
or, say,	4000	5000	9400

5.1.10 We are of the view that 45 per cent of the 1985 level of graduated requirement of short-term loans and 40 per cent of medium and long-term loans should be met by the end of the Fifth Five Year Plan itself...........It would be observed that by 1979, i.e., the end of the Fifth Plan, institutional financing of agriculture is projected to rise to Rs. 3,550 crores from Rs 1,537 crores by the end of 1973-74. Of this, the share of commercial banks would be 41 per cent. Their advances to agriculture will rise to 10 per cent of their total advances as compared with 8.8 per cent as in June 1974. The increase in total lending through the co-operative system would be from Rs 919 crores in 1973-4 to Rs 2,100 crores at the end of the Fifth Plan. A steeper rise is visualised in commercial bank credit for agriculture during the period 1979-85. The agricultural loans advanced by the banking system are expected

* For Agricultural machinery and implements

to go up from Rs 1,450 crores in 1978-79 to Rs 4,050 crores in 1984-85. At that stage they will meet about 49 per cent of the total requirements of credit by the agricultural sector and their agricultural advances will constitute about 15 per cent of their total advances. The co-operatives will have to work for almost a doubling of both short-term credit and medium and long-term credit during the period 1979-85. A recent estimate formulated by the National Institute of Bank Management puts the likely bank deposits in March 1979 at Rs 23,000 crores and by March 1985 in the range of Rs 42,000 and 46,000 crores. In case these estimates are actually realised it would be possible to increase the magnitude of credit availability to the agricultural sector. In such an eventuality it might be possible to meet the credit requirements of the agricultural sector in general and the small and marginal farmers in particular to a greater extent than visualised here.

5.1.11 The above estimated credit requirements for 1985 as per the graduated scale are modest in the context of urgent national needs. Even then they imply the growth of agricultural financing by commercial banks and co-operative banks in multiples of the levels obtaining in 1973-74. We recommend that the Reserve Bank of India and the Government of India should immediately initiate planning for business and manpower development in the commercial banking and co-operative systems to equip them to fulfil these expectations. It is also obvious that the institutional financing agencies would be able to achieve these goals only through expanding dealings with farmers' organisations primarily the farmers' service societies, regarding which an appropriate programme of work has already been suggested earlier in this Chapter.

Note: The above are extracts from Section 7, Part XII of the Report of the National Commission on Agriculture (1976).

STATEMENT I

Coverage under Area Development Programmes in Irrigated Areas

(Mha)

Item	Covered under major & medium irrigation	Covered under minor irrigation	Total
(1) Total area needing development as per present irrigation facilities	26	16	42
(2) Already developed:			
(*a*) under paddy	11	5	16
(*b*) under other crops ..	7	9	16
(i) complete	2	7	9
(ii) needing improvements ..	5	2	7
Sub-total (a + b)	18	14	32
(3) To be developed:			
(*a*) backlog	8	—	8
(*b*) new areas expected to get water in 2-3 years	2	—	2
(*c*) needing improvements (ref. 2 b(ii) above)	5	2	7
(4) To be completed by 1985			
(*a*) from 3(a) & (b)	8	—	8
(*b*) from 3(c) (improvements)	5	1	6

Source: Report of the National Commission on Agriculture, 1976, Part XII: Supporting Services and Incentives.

STATEMENT II

Scales of Credit Requirements under Livestock & Fisheries Development Programmes

Item	Number of farmers/units	Credit per unit (Rs)		
		Short-term	Medium & Long-term	Total
(1) Milk production	(i) Small & marginal farmers & agri. labourers 5.70 mn (38,000 each in 150 districts)	—	500	500
	(ii) Others : 0.30 mn (2,000 each in 150 districts)	—	2,000	2,000
(2) Piggery	(i) Small & marginal farmers & agri. labourers 2.20mn	5,900	1,530	7,430
	(ii) Others: 0.10 mn	11,800	3,060	14,860
(3) Poultry	(i) Small & marginal farmers & agri. labourers 0.50 mn	1,560	1,800	3,360
	(ii) Others: 0.25 mn	3,120	3,600	6,720
(4) Sheep	(i) Small & marginal farmers & agri. labourers 0.42 mn	480	2,160	2,640
	(ii) Others: 0.21 mn	960	4,320	5,280
(5) Fishery development (Mha)	(i) Small fishermen (1 Mha) for short-term loans	Rs. 2,220 per ha	(ii) medium & long-term loans	
(taken on the basis of 36% of the programme upto 2000 AD)			(a) repair of existing ponds (0.54 Mha) @ Rs 7.500/- per ha	
			(b) reclamation of fresh & brackish water swamps (36,000 ha each) @ Rs 12,500/- per ha	

Source: Report of the National Commission on Agriculture, 1976, Part XII: Supporting Services and Incentives.

STATEMENT III

Credit Requirements for Agriculture for Full Programme Coverage—Estimated Level by 1985

Item	Marginal & small farmers and agricultural labourers	Medium & large farmers	Total
1	2	3	4
1. Short-term loans:			
(a) for irrigated areas (old + new)			
area (Mha) ..	15	32	47
Amount @ Rs. 600 per ha (Rs crores)	900	1,920	2,820
(b) for unirrigated area			
area (Mha)	19	79	98
Amount @ Rs 450 per ha (Rs crores)	855	3,555	4,410
Sub-total (a + b)	1,755	5,475	7,230
(c) allied activities			
(i) milk production (Rs crores)	—	—	—
(ii) piggery (Rs crores)	118	118	236
(iii) poultry (Rs crores)	78	78	156
(iv) sheep (Rs crores)	20	20	40
(v) fishery development (Rs crores)	222	—	222
Sub-total (i) to (v)	438	216	654
(d) Total: short-term loans (a+b+c) (Rs crores)	2,193	5,691	7,884
2. Medium and long-term loans:			
(a) irrigated areas			
(i) under major & medium irrigation new development (Mha)	2.48	5.52	8.00
Amount @ Rs. 1,350 per ha (Rs crores) ..	335	745	1,080
(ii) improvement in 2(a) (i) Mha	1.55	3.45	5.00
Amount @ Rs. 200 per ha (Rs crores) ..	31	69	100
(iii) under minor irrigation:			
improvements (Mha)	0.31	0.69	1.00
Amount @ Rs 200 per ha (Rs crores) ..	6	14	20
(iv) ground-water development (Mha) ..	1.80	7.20	9.00
Amount @ Rs 1000 per ha	180	720	900
Sub-total irrigated areas (Rs crores)	552	1,548	2,100
(b) unirrigated area (Mha)	19	79	98
Amount @ Rs 500 per ha	950	3,950	4,900
(c) Total (a)+(b) (Rs crores)	1,502	5,498	7,000

Item	Marginal & small farmers and agricultural labourers	Medium & large farmers	Total
1	2	3	4
2. Medium and long-term loans (*Contd.*):			
(*d*) allied activities:			
(i) milk production (Rs crores) ..	285	60	345
(ii) piggery ,, ...	30	30	60
(iii) poultry ,, ...	90	90	180
(iv) sheep ,, ...	90	90	180
(v) fishery development ,, ...	500	—	500
Sub-total: allied activities (Rs crores).. ..	995	270	1,265
(*e*) Total: medium & long-term (*c*)+(*b*) (Rs crores)	2,497	5,768	8,265
3. Total short-term & medium & long-term (1+2):			
1. short-term loans (Rs crores)	2,193	5,691	7,884
2. medium & long-term (Rs crores)	2,497	5,768	8,265
Total ..	4,690	11,459	16,149
4. Machinery & implements			400
Grand total ..			16,549

Source: Report of the National Commission on Agriculture, 1976, Part XII: Supporting Services and Incentives.

ANNEXURE 5.2

STATISTICAL DATA RELATING TO CO-OPERATIVE CREDIT INSTITUTIONS IN THIRTEEN STATES

Rs Lakhs

Sr. No.	Details	ANDHRA PRADESH		BIHAR		GUJARAT	
		As on 30-6-1974	As on 30-6-1975	As on 30-6-1974	As on 30-6-1975	As on 30-6-1974	As on 30-6-1975
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	(a) SHORT-TERM						
	(i) *State Co-operative Banks*						
1.	Paid-up capital	248.74	289.67	N.A.	147.01	343.54	390.09
2.	Reserve and other funds	412.29	396.99	„	301.02	637.55	746.86
3.	Deposits ..	2,328.61	2,716.43	„	1,980.43	5,504.24	5,763.66
4.	Borrowings ..	737.10	2,218.17	„	899.39	5,480.16	8,099.48
5.	Investments ..	690.66	886.35	„	681.15	1,812.27	1,458.00
6.	Loans outstanding	2,965.03	4,539.82	„	2,379.48	10,086.52	13,450.13
7.	Overdues	211.76	16.00	„	1,054.02	Nil	Nil
8.	Percentage of recoveries to demand	98.5	97.9	„	59.0	100.0	100.0
	(ii) *Central Co-operative Banks*						
9.	Number of banks ..	25	25	28	28	18	18
10.	Number of offices ..	147	155	173	181	536	566
11.	Paid-up capital ..	1,164.68	1,340.50	539.46	558.16	2,317.73	2,569.33
12.	Reserves ..	649.77	653.98	410.10	418.81	1,273.67	1,335.27
13.	Deposits ..	2,822.40	3,406.00	1,031.58	1,158.00	12,789.95	13,980.39
14.	Borrowings ..	2,312.35	3,483.43	1,854.41	2,049.22	8,729.14	12,219.39
15.	Loans outstanding ..	5,477.00	6,704.68	3,014.17	3,329.81	20,192.20	24,631.64
16.	Overdues	1,674.05	1,654.97	1,892.42	2,304.79	4,016.09	4,757.62
17.	Percentage of recoveries to demand	70.0	73.0	38.0	40.0	74.0	77.5
	(iii) *Primary Agricultural Credit Societies*						
18.	No. of societies..	14877	N. A.	16500	16500	8419	8711
19.	Membership (in thousands)	2454	„	2831	2838	1659	1657

20. No. of borrowing members (in thousands) ..	1027	,,	1029	1038	730	816
21. Paid-up capital	1,206.56	,,	637.09	637.48	3,568.55	4,062.55
22. Owned funds	1,687.29	,,	731.35	731.98	5,002.13	5,736.35
23. Deposits	460.16	,,	160.28	160.49	730.53	807.09
24. Borrowings	3,879.91	,,	2,435.58	2,436.21	13,830.50	18,052.72
25. Loans outstanding	5,019.95	,,	2,826.84	2,827.96	15,430.58	19,796.09
26. Overdues	1,978.34	,,	1,739.24	1,901.74	3,705.00	4,827.28
27. Percentage of recoveries to demand	59.4	,,	39.5	35.2	75.4	73.0

(*b*) LONG-TERM

(i) *State Land Development Banks*

1. No. of branches (including Head Office)	11	11	102	N.A.	201	201
2. Paid-up capital	616.80	623.73	421.52	,,	1,136.89	1,198.16
3. Reserve and other funds	482.34	640.27	20.18	,,	250.83	293.02
4. Debentures outstanding ..	12,679.15	13,573.22	4,468.91	,,	14,903.58	15,469.13
5. Working capital	14,688.76	15,368.63	5,614.93	,,	17,502.92	18,350.87
6. Loans disbursed during the year	1,175.15	1,880.94	1,133.81	,,	997.34	1,207.47
7. Loans outstanding ..	9,622.22	10,230.59	4,206.84	,,	10,930.73	12,321.90
8. Overdues	153.28	177.92	206.40	,,	987.77	1,663.00
9. Percentage of recoveries to demand	85.7	82.4	58.4	,,	52.5	27.7

(ii) *Primary Land Development Banks*

10. Number of banks	184	190	Unitary	Unitary	Unitary	Unitary
11. Membership (in thousands) (regular)	573	663	structure	structure	structure	structure
12. Paid-up capital ..	932.41	1,069.66	,,	,,	,,	,,
13. Working capital ..	10,955.71	11,495.53	,,	,,	,,	,,
14. Loans advanced during the year	1,461.98	1,914.91	,,	,,	,,	,,
15. Loans outstanding ..	8,768.60	10,243.58	,,	,,	,,	,,
16. Overdues	394.11	404.72	,,	,,	,,	,,
17. Percentage of recoveries to demand	76.7	83.3	,,	,,	,,	,,

ANNEXURE 5.2 (*Continued*)

STATISTICAL DATA RELATING TO CO-OPERATIVE CREDIT INSTITUTIONS IN THIRTEEN STATES

Rs Lakh

Sr. No.	Details	HARYANA		KARNATAKA		KERALA	
		As on 30-6-1974	As on 30-6-1975	As on 30-6-1974	As on 30-6-1975	As on 30-6-1974	As on 30-6-1975
(1)	(2)	(9)	(10)	(11)	(12)	(13)	(14)
(*a*)	SHORT-TERM						
	(i) *State Co-operative Banks*						
1.	Paid-up capital ..	214.33	228.21	346.08	360.36	182.65	197.66
2.	Reserve and other funds.. ..	136.25	174.33	473.56	540.00	220.99	241.75
3.	Deposits	1,330.55	1,706.28	2,257.64	2,692.60	869.04	1,050.77
4.	Borrowings	737.30	1,451.98	2,570.00	2,710.93	1,610.90	1,656.40
5.	Investments	287.93	302.79	887.26	970.28	316.77	394.35
6.	Loans outstanding	1,749.15	2,825.41	4,594.87	5,307.27	2,456.39	2,661.86
7.	Overdues	0.70	0.73	317.03	260.11	2.73	3.59
8.	Percentage of recoveries to demand	100.0	99.9	99.4	96.0	99.9	99.9
	(ii) *Central Co-operative Banks*						
9.	Number of banks ..	12	12	19	19	11	11
10.	Number of offices ..	132	135	374	392	115	115
11.	Paid-up capital ..	610.66	757.46	1,431.69	1,534.85	836.45	901.58
12.	Reserves ..	334.59	292.26	497.52	554.35	193.57	274.09
13.	Deposits ..	1,780.78	2,043.44	4,491.90	5,091.14	2,862.89	3,117.63
14.	Borrowings ..	1,117.98	1,806.46	3,606.23	5,158.56	2,100.77	2,326.90
15.	Loans outstanding ..	3,078.06	4,190.88	8,343.06	9,676.34	4,792.52	5,274.60
16.	Overdues	1,226.30	1,570.48	2,291.82	2,426.77	1,267.53	1,392.06
17.	Percentage of recoveries to demand	72.0	73.6	65.0	67.7	71.0	67.6
	(iii) *Primary Agricultural Credit Societies*						
18.	No. of societies ..	6266	6132	8309	8292	1787	1731
19.	Membership (in thousands)	741	755	2168	2341	1962	2114

20. No. of borrowing members (in thousands)	371	439	699	738	947	1,000
21. Paid-up capital	705.45	806.20	1,930.37	2,146.76	1,377.91	1,418.27
22. Owned funds	743.02	852.35	2,655.40	2,982.80	1,877.09	1,910.00
23. Deposits	90.02	97.32	453.06	569.41	1,697.22	2,092.02
24. Borrowings	2,507.53	3,291.84	6,269.49	7,131.51	3,792.32	4,109.75
25. Loans outstanding	2,677.94	3,459.86	7,075.68	8,030.25	5,271.14	5,499.26
26. Overdues	1,175.36	1,472.19	3,082.20	3,403.50	1,880.20	2,533.53
27. Percentage of recoveries to demand	70.1	66.0	59.8	62.0	68.4	N.A
(*b*) LONG-TERM						
(i) *State Land Development Banks*						
1. No. of branches (including Head Office)	1	1	20	20	4	4
2. Paid-up capital	252.96	261.07	728.43	805.37	98.64	100.31
3. Reserve and other funds	61.64	63.10	222.21	290.89	44.19	61.02
4. Debentures outstanding	4,581.60	5,440.93	8,463.50	9,525.56	1,628.17	1,916.68
5. Working capital	5,031.55	5,954.09	9,852.43	11,320.07	2,906.81	2,284.05
6. Loans disbursed during the year	787.61	1,129.72	1,415.72	1,865.84	330.61	346.36
7. Loans outstanding	3,589.51	4,215.08	7,057.71	8,192.68	1,439.84	1,675.04
8. Overdues	—	—	153.04	263.19	36.38	48.92
9. Percentage of recoveries to demand	100.0	100.0	77.3	69.7	60.8	80.7
(ii) *Primary Land Development Banks*						
10. Number of banks	31	31	175	176	23	28
11. Membership (in thousands) (regular)	94†	107†	445	464	94	112
12. Paid-up capital	291.00	355.29	760.56	946.18	105.55	122.20
13. Working capital	4,139.24	4,870.59	8,440.51	8,931.71	1,652.37	1,813.72
14. Loans advanced during the year	925.69	1,352.59	1,547.29	1,591.09	329.75	346.34
15. Loans outstanding	3,630.50	4,273.12	7,000.67	7,913.68	1,450.36	1,689.80
16. Overdues	3.05	15.92	379.31	634.28	56.22	77.92
17. Percentage of recoveries to demand	99.4	97.7	60.7	65.7	54.2	72.5

† Total number of members

ANNEXURE 5.2 (*Continued*)

Statistical Data Relating to Co-operative Credit Institutions in Thirteen States

Rs Lakhs

Sr. No.	Details	MADHYA PRADESH		MAHARASHTRA		ORISSA	
		As on 30-6-1974	As on 30-6-1975	As on 30-6-1974	As on 30-6-1975	As on 30-6-1974	As on 30-6-1975
(1)	(2)	(15)	(16)	(17)	(18)	(19)	(20)
(*a*)	SHORT-TERM						
	(i) *State Co-operative Banks*						
1.	Paid-up capital	475.35	527.31	1,111.54	1114.57	99.45	104.83
2.	Reserve and other funds ..	701.28	751.78	1,945.33	2380.81	185.36	190.40
3.	Deposits	1,514.72	1,800.78	15,145.87	16,251.51	681.71	799.52
4.	Borrowings	4,034.35	4,393.88	4,082.15	9,800.17	358.83	540.83
5.	Investments	873.79	925.91	4,392.14	5,020.79	267.22	269.61
6.	Loans outstanding	5,702.88	6,330.60	16,919.78	23,368.82	888.33	1,297.29
7.	Overdues	188.79	39.38	2,701.19	638.65	42.07	41.36
8.	Percentage of recoveries to demand	95.5	99.0	90.4	96.9	96.7	97.4
	(ii) *Central Co-operative Banks*						
9.	Number of banks ..	43	43	25	25	17	17@
10.	Number of offices ..	628	628	1063	1137	98	101@
11.	Paid-up capital ..	1,741.21	1,825.75	2,932.43	3,142.76	536.05	585.19@
12.	Reserves ..	732.31	878.84	1,582.67	2,029.34	262.08	264.41@
13.	Deposits ..	3,739.26	4,409.01	17,719.23	20,066.09	1,147.40	1,208.60@
14.	Borrowings ..	5,029.10	5,132.75	8,989.24	8,406.58	821.75	1,001.03@
15.	Loans outstanding ..	9,826.26	10,371.46	23,851.74	25,594.82	2,256.96	2,598.69@
16.	Overdues	4,271.24	4,460.51	5,730.76	7,087.75	1,106.15	1,078.86@
17.	Percentage of recoveries to demand	56.0	59.0	65.0	64.0	56.0	58.9 @
	(iii) *Primary Agricultural Credit Societies*						
18.	No. of societies..	9812	9818	19975	19955	3342	3352
19.	Membership (in thousands)	2273	2300	3665	3809	1624	1710

20. No. of borrowing members (in thousands) ..	761	744	1586	1310	365	358
21. Paid-up capital	2,299.78	2,435.00	6,010.09	6,477.24	844.84	920.62
22. Owned funds	3,143.99	3,385.51	7,377.07	7,984.16	1,218.89	1,318.39
23. Deposits	586.85	641.90	602.82	650.57	190.88	197.64
24. Borrowings	9,518.23	10,006.80	18,292.87	18,767.56	2,115.63	2,494.91
25. Loans outstanding	10,254.23	10,668.70	20,684.78	21,702.13	3,125.67	3,551.98
26. Overdues	5,466.37	5,738.32	7,990.07	9,253.36	2,115.65	2,118.80
27. Percentage of recoveries to demand ..	49.8	51.6	56.1	56.9	37.6	41.7

(*b*) LONG-TERM

(i) *State Land Development Banks*

1. No. of branches (including Head Office)	1	1	27	27	1	1*
2. Paid-up capital	309.88	386.01	3,171.03	2,676.36	135.94	144.90
3. Reserve and other funds	60.90	82.73	573.11	628.12	26.46	12.45
4. Debentures outstanding	5,021.14	6,385.39	17,667.39	18,220.63	2,196.71	2,541.99
5. Working capital	5,636.99	6,874.13	23,756.07	25,102.52	2,615.10	3,096.80
6. Loans disbursed during the year	1,177.07	1,476.87	1,495.72	1,502.18	303.35	360.74
7. Loans outstanding	4,372.81	5,409.56	14,972.24	14,906.37	1,760.61	1,949.38
8. Overdues	181.00	210.30	1,697.65	2,306.69	147.36	340.21
9. Percentage of recoveries to demand	60.5	75.7	55.5	49.8	49.2	42.6

(ii) *Primary Land Development Banks*

10. Number of banks	43	45	Unitary	Unitary	55	55
11. Membership (in thousands) (regular) ..	150	169	structure	structure	103	133
12. Paid-up capital	449.29	600.00	,,	,,	144.64	185.35
13. Working capital	5,250.63	6,220.04	,,	,,	2,159.97	2,452.45
14. Loans advanced during the year ..	1,209.36	1,545.38	,,	,,	309.05	386.42
15. Loans outstanding	4,529.98	5,682.16	,,	,,	1,794.31	2,011.74
16. Overdues	270.05	428.24	,,	,,	177.84	410.27
17. Percentage of recoveries to demand ..	49.9	63.9	,,	,,	45.8	43.1

@ As on last Friday of June 1975.

* Relates to the year 1973-4.

ANNEXURE 5.2 (*Continued*)

STATISTICAL DATA RELATING TO CO-OPERATIVE CREDIT INSTITUTIONS IN THIRTEEN STATES

Rs Lakhs

Sr. No.	Deatils	PUNJAB		RAJASTHAN		TAMIL NADU		UTTAR PRADESH	
		As on 30-6-1974	As on 30-6-1975	As on 30-6-1974	As on 30-6-1975	As on 30-6-1974	As on 30-6-1975	As on 30-6-1974	As on 30-6-1975
(1)	(2)	(21)	(22)	(23)	(24)	(25)	(26)	(27)	(28)
(a)	SHORT-TERM								
	(i) *State Co-operative Banks*								
1.	Paid-up capital	495.02	495.96	250.61	302.88	400.74	436.84	584.82	605.44
2.	Reserve and other funds ..	207.44	216.56	259.77	269.34	516.03	507.92	614.91	702.05
3.	Deposits	3,356.35	3,808.26	585.44	941.83	3,727.84	3,478.83	4,904.79	5,517.26
4.	Borrowings	836.49	1,259.95	1,427.25	2,155.44	1,779.05	4,523.03	2,751.14	3,343.14
5.	Investments	914.59	1,084.79	159.39	220.19	1,255.13	1,371.07	1,182.09	1,433.43
6.	Loans outstanding	3,560.30	4,190.02	2,300.77	3,436.01	4,877.11	7,376.18	7,324.38	8,292.83
7.	Overdues	1.37	129.73	33.26	22.32	12.46	9.90	232.90	373.34
8.	Percentage of recoveries to demand	99.9	96.5	97.6	98.8	99.8	96.6	95.7	93.9
	(ii) *Central Co-operative Banks*								
9.	Number of banks	17	17	25	25	16	16	56	56
10.	Number of offices	220	225	173	181	351	354	631	655
11.	Paid-up capital	1,531.98	1,633.32	757.83	997.49	1,647.72	1,843.93	2,562.52	2,752.60
12.	Reserves	612.82	604.18	118.41	140.44	1,013.69	1,135.34	707.19	780.18
13.	Deposits	5,779.36	6,945.81	1,559.54	1,878.64	6,272.22	6,798.31	6,982.41	7,539.35
14.	Borrowings	1,544.03	1,444.09	2,266.16	3,203.90	4,177.69	6,963.45	5,420.70	5,714.42
15.	Loans outstanding	5,509.92	6,176.45	3,666.52	4,640.69	10,639.89	13,578.59	11,543.06	12,475.06
16.	Overdues	4,069.58	4,760.36	1,342.36	1,850.94	641.88	910.87	6,305.77	7,370.71
17.	Percentage of recoveries to demand	62.0	58.5	63.0	65.0	94.0	91.4	54.0	51.0
	(iii) *Primary Agricultural Credit Societies*								
18.	No. of societies ..	10192	10200	7740	7774	5184	5066	23002	21933
19.	Membership (in thousands)	1507	1600	1500	1602	3638	3655	6460	6720

20. No. of borrowing members (in thousands)	941	1019	722	739	858	977	2249	2192
21. Paid-up capital	1,429.15	1,585.48	1,017.08	1,243.79	1,996.08	2,038.21	3,232.95	3,507.29
22. Owned funds	1,724.96	2,024.02	1,069.94	1,301.98	3,249.97	2,815.15	3,919.96	4,247.39
23. Deposits	2,075.10	2,244.23	200.70	257.00	769.02	724.38	580.89	632.88
24. Borrowings	4,427.03	4,939.17	3,329.56	4,173.00	6,975.92	9,836.24	10,619.46	11,544.20
25. Loans outstanding	6,122.44	6,534.66	3,282.20	4,019.13	8,443.39	11,222.35	11,746.61	12,653.03
26. Overdues	3,573.39	3,569.93	1,261.25	1,653.28	2,330.33	2,487.56	6,456.62	7,607.76
27. Percentage of recoveries to demand	61.7	65.4	60.6	62.9	77.8	77.5	49.8	46.3

(*b*) LONG-TERM

(i) *State Land Development Banks*

1. No. of branches (including Head Office)	1	1	1	1*	13	14	204	208
2. Paid-up capital	362.88	372.25	156.12	171.24	677.01	703.07	1,107.07	1,270.77
3. Reserve and other funds	28.55	42.86	13.13	14.57	368.29	534.27	249.03	414.92
4. Debentures outstanding	8,562.69	9,626.25	2,282.69	2,809.03	14,665.81	15,844.00	15,802.52	18,107.37
5. Working capital	9,595.19	10,074.15	2,565.44	3,139.99	16,323.33	17,900.79	18,965.02	21,990.46
6. Loans disbursed during the year	1,069.02	1,212.22	462.11	536.22	1,614.96	1,856.00	2,550.92	3,042.60
7. Loans outstanding	6,110.20	6,117.73	1,870.80	2,145.40	10,652.36	11,912.92	13,645.72	15,463.32
8. Overdues	71.82	11.82	173.37	211.15	42.62	195.62	256.89	381.89
9. Percentage of recoveries to demand	92.8	99.0	49.4	54.6	94.9	90.2	79.0	76.1

(ii) *Primary Land Development Banks*

10. Number of banks	42	42	35	35	223	223	Unitary	Unitary
11. Membership (in thousands) (regular) ..	196	211	130	150	477	484	structure	structure
12. Paid-up capital	662.63	624.71	220.19	271.61	933.79	1,045.63	,,	,,
13. Working capital	7,369.65	7,087.35	2,270.34	2,639.62	12,753.86	14,162.91	,,	,,
14. Loans advanced during the year	1,583.65	1,319.68	477.78	630.45	1,633.74	1,962.05	,,	,,
15. Loans outstanding	6,425.39	6,355.87	1,929.74	2,254.95	10,939.28	12,061.69	,,	,,
16. Overdues	161.39	272.78	192.81	200.93	266.31	721.00	,,	,,
17. Percentage of recoveries to demand ..	88.5	85.4	51.3	60.1	80.0	52.7	,,	,,

*Relates to the year 1973-4.

ANNEXURE 5.3

STATEMENT SHOWING THE VIABILITY OF PRIMARY AGRICULTURAL CREDIT SOCIETIES IN SELECTED DISTRICTS OF SOME STATES CONSEQUENT ON INTEGRATION

Rs Lakhs

State	Name of the district	No. of PACS	Average per society: Existing S.T. loan business	Existing L.T. loan business to be taken over	Combined business after take over	Potential business (ST+LT)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. *Andhra Pradesh*	East Godavari	761	0.58	0.70	1.28	2.11
	Guntur	698	0.18	1.35	1.53	2.43
	Krishna	718	0.94	1.28	2.22	2.51
	Nalgonda	761	0.31	0.82	1.13	4.24
	Prakasam	653	0.20	0.82	1.02	2.02
	Visakhapatnam	621	0.60	0.39	0.99	2.14
	Warrangal	581	0.02	0.53	0.55	2.39
	West Godavari	392	1.28	1.66	2.94	4.15
2. *Gujarat*	Amreli	390	1.79	1.67	3.47	3.79
	Banaskantha	597	0.29	1.62	1.91	4.08
	Bhavnagar	546	1.81	1.34	3.15	3.31
	Bulsar	233	0.92	1.09	2.01	3.70
	Jamnagar	332	1.71	1.84	3.55	4.97
	Kaira	701	0.93	0.73	1.66	2.17
	Kutch	221	0.34	1.33	1.67	5.82
	Mehsana	749	0.86	1.41	2.27	3.16
	Surat	350	1.02	0.86	1.88	3.13
3. *Haryana*	Ambala	946	0.53	0.45	0.98	2.36
	Bhiwani	441	0.54	0.51	1.04	7.99
	Gurgaon	1005	0.34	0.51	0.85	3.01
	Hissar	902	0.86	0.90	1.76	10.90
	Jind	353	0.26	0.99	1.25	8.31
	Karnal	495	0.81	1.10	1.91	7.30
	Kurukshetra	589	0.87	0.95	1.82	5.92
	Mahendragarh	543	0.54	0.72	1.26	3.82
	Sonepat	364	0.38	0.62	1.00	5.97
4. *Karnataka*	Bangalore	566	0.51	0.85	1.36	3.12
	Belgaum	647	1.26	0.60	1.86	3.82
	Bellary	435	0.86	0.89	1.75	3.74
	Bidar	295	1.98	1.19	3.17	4.14
	Bijapur	646	0.88	1.14	2.02	4.22
	Chickmagalur	185	0.71	1.93	2.64	4.80
	Chitradurga	361	0.59	1.67	2.26	4.73
	Coorg	174	1.66	0.77	2.43	3.34
	Dharwar	765	0.88	0.62	1.50	3.28
	Gulbarga	569	0.74	0.74	1.48	4.00
	Hassan	329	1.04	0.64	1.68	4.11
	Kolar	415	0.60	1.44	2.04	4.42
	Mandya	362	1.49	0.89	2.38	3.27

ANNEXURE 5.3 (*Continued*)

STATEMENT SHOWING THE VIABILITY OF PRIMARY AGRICULTURAL CREDIT SOCIETIES IN SELECTED DISTRICTS OF SOME STATES CONSEQUENT ON INTEGRATION

Rs Lakhs

State	Name of the district	No. of PACS	Average per society: Existing S.T. loan business	Existing L.T. loan business to be taken over	Combined business after take over	Potential business (ST+LT)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Mysore	590	0.78	0.73	1.51	2.54
	North Kanara	218	1.57	0.76	2.33	3.38
	Raichur	557	0.56	1.14	1.70	5.29
	Shimoga	330	1.28	1.30	2.58	5.30
	Tumkur	538	0.56	0.90	1.46	2.95
5. *Kerala*	Alleppey	257	1.71	0.46	2.17	5.26
	Trivandrum	134	1.68	1.35	3.03	12.15
6. *Madhya Pradesh*	Bastar	364	0.27	0.05	0.32	2.57
	Bhopal	194	1.30	1.68	2.98	6.02
	Datia	60	0.77	0.63	1.40	3.75
	Dhar	229	1.40	0.63	2.03	4.56
	Jhabua	183	0.59	0.16	0.75	3.27
	Khandwa	222	1.74	0.48	2.22	3.46
	Khargone	282	1.65	0.68	2.33	7.06
	Mandla	136	0.81	0.14	0.95	4.25
	Raigarh	375	0.40	0.10	0.50	2.17
	Shahdol	258	0.21	0.12	0.33	3.01
	Sidhi	228	0.23	0.14	0.37	2.58
	Vidisha	171	1.85	0.66	2.51	6.14
7. *Maharashtra*	Akola	841	0.68	0.68	1.36	2.16
	Aurangabad	1158	0.96	1.00	1.96	2.49
	Bhir	759	0.82	1.06	1.88	2.77
	Dhule	755	1.22	0.61	1.83	2.67
	Nagpur	632	0.90	0.84	1.74	2.03
	Pune	879	0.94	0.66	1.60	4.06
	Solapur	883	1.12	1.04	2.16	3.25
	Yeotmal	603	1.57	1.27	2.84	3.24
8. *Orissa*	Balasore	251	0.91	0.36	1.27	2.55
	Bolangir	219	1.48	0.96	2.44	5.89
	Cuttack	530	0.78	0.45	1.23	2.44
	Dhenkanal	187	1.60	0.86	2.46	3.42
	Ganjam	525	1.07	0.72	1.79	2.28
	Keonjhar	102	1.72	0.58	2.30	3.03
	Koraput	247	0.56	0.34	0.90	5.13
	Mayurbhanj	163	1.04	0.43	1.47	4.44
	Phulbani	92	0.92	0.30	1.22	3.00
	Sundergarh	84	1.35	1.02	2.37	4.36

ANNEXURE 5.3 (*Continued*)

STATEMENT SHOWING THE VIABILITY OF PRIMARY AGRICULTURAL CREDIT SOCIETIES IN SELECTED DISTRICTS OF SOME STATES CONSEQUENT ON INTEGRATION

Rs Lakhs

State	Name of the district	No. of PACS	Average per society			
			Existing S.T. loan business	Existing L.T. loan business to be taken over	Combined business after take over	Potential business (ST+LT)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
9. *Punjab*	Amritsar	1161	0.63	0.46	1.09	4.14
	Bhatinda	643	0.44	0.74	1.18	7.52
	Faridkot	817	0.60	0.88	1.48	6.26
	Ferozepur	1095	0.44	0.52	0.96	4.54
	Gurdaspur	1237	0.39	0.38	0.77	2.33
	Jullundur	1105	0.86	0.49	1.35	2.93
	Kapurthala	346	0.66	0.71	1.37	4.04
	Ludhiana	967	0.94	0.71	1.65	4.25
	Patiala	899	0.70	0.94	1.65	5.20
	Sangrur	740	0.82	0.96	1.78	6.62
10. *Rajasthan*	Ajmer	284	0.53	0.21	0.74	3.37
	Alwar	454	0.67	0.46	1.13	3.23
	Barmer	250	0.12	0.11	0.23	4.85
	Bharatpur	558	0.79	0.57	1.36	2.84
	Bikaner	125	0.26	0.05	0.31	3.75
	Chittorgarh	311	0.36	0.16	0.52	3.15
	Churu	209	0.22	0.06	0.28	4.40
	Jaipur	619	0.31	0.42	0.73	2.75
	S. Madhopur	429	0.29	0.31	0.60	2.48
	Sikar	297	0.13	0.14	0.27	2.49
	Tonk	214	0.58	0.27	0.85	3.92
11. *Tamil Nadu*	Chingleput	541	1.05	1.81	2.86	3.99
	Dharmapuri	290	1.18	2.20	3.38	5.35
	Kanyakumari	138	1.33	1.59	2.93	4.70
	Pudukkottai	138	1.69	2.54	4.23	7.15
	Ramanathapuram	433	1.85	2.08	3.93	5.83
	Tirunelveli	364	1.43	2.05	3.48	7.16
12. *Uttar Pradesh*	Aligarh	454	0.46	1.48	1.94	3.59
	Bahraich	307	0.43	0.67	1.09	2.99
	Banda	230	0.66	0.23	0.89	3.54
	Bareilly	420	0.83	0.96	1.79	3.68
	Etah	203	0.79	1.89	2.68	8.27
	Fatehpur	234	0.79	1.32	2.10	3.82
	Meerut	470	1.36	1.29	2.65	3.78
	Moradabad	454	1.45	1.35	2.80	3.66
	Nainital	119	1.54	1.13	2.67	6.62
	Saharanpur	414	1.24	1.21	2.45	4.94
	Unnao	381	0.32	0.99	1.32	3.66

Note: The data given in this annexure relate to 1974-75 except for the States of Andhra Pradesh and Gujarat in respect of which 1973-74 figures are given.

ANNEXURE 5.4

Comparative Position of Sanctions and Disbursements by ARDC

(Agency-wise)

Rs Lakhs

Year	No. of Schemes					ARDC's Commitment					ARDC's disbursement				
	SLDB	Percentage to total	Commercial banks	Percentage to total	Total (All Agencies)	SLDB	Percentage to total	Commercial banks	Percentage to total	Total (All Agencies)	SLDB	Percentage to total	Commercial banks	Percentage to total	Total (All Agencies)
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Upto 30-6-71	319	69.7	117	25.5	458	22237	89.4	1489	6.0	24866	8125	90.6	442	4.9	8971
During 71-72	176	65.4	82	30.5	269	11512	85.2	898	6.6	13513	2839	81.2	326	9.3	3498
During 72-73	116	50.4	104	45.2	230	14536	84.4	2485	14.4	17230	8614	91.5	449	4.8	9414
During 73-74	139	25.3	407	74.0	550	13291	60.3	8522	38.7	22047	7776	79.5	1736	17.7	9784
During 74-75	116	18.6	501	80.4	623	11469	56.0	8741	42.9	20439	7706	72.4	2787	26.2	10640
During 75-76	256	28.2	650	71.5	909	17662	59.5	11945	40.2	29691	9909	57.9	7075	41.3	17115
As on 30-6-76	1071	37.0	1784	61.4	2905	77081	67.2	35000	30.5	114722	44969	75.7	12813	21.6	59420

Source: Annual Reports of the ARDC

ANNEXURE 5.5

Circular No. ACD. Plan. 5113/PR. 55(1) 75/6 dated 28 May 1976 issued by Agricultural Credit Department, Reserve Bank of India, Bombay

PROBLEMS OF AMALGAMATION OF NON-VIABLE SOCIETIES WITH THE REORGANIZED PRIMARY AGRICULTURAL CREDIT SOCIETIES OR WITH FARMERS SERVICE SOCIETIES/ LARGE-SIZED MULTI-PURPOSE SOCIETIES

As you are aware, consequent on the recommendations of the Working Group on Co-operation for the Fifth Five Year Plan, primary agricultural credit societies are being reorganized all over the country, mainly based on considerations of viability. Similarly, following the recommendations of the National Commission on Agriculture, steps are being taken in most states to form Farmers Service Societies. So far as tribal areas are concerned, Large-sized Multi-purpose Societies (LAMPS) on the pattern recommended by the Bawa Committee are being organized. All these programmes involve establishment of societies covering a larger area than what is being served by the existing primary agricultural credit societies. The programmes, therefore, invariably involve in many cases liquidation of existing non-viable primary agricultural credit societies or their amalgamation with the societies which are proposed to be retained or organised afresh. A viable primary agricultural credit society on reorganization may ordinarily cover the area of 2 or 3 existing societies. The area of operation of a FSS (of the smaller model) or a LAMPS on an average may cover 5 existing societies. The number involved may be more in a block level FSS.

It has been observed that in the implementation of the programmes a number of problems, procedural or legal, have arisen in connexion with the amalgamation of non-viable societies. There are also problems connected with the taking over of liabilities of amalgamating societies by the reorganized or new units and their financing banks, especially if they are commercial banks. In order to sort out these problems, we had convened on 4 May 1976, a meeting of the Registrars of Co-operative Societies of some of the states, the representatives of the Government of India and the commercial banks. After taking into account the various suggestions made at this meeting in respect of these and allied problems, we have since formulated guidelines which may be adopted by the state governments while implementing programmes of reorganisation of primary agricultural credit societies and setting up of FSS or LAMPS. These are as under:

Selection of societies for amalgamation

Farmers Service Societies are organized either as new institutions or formed by converting existing societies. On the other hand, an existing primary agricultural credit society is reorganized as a viable society. It should be ensured that the nucleus society, besides being a good working society, should also be conveniently located from the point of communications etc. of the villages in its area. Once the nucleus society to be retained as a viable primary agricultural credit society or to be converted as FSS is so identified, all the other societies in the area will have to be either liquidated or amalgamated. Similar will be the case with existing societies in the area of a new FSS or LAMPS proposed to be established. In order to ensure that the reorganized viable primary agricultural credit society/FSS/LAMPS is not burdened from its very inception with bad debts and overdues of the amalgamating societies, it is necessary that non-viable societies are invariably liquidated and only the remaining primary agricultural credit societies may be considered for merger. Societies falling under any of the following categories may be taken into liquidation.

(i) A society whose estimated bad debts (as per the latest available audit report) exceeded its owned funds i.e. share capital plus all reserves.
(ii) A society which has been dormant for over 3 years.
(iii) A society which has been classified as D in the latest available audit report.

Procedure for dealing with bad debts of amalgamating societies

Even if only good working societies are amalgamated with the reorganized primary agricultural credit societies/FSS/LAMPS, the question of taking over the bad debts of the amalgamating societies would still arise, because even such societies may have some bad debts, though not sizeable. If, therefore, all the assets and liabilities of the amalgamating societies are taken over by the reorganized or new societies, the real or exchangeable value of the share capital of the latter may be adversely affected. It is, therefore, desirable that the reorganized or new unit is not obliged to carry on in its balance sheet the bad debts of the existing societies amalgamated with it. The following procedure may, therefore, be adopted to safeguard the interests of the reorganized primary agricultural credit society/FSS/LAMPS:

(i) In the case of a society whose estimated bad debts do not exceed its reserves, it may be straightaway amalgamated with the reorganized primary agricultural credit society or FSS or LAMPS as the case may be, i.e. its balance sheet, as it were, may be incorporated with that of the new unit. Since the bad debts are fully covered, the new unit will not in any way be affected by taking over all the assets and liabilities of the amalgamating societies.

(ii) If the aggregate value of bad debts of a society meant for merger exceeds its reserves but is within its owned funds, firstly, the shares and deposits of a member whose loan has been estimated as bad should be adjusted against his loan, leaving only one share to his credit and secondly, if even after such individual adjustment, bad debts remain, the reserves of the society should be fully adjusted against such bad debts and thereafter, the share capital should be reduced to the extent of the balance of bad debts exceeding the reserves, thereby bringing the share capital to its real value.

(iii) If both the reserves and the share capital of the society are not adequeate to cover the bad debts, it would mean that the real value of the share capital of the society is nil and as pointed out in para 3 above such a society should be liquidated instead of being merged and the ultimate loss, if any, in realising its assets will have to be borne by the central co-operative bank concerned.

(iv) The procedure in regard to amalgamating societies indicated at (ii) above will apply also to a society meant for retention and reorganization as a viable society or conversion as a FSS. Normally, this may not arise, if only good working societies i.e. societies whose bad debts are fully covered by reserves are selected for retention or conversion as the case may be.

(v) For observing the procedure indicated above, it would be necessary that the amalgamating societies are audited before amalgamation with a view to ascertaining the realisable value of their assets and the accuracy of their balance sheet and the profit and loss account. Although it would be desirable to arrange for a special audit of the societies before their amalgamation, this may not always be possible in view of the fact that the reorganization programme is to be completed by the end of June 1976 and there is, therefore, hardly any time left now to arrange for special audit of a large number of societies at such short notice. Hence, it would be in order to proceed on the basis of the latest available audit report for estimating the bad debts of a society meant for merger, and it may not be necessary to arrage for special audit solely for this purpose.

Amalgamation of two or more societies as per the procedure suggested above may not be feasible without the necessary statutory sanctions in the Co-operative Law. Although presently most of the State Co-operative Societies Acts provide for either voluntary or compulsory amalgamation of two or more societies, the provisions of these enactments are deficient in several respects, with the result that state governments experience considerable difficulties in pushing through the reorganization programme. Moreover, most of the State Acts do not empower the state governments to reduce the value of the share capital of the amalgamating societies. It would be necessary to vest such powers with the state government if the procedure for amalgamation outlined above is to be followed. The State Co-operative Societies Acts would, therefore, have to be suitably amended immediately providing for compulsory amalgamation of societies and vesting the Registrars with adequate powers with a view to expediting the process of amalgamation. As decided at the meeting mentioned above, a draft of the model section which could be incorporated in the Co-operative Societies Acts of the state governments is being prepared by us in consultation with our Legal Department and will be communicated to you very shortly. The same may be adopted by the state governments with such modifications as may be necessary in the context of the existing provisions in the State Acts.

Overdues of amalgamating societies

Some of the reorganized societies including FSS/LAMPS are being or will be financed by the commercial banks. The present policy in this behalf is that the commercial banks take over only the current liabilities of the ceded societies to the central co-operative banks and the societies continue to be indebted to the latter in respect of the overdue loans. In case of societies meant for merger, the reorganized primary agricultural credit society/FSS/LAMPS will take over the assets and liabilities of the amalgamating societies and the latter on merger, will cease to exist. The new society will be liable to the concerned central co-operative bank in respect of the liabilities so taken over. If the reorganized primary agricultural credit society or FSS is to be financed by a commercial bank, and if only current liabilities in respect of the erstwhile societies are to be taken over by it, it would mean that the reorganized societies/FSS will stand indebted to both the financing agencies. It is, however, desirable that the reorganized societies have only one financing agency and hence the liabilities to the central co-operative banks should be cleared as quickly as possible. The following procedure is, therefore, suggested for adoption in this behalf:

(i) When a society either on reorganization, amalgamation or conversion into a FSS/LAMPS is to be transferred from a central co-operative bank to a commercial bank, the overdues of the society to the central co-operative bank should be reduced by adjusting its share capital in the bank (except one share) to the outstanding dues. The commercial bank should, as hitherto, settle the current dues of the society to the central co-operative bank.

(ii) Additional share capital contribution from the State Government out of the Reserve Bank's Long-term Operations Fund which a reorganized primary agricultural credit society/FSS/LAMPS would be entitled to, may be utilised in further reducing the overdues of the society to the central co-operative bank.

(iii) If, even after having recourse to the above two methods, there is still a balance overdue to the central co-operative bank and if the same does not exceed 20 per cent of the loans outstanding (as on date of amalgamation) or is a small amount, the commercial bank may settle the overdues to the central co-operative bank. This would ensure that the society is indebted to only one financing bank.

(iv) If, however, the course suggested at item (iii) above is not acceptable to the commercial bank, it will be desirable to show all the overdue loans against members of the amalgamating societies as on the date of amalgamation as cover for the overdues to the central co-operative bank and any recoveries thereunder should be passed on to the central co-operative bank till such time as the overdues to the latter are fully cleared.

We are endorsing a copy of this letter to the Registrar of Co-operative Societies of your State and to the commercial banks for their information and necessary action.

ANNEXURE 5.6

CIRCULAR No. ACD. PLAN. 5115/PR.55(1)-75/6 DATED 28 MAY 1976 ISSUED BY AGRICULTURAL CREDIT DEPARTMENT, RESERVE BANK OF INDIA, BOMBAY

REORGANIZATION OF PRIMARY AGRICULTURAL CREDIT SOCIETIES—AREA TO BE COVERED BY THE REORGANIZED SOCIETIES

As you are aware, the Working Group on Co-operation for the Fifth Five Year Plan had recommended that primary agricultural credit societies should be reorganized with a view to retaining only the viable and potentially viable societies. In pursuance of this recommendation, the State Governments have since drawn up programmes for reorganization of the structure at the primary level. It was, however, observed that no uniform pattern was being followed for deciding the area appropriate for the reorganized societies to be viable. The basis for reorganization in some of the States has been the revenue or administrative divisions, and not so much the business potential necessary for viability.

As per the norm suggested by the Working Group, a society to be viable, should have a minimum loan business of Rs 2 lakhs. This minimum level, it was felt, was necessary for enabling the society to employ a full-time paid secretary, have an office of its own, provide for various reserves and also to declare a reasonable dividend. The Working Group had further suggested that the credit potential should be worked out roughly at Rs 125 per hectare for dry land and Rs 250 per hectare for irrigated land. From the programmes of reorganization drawn up by various State Governments, it is observed that both as regards the estimation of credit business, and also while working out the credit potential, the methods adopted have varied widely from state to state. Although the Working Group had recommended that only the short-term loans outstanding should be taken into account for determining viability, some of the States have suggested that medium-term loans and long-term loans (which are now proposed to be issued through the primary societies under the programmes of integration of the two structures of co-operative credit) should not be ignored for estimating the credit potential for this purpose. It has also been suggested that consumption credit proposed to be provided by the co-operative societies in pursuance of the recommendations of the Expert Committee recently appointed by the Government of India should also be reckoned for this purpose. Similarly, in estimating credit potential in the area of the reorganized societies, some of the States have suggested that, instead of calculating the requirements on *ad hoc* basis as suggested by the Working Group, the requirements should be worked out on a more scientific basis by taking into account the area under different crops and the realistic scales of finance adopted by the concerned central banks, etc.

In view of the different norms adopted by various States and the suggestions made in this regard from time to time, it was thought necessary to take a firm view on these various aspects and, accordingly, a meeting of the Registrars of Co-operative Societies of some of the States and representatives of the Government of India and the commercial banks was convened by us on 4 May 1976 to discuss, *inter alia*, the problems relating to reorganization of primary agricultural credit societies. The suggestions made at this meeting have since been considered by us and it is felt that the State Governments should, while drawing up the programmes of reorganization of primary agricultural credit societies, keep in view the following guidelines in so far as the area of operations and credit potential are concerned:

(i) For the purpose of viability, account should be taken of the short-term agricultural credit business only. The other business viz. medium-term, long-term agricultural credit and consumption credit should be taken as additional potential.

(ii) Normally, a gross cropped area of 2,000 hectares (5000 acres) whether irrigated or not, might be taken as adequate to provide a minimum short-term credit potential of Rs 2 lakhs for the reorganized society.

(iii) In cases where more than 2000 hectares were to be covered, the area of operation of the reorganized society should be confined to a radius of 10 kms only, excepting in hilly or tribal or desert areas, so however, that the jurisdiction of a society did not cut across village boundaries.

(iv) Where a village was big and had more than 2,000 hectares in its jurisdiction or a potential of more than Rs 2 lakhs short-term credit business, there should not be more than one society.

(v) If the area proposed was less than 2,000 hectares, a detailed exercise with reference to actual scales of finance might have to be done to ensure a minimum short-term credit business of Rs 2 lakhs on the assumption that the society would be able to meet only about 40 per cent of the potential calculated on the above basis.

(vi) If one administrative unit like gram panchayat or patwar circle did not have in its jurisdiction 2000 hectares of gross cropped area, two or more such administrative units might be covered by the reorganized society wholly in which case the territorial limit of 10 kms radius might not be applied. Preferably, in such cases, Farmers Service Societies of the smaller model might be organized, instead of a viable primary agricultural credit society. However, the society should not be again reorganised if on a subsequent date the area of the gram panchayat was altered.

(vii) Where a society had already attained a short-term loan business of Rs 2 lakhs, it might not be normally disturbed, but could be made the nucleus of a Farmers Service Society, a LAMPS or a reorganized society.

(viii) Arrangements might be made for setting up a Cadre Fund at the State level to meet the cost of paid secretaries/managers of reorganized societies, so that the deficits in the societies in the economically backward areas, hilly and semi-arid region etc. could be met from the additional income from the business in the more affluent societies having each a credit business of well over Rs 2 lakhs. Contributions to the State Cadre Fund might be made by the central co-operative banks at 0.25 per cent of the loans borrowed by them from the apex bank and by primary agricultural credit societies at 1.75 per cent of the loans obtained from central banks. The deficit, if any, still remaining, at least initially, might be met by the State Government. The commercial banks financing the reorganised societies might recover from them at 1.75 per cent of the loans advanced and contribute at 2 per cent to the State Cadre Fund unless they are prepared to meet the deficit in the cost of secretaries/managers of such societies, wholly by themselves. The scheme of the State Level Cadre Fund introduced in Maharashtra may be referred to in this contrext).

(ix) Once the area is decided, the good working societies might be merged with the nucleus society selected for retention and the non-viable ones liquidated. The guidelines in this regard are contained in our letter No. ACD, Plan. 5113/PR.55(1)-75/6 dated 28 May 1976 issued separately.

It is suggested that action on the above lines may please be immediately initiated. We are aware that the programme of reorganisation has reached an advanced stage of implementation in a few States. In this context, we may clarify that the above guidelines may not require any fresh survey. All that would be necessary is to have a second but quick look at the area of operations of the societies proposed to be reorganized with a view to ensuring that ordinarily each such society covers a gross cropped area of not less than 2000 hectares and not more than a radius of 10 kms. Certain adjustments would be necessary in cases where these two criteria are not satisfied, so as to be in conformity with the other conditions indicated in items (iv), (v) and (vi) of para 3 above. A detailed exercise is necessary only in cases where the proposed area is less than 2000 hectares with a view to ensuring that such an area would provide a minimum short-term credit potential of Rs 2 lakhs. We expect that such cases would be few. We would like to stress the need on the part of the State Governments to hasten the reorganisation programme and complete the same, as urged by the Expert Committee on Consumption Credit, by the end of June 1976.

The organisation of Farmers Service Societies whether of the Block level or smaller model especially in the special programme areas like those covered by SFDA, Regional Rural Banks, etc., and of Large-sized Multipurpose Societies (LAMPS) in tribal areas would continue to be governed by the guidelines already issued by the Government of India in this regard.

We are endorsing a copy of this letter to the Registrar of Co-operative Societies of your State for facilitating quick action at his end.

We shall be glad to be advised of the action taken by your Government in the matter.

ANNEXURE 5.7

POSITION OF PROFIT/LOSS OF PRIMARY LAND DEVELOPMENT BANKS (1973-74)

Rs Lakhs

Sr. No.	State	No. of banks	Profit		Loss		No. of banks without profit or loss
			No. of banks	Amount	No. of banks	Amount	
	1	2	3	4	5	6	7
1.	Andhra Pradesh	184	102	62.97	70	62.97	12
2.	Assam*	16	8	0.20	8	0.58	—
3.	Gujarat	4	2	0.49	2	0.06	—
4.	Haryana	31	26	13.08	3	1.11	2
5.	Himachal Pradesh	1	1	0.29	—	—	—
6.	Karnataka	175	124	47.91	48	57.06	3
7.	Kerala	23	15	5.86	8	9.29	—
8.	Madhya Pradesh	43	28	12.65	15	7.61	—
9.	Orissa	55	45	14.36	10	2.49	—
10.	Punjab	42	24	13.65	18	33.11	—
11.	Rajasthan	35	30	11.91	5	1.23	—
12.	Tamil Nadu	223	163	52.30	59	41.87	1
13.	Uttar Pradesh	4	—	—	—	—	4
14.	West Bengal	21	13	6.94	8	1.51	—
	Total ..	857	581	242.61	254	218.89	22

* Data relate to 1972-73

(*Source:* Statistical Statements relating to the Co-operative Movement in India 1973-4, Part I.)

ANNEXURE 5.8

Flow of Funds Analysis

Rs Lakhs

As on last Friday of		Net disposable resources of SCB	Interim accommoda-tion obtained by SLDB	Loans disbursed by SLDB during the month
1		2	3	4
I. Maharashtra				
1973-4				
July	1973	328	94	83
August	1973	515	222	56
September	1973	851	289	53
October	1973	1472	110	40
November	1973	915	284	56
December	1973	772	233	67
January	1974	634	231	78
February	1974	1574	228	124
March	1974	1181	—	137
April	1974	730	—	278
June	1974	968	—	215
1974-5				
July	1974	1779	—	80
September	1974	1083	—	63
October	1974	1093	—	50
November	1974	572	—	42
December	1974	694	—	40
January	1975	594	—	90
February	1975	430	—	87
March	1975	861	—	66
April	1975	864	—	149
May	1975	629	—	372
II. Tamil Nadu				
1973-4				
July	1973	54	20	162
August	1973	42	55	235
September	1973	242	172	220
October	1973	233	205	145
November	1973	176	3	102
December	1973	248	37	119
January	1974	192	51	103
February	1974	186	7	135
March	1974	270	18	273
April	1974	123	4	115
May	1974	92	54	85
June	1974	191	—	203
1974-5				
July	1974	73	—	82
August	1974	197	—	71
September	1974	178	—	59
October	1974	146	—	58
November	1974	108	—	53
December	1974	126	—	62

ANNEXURE 5.8 (*Continued*)

FLOW OF FUNDS ANALYSIS

Rs Lakhs

As on last Friday of		Net disposable resources of SCB	Interim accommoda-tion obtained by SLDB	Loans disbursed by SLDB during the month
1		2	3	4
January	1975	274	—	78
February	1975	85	—	125
March	1975	209	2	680
April	1975	152	—	170
May	1975	109	11	256
June	1975	93	4	624
III. Bihar				
1973-4				
July	1973	159	258	43
October	1973	289	33	62
December	1973	87	267	92
February	1974	105	144	142
March	1974	182	247	145
April	1974	259	115	94
May	1974	133	117	104
June	1974	24	332	92
1974-5				
October	1974	58	303	84
March	1975	221	268	317
April	1975	211	181	106
May	1975	138	165	125
June	1975	34	396	139
IV. Punjab				
1973-4				
July	1973	276	102	46
August	1973	16	—	57
October	1973	97	60	31
1974-5				
July	1974	770	—	15
August	1974	668	—	68
V. Rajasthan				
1973-4				
September	1973	259	—	14
May	1974	46	—	60
1974-5				
April	1975	57	—	47
VI. Madhya Pradesh				
1973-4				
December	1973	196	83	35
April	1974	88	—	95
May	1974	185	55	207
June	1974	99	—	334

ANNEXURE 5.8 (*Continued*)

Flow of Funds Analysis

Rs Lakhs

As on last Friday of		Net disposable resources of SCB	Interim accommoda-tion obtained by SLDB	Loans disbursed by SLDB during the month
1		2	3	4
1974-5				
February	1975	97	106	121
March	1975	247	7	99
April	1975	368	—	173
May	1975	255	—	202
June	1975	334	—	317
VII. Andhra Pradesh				
1973-4				
January	1974	411	112	124
February	1974	262	—	129
1974-5				
December	1974	372	266	148
January	1975	599	222	166
June	1975	488	5	93
VIII. Karnataka				
1973-4				
August	1973	17	289	—
September	1973	63	27	374
October	1973	96	164	95
November	1973	112	293	109
December	1973	166	137	111
January	1974	48	30	109
February	1974	111	71	112
March	1974	88	27	150
1974-5				
October	1974	34	59	91
November	1974	133	140	90
December	1974	63	22	105
January	1975	71	4	129
February	1975	104	36	148
March	1975	32	38	358
IX. Haryana				
1973-4				
July	1973	131	—	788[1]
September	1973	96	—	
December	1973	129	—	
January	1974	373	—	
February	1974	445	—	
May	1974	28	—	
June	1974	200	—	

[1] Loans issued during the year 1973-4 (No month-wise particulars available).

ANNEXURE 7.1

Recommendations of the Study Group on Management and Staffing Pattern[1]

The Study Group on Management and Staffing Pattern has made several recommendations towards evolving a proper management and staffing pattern for the integrated credit institutions, a summary of which is given in this Annexure.

The recommendations of the Study Group can be broadly classified as pertaining to four main groups, viz., (A) management and organisational pattern, (B) staffing pattern, (C) personnel management and (D) viability of integrated co-operative credit institutions at the intermediate level.

(A) *Management and Organisational Pattern*

Recognising the need for changes in the management and organisational pattern the Study Group has made the following recommendations:

1. *Board of Management*

Since the PACS do not at present have any voice in the election of Directors to the SCDB, the Group has recommended that a suitable electoral college may be devised whereby the Managing Committee of the PACS would form the electoral college to elect that of the DCDB. The Directors of the DCDB would, in turn, constitute the electoral college for electing the members of the Governing Council of the SCDB. Each DCDB will elect two members to the Governing Council from amongst the members of the electoral colleges, one from within the district and the other from outside the district. This method of election to the Governing Council of the SCDB would make the elections more democratic and avoid concentration of power in a few individuals. Since the Governing Council so elected may be larger, a more compact body called the Executive Council with a lesser number of members for attending to the day-to-day affairs of the bank may be set up. The members of the Executive Council will be elected by the members of the Governing Council from amongst themselves.

2. *Nomination of Experts on the Boards of Management of SCDB and DCDB*

The state government may nominate management and technical experts as well as agricultural economists on the Boards of Management of the SCDB and DCDB.

3. *Representation to Weaker Sections*

With a view to giving representation to the weaker sections of the community like small farmers, scheduled castes/tribes and also women, the Registrar of Co-operative Societies may be empowered to nominate representatives of the weaker sections on the Boards of Management of the SCDB and DCDB as has been done, for example, in Andhra Pradesh and Tamil Nadu.

4. *Chairmen of the SCDB/DCDB*

The Chairmen of the SCDB/DCDB are generally elected from out of the elected directors of the banks. In most cases, they are unable to devote their full-time attention to the business of the bank. The Chairmen-cum-Managing Directors of the SCDB/DCDB should, therefore, be paid professional bankers with knowledge of banking and co-operation on the analogy of the nationalised commercial banks.

[1] These recommendations reflect the views of the Study Group and not necessarily of the Committee.

5. *Representation to SLDB*

With a view to achieving greater co-ordination as between the SCB and the SLDB, wherever the latter has chosen to remain unintegrated, the SLDB Chairman may be co-opted as a Director of the SCB.

6. *Amendments to the Act, Rules and Bye-laws*

In order to incorporate the suggestions made in this as well as in the subsequent paragraphs, the Co-operative Societies Acts, Rules and Bye-laws of the banks may be amended suitably.

7. *Organisational pattern of SCDB and DCDB*

The SCDB and DCDB will have adequate staff for carrying out the additional responsibilities and will accordingly have sufficient technical personnel. The organisational charts of the integrated banks at the apex and district levels are given elsewhere in the Report. As indicated in the charts, the functions of the integrated banks will be divided broadly into three categories, viz. (i) development and supervision, (ii) banking and operations and (iii) secretarial and accounting personnel. The pay scales indicated in Annexure 7.2 for a DCDB are only illustrative and recommendatory.

8. *Branches of the DCDB*

The DCDB should open adequate number of branches in their respective areas of operation for ensuring better resources mobilisation, disbursement of loans and supervision over PACS. These branches will function on the lines of the branches of the commercial banks.

Consequent on integration, a branch at the taluk level (Class I Branch) will have full complement of staff including technical, legal, developmental and supervisory personnel. The branch will be under the control of a well qualified branch manager. Adequate powers should be delegated to the branch for sanction of loans upto a prescribed ceiling to avoid flooding of long-term loan applications at the district level. The branches will be responsible for the supervision of all societies under their jurisdiction. Such full-fledged branches may be created initially after integration, at the taluk level or at mandi centres. The Class II branches may have only a minimum staff consisting of a Branch Manager, Cashier-cum-Clerk, two Supervisors and a peon, and need not have legal, technical and developmental personnel. But the special staff at the level of the Class I Branch will assist the Class II branches in the appraisal of investment loan applications.

9. *Branch Advisory Committee*

A branch advisory committee may be formed for each branch with a non-official Chairman but with officials of the technical department represented on it.

10. *Staff for Long-term Wing*

Where the LDB and SCB at the state level are not integrated immediately, it is suggested that during the interregnum i.e., upto the period of final integration at the apex level, the SLDB should build up their own technical wing for project appraisal. Where integration at the apex level is effected immediately, a separate wing under a senior officer of the state co-operative bank will have to be created for looking after investment credit. He may look after both the medium and long-term credit.

11. *Secretaries Cadre Fund*

A Secretaries Cadre Fund may be created at the state level and maintained by the SCDB, the contributions being collected from PACS and the DCDB in proportion to their loan business.

(B) *Staffing Pattern*

Keeping in view the need for a proper and well-qualified staff for the integrated banks at various levels, and the new responsibilities which these institutions are expected to undertake, the Study Group has made the following recommendations.

12. *Permanent Cadre of Officials*

The Group has endorsed the advice of the Reserve Bank of India to the co-operative banking institutions to create a cadre of officials of their own at the middle and senior levels.

13. *Staff on Deputation*

In view of the fact that in many states, the co-operative credit institutions have placed heavy reliance on the staff drawn from the state government on deputation, it may neither be feasible nor advisable for the DCDB to retrench them immediately. The Group, therefore, has made the following suggestions in respect of the staff on deputation:

(i) It will be necessary for a bank to retain the state government staff until its own cadre is established and trained. During the interregnum, the control over the state government staff should vest with the management of the bank and not with the parent department.

(ii) Pending integration and consequent take-over of the long-term financing by the DCDB which would increase the profit margin of the bank, it may be necessary for the state government to continue to subsidise the cost of staff deputed to the bank as is being done at present under various schemes of subsidy. Otherwise, the slender margin of profit of the banks will further be eroded.

(iii) The powers of transfer and disciplinary action relating to the departmental staff now vest with the Co-operation Department. Frequent transfers of the staff on deputation are made by the department which adversely affect the functioning of the bank. Once posted to a bank on deputation, the staff should not be disturbed frequently.

(iv) Similarly, where the staff on deputation have been sent by the bank for specialised training, they should not be withdrawn from the bank for sufficiently long time.

(v) It is contended that for purposes of recovery of overdues, sale of land, distraint, etc., government staff should necessarily be posted with the bank because of the statutory powers vested in them. To overcome this difficulty steps may be taken to vest such statutory powers in the bank's staff also.

(vi) In view of the fact that a larger number of officials of the state government have served the co-operative banks for a considerably long time and have acquired sufficient experience in the working of the banks, some weightage could be given to the staff on deputation to opt for service with the bank while recruiting cadre personnel of the bank.

14. *Absorption of Staff*

When a credit institution at a particular level gets merged with its opposite number in the other wing to form a new integrated bank, the staff of both the credit institutions at that level will be taken over by the new bank emerging out of integration.

15. *Job Specifications*

(a) A full-time Chairman-cum-Managing Director will be in overall control and charge of the DCDB. The appointment of the Chairman may be made by the state government in consultation with the Reserve Bank of India. He will be the chief executive of the bank and will be assisted by a suitable number of senior officers.

(b) *Development Manager*

In view of the role expected to be played by the DCDB as the leader of co-operative credit in the district, a special post of Development Manager is suggested and should be filled in by an officer of sufficiently high seniority and status. He will be second in command in the hierarchy of the bank.

(c) *Other Senior Officials*

The number of other senior officials will depend upon the volume of business of the bank. The Manager (Operations), Finance Manager, Manager (Personnel and Administration), Secretary-cum-Law Officer and Chief Inspector will all report directly to the Chairman-cum-Managing Director. Technical Manager will also have to be appointed by the bank.

(d) There may be two cadres in the category of branch managers, one in charge of taluk level branches and another for managing smaller branches.

(e) *Supervisors*

In the changed set-up, the number of societies under the charge of a supervisor will be reduced to 10 so that he gets a balanced work-load in respect of all types of work expected to be undertaken by him.

16. *Existing Staff*

Consequent on integration, some staff may be rendered surplus especially in the cadre of supervisors. But they could be gainfully employed in view of the reduction in the number of societies per supervisor. Moreover, in backward states, the DCDB are expected to open a larger number of branches which should help in the absorption of the surplus staff, if any, in the bank. As a result of integration, there need be no retrenchment of staff of either wing and they could be absorbed easily under the bank's expansion programme.

17. *Salary Scales*

When both the wings are taken over by the integrated units, the salary scale of a particular cadre will be determined with reference to that of the equivalent post in the other wing and whichever scale is higher, should be adopted as the salary scale for that cadre in the integrated bank.

18. *Problems of Personal Equation and Seniority*

A committee may be set up in each state to decide the proper fixation and placement of staff of both the wings in each state; a Tribunal for settling staff disputes likely to arise on account of integration in the matter of pay scales, grade, seniority, etc., may become expedient and, if so, legal provision may have to be made towards this end.

(C) *Personnel Management*

19. The need for the proper recruitment, training, placement, etc., of the staff of the co-operative banking sector has been fully recognised by the Study Group. In this context, the Group has, made certain recommendations, details of which are given separately in Annexure 7.4.

(D) *Viability of the Intermediate Integrated Banks*

20. The ability of the integrated banks to open sufficient number of Class I and Class II branches with adequate manpower has been tested in an exercise done by

the Group to determine the break-even point (Annexure 7.3). For this purpose the Group has worked out three models on the following basis:

Model I — Bigger banks with 5 Class I branches and 20 Class II branches
Model II — Medium-sized banks with 5 Class I branches and 5 Class II branches
Model III — Smaller banks with 5 Class I branches only

These models take into account the cost of raising resources, the return on investment and the minimum staff to be employed by the institutions for their proper and efficient functioning. Reasonable salary scales have been adopted as an incentive to the staff for undertaking higher responsibilities.

21. In view of the fact that even a bank with a turn-over of Rs 2.45 crores in Model III could be treated as one having potential viability, which could work its way through to attain full viability in the course of a few years, more so after the take-over of long-term financing, the Group has recommended that the integrated banks should (a) open adequate number of branches, (b) provide reasonable pay scales and (c) equip the bank and its branches with adequate special staff.

ANNEXURE 7.2

SCALES OF PAY RECOMMENDED FOR DCDB UNDER MODELS I, II AND III

Sr. No.	Category/Designation	Pay Scales Model I Rs	Model II Rs	Model III Rs
	A. *MANAGERIAL*			
1.	Managing Director	1000-50-1500	900-45-1260	800-40-1120
2.	Development Manager ..	900-45-1350	800-40-1120	750-35-1030
3.	Manager (Operations) ..	800-40-1200	750-35-1030	700-30-940
4.	Manager (Finance)	—do—	—do—	—do—
5.	Secretary & Law Officer ..	600-40-1000	—	—
6.	Chief Inspector	—do—	600-30-900	600-30-840
7.	Manager (Personnel & Admn.)	—do—	—do—	—do—
8.	Manager (Technical) ..	—do—	—do—	—do—
9.	Accountant Grade I	400-40-800	400-30-700	400-30-700
10.	Branch Manager Grade I ..	—do—	—do—	—do—
11.	Statistician	—do—	—	—
12.	Branch Manager Grade II ..	300-30-600	300-30-600	—
13.	Accountant Grade II ..	—do—	—do—	300-30-600
14.	Assistant Chief Inspector ..	—do—	—do—	—do—
15.	Manager Grade II	—do—	—do—	—do—
	B. *TECHNICAL & LEGAL*			
16.	Legal Officer	400-40-800	400-30-700	400-30-700
17.	Technical Supervisor.. ..	350-35-700	300-30-600	300-30-600
	C. *FIELD STAFF*			
18.	Assistant Development Officer	300-25-500	300-25-500	300-25-500
19.	Supervisor	250-25-500	200-25-400	200-25-400
20.	Junior Supervisor	200-25-400	—	—
	D. *CLERICAL*			
21.	Clerk/Cashier/Typist	150-15-390	150-15-390	125-15-350
	E. *SUBORDINATE*			
22.	Messenger/Peon/Driver/Watchman, etc.	100-10-200	100-10-200	80-10-160

Note: For details relating to classification of Models, please see the Report of the Study Group on Management & Staffing Pattern in a separate volume.

ANNEXURE 7.3(a)

Profit Margin Available to DCDB
(on a loan business of Rs 150, i.e., st Rs. 100 and lt Rs 50)

Models I to III

Cost of raising resources				Return on deployment of resources			
Item	Amount raised Rs	Cost In percent	Cost Amount Rs	Item	Amount deployed Rs	Return In percent	Return Amount Rs
Share Capital	12.5	10	1.25	Cash Reserve	4	—	—
Reserves	6.5	—	—	Shares of Apex Bank	5	7	0.35
Deposits	67.0	6.5	4.36	Investments for purposes of statutory liquidity			
Borrowings				(i) Govt./Trustee Securities	9	6	0.54
(i) Short-term	50.0	9	4.50	(ii) Fixed deposits with Apex Bank	10	9	0.90
(ii) Long-term	50.0	8.5	4.25	Loans & Advances			
				(i) Short-term Agricultural loans	75	10¾	8.05
				(ii) Long-term Agricultural loans	50	9½	4.75
				(iii) Non-agricultural	25	14	3.50
				Other assets	8	—	—
	186.0		14.36		186		18.09

(Margin: Rs 18.09—Rs 14.36=Rs 3.73)

Assumptions relating to Annexure 7.3(a)

1. The cost of raising share capital has been assumed to be 10%, which means that the net profit of the DCDB has to be of the order of 10% of the paid-up share capital. 50% of the net profit will be used for paying a dividend of 5% on the shares, 40% will be utilised for appropriations to statutory reserve and stabilisation fund and the balance of 10% for other appropriations.

2. The proportion between share capital and reserves is assumed to be roughly 2 : 1. Of the owned funds of Rs 19, Rs 6 will be invested in the bank's loan business, Rs 5 in the shares of the apex credit institution to provide a link between its borrowings and share capital holding in the apex institution at the rate of 5% of the amount borrowed. The balance of Rs 8 will be invested in other assets like premises, dead stock, vehicles, etc.

3. It is also assumed that approximately 45% (Rs 67) of the loan issued of Rs 150 will be mobilised by the bank by way of deposits on the analogy of the existing link between deposits collected by CCB in various states to the loans outstanding. 35% of the deposits so collected (Rs 23) will be held in the form of cash reserves and by way of investments in Government and other Trustee securities as well as fixed deposits with the apex co-operative banks to meet the statutory liquidity requirements.

4. The entire short-term borrowings of Rs 50 are deemed to have been used for advances of Rs 75 for short-term agricultural loans.

5. The return on short-term agricultural loans is normally 11%. But, for the purpose of calculation, it has been taken as only 10¾%, the balance of ¼% being appropriated towards cadre funds to be maintained at the state level. Similarly, in the case of long-term loans, as against a return of 9¾%, ¼% will be utilised for the cadre fund.

ANNEXURE 7.3(b)

ANNUAL EXPENDITURE ON ESTABLISHMENT OF DCDB

Rs lakhs

Sr. No.	Item of Expenditure	Model I		Model II		Model III	
		No.	Amount Rs	No.	Amount Rs	No.	Amount Rs
1	Salaries of Head Office staff ..	—	4.91	—	3.82	—	3.01
2	Salaries of branch staff:						
	Class I branches	5	7.14	5	6.48	5	5.51
	Class II branches	20	12.90	5	1.98	—	—
3	Total salaries of staff	—	24.95	—	12.28	—	8.52
4	Other establishment cost[1] ..	—	8.32	—	4.09	—	3.65
5	Total management cost	—	33.27	—	16.37	—	12.17
6	Turn-over of loan business[2] ..	—	1338.00	—	658.00	—	489.00
7	Viability in terms of loan business	—	1340.00	—	660.00	—	490.00
8	Potential viability (50% of item 7)	—	670.00	—	330.00	—	245.00

1 For Models I and II the proportion between salaries and other establishment cost is assumed as 3:1 and for Model III, the proportion is assumed as 7:3, on the basis of statistics collected for a few states.

2 The turn-over of loan business to be achieved by the banks in the different models for sustaining the total management costs in item No. 5 has been worked out on the basis that the margin available is Rs 3.73, for every Rs 150 distributed as loans, vide Annexure 7.3(a).

ANNEXURE 7.4

Personnel Management

The Study Group on Management and Staffing Pattern has recommended that the integration of the co-operative credit institutions in each state is the most opportune time for furmulating a comprehensive policy for the management of co-operative banking personnel at all levels in each state, viz.,

(i) the paid secretaries of viable primary co-operative credit societies having a business of Rs. 2 lakhs or more;
(ii) the clerical and supervisory staff of the district and state level banks;
(iii) the middle and the senior level managerial personnel of the district and state level banks; and
(iv) technical staff of the district and state level banks.

The personnel management function comprises the following integral components:

1. *Perspective Manpower Planning*

The personnel requirements for different jobs at different levels need to be carefully assessed on a long-term basis, say, five years in the light of development plan envisaged and awaiting implementation so that an effective recruitment programme could be drawn up. The personnel requirement projections need to be spelt out in terms of:

(*a*) the new job openings and job requirements in terms of personnel skills;
(*b*) personnel turn-over estimates and the likely exit of personnel over the next five years; and
(*c*) the new skills and experience acquired by the existing personnel through training, etc.

Manpower planning is not just forecasting of numbers but the effective utilization of personnel through proper placement and development. The integral objectives of manpower planning are (a) to indicate the number of personnel required, of what skill mix, when and for what jobs and in each geographical location; (b) to ensure purposive utilization of existing personnel resources; and (c) to help shape the policy governing the entry of fresh recruits into the co-operative banking system.

The qualitative aspect of manpower planning necessitates the institution of a management succession programme in terms of identifying potential executives and grooming them for the senior positions in each organization. The management should, therefore, identify the key jobs, the skill requirements therefor as well as identify the present skills and potential of those in the organization who could be developed to meet the requirements of the key jobs. This process of management succession planning could be greatly facilitated if each organization develops what is called executive skill inventory.

Executive skill inventory is not just a service record or personal file but is a document showing a break-up of the various skills, knowledge and experience of each executive in which he has demonstrated his strength and also the areas in which he is efficient. Such a classified information on executive skills (executive strengths and weaknesses) will be useful for:

(*a*) identifying training and development needs of the executives,
(*b*) proper executive placement and
(*c*) management succession planning.

The skill inventory record or managerial profile of each executive is prepared on the basis of the information obtained from the periodic appraisal report which serves as the source document.

2. *Recruitment and Placement*

The recruitment standards need to be reviewed and realistically developed, particularly in the present context where a substantial portion of the executive posts is likely to be drawn from clerical cadre. The recruitment criteria should, therefore, assess the capacity and potential of the recruits for developing the skills essential for a career in banking. Some objectivity in assessing the potential abilities can be achieved through measurement techniques, the introduction of which becomes all the more relevant in the present socio-economic context where the co-operative banking system is expected to function free from biases. The objectives of a recruitment and placement programme for officers are

(*a*) to develop position requirements in terms of skills,
(*b*) to design and conduct selection test and interviews,
(*c*) to design and review executive compensation structure and
(*d*) to formulate policy regarding officer promotion, placement, retirement, etc.

3. *Appraisal and Development*

Executive appraisal system should cover both performance on the present job and the potential for other assignments. The appraisal should cover strengths and weaknesses of each executive in relation to mutually acceptable identifiable roles of performance. The high expectations of management from the appraisee should be effectively conveyed to him so as to stimulate him to a higher level of performance. The periodical appraisal reports would serve, on the one hand, as the basic source document for developing managerial skill inventory for management succession and, on the other hand, as the basis for identifying training needs of executives and for developing training programmes. The training process should be viewed in its totality covering both formal and informal training and on the job training. The formal training is provided by specialised training institutions outside the place of work. The training requirements of the co-operative banking personnel after integration could be viewed in terms of:

(*a*) familiarisation training, i.e., familiarising the co-operative banking personnel with long-term lending practices and land development banking personnel with short-term lending practices;
(*b*) training in developing special skills, i.e., project appraisal techniques, perspective planning techniques, etc., and
(*c*) training in co-operative bank management, i.e., training in co-operative banking skills.

4. *Industrial Relations*

Whereas the routine industrial relations problems will be handled by the district level banks, there is need for developing a state level perspective of industrial relations in the co-operative banking sector for formulating suitable policies and guidelines.

5. *Personnel Research*

There is a need for a systematic study by an independent agency of the emerging trends of personnel behaviour and its implications to management; such research activities include:

(*a*) studying periodically the morale of employees of different regions and districts in each of the states and bringing to the attention of the management the key variables affecting morale and motivation,
(*b*) developing indices for measuring productivity of district and branch level units,
(*c*) auditing periodically the training and management development programmes as a whole and highlighting the areas needing management attention and
(*d*) developing a forum for exchange of ideas and experiences of co-operative banking personnel and disseminating the information on techniques, concepts and practices relating to co-operative banking.

6. *Personnel Development Board*

The Study Group feels that the personnel management and development functions comprising the abovementioned activities should not be left to be managed by the district level units for the following reasons:

(i) In order to attract, retain and develop suitable personnel at the integrated district level banks, it is necessary that promotional opportunities for advancement of personnel should be provided through upward and lateral mobility of personnel all over the state.
(ii) Personnel development function calls for managerial expertise which each district level bank, functioning independently, cannot handle adequately for want of resources and technical competence.
(iii) If the personnel development function is to be handled by each district level bank independently, there will be duplication of efforts and resources which can be avoided in the interests of administrative efficiency and economy.
(iv) Personnel matters are usually subjected to high pressures of local influence which can be kept to a minimum by centralising this function under an authority which can be less susceptible to local pressures.

Suitable provision may, therefore, be made in the Co-operative Societies Act, so that in each state, a central agency called State Co-operative Banking Personnel Development Board may be set up with the objective of performing the abovementioned functions. Legal status may be accorded to the Board. The constitution of the Board may be developed on the following lines:[1]

(i) All the integrated district level and the state level banks should be the members of the Board;
(ii) The Governing Council of the Board shall comprise

(*a*) three persons from among the Chairman-cum-Managing Directors of the integrated district co-operative banks by rotation;
(*b*) the Managing Director of State Land Development Bank;
(*c*) the Managing Director of State Co-operative Bank;
(*d*) the Secretary of the Department of Co-operation, State Government;
(*e*) one representative of RBI/ARDC;
(*f*) one management expert to be nominated by the Governing Council; and
(*g*) Executive Secretary to the Board (Ex-Officio Member-Secretary).

The Board should be entrusted with the entire range of personnel management functions covering all the co-operative banking personnel in the state. In particular:

[1]. The Committee has slightly modified the Constitution. (Please see Chapter 7).

(*a*) The Board should directly recruit and place all persons of the middle and senior levels and for this purpose, the Board should constitute a cadre of co-operative banking officers;
(*b*) The Board should prepare periodically selection lists of the candidates for clerical level based on scientific selection tests. The district level integrated banks should be asked to make the clerical appointments from the selection lists supplied to them;
(*c*) The Board should conduct special selection tests and interviews for promotion to higher posts from clerical to supervisory category or from supervisory to junior executive positions. The Board should formulate a promotion policy for banking personnel based on merit and experience and provide fair and equitable chances to all eligible candidates;
(*d*) The Board should directly maintain the service records of all cadre managers (middle and senior level officers) and develop a management development programme for them through job rotation, special assignments, formal training, etc;
(*e*) The Board should institute a performance appraisal system for all cadre managers, develop personnel inventory reports, prepare management succession charts for the district as well as the state level banks; groom the middle level managers for assuming higher responsibilities and whenever openings at senior level arise, fill them from within;
(*f*) The Board would identify the special training needs of personnel at different levels from time to time; get the appropriate instruction material developed and monitor the training programmes through the existing agencies;
(*g*) As an encouragement to large number of clerks who aspire for promotion and incentives, the Board should conduct a special diploma examination in co-operative banking preferably in the regional languages on the lines of C.A.I.I.B. examination so that the successful candidates may be given special increments as incentive and the pass in the examination may be considered as one of the criteria for promotion to the next level;
(*h*) The present widely prevalent practice of deputation of government staff to the banks should be stopped by the proposed Board which should handle any cases of deputation as an exception on its own merits;
(*i*) The Board should prescribe qualification for different categories of jobs and give wide publicity to them. It should interact directly with the Employment Exchanges.

In order to perform the above-mentioned functions effectively, the Board should have an adequate administrative machinery as indicated in the chart given in Chapter 7.

The Board should function truly as a professional body free from all political pressures. The functions to be performed by the Board call for a high degree of professional expertise and dynamic leadership. Therefore, extreme care has to be taken in the selection of the personnel of the Board and in particular its full-time executive director. The following are the essential requirements of the full-time executive secretary of the Board:

(*a*) He should be a person of senior status of the level of managing director of the state level bank. Seniority in age and senior status are not synonymous;
(*b*) He should be a person who is thoroughly conversant with techniques and modern practices of management and should have conceptual skill besides

technical competence to guide functional experts working with him. It is desirable but not essential that he has some banking experience;

(*c*) He should be a co-opted member of the board of directors of the State Land Development Bank and the State Co-operative Bank;

(*d*) He should be results-oriented person in that he should be able to institute a system of MBO (Management by Objectives) in co-operative banking sector;

(*e*) His age should be such that it would motivate him to make a worthwhile contribution during his professional career; persons nearing superannuation, however competent in their previous posts, are unsuited to this position.

To sum up the recommendations:

1. *Perspective Manpower Planning*

(*a*) The personnel requirements for different jobs at different levels need to be carefully assessed on a long-term basis, say, five years in the light of development plan envisaged and awaiting implementation so that an effective recruitment programme could be drawn up, taking into account the new job openings and job requirements in terms of personnel skills, the likely exit of personnel over the next five years and the new skills and experiences acquired by the personnel through training.

(*b*) A management succession programme in terms of identifying potential executives and grooming them in the senior positions in each organisation should be drawn up after identifying the key jobs, the skills requirements therefor and the availability of skills and potentials within the organisation.

(*c*) Each institution should develop an executive skill inventory of each executive indicating the executive strengths and weaknesses.

2. *Recruitment and Placement*

The recruitment standards need to be reviewed and realistically developed, the objective behind them being to develop position requirements in terms of skills, to design and conduct selection tests and interviews, to design and review executive compensation structure and to formulate policy regarding promotion, placement, retirement, etc.

3. *Appraisal and Development*

Executive appraisal system should cover both performance on the present job and potential for other assignments. The training requirements of the co-operative banking personnel after integration could be viewed in terms of (*a*) familiarisation training, i.e., familiarising the co-operative banking personnel with long-term lending practices and land development banking personnel with short-term lending practices, (*b*) training in developing special skills, i.e., project appraisal techniques, perspective planning techniques, etc., and (*c*) training in co-operative bank management.

4. *Industrial Relations*

There is need for developing a state level perspective of industrial relations in the co-operative banking sector for formulating suitable policies and guidelines.

5. *Personnel Research*

There is need for systematic study by an independent agency of the emerging trend of personnel behaviour and its implications to management.

6. *Personnel Development Board*

Suitable provision may be made in the Co-operative Societies Act so that in each state, a central agency called State Co-operative Banking Personnel Development Board may be set up and legal status may be accorded to the same.

The Board should be entrusted with the entire range of personnel management functions covering all the co-operative personnel in the state. In particular the Board should:

(*a*) directly recruit and place all personnel of the middle and senior levels;
(*b*) prepare periodical selection lists of the candidates for clerical levels;
(*c*) conduct special selection tests and interviews for promotion to higher posts from clerical to supervisory cadre and from supervisory to junior executive positions;
(*d*) maintain service records of all the cadre managers;
(*e*) institute a performance appraisal system for all cadre managers;
(*f*) identify the special training needs of personnel at different levels;
(*g*) conduct a special diploma examination in co-operative banking preferably in regional languages on the lines of the CAIIB examination; and
(*h*) handle cases of deputation of government staff to the bank, if there be any need therefor.

The Board should function truly as a professional body free from all political pressures. Extreme care should be taken in the selection of personnel of the Board and in particular its full-time Executive Secretary.

ANNEXURE 8.1

MODEL LAW[1]

————————FORMATION OF INTEGRATED CO-OPERATIVE CREDIT SOCIETIES ACT, 19....

AN ACT TO PROVIDE FOR FORMATION OF INTEGRATED CO-OPERATIVE CREDIT SOCIETIES.

WHEREAS for the purpose of the advancement of the co-operative movement, the development of agriculture and other agricultural activities in the State, it is expedient to provide for the formation of integrated co-operative credit societies in the State by integrating the existing short-term and long-term co-operative credit societies, with a view to provide short, medium and long-term credit to the agriculturists at one contact point.

BE it enacted in the ————year of the Republic of India as follows:

CHAPTER I

Short title, extent and commencement.

1. (1) This Act may be called the .... Formation of Integrated Co-operative Credit Societies Act, 19....

(2) It shall extend to the whole of the State of......

(3) It shall come into force on such date as may be notified by the State Government in the Official Gazette.

Definitions.

2. In this Act, unless the context otherwise requires:—

(*a*) "agriculture" or "agricultural purposes" or "development of agriculture" includes making land fit for cultivation, cultivation of land, improvement of land including development of sources of irrigation, raising and harvesting of crops, horticulture, forestry, plantation (including tree crops), cattle breeding, animal husbandry, dairy farming, seed farming, pisciculture including catching fish and all activities connected therewith or incidental thereto, apiculture, sericulture, piggery, poultry farming and such other activities as are generally carried on by agriculturists, dairy farmers, cattle breeders, poultry farmers and other categories of persons engaged in similar activities, including processing, marketing, storage and transport of agricultural produce and the acquisition of draught animals, implements and machinery in connection with such activities and also includes the purposes enumerated in section..........[2] of the Co-operative Societies Act and such other purposes as the State Government may specify in this behalf.

(*b*) "Co-operative Societies Act" shall mean .... Co-operative Societies Act, 19.... or the ...., Land Development Banks Act, 19....., as the context may require.

[1] The provisions in this Appendix may be made into a separate Act or incorporated as a separate chapter in the existing Co-operative Societies Act or be incorporated at the appropriate places in that Act with such consequential changes as may be necessary.

[2] Mention the Section relating to the LDB in the existing Co-operative Law setting out the purposes for which the LDB may lend.

(*c*) "financial assistance" shall mean assistance granted by way of loans, advances, guarantee or otherwise for any agricultural or non-agricultural purpose or for purchase of shares in any co-operative society.

(*d*) "integrated co-operative credit society" shall mean a co-operative credit society the primary object or principal business of which is the granting of short, medium and long-term loans and advances for agricultural and non-agricultural purposes in the State.

(*e*) "non-agricultural purpose" means any purpose other than agricultural purposes and includes in particular trade, commerce, industry and providing of services.

(*f*) all other terms and expressions occurring in this Act but not defined herein shall have the same meanings as are assigned to them respectively in the Co-operative Societies Act.

CHAPTER II

Constitution and Management of Integrated Co-operative Credit Societies

Formation of the Integrated Co-operative Credit Societies

3. (1) Notwithstanding anything contained in the Co-operative Societies Act or in any other law for the time being in force, if the State Government is of the opinion that it is necessary in the public interest or in the interests of the co-operative movement in the State or for the development of agriculture in general in the State, to integrate any two or more co-operative credit societies in the State or to divide any co-operative credit society so functioning within the State and transfer its undertaking to one or more co-operative societies, it may, by an order published in the Official Gazette, make a scheme for integration or division of such societies.

Explanation:—For the purpose of this section, a 'co-operative credit society' shall mean a co-operative society providing, or formed for the purpose of providing, credit for agricultural purposes or agricultural and non-agricultural purposes in the State.

(2) A scheme of integration or division referred to in sub section (1) may provide, *inter alia*, for all or any of the following matters, namely—

(*a*) the formation of a new co-operative credit society with a view to making it a transferee society as hereinafter referred to;

(*b*) the transfer of the business, properties, movable and immovable assets, including cash balances and reserve funds, rights, privileges, liabilities, debts and obligations of a co-operative credit society (hereinafter referred to as 'Transferor Society') to other co-operative credit society or societies, (hereinafter referred to as 'Transferee Society');

(*c*) the allotment of shares in the Transferee Society to the members of the Transferor Society;

(*d*) the continuance of the services of the employees of the Transferor Society in the Transferee Society on terms and conditions of service not being less advantageous to the employees than they were entitled to immediately before the integration or division and for subsequent variation thereof with the approval of the State Government;

(*e*) the date or the dates on which the various provisions of the scheme shall come into operation and

(*f*) such other incidental, consequential and supplemental provisions as the State Government may consider necessary for an effective implementation of the scheme.

(3) An order or a scheme made under sub-section (1) may authorise the Registrar to provide for such matters of detail as the State Government may consider necessary or expedient to be determined by him.

(4) No order referred to in sub-section (1) shall be made without the prior approval of the Reserve Bank of India wherever it relates to a co-operative society governed by the Banking Regulation Act, 1949.

10 of 1949

Effect of the Scheme

4. (1) On the coming into operation of the scheme referred to in sub-section (1) of section 3, the provisions thereof shall constitute sufficient notice to all parties concerned and shall be binding on the Transferor Society and the Transferee Society and all members, depositors, creditors, employees and all other persons having dealings with such societies.

(2) Notwithstanding anything contained in the Transfer of Property Act, 1882, or the Indian Registration Act, 1908 a scheme referred to in sub-section (1) of section 3 shall be sufficient conveyance, in accordance with the provisions of the scheme, of the assets and liabilities of the Transferor Society to the Transferee Society.

4 of 1882
16 of 1906

(3) On the coming into operation of the scheme referred to in sub-section (1) of section 3, any reference to the Transferor Society in any agreement, conveyance, assurance or any other document shall be deemed to be a reference to the Transferee Society and the rights and obligations of the Transferor Society shall be deemed to be the rights and obligations of the Transferee Society to the extent specified in the said scheme.

Cessation of business of Transferor Society

On the coming into operation of the scheme, the Transferor Society shall cease to carry on business except to the extent it may be necessary for it to do so for implementation of the said scheme.

Cancellation of Registration of Transferor Society

When the Registrar is satisfied that the provisions of the scheme have been implemented in full, he may, by order, direct cancellation of the registration of the Transferor Society from such date as he may specify in the said order, and, as from the date so specified, the Transferor Society shall stand dissolved.

Scheme not to be challenged

7. Notwithstanding anything contained in any other law for the time being in force, an order under sub-section (1) of section 3 and the scheme framed thereunder shall not be called in question in any court of law or any tribunal or authority on any ground whatsoever.

Membership

8. (1) Notwithstanding anything contained in the Co-operative Societies Act, it shall be competent for an integrated co-operative credit society to admit as member, a firm, a company or any other body corporate, constituted under any law for the time being in force, or a society registered under the Societies Registration Act, 1860, subject to such terms and conditions as may be laid down by the State Government by general or special order in that behalf.

21 of 1860

(2) Subject to the provisions of section..........[3] of the Co-operative Societies Act, every person, who applies to an integrated co-operative credit society for membership of such society shall be deemed to have been admitted to such membership with effect from the date of the receipt of his application in the office of such society, provided that the Registrar, of his own motion or on an application made by the society concerned or by a member of the society, and, notwithstanding anything to the contrary contained herein or in the Co-operative Societies Act, may order the removal of the person admitted to such membership, if he is satisfied, after giving to such person and the society, an opportunity of being heard in regard to the proposed removal, that such person is not eligible either to become or to continue

[3] Here mention the section relating to eligibility for membership of co-operative societies.

to be a member of such society. Every such order shall state the ground on which the Registrar considers such person not eligible to become or to continue as a member, and, where it is made on an application made by the society or by any member, shall be made within 30 days of the receipt of the application by him.

Nomination of persons to the Board of Directors or Managing Committee of the Integrated Co-operative Credit Societies.

9. (1) Notwithstanding anything contained in the Co-operative Societies Act, or the rules framed thereunder or the bye-laws of any integrated co-operative credit society, it shall be competent to the State Government in respect of the integrated co-operative credit society at the State level, and the Registrar in respect of any other integrated co-operative credit society, to nominate not more than .... persons with special knowledge of or experience in minor irrigation, land development, animal husbandry, dairy farming, pisciculture, apiculture, sericulture or such other agricultural or non-agricultural activities, including banking, as the State Government or the Registrar, as the case may be, may consider useful for the business of the integrated co-operative credit society, as members of the Board of Directors or of the Managing Committee of the integrated co-operative credit society.

(2) A person nominated as a member of the Board or of the Managing Committee shall hold office as such member during the pleasure of the nominating authority and shall be eligible for renomination.

(3) Every member so nominated shall have the same right to vote as an elected member of the Board or the Managing Committee, except in the election of the Chairman of the Board or the Managing Committee.

(4) Notwithstanding anything contained in any Act or the rules framed thereunder or the bye-laws of the integrated co-operative credit society, no nominated member of the Board or the Managing Committee shall be liable for anything done or omitted to be done by him in good faith in his capacity as such member of the Board or the Managing Committee, as the case may be.

Integrated co-operative credit societies at state and district levels to be managed by a whole-time Managing Director

10. (1) The management of the whole of the affairs of an integrated co-operative credit society at the State or the district level shall be vested in a Managing Director, who shall exercise his powers subject to the superintendence, control and direction of the Board of Directors or the Managing Committee, as the case may be.

(2) The Managing Director shall be in the whole-time employment of such integrated co-operative credit society and shall be appointed by the Board of Directors or the Managing Committee, as the case may be, subject to such terms and conditions and for such period or periods as it may deem fit or expedient.

Provided that where such integrated co-operative credit society is constituted under a scheme made by the State Government under section 3, the scheme shall provide for the appointment of a Managing Director for such period as may be specified in the scheme.

(3) Any person holding office as Managing Director shall be a person who has special knowledge and practical experience in the working of a co-operative bank or a commercial bank or has special knowledge and practical experience in financial, economic or business administration.

(4) The Managing Director shall, in addition to exercising all powers as may be necessary in the management of the whole of the affairs of the society, also exercise such other powers as may be delegated to him by the Board of Directors or the Managing Committee, from time to time.

(5) The Managing Director shall be a member of the Board of Directors or the Managing Committee, as the case may be, and shall have the same right to vote

as an elected member of the Board or the Managing Committee, except in the election of the Chairman of the Board or the Managing Committee.

CHAPTER III

BUSINEES OF THE INTEGRATED CO-OPERATIVE CREDIT SOCIETIES

Integrated Credit Societies to be deemed as land development banks.

11. For purposes of [4]chapter ...... of the ...... Co-operative Societies Act, 19 ....../...... Land Development Banks Act, 19 ......, integrated co-operative credit societies shall be deemed to be land development banks and the provisions of the said [4]chapter/Act, shall, so far as they are not inconsistent with the provisions of this Act, apply *mutatis mutandis* to the integrated co-operative credit societies and any reference in the said [4]chapter/Act to the land development bank shall be deemed to be a reference to the integrated co-operative credit society.

Business to be transacted by the integrated credit societies.

12. (1) Every integrated co-operative credit society may provide such financial assistance to its members as it may consider necessary.

(2) No financial assistance shall be granted under sub-section (1) to any member unless such member furnishes security to the satisfaction of the Board or the Managing Committee of the integrated co-operative credit society.

Provided that the Board or the Managing Committee may, for reasons to be recorded by it in writing in that behalf, waive such security in the case of any class of borrowers.

Issue of bonds.

13. (1) Notwithstanding anything contained in the Co-operative Societies Act, an integrated co-operative credit society may, with the prior approval of the State Government and subject to the bye-laws, borrow money by issue of bonds.

Provided that the issue of bonds shall be in conformity with such directions or instructions as may be issued by the Reserve Bank of India from time to time.

(2) The bonds shall be in the form of a promissory note and shall be repayable on the expiry of such period or periods from the date of issue thereof as may be approved by the Reserve Bank of India.

Provided that the Board of Directors or the Managing Committee, as the case may be, may repay the amount due under the bonds at any time before the date so fixed, after issuing a notice in such manner as the Board or the Managing Committee may direct in that behalf to the holders of the bonds.

Charge on immovable property of a member for the amounts borrowed.

14. (1) Notwithstanding anything contained in the Co-operative Societies Act or in any other law for the time being in force, but subject to any claim of the Government in respect of land revenue, or amounts recoverable as land revenue, whether prior in time or subsequent, any member owning any land or having interest in any land as a tenant or occupier or owning any other immovable property, who applies to an integrated co-operative credit society for a loan, shall, except where security has been waived in pursuance of the proviso to sub-section (2) of Section 12, make a declaration in the form prescribed therefor creating a 'GEHAN' (गहन : charge) in favour of the integrated co-operative credit society, on the lands or other immovable property or interest therein, specified in the declaration, for the repayment of the loan or advance granted or to be granted to him by the integrated co-operative credit society in pursuance of the application and for all future advances, if any, required by him which the integrated co-operative credit society

[4] Delete whichever is not applicable. The chapter to be indicated should relate to LDB.

may grant to him, subject to such maximum limit as may be fixed by the society, together with interest on such amount of the loan or advance and expressly reserving in favour of the society a right of sale without intervention of court, in case of default.

(2) Such declaration may be varied or cancelled at any time by the member with the prior approval of the integrated co-operative credit society.

(3) No land or other immovable property in respect of which a declaration under sub-section (1) has been made and no part thereof or of the interest in such land or immovable property shall, without the consent of the integrated co-operative credit society, be sold or otherwise transferred until the entire amount of the loan or advance taken by the member from the integrated co-operative credit society together with interest thereon has been paid to the said society; any transaction made in contravention of this sub-section shall be void.

(4) The declaration made under sub-section (1) or any variation or cancellation thereof under sub-section (2) shall be sent by registered post by the integrated co-operative credit society to the Sub-Registrar having jurisdiction over the area in which the land or the other immovable property is situated, who shall, if it is in order, register such declaration or variation or cancellation and return it to the society; and where it is not in order, he shall return it to the society without registering it.

(5) Where the declaration is registered under the preceding sub-section, it shall take effect from the date of its execution, and where it is not registered, it shall be of no effect.

(6) A registered Gehan (गहन) as above shall be deemed to create an interest in the property to which the declaration relates and shall constitute notice to any one dealing with the said property.

Priority of Gehan or mortgage

15. Notwithstanding anything contained in the Co-operative Societies Act or in any other law for the time being in force, a mortgage or Gehan (गहन) in favour of an integrated co-operative credit society shall be a first charge on the land, immovable property or interest therein, subject only to charges or mortgages created earlier in point of time in favour of any Government or any co-operative bank or a commercial bank; such Gehan (गहन) or mortgage shall, notwithstanding anything contained in any other law for the time being in force, have priority against the claims of any Government arising out of loans granted by it, after execution of such Gehan (गहन) or mortgage, under the Land Improvement Loans Act, 1883 or the Agriculturists Loans Act, 1884. 19 of 1883 12 of 1884

Transfer and vesting of charge in the integrated co-operative credit societies at district and state levels.

16. Mortgages and charges including Gehan (गहन), executed or deemed to have been executed in favour of, and all other assets transferred or deemed to have been transferred to a primary integrated co-operative credit society, shall, with effect from such execution or transfer or with effect from the date of such deeming, as the case may be, be deemed to have been transferred by such primary integrated co-operative credit society to the integrated co-operative credit society at the district level.

Provided that on a demand made by the integrated co-operative credit society at the state level on a society at the district level, that all such mortgages and charges, including Gehan (गहन), be transferred to it, the same shall be deemed to have been so transferred to and vested in that society.

Money borrowed for development of land

17. Where an integrated co-operative credit society has granted a loan for improvement of any land situated in any area or areas or covered by any specific programme of agricultural development notified by the State Government, to a person appearing to the society to have title to the said property or to be in lawful possession thereof, and the money has been either in whole or in part utilised for such improvement, any

person taking such property on grounds of superior title or otherwise shall be liable to repay to the society so much of the loan as has been utilised for the improvement of the property.

Loans to persons having restricted rights of transfer

18. Notwithstanding anything contained in any law, custom or usage, where an integrated co-operative credit society makes a loan or an advance to a member belonging to a scheduled caste or tribe or to any other person having restricted rights of alientión over immovable property, it shall be competent to such member to create a Gehan (गहन) on such property in favour of such society as security for such loan. The society shall, in the event of default by the member and without prejudice to other remedies available to it either under law or under contract or otherwise, be entitled to take possession of such property and lease the same to any person belonging to the same caste or tribe as the member belongs and appropriate the net receipts from the lease in repayment of the moneys due to it; and the member shall not be entitled to recover possession of such property until the amount due to the society has been repaid in full.

Power of sale of property charged, without intervention of court.

19. (1) Notwithstanding anything contained in the Co-operative Societies Act or the Transfer of Property Act, 1882 or in any other law for the time being in force, where a Gehan (गहन) has been created on immovable property in accordance with the provisions of sub-section (1) of section 14 in favour of an integrated co-operative credit society, the Board or the Managing Committee of such society or any person authorised by such Board or Committee shall, in case of default in payment of sums due to the society, have power, in addition to any other remedy available to the society, to bring to sale the property specified in such Gehan (गहन) without intervention of the Court.

(2) No such power shall be exercised unless and until—

(*a*) the Board or the Committee has previsouly authorised such sale in the exercise of the power of sale conferred on it by sub-section (1), after considering the representation if any, of the person creating the Gehan (गहन);

(*b*) registered notice requiring payment of sums due to the society or any part thereof, has been served upon—

(i) the person creating the Gehan (गहन);

(ii) any person who has any interest in or charge upon the property charged or any other right to redeem the same;

(iii) any surety for the payment of the sums due to the society or any part thereof;

(iv) any creditor of the person creating Gehan (गहन), who has in a suit for the administration of his estate, obtained a decree for sale of the charged property; and

(*c*) there has been default in payment of such sums due to the society for a period of three months after service of the notice referred to in clause (b).

(3) While exercising the power of sale under sub-section (1), an integrated co-operative credit society shall have the same powers and privileges as a land development bank has under the Co-operative Societies Act and shall follow the procedure specified in the Co-operative Societies Act and the rules framed thereunder for bringing the property to sale, handing over possession of the property to the purchaser on sale and appropriation of sums realised on such sale and other incidental matters connected therewith.

Power to make Rules.

20.[5] The State Government may, after publication in the Official Gazette, make rules generally for carrying out the purposes of this Act.

[5] In States where rules framed under an Act are required to be laid before the legislature, suitable provisions may be added to section 20.

Note:—(1) State Government may insert suitable provisions relating to the constitution and functioning of the 'State Co-operative Banking Personnel Development Board' in the above Law.

(2) The references to mortgages in Sections 15 and 16 in the above Law relate to the mortgages deemed to have been transferred to Transferee Societies from Transferor Societies.

ANNEXURE 8.2(*a*)

Draft Order and Scheme of Integration of SCB and SLDB

Order

WHEREAS the Government of........is satisfied that it is essential in the public interest and in the interests of the co-operative movement and agricultural development in the state in general that the ...... State Co-operative Bank Ltd., and the ....State Land Development Bank Ltd., should be integrated;

AND WHEREAS the Government has prepared and finalised a scheme for the purpose *[with the previous approval of the Reserve Bank of India as required] under Section 3 of the .... Formation of Integrated Co-operative Credit Societies Act, 19....

NOW THEREFORE, in exercise of the powers conferred on it by Section 3 of the...... Formation of Integrated Co-operative Credit Societies Act, 19...., the Government of .... hereby directs the integration of the said ...... State Co-operative Bank Ltd. and the ...... State Land Development Bank Ltd. in accordance with the scheme of integration set out hereundere:

(1) ......State Co-operative Bank Ltd. and the ......State Land Development Bank Ltd. shall each be the transferor bank and a reference hereinafter to 'Transferor Bank' shall refer to each of them.

(2) As from the date of this Order, there shall be constituted a co-operative society known as the...... State Co-operative Development Bank Ltd. with its registered office at ...... and with area of operation extending to the whole of the State of .... The said society shall be deemed to have been registered as a co-operative society as on the date of this Order under the provisions of the........Co-operative Societieies Act, 19.......

(3) The......State Co-operative Development Bank Ltd. shall have such bye-laws as shall be framed, with the prior approval of the Registrar, by the Provisional Board of Directors of the Bank, which is constituted as provided hereunder.

(4) The said......State Co-operative Development Bank Ltd. shall be the transferee bank for the purposes of this scheme and any reference hereinafter to 'Transferee Bank' shall mean the said Bank.

(5) As from the........(date) (hereinafter referred to as 'the appointed date') each of the Transferor Banks shall cease to carry on its business and the whole of the undertaking of each of the Transferor Banks shall stand transferred to and vested in the Trransferee Bank.

Explanation: For the purposes of this paragraph, the expression "undertaking" shall include all assets, rights, liabilities (including share capital), licences, powers, interests, authorities, privileges, benefits and other tangible and intangible assets including benefits of guarantees of the Transferor Bank.

(6) All persons who were officers or servants of the Transferor Bank immediately before the appointed date shall, as from the appointed date, become the officers or servants of the Transferee Bank on the same terms and conditions of service under the Transferor Bank.

Provided that the conditions of service applicable immediately before the appointed date of any such officer or servant shall not be varied to the disadvantage of such officer or servant except with the previous approval in writing of the Government.

(7) As from the appointed date all persons who were members of the Transferor Bank immediately before the appointed date, shall be deemed to have been duly

Note:—In the case of SLDB with unitary structure, this scheme applies to its assets and liabilities remaining after their division and transfer in accordance with the scheme given in Annexure 8.2(b)

*These words may be deleted where none of the Societies is governed by the Banking Regulation Act, 1949.

admitted as members of the Transferee Bank. Each such member shall be deemed to hold in the Transferee Bank shares of the face value equivalent to the face value of the shares held by it/him in the Transferor Bank as on the appointed date.

(8) Every person holding office of the Chairman or other Director of the Transferor Bank immediately before the appointed date shall cease to hold that office as from the date of the cancellation of the resigstration of the Transferor Bank.

(9) (a) In the Transferee Bank, a Provisional Board of Directors consisting of the following persons shall take office as from the appointed date:

(Herein furnish the names of the Directors of the Provisional Board of the Transferee Bank including the Chairman.)

(b) The Provisional Board shall be competent to exercise all the powers and privileges of the Transferee Bank and shall continue in office for a period of........ months/years from the said date.

(c) Any vacancy arising in the Provisional Board may be filled in by the Government as soon as possible and no proceedings of the Provisional Board shall be invalid on account of any such vacancy remaining unfilled.

(10) There shall be an Executive Committee of the above Provisional Board consisting of............**The said Committee shall exercise all such powers as may be delegated to it by the Board.

(11) Shri....................shall be the Managing Director of the Transferee Bank who shall hold office for a period of ...... years from the appointed date. The Managing Director shall hold his office during the above period subject to such terms and conditions as may be stipulated by the Government.

(12) The Provisional Board of Directors shall take immediate action in respect of the following matters:

(i) to delegate powers of sanctioning of loans and advances to the Executive Committee and to the various officers of the Transferee Bank;

(ii) to make adequate arrangements for the speedy and effective performance of the integrated functions of the Transferee Bank; and

(iii) with the previous approval of the Registrar, to formulate and get registered the bye-laws of the Transferee Bank.

(13) The Provisional Board of Directors so nominated shall take all necessary steps to constitute in accordance with the bye-laws the successor Board of Directors.

(14) Without prejudice to the generality of the foregoing provisions, all contracts, including guarantees, all deeds, bonds, agreements, powers of attorney, grants of legal representation and other instruments of whatever nature in favour of Transferor Bank and having effect immediately before the appointed date shall be in full force and effect against or in favour of the Transferee Bank and may be acted upon as fully and effectively as if, instead of the Transferor Bank, the Transferee Bank had been a party thereto and as if they had been issued against or in favour of the Transferee Bank.

(15) Any suit, appeal or other legal proceedings of whatever nature by or against the Transferor Bank pending as on the appointed date, shall not abate or be discontinued or be in any way prejudicially affected but shall be prosecuted by or against the Transferee Bank.

(16) All delegations of powers made by a competent authority of the Transferor Bank and in force immediately before the appointed date, unless altered, modified or cancelled by the Transferee Bank, shall continue to be valid in respect of persons, officers or employees in favour of whom such delegations or authorities were made and who are transferred to the Transferee Bank under this scheme, as if the said delegation has been made by the Transferee Bank.

(17) The integration of Transferor Bank and the Transferee Bank as stated hereinabove shall not affect the guarantee, if any, of any Government for the due discharge of any debt or obligation incurred by the Transferor Bank and the said guarantee

**Herein furnish the names of members constituting the Executive Committee.

shall be in full force as if it had been given by the Government in respect of a debt or obligation of the Transferee Bank.

(18) If any doubt arises in interpreting any of the provisions of this scheme, the matter shall be referred to the Government and its decision thereon shall be conclusive and binding on the Transferor Bank and the Transferee Bank and all other parties concerned.

(19) Without prejudice to the provisions of the foregoing paragraphs, the Government, or if authorised by the Government, the Registrar, may, for facilitating proper and speedy implementation of the scheme and for removing any difficulty, issue to the Transferor Bank and the Transferee Bank or to any of them or to any parties concerned, such directions as may be necessary and as are not inconsistent with this scheme, and any direction so issued shall be binding on the parties concerned.

(20) The registration of the Transferor Bank shall stand cancelled as from such date as the Registrar may specify in this behalf.

ANNEXURE 8.2(*b*)

DRAFT ORDER AND SCHEME OF INTEGRATION OF CO-OPERATIVE CREDIT SOCIETIES AT THE PRIMARY AND INTERMEDIATE LEVELS

ORDER

WHEREAS the Government of......is satisfied that it is essential in the public interest and in the interests of the co-operative movement and agricultural development in the state in general that the undertakings of the [1](Primary Land Development Banks), the District Central Co-operative Banks and the Primary Agricultural Credit Societies functioning in the State, should be integrated;

AND WHEREAS the Government has prepared and finalised a scheme for the purpose [2][with the previous approval of the Reserve Bank of India as required] under Section 3 of the......Formation of Integrated Co-operative Credit Societies Act, 19....;

NOW THEREFORE, in exercise of the powers conferred on it by Section 3 of the......Formation of Integrated Co-operative Credit Societies Act, 19...... the Government of......hereby directs the integration of the undertakings of the said banks and societies in accordance with the scheme of integration set out hereunder:

(1) [1][Each of the Primary Land Development Banks (hereinafter referred to as 'PLDB')] and the District Central Co-operative Banks (hereinafter referred to as 'DCCB') specified in Schedule No. 1 hereto, shall be the transferor banks and any reference hereafter to 'Transferor Bank' shall be a reference to each of the aforesaid banks.

(2) As from the date of this order there shall be constituted in each district a District Co-operative Development Bank (hereinafter referred to as 'DCDB') with such name, with registered office at such place and with such area of operation as shown in Part A of Schedule No. 2 hereto and the said DCDB shall be deemed to have been registered under the......Co-operative Societies Act, 19...

(3) The DCDB specified in Part A of Schedule No. 2 and the Primary Agricultural Credit Societies (hereinafter referred to as 'PACS') specified in Part B of Schedule No. 2 shall be the Transferee Banks or the Transferee Societies, as the case may be.

(4) [3][As from the ...... (hereinafter referred to as the 'appointed date') every Transferor Bank shall cease to carry on its business and its undertaking shall stand transferred to and vested in the DCDB and the PACS in the manner and to the extent set out hereunder:]

(i) The whole of the undertaking of each of the DCCB in Schedule No. 1 shall stand transferred to and vested in the DCDB of the concerned district which is shown in Part A of Schedule No. 2.

Explanation

For the purpose of this paragraph the expression 'undertaking' shall include all assets, rights, liabilities (including share capital), licences, powers, interests,

[1]If the LDB is unitary, the bracketed words may be substituted by the name of the State Land Development Bank, and the letters 'PLDB', wherever occurring in this scheme, may be substituted by the letters 'SLDB'.

[2]These words may be deleted where none of the Societies is governed by the Banking Regulation Act, 1949.

[3]If the LDB is unitary, the bracketed words may be substituted by the following:
"As from the......(hereinafter referred to as the 'appointed date') each of the DCCB shall cease to carry on its business and the SLDB shall cease to carry on its business at its branches situated within the area of operation of the DCDB, and the undertaking of each of the DCCB and the undertaking of the SLDB relating to the aforesaid branches shall stand transferred to and vested in the DCDB and PACS, in the manner and to the extent set out hereunder:"

authorities, privileges, benefits and other tangible and intangible assets including the benefits of the guarantees of the concerned DCCB.
(ii) Every member of the concerned DCCB in Schedule No. 1 shall be deemed to have been duly admitted as member of the corresponding DCDB of the district concerned.
(iii) [4][Every person who was, immediately before the appointed date, a member of a PLDB shown in Schedule No. 1] shall be deemed to be the duly admitted member of the concerned PACS in whose area of operation his property secured to the [1](PLDB) is situated, or where no such security subsists, his place of residence is situated.

Explanation:

If any doubt or dispute arises as to which PACS a member of [1](PLDB) is to be transferred, the same shall be decided by the Registrar, whose decision shall be final.
(iv) The share capital which immediately before the appointed date, every such member of the [1](PLDB) held in it, shall, as from the appointed date, be deemed to be held by him in the PACS of which he has become a member and accordingly the said share capital shall stand transferred to and vested in the said society.
(v) Any amount due to the [1](PLDB) immediately before the appointed date by any of its members, shall be deemed to have become due by him to the PACS of which he has become member as provided above, and the said PACS shall be deemed to be owing in such sums, as may be determined by the Registrar, to the DCDB in whose area of operation it is situated.
[5](vi) Save as provided above, the undertaking of the PLDB with its remaining assets and liabilities shall stand transferred to and vested in the DCDB in whose area of operation the PLDB is situated.
(vii) All persons who, immediately before the appointed date, were officers and servants of the DCCB and [6](PLDB) shall, as from the said date, be deemed to have become officers or servants of the corresponding DCDB on the same terms and conditions of service as under the DCCB or the [1](PLDB), as the case may be.

Provided that the terms and conditions of service applicable to any such officer or servant, immediately before the appointed date, shall not be varied to the disadvantage of such officer or servant, except with the previous approval in writing of the Government.
(5) Every person holding office of the Chairman or other Director of the Board of Directors of the DCCB [7](or the PLDB, as the case may be) immediately before the appointed date, shall cease to hold that office as from the date of cancellation of the registration of the DCCB [7](or the PLDB, as the case may be).
(6)(*a*) A Provisional Board of Directors consisting of persons as shown in Schedule 3 against each DCDB shall take office from the appointed date. The Provisional Board shall be competent to exercise all powers and functions of the DCDB and shall continue in office for a period of . . . . . . months/years from the said date.

(*b*) Any vacancy arising in the Provisional Board may be filled by the Government as soon as possible and no proceedings of the Board shall be invalid on account of any such vacancy remaining unfilled.
(7) There shall be an Executive Committee of the Provisional Board of Directors at each DCDB, consisting of such persons as may be specified by the State Govern-

[4]If the LDB is unitary, the bracketed words may be substituted by the following:
"Every person who was, immediately before the appointed date, a member of SLDB and having a loan account with, or residing in the area of the branch of SLDB which is situated within the area of operation of a DCDB,"

If the LDB is unitary—
[5]May be deleted.

[6]May be substituted by the words "of the concerned branches of the SLDB".

[7]The bracketed words may be deleted.

ment in this behalf, with authority to exercise all such powers as may be delegated to it by the Board.
(8) The person shown in Part A of Schedule No. 2 against each DCDB shall be the Managing Director of that DCDB and he shall hold office until a Managing Director is appointed by the Board of Directors in accordance with the bye-laws of the DCDB.
(9) The Provisional Board of Directors shall take immediate action in respect of following matters:

(*a*) to delegate to the Executive Committee, the Branch Committee and to the various officers of the DCDB, powers of sanctioning loans and advances as may be considered necessary;
(*b*) to make adequate arrangements for the speedy and effective performance of the integrated functions of the DCDB; and
(*c*) with the previous approval of the Registrar to formulate and get registered the bye-laws of the DCDB.

(10) The Provisional Board of Directors shall take all necessary steps to constitute, in accordance with the bye-laws of the DCDB, the successor Board of Directors.
(11) Without prejudice to the generality of the foregoing provisions and save as otherwise provided above, all contracts, including guarantees, deeds, bonds, agreements, powers of attorney, grants of legal representation and other instruments of whatever nature in favour of the Transferee Bank and having effect immediately before the appointed date shall be in full force and effect against or in favour of the DCDB or the PACS, as the case may be, and may be acted upon as fully and effectively, as if, instead of the Transferor Bank, the DCDB or PACS, as the case may be, had been a party thereto and as if they had been issued against or in favour of the said DCDB or the PACS.
(12) Any suit, appeal or other legal proceeding of whatever nature, by or against the Transferor Bank, pending as on the appointed date, shall not abate or be discontinued or be in any way prejudicially affected by the aforesaid integration, but subject to the provisions contained above, shall be prosecuted by or against the DCDB or the PACS, as the case may be.
(13) All delegations of powers made by a competent authority of the Transferor Bank and subsisting immediately before the appointed date, unless altered or modified or cancelled by the DCDB, shall continue to be valid in respect of persons, officers or employees in favour of whom such delegations or authorities were made and who were transferred to the DCDB under this scheme, as if the said delegation has been made by the DCDB.
(14) The integration of the Transferor Banks and the DCDB and PACS, as stated hereinabove, shall not affect the guarantee, if any, of any Government for the due discharge of any debt or obligation incurred by the Transferor Bank and the said guarantee shall be in full force as if it had been given by the Government in respect of a debt or obligation of the DCDB or the PACS, as the case may be.
(15) If any doubt arises in interpreting any of the provisions of this scheme, the matter shall be referred to the Government and its decision thereon shall be final and binding on the Transferor Banks, the Transferee Banks, the Transferee Societies and all other parties concerned.
(16) Without prejudice to the provisions of the foregoing paragraphs, the Government, or if authorised by the Government, the Registrar, may, for facilitating proper and speedy implementation of this scheme and for removing any difficulty in such implementation, issue to the Transferor Banks, the Transferee Banks, the Transferee Societies or to any of them or to any parties concerned, such directions as may be necessary and as are not inconsistent with this scheme, and any direction so issued shall be binding on the parties concerned.
(17) The registration of the [8](Transferor Banks) shall stand cancelled as from such date as the Registrar may specify in this behalf.

[8]If the LDB is unitary, the bracketed words may be substituted by the letters "DCCB".

ANNEXURE 8.3(*a*)

Model Amendments to Bye-laws—Apex Level

In the existing bye-laws of the State Co-operative Bank, the following additional/amended provisions may be incorporated for framing the bye-laws of the SCDB:

1 *Name Clause:*

To be modified by inserting the new name, "State Co-operative Development Bank," which is recommended for adoption by integrated banks. Area of operation would remain the same.

2. *Definitions Clause:*

(*a*) "Bank" means the .... State Co-operative Development Bank Ltd.
(*b*) "District Banks" means the District Co-operative Development Banks, registered as such or deemed to have been registered as such either under the Act or under the Integration Act.
(*c*) "Integration Act" means "The .... Formation of Integrated Co-operative Credit Societies Act, 19..."
(*d*) Words and expressions not defined in these bye-laws shall have the same meanings assigned to them respectively either in the Act @ or in the Integration Act and the rules framed under the said Acts."

3. *Objects Clause:*

"(i) to provide short, medium and long-term loans to members to enable them to lend or utilise the same for agricultural and non-agricultural purposes in their respective areas of operation;
(ii) to acquire, hold and generally to deal with any property or any right, title or interest in any such property which may form the security or part of any security for any loan or advance made by the Bank;
(iii) to buy, sell or deal in securities or bonds, scrips or other forms of securities on its own or on behalf of the District Banks;
(iv) to issue bonds for such periods and subject to such terms and conditions as the State Government may specify and subject to such general or special directions or instructions as may from time to time be issued by the Reserve Bank of India in this behalf;
(v) to borrow money by way of loans and advances with or without security and subject to such terms and conditions as the Board may decide, from the State Government, RBI, ARDC, any scheduled commercial bank and such other financial institutions or banking companies as may be approved by the Registrar;
(vi) to accept grants, gifts, donations and subsidies from any person including the Central or State government or any other authority."

4. *Membership:*

"The membership of the Bank shall consist of:—
(*a*) the District Banks;
(*b*) the Government of....................;
(*c*) any corporation, firm or company or association of persons whether incorporated or not, and an authority established under an Act, as may be admitted as member;

@ The word 'Act' would have already been defined as to mean the relevant Co-operative Societies Act.

Note: Based on the bye-laws of SCB and SLDB in the State of Andhra Pradesh.

(*d*) all the members of the..................State Co-operative Bank Ltd. and of the................State Land Development Bank Ltd., as may be or might have been deemed to be admitted as members by the Bank."

5. *Capital:*

Note: The clause relating to the capital of the Bank may be recast suitably depending upon the exact restructuring of the capital upon integration.

6. *Liability:*

"The liability of the members shall be limited to the share capital subscribed by them."

7. *Funds:*

"The Bank shall be entitled to raise funds from the following sources:

(*a*) subscriptions to share capital;
(*b*) deposits of various kinds, with or without interest;
(*c*) borrowings by issue of bonds;
(*d*) loans from the State Government, Central Government and any other authority;
(*e*) loans and cash credits and overdraft accommodation from the State Bank of India or its subsidiaries, any of the nationalised banks, RBI, ARDC, or such other financial institutions as may be approved by the Registrar;
(*f*) acceptance of grants, gifts, donations and subsidies from any individual or person including the State and Central Government; and
(*g*) any other manner or source as may be approved by the Registrar."

8. *Utilisation of Funds and Security:*

"The funds of the Bank shall be utilised for financing the members to enable them to carry on their business, in particular granting of loans and advances for agricultural or non-agricultural purposes against such security as may be prescribed by the Board from time to time in this behalf.

Provided that, the Board may, for reasons to be recorded by it in writing, waive security for any class of borrowers."

9. *Limit and Period of Loans:*

"(*a*) Loans shall be issued for such periods not exceeding 25 years as the Board may decide from time to time.

(*b*) The total amount of loans due from any member shall not at any time exceed ...... times the paid-up value of the shares held by it in the Bank."

Note:—The existing provisions in SCB's bye-laws empowering the Bank to grant only short and medium-term loans, may be deleted.

10. *Rate of Interest:*

"(*a*) The rate of interest on loans granted by the Bank shall be such as may be determined by the Board from time to time.

(*b*) It shall be competent for the Board to vary the rate of interest at any time on loans and advances or instalments thereof either sanctioned, disbursed or remaining undisbursed."

11. *Mode of Repayment:*

"Loans shall be repaid on the due dates in one lumpsum or in such instalments as may be prescribed by the Bank, alongwith interest and other charges on the outstanding principal. It shall, however, be competent for the members to repay at any time a sum larger than the prescribed instalment or to discharge the outstanding loans together with interest and other charges due, in one instalment."

12. *Appropriation of Payments:*

"All payments by the members to the Bank shall be appropriated in the following order:

(1) towards arbitration and execution fees advanced on behalf of the indebted institution or individual, and towards fees, fines, postal charges and other miscellaneous charges due by the member;
(2) towards interest due;
(3) towards principal."

13. *Penal Interest:*

"Penal interest at such rates above the rate at which loans have been sanctioned, as may be prescribed by the Board, shall be charged on the overdue loan instalments from the due date or to the date of disbursement of the loan, as the case may be, to the date of payment. In special cases the Board may waive the penal interest in full or in part."

14. *Valuation:*

"The land and other immovable properties offered as security to the loans issued by the Bank or the loans issued out of sums advanced by the Bank, shall be valued according to such standards as may be laid down by the Board from time to time with the approval of the Registrar."

15. *Loan Eligibility and Disbursement:*

"The loan eligibility and the procedure for disbursement of loans shall be determined in accordance with the loaning policy laid down from time to time by the Board having regard to the directions or instructions received by it from time to time from the State Government or the Registrar, the Agricultural Refinance And Development Corporation or the Reserve Bank of India."

16. *Bonds:*

"(*a*) With the prior approval of the State Government and subject to such instructions or directions as may be issued from time to time by the Reserve Bank of India in this behalf, the Board may issue bonds of one or more denominations and in one or more series for such periods not exceeding*......years as it may deem expedient.

"The bonds shall be issued with or without guarantee of the State Government and shall be repaid on the expiry of the time specified therein, or earlier with the approval of the Registrar.

"(*b*) The bonds shall be signed and executed on behalf of the Bank by two officials of the Bank of whom one shall be the Chairman and the other shall be the Managing Director or any other official duly authorised by the Board in this behalf."

17. *Interest on Bonds:*

"The interest due on the bonds shall be payable every half year on such date as the Board may fix."

18. *Repayment before Maturity of Bonds:*

"No bond holder can claim repayment of the amount due under a bond before expiry of the period for which the bond has been issued."

19. *Bonds Redemption Fund:*

"The Bank shall constitute a Bond Redemption Fund to facilitate repayment of the bonds on their due dates. The constitution and management of the said Fund

Indicate the period.

shall be governed by such directions as may be issued by the Reserve Bank of India from time to time."

20. *Board of Directors:*

"The management of the Bank shall be vested in a Board of Directors which shall be constituted as under:

(*a*) *......directors to be elected by the representatives of the members from amongst themselves,

(*b*) *......directors to be nominated by the State Government in accordance with the provisions of section 9(1) of the Integration Act,

(*c*) the Registrar of Co-operative Societies or his nominee,

(*d*) *......directors to be nominated by the State Government who shall be members of the weaker sections, namely, scheduled castes/tribes and denotified tribes, backward classes and such other socially and economically backward sections of the community as may be notified from time to time by the Government in this behalf,

(*e*) the Managing Director to be appointed by the Board in accordance with the provisions of Bye-law No.......,

(*f*) not more than........**nominees of the financing institutions from whom the Bank has borrowed, if such financing institutions so desire."

21. *Election of the Chairman:*

"The elected directors of the Board shall, from amongst themselves, elect a Chairman of the Board."

22. *Managing Director:*

"The Board of Directors shall appoint a Managing Director, who shall be the chief executive of the Bank and shall have the qualifications prescribed in the Integration Act."

*Indicate number of persons to be elected or nominated.

** Indicate number of persons to be nominated by the financing institutions.

Note:—The above |bye-laws are not exhaustive.

ANNEXURE 8.3(*b*)

Model Amendments to Bye-laws—Intermediate Level

In the existing bye-laws of the CCB, the following additional/amended provisions may be incorporated for framing the bye-laws of the DCDB:

1. *Name clause:*

Name clause to be modified by inserting the new name of DCDB, which is recommended for adoption by integrated banks at the district level.

2. *Definitions Clause:*

"(*a*) 'Bank' means the..................District Co-operative Development Bank Ltd.

(*b*) 'financing bank' means the............State Co-operative Development Bank Ltd.

(*c*) 'Integration Act' means 'The......Formation of Integrated Co-operative Credit Societies Act, 19..........' "

(*d*) Words and expressions not defined in these bye-laws shall have the same meanings assigned to them, respectively, either in the Act or in the Integration Act and the rules framed under the said Acts."

3. *Objects Clause:*

"The objects of the Bank shall be:

"to finance members of the Bank by granting them short, medium and long-term loans and advances to enable them to lend or utilise the same for agricultural or non-agricultural purposes."

Note:—Other existing bye-laws of the CCB relating to raising of funds, opening of branches, supervision over societies, etc. and carrying on general banking business may be retained. If any objects clause now existing in these bye-laws restricts the granting of loans only to short and medium-term loans, the same may be deleted.

4. *Membership:*

"The membership of the Bank shall consist of:

(*a*) any co-operative society functioning within the area of operation of the Bank;
(*b*) the Government of......;
(*c*) any corporation, firm or company or association of persons, whether incorporated or not, or an authority established under an Act, as may be admitted as member;
(*d*) ......State Co-operative Development Bank Ltd."

5. *Capital:*

Note:—The clause relating to the capital may be modified suitably to meet the requirements of the DCDB.

6. *Funds:*

"The Bank may raise funds from the following sources:

(*a*) subscriptions to share capital;
(*b*) deposits of various kinds, with or without interest;
(*c*) borrowings from the...... State Co-operative Development Bank Ltd.;
(*d*) loans from the State Government, Central Government or any other authority and special contributions by the State Government or the Central Government;

Note: Based on the bye-laws of CCB and PLDB in Kerala.

(*e*) loans and cash credits and overdraft accommodations from the State Bank of India or its subsidiaries, any of the nationalised banks or such other financial institutions as may be approved by the registrar;
(*f*) acceptance of grants, gifts, donations and subsidies from any individual or person including the State and Central Government; and
(*g*) any other manner or source as may be approved by the Registrar."

7. *Utilisation of the Funds:*

"The funds of the Bank shall be utilised for financing members to enable them to carry on their business, in particular, granting of loans and advances for agricultural or non-agricultural purposes as defined in the Integration Act with or without security as may be prescribed by the Board from time to time in this behalf."

8. *Limit and Period of Loans:*

"(*a*) Loans shall be issued for such periods not exceeding 25 years as the Board may decide from time to time.

(*b*) The total amount of loans due from any member shall not at any time exceed......times the paid-up value of the shares held by the member in the Bank.

Loans to the depositors on the security of the fixed deposits in the Bank may be granted not exceeding......per cent of the amount of such deposits."

Note:—Any provisions in the existing bye-laws of the CCB restricting the Board's power of sanctioning loans, only to short-term and medium-term loans may be deleted.

9. *Rate of Interest:*

"(*a*) The rate of interest on loans granted by the Bank shall be such as may be determined by the Board from time to time, subject to such terms and conditions or guidelines as may be issued from time to time by the financing bank.

(*b*) It shall be competent to the Board to vary the rate of interest at any time on loans and advances or instalments thereof either sanctioned, disbursed or remaining undisbursed, subject to such terms and conditions or instructions as may be issued from time to time by the financing bank."

10. *Penal Interest:*

"Penal interest at such rate, above the rate at which loans have been sanctioned, as may be prescribed by the Board, shall be charged on the overdue loan instalments from due date or the date of disbursement of the loan, as the case may be, to the date of payment. In special cases, the Board may waive the penal interest in full or in part."

11. *Mode of Repayment:*

"Loans shall be repaid on the due dates in one lumpsum or in such instalments as may be prescribed along with interest and other charges on the outstanding principal. It shall, however, be competent for the members to repay at any time a sum larger than the prescribed instalments or to discharge the outstanding loans together with interest and other charges due in one instalment."

12. *Valuation:*

"The land and other immovable properties offered as security for the loans issued by Bank or issued out of the sums advanced by the Bank shall be valued according to such standards as may be laid down by the Board from time to time in accordance with such instructions or guidelines as may be received from time to time from the financing bank or the Registrar."

13. *Loan Eligibility and Disbursement:*

"The loan eligibility and the procedure for disbursement of loans shall be determined in accordance with the loaning policy laid down from time to time by the Board having regard to the directions or instructions received by it from time to time from the financing bank, the Registrar, the ARDC or the RBI."

14. *Board of Directors:*

"The management of the Bank shall be vested in a Board of Directors which shall be constituted as under:

(*a*)................directors to be elected by the members from amongst themselves;
(*b*)................directors to be nominated by the Registrar under Section 9(1) of the Integration Act;
(*c*)................directors to be nominated by the Registrar who shall be members of the weaker sections, namely, scheduled castes/tribes and denotified tribes, backward classes and such other socially and economically backward sections of the community, as may be notified from time to time by the Government in this behalf;
(*d*) the Managing Director to be appointed by the Board in accordance with the provisions of bye-law No.......;
(*e*)................directors to be nominated by the financing bank."

15. *Election of the Chairman:*

"The elected directors of the Board shall, from amongst themselves, elect a Chairman of the Board."

16. *Managing Director:*

"The Board of Directors shall appoint a Managing Director, who shall be the chief executive of the Bank and shall have the qualifications prescribed in the Integration Act."

Note: The above bye-laws are not exhaustive.

ANNEXURE 8.3(*c*)

MODEL AMENDMENTS TO BYE-LAWS—PRIMARY LEVEL

In the existing bye-laws of the primary agricultural credit societies, the following additional/amended provisions may be incorporated.

1. *Objects:*

"(i) The main object of the Society is to help the farmers, rural artisans agricultural labourers and others by providing them integrated credit and other services and facilities for increasing employment, production and income and by organising services for distribution of consumer goods.

"(ii) In pursuance of the main objective, the society may undertake one or more or all of the following functions and shall co-ordinate its activities with those of other institutions in the area and, wherever necessary, act as their agent:—

(*a*) to grant short, medium and long-term loans to members for agricultural or non-agricultural purposes as defined in the Integration Act;

(*b*) to enable members to redeem mortgages or other charges or encumbrances on their agricultural or non-agricultural holdings;

(*c*) to enable members to discharge their prior debts by granting necessary loans to them;

(*d*) to help members to purchase land in special cases, so as to enable the members to round off their holdings and work more economically;

(*e*) to procure, purchase and supply of agricultural inputs like fertilisers, seeds, manures, implements, cattle-feeds, pesticides, etc., and other raw materials for cottage and small-scale industries and subsidiary activities undertaken by the members;

(*f*) to arrange for the sale of agricultural produce, dairy, animal husbandry and fishery products, etc., and cottage/small-scale industrial products of its members to their best advantage through co-operative marketing societies or other agencies;

(*g*) to own or hire godowns to provide facilities to store the products of agricultural and other non-agricultural activities for sale or storage purposes;

(*h*) to encourage general thrift, self-help and co-operation among the members;

(*i*) to raise funds by way of deposits from members and non-members and borrowings from the DCDB and other financial institutions approved by the Registrar;

(*j*) generally to undertake such other activities as may be conducive to the promotion of economic interest of members, overall development of the area, and the objects specified above, as may be approved by the financing bank."

2. *Definitions:*

"(i) The term 'financing bank' occuring in these bye-laws shall mean the...... District Co-operative Development Bank Ltd. or the ....State Co-operative Development Bank Ltd. in whose area of operation the society is situated, or a commercial bank, which has taken up the responsibility for promoting, guiding and financing the society.

(ii) "Integration Act" means The..............Formation of Integrated Co-operative Credit Societies Act, 19...........

(iii) Words and expressions not defined in these bye-laws shall have the same meanings assigned to them either in the Act or in the Integration Act and the rules framed under the said Acts."

Note: Based on the model bye-laws of the farmers service co-operative societies.

3. *Capital:*

"(i) The authorised capital of the society shall be Rs................made up of..............'A' class shares of Rs................each and..........'B' class shares of Rs................each. 'A' class shares will be available only to individuals and 'B' class shares will be available only to the State Government and the financing bank. The Society may also admit nominal members for enabling them to execute mortgage deeds/declaration of charges for term loans along with the member borrowers. Each such nominal member shall contribute a nominal fee of Re 1/-.

"(ii) 'A' class shares shall be paid in one or more instalments as may be determined by the Managing Committee.

"(iii) 'B' class shares shall be payable in full on allotment by the Managing Committee.

"(iv) The Society shall retire such 'B' class shares at such times and in such manner as may be agreed upon between the Society and the 'B' class shareholders."

4. *Membership:*

"Any person above 18 years of age who is competent to contract and is residing within the area of operation of the society or owning agricultural land or other immovable property within the said area shall be eligible for admission as an individual member.

"The state government and the financing bank shall also be eligible for admission as members.

"Except with the general or specific permission of the Registrar of Co-operative Societies, no individual, being a member of another primary co-operative credit society, shall be admitted as, or be, a member of the society."

5. *Application for Admission:*

"(i) Applications for admission as members and for allotment of shares shall be made to the Society in the form, if any, specified by the Society for the purpose along with an admission fee of Re 1/- and the full value of atleast one share. The application shall be submitted in duplicate.

"(ii) As soon as the application for membership and the share money are received, the name of the applicant shall be registered in the membership register and the duplicate of the application shall be returned to the applicant duly acknowledged by the secretary.

"(iii) Notwithstanding what is contained hereinabove, all members of the......*Primary Land Development Bank Ltd./State Land Development Bank Ltd. having residence or possessing any agricultural land or other immovable property, within the area of operation of this Society shall be deemed to be the duly admitted members of this Society with effect from the......under the provisions of the scheme of integration published in State Government Gazette No...........dated......"

6. *Powers and Duties of Managing Committee:*

"Amongst other things, the powers and duties of the Managing Committee shall be:

(i) to raise funds necessary for the purpose of carrying out the functions of the Society, in the form of deposits and loans, on such terms and conditions as the Committee may determine;

(ii) to grant loans and advances to members on such terms and conditions as the Committee may determine from time to time; but subject to the instructions of Registrar of Co-operative Societies and financing bank, if any;

* Delete whichever is not applicable.

(iii) to decide the manner in which the surplus funds of the Society may be invested."

7. *Loans:*

"(i) Loans and advances shall be given only to members.

Provided that loans on the security of fixed deposits and, with the prior approval of the Registrar, against government and trustee securities, Life Insurance Corporation policies and jewels may be sanctioned even to those persons who are not members of the Society.

"(ii) Loans and advances shall be sanctioned by the Managing Committee.

Provided that loans to members and non-members against the securities referred to in clause (i) above may be granted also by the full-time paid secretary subject to the supervision by the President and on such terms and conditions and within such limits as may be laid down by the Managing Committee.

"(iii) The Managing Committee shall frame rules, with the approval of the financing bank, governing the purposes, the security, the period, the rate of interest and such other terms and conditions in respect of the loans and cash credit that may be sanctioned by it to the members and non-members.

"(iv) The Managing Committee shall also frame rules, to be approved by the financing bank, governing the terms and conditions on which it may grant conversion of short-term loans into medium-term loans or extension of the period of repayment or rescheduling of any loans due to the Society from members and non-members.

"(v) Every member who sells the products of his business, viz., agriculture, dairying, poultry keeping, piggery, sheep rearing, cottage industry, etc., shall be bound to sell the same through the society or an agency specified by the Managing Committee and agree to have the loans or instalments of the loans due to the society adjusted out of the sale proceeds to the extent specified by the Managing Committee."

Note: The above by-laws are not exhaustive.

ANNEXURE 8.4

Consequential amendments to other enactments on account of the proposed integration of co-operative credit societies

1. *Banking Regulation Act*, 1949, (*As Applicable to Co-operative Societies*).

(*a*) In order to enable the concerned integrated banks to commence or carry on the business of banking without a licence until the Reserve Bank grants a licence or advises that the licence cannot be granted, the following new clause (iv) in proviso to Sub-Section (2) of Section 22 of the Act may be inserted:—

"(iv) a co-operative society formed for the purpose of taking over the banking business of a co-operative bank and taking over such business, or a co-operative land mortgage bank taking over the business of a co-operative bank until it is, by a notice in writing, notified by the Reserve Bank that a licence cannot be granted to it."

(*b*) In order to exclude the sums borrowed by the integrated banks by issue of bonds or debentures from being regarded as liabilities in India for the purposes of Sections 18 and 24 of the Act, the following new clause (cc) may be inserted in the explanation under Section 18:—

"(*cc*) in the case of a co-operative bank any moneys borrowed by issue of bonds or debentures with the approval of the Reserve Bank."

Simultaneously, after the existing explanation under Section 18, a further explanation on the following lines may be added, viz:—

"Explanation II:—For the purposes of this Section and Section 24, the moneys in a sinking fund for repayment of bonds, or the moneys in a debenture redemption fund or any investment of such moneys shall not be regarded as cash or securities, as the case may be."

2. *Deposit Insurance Corporation Act*, 1961.

In order to enable the Deposit Insurance Corporation to register integrated banks that may newly come into existence, a new clause (iii) on the following lines may be inserted in Section 13A (2)(*b*) of the Deposit Insurance Corporation Act, 1961:

"(iii) a co-operative bank formed for the purpose of taking over the banking business of another co-operative bank and taking over such business or a co-operative land mortgage bank taking over the business of a co-operative bank, within three months of its having made an application for registration under the said Section."

3. *Reserve Bank of India Act*, 1934.

In order to exempt the integrated banks from maintaining cash reserves with the Reserve Bank of India under Section 42 (1) of the Reserve Bank of India Act, in respect of the sums borrowed by them by issue of debentures or bonds, it is suggested that a new clause (iv) may be inserted under Explanation (c) to Section 42(1) of the Act, on the following lines:—

"(iv) in the case of a co-operative bank any moneys borrowed by it by issue of bonds or debentures."