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Policies in the Sphere of Agricultural Credit

The main task for the Reserve Bank of India in the sphere of agricultural credit was one of promotion rather than regulation, especially to assist the consolidation and expansion of co-operative institutions and to enable them to obtain from the Bank some modest accommodation for seasonal agricultural operations and marketing of crops, with a view to bringing down the cost of agricultural credit. In Chapter 7, a detailed account has been given of the preliminary efforts of the Bank in this sphere in the pre-war years, and the submission of the Preliminary and the Statutory Reports in 1936 and 1937, respectively. The principles enunciated by the Bank in these Reports and the circulars issued thereafter, with regard to the lines on which the co-operative sector should develop and the Bank's role in providing credit to the co-operative institutions, remained practically unchanged for many years. It has also been explained how the Bank's scheme of May 1938 to provide financial accommodation to the provincial co-operative banks against agricultural paper met with poor response. Although the co-operatives appeared to be in no pressing need of accommodation, the Bank made another serious effort in early 1942 to provide accommodation to this sector, the main feature of this being the grant of a rebate in the interest rate charged by the Bank in respect of its rediscounts of and advances against agricultural paper. Although even this scheme had limited success, some kind of a break-through was accomplished in the field of Reserve Bank credit to the co-operative sector.

During this period, the Reserve Bank also brought co-operative banks under its scheme of remittance facilities. The original scheme of October 1940 did not appeal to the banks, but with modifications made by the Bank in 1941, the provincial co-operative banks agreed to join, though reluctantly.

The co-operative institutions recorded a noticeable increase in number, membership, deposits, owned capital and loan turnover during the war years; on the other hand, the outstanding amount of loans and overdues decreased. These phenomena perhaps reflect the improvement in the economic position of the farmers as a result of a rise in the prices of agricultural commodities. While the war did help strengthen the co-operative movement, it was not clear that the strengthening that had taken place during the war years was, by and large, of a permanent character.

Although in the sphere of loans and discounts to the co-operative sector the war years were on the whole quiet for the Reserve Bank, the Agricultural Credit Department of the Bank remained fairly active during this period. The Department continued to examine problems of agricultural credit, including the co-operative movement, debt legislation, schemes of rural reconstruction, land mortgage banking, impact of war on co-operative institutions, etc., etc., and prepared several studies on these subjects. The Department rendered advice to the Provincial Governments on various matters referred to it relating to rural credit and co-operative movement.

The Bank endeavoured to keep itself in close touch with the cooperative movement in different Provinces, by collecting information and attending meetings and conferences of co-operative organisations. The Bank actively participated in the formulation of the post-war plans concerning rural credit. Senior officials of the Bank were associated with two committees set up by the Central Government for this purpose, namely, the Agricultural Finance Sub-Committee and the Cooperative Planning Committee.

War-time Growth of Co-operative Institutions

World War II contributed to an overall improvement of the co-operative movement and also brought into prominence the non-credit side of the movement. The Reserve Bank's Review of the Co-operative Movement in India for the period 1939-46 welcomed the latter development enthusiastically, thus:

> One would not, therefore, be far in the wrong if one suggested that the greatest contribution of the war to the Co-operative movement was the shifting of the emphasis from the credit aspect to its productive and distributive functions, or more generally, to its multi-purpose poten tialities -a long-felt need for imparting that richness and balance which is necessary for the proper development of the Movement.

The growth of the co-operative institutions in the six years of the war as well as in the four-year period prior to the war is indicated in the following three tables, relating, respectively, to primary societies, central banks and provincial banks.

PRIMARY SOCIETIES

End of the year (July-June)	1934-35		1938-39		1944-45	
Particulars	Total	Of which agricultural	Total	Of which agricultural	Total	Of which agricultural
1. No. of Societies (000s) . . .	104	93	121	105	158	136
2. Membership. . (lakhs)	43.96	30.08	52.67	35.60	81.44	50.13
		(Rs.crores)				
3. Owned Capital*	21.55	13.48	22.75	12.78	31.97	15.29
4. Deposits. .. .	14.87	3.16	17.97	2.66	30.60	4.22
5. Borrowings. .	19.43	17.58	18.14	16.18	15.86	11.02
6. Loans outstanding. .	42.28	26.50	43.12	24.01	38.52	18.20
7. Loans made. . (during the year)	19.02	5.18	21.66	6.75	30.62	11.82
8. Loans recovered (during the year)	22.27	5.38	20.24	6.16	30.80	12.19
9. Overdues. .	14.42	11.91	14.94	11.16	9.12	6.79

* Paid-up share capital and reserve and other funds.

CENTRAL CO-OPERATIVE BANKS

End of the year (July-June)	1934-35		1938-39		1944-45	
Particulars	Total	(A)	Total	(A)	Total	(A)
1. No. of Banks	615	__	594	___	602	___
		(Rs.crores)				
2. Owned Capital@	6.10	__	6.65	___	8.06	___
3. Deposits (P). .. .	19.94	17.13	18.34	15.53	27.82	21.05
4. Borrowings (Q). .	3.36	2.99	4.43	4.02	3.94	3.31
5. Loans outstanding ing ®	20.40	19.77	19.92	19.16	19.09	17.70
6. Loans made (S) (during the year)	10.00	8.85	10.51	9.15	39.22	35.43
7. Loans recovered (T) (during the year)	12.11	11.08	10.25	8.85	38.72	34.94

@ Paid-up share capital and reserve and other funds.

(P) Figures in column (A) refer to deposits from individuals and non-cooperative institutions.

(Q) Figures in column (A) refer to borrowings from provincial co-operative banks.

(R)(S) (T) Figures in column (A) refer to transactions with co-operative societies.

PROVINCIAL CO-OPERATIVE BANKS

End of the year (July-June)	1934-35		1938-39		1944-45	
Particulars	Total	(A)	Total	(A)	Total	(A)
1. No. of Banks	11	__	10	__	11	__
			(Rs. crores)			
2. Owned Capital@	1.55	__	2.06	__	2.71	__
3. Deposits	10.01	5.73	10.73	6.71	17.57	8.83
4. Borrowings from Govt.	0.07	__	0.15	__	0.30	__
5. Loans outstanding (R)	4.98	4.78	6.64	6.34	6.37	4.56
6. Loans made (S) (during the year)	6.92	3.57	7.33	4.76	16.35	9.39
7. Loans recovered (T) (during the year)	6.92	3.65	6.85	4.29	16.06	8.93

@ Paid-up share capital and reserve and other funds.

(P) Figures in column (A) refer to deposits from individuals and non-cooperative institutions.

(R) (S) (T) Figures in column (A) refer to transactions with central co-operative banks and societies.

The order of expansion in the resources of the co-operatives as a whole, significant as it was, tias modest as compared with the expansion recorded by commercial banks. For instance, deposits of individuals and others (that is, excluding deposits of other co-operative institutions) recorded a rise from about Rs. 40 crores at the end of 1938-39 to about Rs. 60 crores at the end of 1944-45, or about 50 per cent, as compared to about 260 per cent rise in the case of deposits of scheduled banks. As regards the lending operations of the co-operatives, while the amounts loaned annually recorded some increase during the war period, there was hardly any *net* increase in the loans outstanding over the six-year period in the case of non-agricultural societies, while in respect of agricultural societies there was a marked decline from Rs. 24 crores to about Rs. 18 crores. It would seem that this was on account of the substantial increase in agricultural prices and the abundance of money. This appears to be corroborated by the decline in overdues of agricultural societies from Rs. 11.2 crores to Rs. 6.8 crores. These tables also bring out the fact that finance provided by the co-operative institutions as a whole constituted a small portion of that provided by the organised money market, that is to say, the commercial banks. On the non-credit side of the co-operative sector, large increases in the number and business were noticed in consumers' stores, weavers' societies, milk supply unions and societies, cane-growers' societies and several other societies for cottage industries.

Summing up the developments in the co-operative sector in the war period, the Reserve Bank's Review stated as follows:

> Important as these developments are, they are very largely products of abnormal and artificial conditions engendered by the war. To what extent the progress achieved remains permanent when things revert to normality depends very much upon the innate strength which the institutions have gained during these years of favourable incubation and the earnest efforts made by co-operators to conserve it. It is encouraging to note that the Registrars are endeavouring to stabilise the gains and place the societies on a solid footing.

Resume of the Bank's General Approach

In the Statutory Report, it will be recalled, the Bank took the view that the co-operative movement was the most suitable agency for the supply of agricultural finance. However, the Bank was also keen that the services of other agencies, namely, indigenous bankers and moneylenders, should be used under a scheme of proper regulation. The Bank's initial efforts to bring in the indigenous bankers and moneylenders within the scope of the organised banking system were unsuccessful and during the period under review, that is to say, the war years, hardly any new initiative was taken in this matter. Even with regard to the co-operative sector, it is perhaps correct to say that the Bank was not very active. Its preoccupation with the various problems of the war and the abundance of monetary resources in the economy did not lend urgency to this matter. The Bank, of course, did not altogether remain quiet. Some effort was made to expand the Bank's assistance to the co-operative sector, against the security of agricultural paper, by offer of some incentive, though broadly within the four corners of the policy enunciated in the Statutory Report.

The first concrete step which the Reserve Bank took, pursuant to the Statutory Report, it will be recalled, was to issue a circular in May 1938, giving the detailed procedure to be followed by co-operative banks for obtaining accommodation. This circular met with very little response from the co-operative banks. The efforts made by the Chairman and the Managing Director of the Bombay Provincial Co-operative Bank to get the procedure altered in some respects were also not fruitful. It may also be recalled that later, in June 1939, the Bank issued a long circular to all provincial and central co-operative banks, clarifying some of the issues raised in the replies to the Bank's 1938 circular and indicating the manner in which co-operative banks must organise their business on banking lines and follow correct banking practices. The Bank's view was that as in the case of commercial banks, an obviously essential pre-requisite for the provision of credit was that the institutions through which it was provided should be soundly run.

Scheme of 1942 for Loans and Rediscounts

During the period under review, the Bank made another effort to encourage co-operative banks to obtain accommodation from it through rediscounts and advances, for financing marketing of crops or seasonal agricultural operations. For this purpose, the Bank drew up a modified scheme offering a concession in the rate of interest and circulated it to the provincial co-operative banks and Registrars of Co-operative Societies, on January 2, 1942.

The scheme was drawn up mainly on the initiative of Deputy Governor Nanavati, though it was issued a few days after his retirement on December 22, 1941. During his tenure of office as Deputy Governor from 1936 to 1941, he strove hard to build up close links between the Reserve Bank and the co-operative movement and this scheme was perhaps the culmination of the efforts.

Incidentally, even after retirement, Sir Manilal, as he had then become, took deep interest in matters relating to rural economics and co-operation and continued to have contacts with the Reserve Bank in this connection. He became the President of the Indian Society of Agricultural Economics in 1941 and continued as such for eighteen years up to 1959. He was the Chairman of the Agricultural Credit Organisation Committee appointed by the Government of Bombay in 1947, which made far-reaching recommendations for the reorganisation of the co-operative movement in Bombay Province, some of which were adopted in other Provinces also. It was appropriate that Sir Manilal, who initiated the Reserve Bank's active role in agricultural credit matters, should be a participant at the Informal Conference convened by the Reserve Bank in February 1951, which opened up a new era in the Bank's role in this sphere.

The circular of January 1942, while recounting the types of accommodation that could be made available to co-operative banks under the Reserve Bank of India Act, pointed out that Section 17(4) (d) (loans on the security of promissory notes supported by documents of title to goods) had remained inoperative on account of some practical difficulties. The reasons for Section 17(4) (d) being inoperative were explained by the Governor in his memorandum dated November 25, 1941 to the Central Board. He stated that the main aim of Section 17(4) (d) was to enable the small holder of agricultural produce to make it a marketable security for an advance so that the bank making such an advance could transfer its rights over it to the Reserve Bank. The principal legal as well as the practical difficulty here was that it would be impossible for the Reserve Bank to take physical possession of the goods offered as security especially on a scale sufficiently extended and detailed to help those for whom such assistance was primarily designed.

Further, such advances could not be made to the banks on their promissory notes, solely on the security of goods which they alleged were in their custody, as according to legal advice the bank which was a debtor to the Reserve Bank could not at the same time be its agent for guarding the security of such debt. Thus the object could not be achieved unless some third party could be constituted who would accept the goods for custody, exercise reasonable supervision that the goods so deposited were of the amount and quality set out, preserve them and ensure that they were not delivered except to the party entitled to them. The facilities for accommodation under Section 17(4) (d) could not be availed of until such an organisation, i.e., independent warehouses, were established. Under the circumstances only facilities under Section 17(2) (b) (rediscount of agricultural paper) and Section 17(4) (c) (advances against agricultural paper) could be made use of for the time being.

The Bank considered that in particular there was scope for extending financial accommodation for the marketing of crops under Sections 17(2) (b) and 17(4) (c), since in certain Provinces like Madras, cooperative sale societies, possessing go down facilities, had been established in recent years and their loans on the pledge of produce had shown a substantial increase during 1938-40. In order to offer some inducement to the provincial co-operative banks in the initial stages to borrow from the Reserve Bank against agricultural bills, the Bank stated that it would rediscount such bills or make advances against them at special rates by the grant of rebates to these banks in respect of such rediscounts and advances, somewhat on the lines of the rebates the Bank offered to the scheduled banks in January 1938.

The circular also dealt with certain technical difficulties that might arise in the provincial co-operative banks' making use of the facilities. The promissory notes of the primary societies which were to be endorsed by the central banks and subsequently by the provincial banks were generally in the nature of demand promissory notes; these were not eligible for rediscount by the Reserve Bank. As an alternative, the Bank had earlier suggested that the primary societies should draw clean usance promissory notes but this had not been found to be quite satisfactory from the point of view of the central co-operative banks. The circular therefore suggested that the central banks financing sale societies or primary societies should themselves draw time promissory notes so that these could be endorsed by the provincial banks and offered for rediscount to the Reserve Bank under Section 17(2) (b) or for advances under Section 17(4) (c) through the provincial co-operative banks concerned. In the alternative, it was suggested that the provincial banks themselves might draw bills on the affiliated central banks, which after acceptance by the latter could be offered to the Reserve Bank for rediscount or advances. It was also stipulated that the central banks should submit along with these bills and promissory notes a list of loans made by them to the primary societies for the purposes of seasonal agricultural operations or marketing of crops, as the case may be. Further, the central banks were asked to be prepared to furnish through the provincial banks such information about their position as the Reserve Bank might require.

The Bank indicated that it would grant a rebate up to 1 per cent in the rate of interest, and that to begin with, it would be restricted to paper created for the purpose of the marketing of crops. The concession might be extended later to cover paper drawn for the purpose of financing seasonal agricultural operations as well. The circular also indicated that such a rebate would be available only if the Bank was satisfied that the benefit of the low rate was passed on to the agriculturist. This would be ensured if the primary societies or co-operative sale societies which would borrow from the central banks under the scheme would agree to charge reasonable rates of interest to agriculturists.

Many of the conditions laid down in the earlier scheme, such as, eligibility to A and B class banks only, maintenance of minimum cash balances with the Reserve Bank (at half the rates applicable to scheduled banks) and right of the Reserve Bank to inspect the provincial banks, were retained in the present scheme.

The circular solicited the opinion of Registrars of Co-operative Societies and provincial co-operative banks about the prospects of working such a scheme in the respective Provinces.

Response to the Scheme

The response of the various Provinces to the January 1942 circular varied. Replying promptly on January 8, the Sind Provincial Cooperative Bank stated that there were no central co-operative banks or sale societies in that Province and that advances were made to agriculturists for seasonal agricultural operations through the primary credit societies. The bank was also making advances directly against the pledge of agricultural produce, and, to individual zamindars against mortgage of standing crop. The bank wanted to know how that Province could make use of the Reserve Bank’s facilities. The Registrar of Co-operative Societies, Sind, made the same points. The Reserve Bank replied that it was outside the scope of its business to make advances against the security of agricultural produce and/or mortgage of land or standing crop. The Bank would accept provincial bank-endorsed bills of primary societies, provided they belonged to A or B class and they granted finance for marketing of agricultural produce or were likely to do so.

The Bihar Provincial Co-operative Bank observed that the co-operative movement in that Province was not doing well for some years and that a five-year scheme of rehabilitation was being worked out. The provincial bank felt that during the rehabilitation period it would be practically impossible for it to satisfy the conditions stipulated by the Reserve Bank. The bank wanted to know if the Reserve Bank would be prepared to relax the conditions as a special case; the Cooperative Registrar of the Province agreed with these views. The C. P. and Berur Provincial Co-operative Bank stated that there were no prospects of working out the scheme in that Province, as there were no marketing societies; besides, the bank was in a position to meet the credit requirements of its members for seasonal agricultural operations from its own resources.

The response from the Bombay Provincial Co-operative Bank was more positive. After getting clarification on certain points, it stated in April 1942 that it had received applications from various central banks and requested that three central banks, namely, those of Karnatak, Broach and Belgaum, be placed in the Reserve Bank's approved list, for purposes of eligibility of their paper. Apparently, this was done to test the new procedure and establish contacts with the Reserve Bank. In the words of Mr. R.G.Saraiya, Chairman of the Bombay Provincial Co-operative Bank*:

> Although I am fully conscious of the fact that almost all central banks in the Province are in a position to raise funds at reasonable rates of interest even in the present abnormal times and also of the further fact that the co-operative banks desire further simplification in the procedure and some modifications in the arrangement proposed by the Reserve Bank, I lay stress on the desirability of making a beginning and putting to practical test this offer of the Reserve Bank of India because I am anxious to build up contacts with that Bank such as, I am sure, will stand us in good stead in times of stress and strain. We have all been pleading, for the past several years, for forging links between the co-operative financial structure and the central banking authority of the country; and now that a suitable opportunity has presented itself, I trust we shall take full advantage of it.

The Punjab Provincial Co-operative Bank replied that it had only one sale society working there. Steps were being taken to organise more sale societies and it anticipated using the facilities offered by the Reserve Bank in due course. Madras came forward with a lengthy communication on the various aspects of the scheme in August 1942. The Registrar of Co-operative Societies stated that the matter was discussed at a conference of central co-operative banks held at Madras

*Presidential Address to the Bombay Co-operative Banks' Conference held at Poona, on May 23, 1942, published in The Bombay Co-operative Quart&, June 1942.

in July 1942 and that the conference favoured the alternative of the provincial bank drawing bills on the central banks with fixed dates of payment and getting accommodation against them from the Reserve Bank, provided the Registrar's classification of banks in audit was accepted by the Bank. The Reserve Bank agreed to accept the audit classification of the Registrar for the time being but added that while fixing the credit line for a central bank, it (Reserve Bank) would be guided not only by the audit classification, but also a number of other factors. The Registrar of Co-operative Societies, Orissa, indicated that there was no possibility of that Province availing of the facilities under the scheme as there was no provincial co-operative bank in the Province and the Provincial Government themselves proposed to finance the central banks and primary societies through the Registrar. The Assam Registrar said that neither the provincial bank nor any central bank was in a position to finance primary societies for seasonal agricultural operations. The U.P. Registrar replied that there was no provincial bank in his Province. No comments were received from Bengal.

Even as far back as April 1942, although only four Provinces had replied and only one, namely the Bombay Provincial Co-operative Bank, had indicated a desire to take advantage of the facilities, the Bank decided to go ahead with the scheme. In this connection the Deputy Governor (Mr. Deshmukh) remarked: 'We have raised hopes and expectations and must work the scheme as best as we can '. As regards the application from the Bombay Provincial Cooperative Bank, while the request was in respect of accommodation to three central banks, the Reserve Bank sanctioned limits in respect of two central banks, namely, those of Karnatak and Broach. For, in considering the application, the Bank desired to have detailed information on the position of these banks and there was delay in the Belgaum central bank's submitting the material. The scrutiny of the material of the two banks took some time and the Bank's sanction of the limits was communicated in January 1943. A credit line of Rs. 3 lakhs was sanctioned to the bank for advances to the Broach and the Karnatak central banks, not exceeding Rs. 1 lakh and Rs. 2 lakhs, respectively. The credit line was to be operative during the calendar year 1943. The ice was thus broken. The Reserve Bank agreed to give a rebate of I per cent; that is, its lending rate was 2 per cent, as the Bank rate then was 3 per cent.

The provincial bank drew a loan of Rs. 50,000 on March 25, 1943, in respect of its advance to the Karnatak Bank for financing the Hubli Co-operative Cotton Sale Society. It was repaid on June 18, 1943. Originally there was some confusion about the precise stage when the Reserve Bank's rebate would be given effect to and consequently the ultimate borrower did not get any concession in the rate at which money was lent to him. Later, on a reference from the Reserve Bank, the institutions at the different levels undertook to pass the benefit of the concessional rate to the next in line. Thus, the lending rate of the provincial bank was fixed at 2½ per cent, that of the central bank at 3 ½ per cent and the rate charged by the primary society to the ultimate borrower was fixed at 5 per cent, as compared with the normal rate of 9⅜ per cent. It should, however, be noted that this loan of Rs. 50,000 was only a single swallow, which did not make the summer of any impressive system.

The Officer of the Agricultural Credit Section visited the central bank and the society receiving the assistance and observed as under:

> Some of the co-operative banks are at present faced with surpluses and the money market is easy. Moreover, under the present conditions of various controls and high prices of agricultural commodities, the markets are not functioning normally. I, therefore, doubt if there will be any demand for finance under the scheme so long as these conditions last.

He also stated that both the Karnatak Central Co-operative Bank and the Hubli Society felt that the rebate granted by the Reserve Bank was too small to make the scheme attractive as the co-operative institutions themselves were able to get deposits at about that rate. Another difficulty pointed out was that the amount the central bank might have to borrow from the Reserve Bank would be only a fraction of its total requirements of finance and in order to pass on the benefit of the low rate to the borrowers on the finance taken from the Reserve Bank, the bank would have to charge this low rate on the finance provided out of its own resources also. In the alternative, it had to pass on the benefit of the lower rate among the borrowing societies pro rata which would make the accounting procedure too complicated. If it passed on the benefit of the low rate to one or two societies financed with Reserve Bank funds, then it would be charged with partiality and discrimination.

A further and important point raised by the Bombay Provincial Cooperative Bank in December 1943 was whether the scheme would be available in regard to crop finance or marketing credit in areas where primary societies and co-operative purchase and sale unions were affiliated direct to the provincial bank. The Reserve Bank replied in the affirmative stating that it would be possible to extend the scheme to cover 'A' and 'B' class societies of good financial standing and approved by the Bank. It was also mentioned that the application should be sent through the Registrar of Co-operative Societies.

The last aspect, viz., routing the application through the Registrar, was objected to by the Bombay Provincial Co-operative Bank on the ground that it was not so stated in the circular letter of January 2, 1942 and that the Reserve Bank had entertained its earlier application directly. It argued that the provincial co-operative banks should be treated on the same footing as scheduled banks, which sent their applications to the Bank direct. The bank also pointed out the need for simplifying the procedure for sanction of accommodation so that 'the grant of such accommodation can be put through expeditiously on occasions of emergency, when, principally, the provincial co-operative banks are expected to approach the Reserve Bank of India'.

The condition regarding the routing of the applications through the Registrar was in the Bank's circular of May 1938, and this was retained in the 1942 scheme. When the credit limit application from the Bombay Provincial Co-operative Bank was received in 1942, the omission to route the application through the Registrar was noticed at a late stage but the Bank did not want to delay the sanction of the limit further on this account. However, following the Bombay Provincial Bank's representation, the Bank decided in March 1944 that as long as the application for placing a co-operative bank on the approved list came through the Registrar, it was unnecessary to have the application for limits to be routed through him again. The Deputy Governor, Mr. Wajahat Hussain, noted:

> So far as limits are concerned, these are matters to determine which he (the Registrar) has no special qualification which we have. We have a fair knowledge of the financial position of each central bank and the knowledge can be supplemented only to a small extent by the Registrar.

Accordingly, a direction was given to the effect that applications might be received direct by the Bank, though it reserved to itself the discretion to consult the Registrar in a particular case; the Bombay Provincial Co-operative Bank was advised accordingly.

A second set of limits under the scheme of rediscounts and advances was sanctioned to the Bombay Provincial Co-operative Bank in April 1944, Rs. 8 lakhs for the Karnatak Central Co-operative Bank and Rs. 0.45 lakh for the Garbada Vibhag Co-operative Purchase and Sale Union. These limits were sanctioned as advances under Section 17(4) (c) as on the earlier occasion. The limits were to be operative till the end of the relative calendar year, that is, 1944. They were not, however, utilised.

Extension of Concession to Seasonal Agricultural Operations

Apart from monetary ease, the low utilization of the Reserve Bank's assistance was due to the fact that co-operative marketing had not very much developed in India. The Bank, therefore, decided that the concessional finance might be extended to cover 'seasonal agricultural operations' also. Incidentally, this decision, like the January 1942 circular, does not appear to have been placed before either the Committee or the Central Board, for approval, though the Board was informed of this in the Quarterly Reports on the activities of the Agricultural Credit Department. The extension was advised through a circular issued on November 18, 1944.The circular made it specific that the limits would be operative for a calendar year and that the applications should be sent through the Registrar, which appeared to be a reversal of the earlier decision. A copy of the application was however to be sent to the Reserve Bank in advance so that the Bank might process it pending the receipt of the formal application through the Registrar. It was stated clearly that the scheme would also cover bills and promissory notes of primary credit or sale societies financed directly by a provincial bank provided the societies fulfilled all the conditions laid down in the case of central banks. Finally, the rebate was not to be admissible in respect of loans made by provincial banks and central banks direct to individuals.

The U.P. Provincial Co-operative Bank was the first to take interest in the scheme shortly after its establishment in December 1944. In February 1945, the Registrar of Co-operative Societies of that Province wrote to the Bank, pleading for an enhancement of the rebate from 1 to 2 per cent, on the presumption that the object of the Bank in proposing the scheme was 'to enable the local and regional co-operative institutions to raise money at a cheap rate in their respective spheres with the assurance behind them that in case they fail to raise the money locally, they will be financed by the Reserve Bank itself '. It was stated by him that the cost of management of the central co-operative banks in his Province was as high as 2 per cent of their working capital, because of low level of their business and, as such, their rate to the ultimate borrower would have to be high.

In the circumstances, the Bank decided, in April 1945, to enhance the rebate to 1½ per cent in the case of U.P.; the position was to be reviewed after one year and the concession continued if the Bank was satisfied that the cost of management of the provincial and central banks was reduced. It could be argued that lowering the lending rate in circumstances where the costs in a particular Province were high would act as a disincentive to lowering of the costs. Apparently, the Bank wished to offer a special inducement to a new provincial co-operative bank to start using the Reserve Bank's facilities, especially since there had been so little resort to the Bank by the co-operative banks as a whole. It may be added that the enhanced rebate of 1½ per cent was made applicable to all the Provinces in July 1946.

Between May and November 1945 the Reserve Bank sanctioned credit limits for a total of Rs. 4.30 lakhs to the U.P. Provincial Cooperative Bank in respect of its accommodation to eight central banks and one marketing union, the individual limits varying from Rs. 25,000 to Rs. 75,000. The first sanction was on May 3, for the Ghazipur District Co-operative Bank, for a sum of Rs. 60,000. All these limits were sanctioned in terms of Section 17 (2) (b), that is, rediscount of agricultural paper. No sum was actually drawn till the end of 1945; in later years, small sums were drawn.

No other provincial bank sought assistance against agricultural paper. The C.P. and Berar Provincial Co-operative Bank sought some clarifications in the scheme, but no application for assistance materialised. The Punjab Registrar stated that the co-operative institutions in his Province had large surplus funds. The Madras Provincial Cooperative Bank said that the central banks of A or B class did not come to it for financing and that it was able to finance the requirements of other banks through monies raised as fixed deposits, on which the maximum rate of interest which the bank had to pay was 2 per cent.

Accommodation against Government Securities -Section 17(4) (a)

The provision of accommodation by the Bank even against Government and other trustee securities [Section 17(4) (a)] raised interesting issues, though the order of assistance disbursed was small, under Rs. 1 crore. The Bombay Provincial Co-operative Bank was the first to be sanctioned a credit line under this Section, in February 1939, though no amount was specified, and the bank did not actually draw on the limit; the limit was fixed at Rs. 20 lakhs from July 1940 and later enhanced to Rs. 30 lakhs in February 1942. During the period of the war, only two provincial co-operative banks actually used the facilities under this Section, namely, the Madras Provincial Co-operative Bank to the extent of Rs. 69 lakhs and the Punjab Provincial Co-operative Bank to the extent of Rs. 5 lakhs. The Madras bank drew Rs. 24 lakhs, Rs. 5 lakhs, Rs. 20 lakhs and Rs. 20 lakhs, respectively, in 1939-40, 1940-41, 1941-42 and 1943-44; the Punjab bank drew the amount in 1940-41. These advances were for periods not exceeding 90 days and were made at the Bank rate. It would appear that the Madras Provincial Co-operative Bank utilised the facilities more with a view to earning-a profit than to meet a genuine need for funds. In March 1940, while examining the financial particulars of the bank at the time of sanctioning an additional limit of Rs. 20 lakhs, over and above the earlier limit of Rs. 10 lakhs, it was noticed that as on March 1, 1940, against demand and time liabilities totalling Rs. 209 lakhs, the bank had investments to the extent of Rs. 144 lakhs and advances for Rs. 96 lakhs. The action of the bank in seeking accommodation from the Reserve Bank against the pledge of Government securities, in preference to selling a part of its holdings of such securities, was commented upon by the Governor in the following terms:

> The trouble with these people is that they have not been able to resist the temptation to over-invest and then borrow to the hilt against their investments. This may enable them to scrape together a little extra business and profit but it obviously weakens their long range position.

These views were also conveyed to the provincial bank informally through the Madras Manager of the Bank.

Though in its circular of May 1938 the Bank had indicated that accommodation under Section 17(4) (a) would be available against both Government securities and approved debentures of recognised land mortgage banks, which were declared as trustee securities, if the bank considered that the debentures were readily marketable, in actual practice all accommodation under the Section was granted against Government securities only. On the other hand, the co-operative sector was demanding the Bank's support to these debentures by way of some subscription by the Bank, besides granting advances against these securities. The matter was revived in the Thirteenth Conference of Registrars held on December 12 and 13, 1939, and a resolution was passed in this regard, as follows:

> This Conference recommends that the Reserve Bank should purchase a limited amount of the debentures of approved central land mortgage banks and such provincial banks as raise debentures the principal and interest of which is guaranteed by Government and should advance money against such debentures.

However, the Bank's attitude did not change, for reasons which are explained in the following account of the matter.

In January 1940, the Madras Provincial Co-operative Bank enquired whether the Bank would accept the debentures of the Madras Cooperative Central Land Mortgage Bank as security for advances under Section 17 (4) (a). The Agricultural Credit Department was inclined to agree to the proposal and made out a reply to the Madras Manager to this effect, in which a margin of 20 per cent on the market value of debentures was suggested. It was also proposed to stipulate that the purpose for which advances were to be sanctioned should be ascertained and the limit sanctioned only when there was a genuine need for it and that the object of the loan was to meet strictly the short-term requirements and that the proceeds were not to be utilised by the bank for purposes of financing the land mortgage bank or undertaking any other long-term commitment. These recommendations had the support of Deputy Governor Nanavati.

When the case was put up to the Governor in February 1940, he practically rejected the proposal, his remarks being as follows:

> I am not satisfied with the position as regards these debentures and I think that we should write to the Madras Government pointing out our difficulties and ask them to face up to the position. The ideas these people have seem to me to be radically wrong. The debentures should be held by the investors and . . . . it seems to me that an unduly large proportion of them is held by co-operative banks and other quasi-governmental institutions who are not in a position to make such large permanent investments and merely hold them as a basis for advances. To their minds it may seem a simple enough proposition so long as we are willing to lend against them at 3 per cent and they can get a higher rate. On the other hand, if anything should happen, and in war time we must be prepared for everything, we would simply find our security vanish, leaving both them and us in the cart because there would be no genuine investor prepared to take them up . . . . . The second feature which I do not like and which I think we should take the opportunity of bringing up is this Government guarantee. At first vague hopes were held out that sooner or later this guarantee would stop and that debentures could be floated with nothing behind them but the assets and the credit of the land mortgage bank. These hopes are rapidly failing and in view of the low rates of interest at which they are passing the money on to the agriculturist, I do not see any possibility of their being brought into effect as the jolt from the present low rates to the high rates which the market would probably insist on would prove insuperable politically. If that is so and if the Madras Government consider that for political reasons they should finance the agriculturist they ought to do so out of their own ways and means or by embodying such loans in their annual capital requirements, as the taxpayer and the investor would then know where they stood . . . . . .I feel that the stage has now been reached where we should substantiate these facts with such details as we possess regarding the distribution of these debentures and put the matter fairly and squarely before the Madras Government and ask what they propose to do about it . . . . . .

The office found that out of Rs. 160 lakhs worth of debentures, the Madras Provincial Co-operative Bank held Rs. 16 lakhs, other cooperative banks Rs. 50 lakhs, public bodies Rs. 55 lakhs, other joint-stock companies including insurance companies Rs. 25 lakhs and individual investors Rs. 13 lakhs.

In the Agricultural Credit Department's notings, several points in favour of acceding to the request of the Madras Provincial Co-operative Bank were mentioned, namely:

(a) Apart from co-operative banks and public bodies who held a major portion of the debentures, a substantial amount was held by joint-stock companies and individual investors. It was not correct to say that the co-operatives and public bodies were not in a position to make such large permanent investments and that they held them merely as a basis for advances from the Bank. The local bodies presumably had large amounts on account of provident funds and security deposits of employees, which they had to invest in securities.

(b) As regards co-operative banks, they had large amounts representing their reserve funds which they had to invest outside their business. The investment of such funds in the debentures was to make the funds of co-operatives available to the co-operative movement itself.

(c) The Madras Legislature had fixed a limit of Rs.2½ crores for guarantee against which the amount of debentures outstanding was Rs.1.60 crores only. Thus, there was considerable margin left over.

(d) In any case, the question of guarantee need not be mixed up with the issue under discussion. Whether the Reserve Bank of India approved the Government's policy in regard to guarantee or not, the debentures thus guaranteed were already there and they were eligible security for advances.

(e) There had been considerable agitation in regard to Reserve Bank's attitude towards the debentures of land mortgage banks and there had been an insistent demand that the Bank purchase some of these debentures as a token of good-will and also in order to create greater interest in them. Even distinguished co-operators like Mr. V. L. Mehta, who was generally well disposed towards the Reserve Bank, were of the view that the Bank could at least purchase a few debentures of the Madras bank, which was doing so well. The same point had also been mentioned at the Registrars' Conference held at Madras.

(f) This was a test case and the security was good. Further, the additional security of the provincial co-operative bank was also there. The position of the bank was also sound.

(g) If the Reserve Bank did not agree to this request from Madras it would give further ammunition to a leading co-operator in that Province to carry on propaganda against the Bank.

Although the Deputy Governor endorsed these views of the Officer-in-Charge of the Agricultural Credit Department, Mr. Ambegaokar, apparently the Governor was not convinced by the above arguments, but before writing to the Madras Government to convey his views, he consulted the Government of India. In his letter of May 1, 1940 to the Finance Secretary, besides mentioning the points he made in his office note, the Governor stated as follows:

> As these debentures are fully guaranteed both as to principal and interest, it would of course be open to us to say that we were prepared to regard them as on the same footing as Government loans without

> more ado, and it is obvious that our reluctance to accept this view of them is being as mere obstruction. On the other hand, as a Central Bank I feel that it is incumbent on us to look on the matter not merely as a commercial proposition but also as advisers to Government in respect of their financial policy, and that in fact it is the latter consideration which ought to weigh with us and not the former.
>
> From that point of view, the first thing to get clear is what the Government policy is. Their alleged ideals were to give this guarantee as a start, and thereafter, once the banks had established themselves, to abandon the guarantee so that future issues would stand on their own legs. There has, however, been a marked divergence from this in recent years. In the first place, in view of the somewhat curious view that interest rates should be reduced to the agriculturist simply because he was alleged not to be able to pay more, the rates have been cut down to such an extent that they compete unfavourably with those which the market can get by lending to first class commercial concerns. Secondly, Government went on increasing the emphasis of the Governmental nature of these loans . . . .
>
> The result has been that these debentures have made very little headway with the public. . . .
>
> It is true that if we modified our attitude and let the public know that we regarded them as exactly on the same footing as other Government loans, the proportion held by them would increase, but by doing so I maintain that we would be widening the gulf between the guarantee and non-guarantee status, and in fact make it to my mind impossible for Government ever to discontinue its guarantees.
>
> The only solution which occurs to me is that we should maintain our attitude of aloofness for the present and that Provincial Governments should be prepared in the case of future issues to agree to higher rates of interest so as to attract a larger proportion of genuine public money. I would be glad of your approval of our attitude that we should not be prepared to advance against these debentures in spite of the fact that legally they provide us with as good security as other Government loans, until the question of policy has been more clearly defined.

The above policy was approved by the Government of India and this was also conveyed to the Madras Government in August 1940, with a copy to other Provincial Governments. The Bank also suggested that debentures might be issued by tender in blocks of Rs. 10 to Rs. 20 lakhs, and it offered to take up the residuum of an issue if the public support was forthcoming to the bulk of it, so as to prevent the marginal rate making the total too high. The Bank felt that it might be possible later on, when conditions were more favourable, to put out a non-guaranteed issue, for the success of which it promised to render such assistance as it reasonably could. If this process meant an increase in the rate of interest charged to the agriculturists, it had to be faced. If the Provincial Government did not favour this plan, the only alternative, both from the point of view of the creditors as well as the borrowers, was to drop the conception of guarantee as a temporary necessity and for the Government to make a straight loan to the land mortgage bank and to include its requirements in the ordinary loan programme of the Government.

In their reply, forwarded in March 1941, the Madras Government indicated that it had always been their intention eventually to end the guarantee system and that preparatory measures were being taken towards that end. This position was confirmed by the Registrar of Co-operative Societies, Madras, during the Deputy Governor's visit to that Province in October 1941, He stated that steps were being taken to strengthen the Central Land Mortgage Bank by building up its reserves and increasing its margin in the rate of interest so that it would be possible for the bank in the not too remote future to stand on its own legs and dispense with Government guarantee. The Reserve Bank took note of these developments and suggested in its letter dated October 9, 1941 that the Government might set a limit of say Rs. 5 crores up to which they would guarantee the debentures and in the meantime ensure through the Registrar's control that by the time that limit was reached, the bank was strong enough to inspire confidence among investors and to attract debentures without a guarantee. The fixation of such a limit would make it possible for the Reserve Bank 'to consider on its merits any application for the grant of accommodation under Section 17(4) of the Reserve Bank Act and even to purchase a small block of a new issue of guaranteed debentures as a token of our interest in the movement, if this is likely to improve their marketability '. It would appear that the Madras Government were not averse to the suggestion of the Bank for fixing a limit to the guarantee though they were not sure as to when the level of Rs. 5 crores would be reached, since as of the time of their reply to the Bank, in January 1942, the outstanding debenture amount guaranteed was only Rs. 2.64 crores and the prospects were for the outstanding amount to remain steady, with repayments and new issues being about equal. It does not appear that the Bank made any advances against land mortgage debentures, till the end of the war period. The provincial co-operative banks did not also appear to be in need of funds, by and large, The Bank had considered from the beginning that the request from Madras was only a token one, intending the Bank to commit to a principle regarding such advances.

Scheme for Remittance Facilities, 1940

Reference has been made in Chapter 15 to the introduction by the Bank of a new scheme for remittance facilities, in October 1940. The Bank's policies with regard to the application of the scheme to co-operative institutions are discussed below.

Till October 1940, co-operative banks were allowed free remittance facilities in respect of remittances of interest or investments realised for payment to the accounts of local boards and municipalities who used to invest their surplus funds in co-operative banks. Free remittance facilities were also allowed for bona fide transfer of funds between cooperative societies and co-operative central banks situated at places where there was no office of the Reserve Bank or its branch or agency, provided the amount remitted was not less than Rs.150. For all other purposes, the co-operative banks and societies were paying the same remittance charges as the general public.

Under the new scheme, the general rates for telegraphic transfers, drafts and mail transfers for both the scheduled and the co-operative banks were the same, viz., 1/16 per cent for amounts up to Rs. 5,000 and 1/32 per cent for amounts above Rs. 5,000, except that the minimum commission was fixed at four annas for the co-operative banks as against one rupee for the scheduled banks. However, the scheduled banks were given, in addition,

(a) free remittance facilities between accounts maintained with the Reserve Bank;
(b) free remittance facilities once a week to their principal account with the Reserve Bank; and
(c) a concessive rate of 1/64 per cent for other remittances to their principal account.

The Bank explained that so far as (a) was concerned, the provincial co-operative banks rarely kept their accounts at more than one office of the Bank so that this facility could not be availed of by them to any considerable extent. Concessions (b) and (c) had been given to the scheduled banks primarily for the purpose of maintaining their statutory balances with the Bank; since the provincial co-operative banks did not as a rule maintain such minimum balances, the question of extending the facilities to them did not arise. The Bank, however, assured the provincial co-operative banks that when they did maintain balances with it, they would be entitled to the above additional facilities.

With the introduction of the new scheme in October 1940, the limited free facilities enjoyed by the co-operative banks and societies were withdrawn. The new scheme evoked immediate protests from the cooperative movement; there were charges of discrimination against the co-operative sector. Mainly at the instance of Director Sir Purshotamdas Thakurdas, who took a lot of interest in the co-operatives, the Bank addressed the Provincial Governments in October 1940, indicating to them that if the old free remittance facilities were to continue to be available to co-operative banks and societies either fully or partially, it had no objection provided the Governments concerned met the cost of commission involved. The Bank's main argument was that it had to pay commission to the Imperial Bank on all its drawals effected through that bank and it was only equitable that charges thus incurred on behalf of the co-operative banks and societies should be reimbursed to the Bank. Otherwise, the burden would ultimately devolve on the Central Government by reducing the surplus profit of the Bank transferable to the Government. None of the Provincial Governments, with the exception of the C.P. and Berar, agreed to bear the remittance charges and revive the old free facilities.

The co-operative movement was dissatisfied with the scheme and pressed its demands for better remittance facilities on par with those enjoyed by scheduled banks. For instance, the Bombay Co-operative Quarterly in its issue of September 1940 wrote:

> as the Indian Central Banking Inquiry Committee pointed out the free remittance of funds for co-operative purposes is of utmost importance to the co-operative movement -and one may add to the organization of agricultural credit in general -and no attempts should be made to curtail this privilege.
>
> That is, however, exactly what the authorities of the Reserve Bank of India have now done according to the new schedule of rates they propose to bring into effect from 1st October. This decision runs counter to the considered views of all inquiry committees and the resolutions adopted at the Conferences of Registrars. It will impose a heavy burden on societies in rural areas at a time when their margins of profit, usually kept low, have contracted owing to the desire to reduce the burden of interest on the agricultural borrower and they can ill afford to bear additional charges . . . .
>
> It is curious that while the Reserve Bank of India has established a full-fledged and costly Agricultural Credit Department, no attempt was made before the decision of the Bank was announced even to sound, much less to consult, co-operative banks and societies on a subject which so vitally affects their future finances and the orders, therefore, come to them as a bolt from the blue.

Some provincial co-operative banks and the Indian Co-operative Banks' Association also registered a similar protest. These protests moved the Bank to re-examine the issue and to extend within a year all the remittance facilities enjoyed by the scheduled banks to the provincial cooperative banks and their affiliated central banks (which were considered as their branches). However, it must be said that the Bank needed a great deal of goading from the co-operative movement to yield to its demands. To illustrate, in March 1941, after discussion with leading co-operative institutions, the Bank issued a revised scheme, which was designed to bring into line with scheduled banks such of the provincial co-operative banks (and their affiliates) as had their head offices in places where there were offices of the Reserve Bank and agreed to maintain balances with the Bank to the extent of 2½ per cent of their demand and 1 per cent of their time liabilities (these rates being half of those required of the scheduled banks). These banks were to be entitled to the same facilities as scheduled banks, with the exception of one benefit, viz., the free transfer of an amount of Rs. 10,000 or multiples thereof; this was not extended to the co-operative banks on the ground that such extra provincial remittances would be rare and not also necessary for bona fide co-operative business. In the light of criticisms of these proposals, the Bank agreed in July 1941 to extend the remaining benefit also to the co-operative banks and it also assured that a liberal interpretation would be given to 'bona fide co-operative purposes' so as to regard generally all business carried on in terms of the Co-operative Societies Act, rules and bye-laws as bona fide. The revised scheme came into effect in September 1941 and, one by one, most of the eligible co-operative banks started utilising the facilities.

A further liberalisation of the scheme was made in November 1941, under which a branch of a provincial co-operative bank or an affiliated central co-operative bank, at places where there was no branch of the Bank or its agencies, was granted the facility of making remittances of Rs. 5,000 or multiples thereof free of charge once a week to the principal account with the Bank, other remittances to the principal account being charged 1/64 per cent. In respect of such remittances, the scheduled banks had to pay 1/16 per cent up to Rs. 5,000 and 1/32 per cent over Rs. 5,000, unless such transfers were between accounts maintained by them at the Bank's offices or agencies.

Thus, within a little more than a year, the co-operative banks succeeded in pressing the Bank to give them remittance benefits to an extent not only equal to those enjoyed by the scheduled banks, but perhaps even better.

Indigenous Bankers

During the period under review, there were hardly any fruitful developments in the matter of linking the indigenous bankers with the organised banking structure. While even Sir Purshotamdas Thakurdas had agreed that the Bank had done all it could and the ball was in their court, Sir Chunilal B. Mehta, another Director of the Bank, in the capacity of President of the Bombay Shroffs Association and in his personal capacity, time and again criticised he Bank for treating the subject as closed and not bringing it within the ambit of the proposals for a Bank Act. The main difference of opinion between him and the Bank's management lay in regarding the shedding of non-banking business by indigenous bankers as a pre-requisite for the 'link up'. Sir Chunilal brought up the question at a meeting of the Central Board of the Bank in July 1941, suggesting that the Bank might review its proposals for the 'link up', but Sir James Taylor considered that there was no case for the Bank to change its view. Reluctantly agreeing to a suggestion made by Deputy Governor Nanavati that the Bank might write to Sir Chunilal to send definite proposals for modification of the Bank's scheme, the Governor remarked, in September 1941, as follows:

> I doubt whether this will lead to anything. It is quite clear that unless we are to stultify not only our own legislative proposals but the wishes of the Legislature as expressed in the latest amendment of the Companies Act, development in this country must proceed in the direction of separating banking from non-banking functions.

Accordingly, a letter was addressed by the Bank to Sir Chunilal Mehta in October 1941, asking him to intimate how many members of the Bombay Shroffs Association would be prepared to join in the scheme if a modification was made permitting separation of their banking from their non-banking business, if not immediately, at least within a definite period of time. The response was, as anticipated, not encouraging. In its reply sent several months later, that is, in April 1942, the Association asked for a five-year period for legal separation of banking from non-banking business. It could not give any indication of the number of shroffs likely to join the scheme, but only gave a vague assurance that it would 'take all necessary steps to explain the scheme and bring in as many shroffs as possible within the scheme '.

The Bank was unable to understand why such a long period as five years would be needed for the purpose of a simple process of floating a separate company to do banking business. It also found the assurance of the Association that it would publicise the scheme among shroffs too meagre a basis for recommending to Government the necessary amendments to the Act. The Bank therefore confessed 'a misgiving on the utility of any attempt to evolve a workable scheme which would be capable of application on any appreciable scale in the present condition' and hoped that the trend towards legal segregation of banking among indigenous bankers would develop in course of time.

Other Activities

The other activities of the Bank in regard to agricultural credit during the period under review consisted mainly in advising Central and Provincial Governments and provincial co-operative banks on problems connected with agricultural finance and making suggestions for reorganisation of the co-operative credit structure in different parts of the country. One of the important problems on which advice was given related to the rehabilitation of the co-operative movement, which had suffered on account of the depression of the ‘thirties. Among the Provinces which received particular attention in this regard were C.P. and Berar and Bengal.

The Bank’s Agricultural Credit Department continued its study of moneylending and debt relief legislation in the several Provinces and furnished its observations on these subjects to the Provincial Governments and commissions of enquiry set up by some of the Provincial Governments. The other topics taken up for study by the Department included land mortgage banking in India, cattle and crop insurance, multi-purpose co-operative societies in Bombay, establishment of licensed warehouses in Madras and Bengal, commercial banking activities of co-operative banks, especially in C.P. and Berar, constitution of sinking funds of land mortgage banks, investment of funds of co-operative banks, etc. Further, in an attempt to aid the creation of documents of title to goods acceptable to the Bank under Section 17 (4) (d), a draft Bill for the establishment of licensed warehouses was prepared and circulated in 1944 to all the Provincial Governments for adoption. During the period covered by this chapter, three Provincial Governments took steps to pass the legislation.

The Department also kept in close touch with the co-operative movement by taking part in conferences, participating in seminars and training courses for co-operative personnel etc. The most important of the conferences in which the Department participated were the Thirteenth and Fourteenth Conferences of the Registrars of Co-operative Societies. While the Officer-in-Charge of the Department took an active part in the Thirteenth Conference held at New Delhi in 1939, the Fourteenth Conference was organised and conducted by the Department itself in 1944. Various aspects of the co-operative movement were reviewed at these conferences, which furnished opportunities for exchange of views between the Reserve Bank and the co-operators both at the non-official and official levels. Apart from these conferences, the Officer-in-Charge and officers of the Department undertook tours of various Provinces to study specific problems or to attend provincial conferences and seminars, which served to strengthen the personal contacts established by them. The Bank also imparted training to officers of the co-operative departments of some of the Provinces, especially Madras and Bombay, which also served the purpose of the Reserve Bank’s gaining better understanding of the problems of the Provinces concerned. Some officers of the Government of India and the Government of Burma also received training in the Department.

The period covered by this chapter saw the Department’s taking over the publication of statistics and reviews of the co-operative movement in India. The compilation and publication of the Statistical Statements Relating to the Co-operative Movement in India was taken over from the Government of India with effect from the issue for the year 1940-41 and two issues in the series, one relating to the year 1940~41and the other to the years 1941-42 and 1942-43, were published. The Department also brought out the Review of the Co-operative Movement in India for 1939-40, which was the first of the series of reviews. The publication of further issues of this review had to be suspended during the war years; the second publication in this series was brought out only in 1948, covering the period 1939 to 1946.

The Officer-in-Charge of the Agricultural Credit Section also served as the Member-Secretary of two committees appointed by the Government of India during the period covered by this chapter. The first of the committees, viz., the Agricultural Finance Sub-Committee was appointed in September 1944, with Professor D. R. Gadgil as its Chairman, 'to report on the ways in which indebtedness could be reduced and finance both short-term and long-term provided under efficient control for agriculture and animal husbandry operations '. The second committee, named the Co-operative Planning Committee, was appointed in January 1945, under the chairmanship of Mr. R. G. Saraiya, in pursuance of a recommendation of the Fourteenth Conference of the Registrars of Co-operative Societies 'to draw up a plan for co-operative development '. The reports of both the Committees were submitted in 1945. Apart from attending to the secretarial work, the Department prepared a number of notes on various aspects of the terms of reference of the Committees and generally placed the material with it at the disposal of the Committees. The Co-operative Planning Committee, in particular, received valuable help and guidance at every stage of its work from Deputy Governor Mr. Wajahat Hussain, who had imparted dynamism to the work of the Bank's Agricultural Credit Department. In an In Memoriam attached to its report on his death in December 1945, the Co-operative Planning Committee expressed its appreciation of Mr. Wajahat Hussain's services in the following terms:

> Since the Report of the Committee was signed we have learnt with profound grief of the premature and sudden demise of Mr. Wajahat Hussain, Deputy Governor of the Reserve Bank of India. It is our unanimous desire to place on record our deep sense of gratitude to the late Mr. Wajahat Hussain for the invaluable assistance we received from him. Although not a member, he was closely associated with the work of the Committee and brought to bear on it his long administrative experience, his mature judgment and above all, his deep sympathy for the welfare of the rural population of India. By his premature death, the Co-operative movement has been deprived of a true friend who had abiding faith in silent and unostentatious work. By his good humour, sweet courtesy and social charm, he had endeared himself to each one of us and we shall always cherish the memory of the days we spent with him.

Summing up, it may be said that however small and halting, some progress was made during the war years in the Bank's role in the sphere of agricultural credit, although the co-operative sector remained largely critical of the Bank's outlook and policies. The Legislature, as already referred to in the previous chapter, was even more critical of the Bank's performance in this matter. However, the fact is, that slowly, may be very slowly, the Bank's attitudes changed, with greater contacts with the co-operative institutions and awareness of the practical issues involved.