

Progress in the Sphere of Agricultural Credit

The period of five and odd years from the close of World War II covered in this chapter marked a fairly progressive phase in the evolution of Bank's policies in the sphere of agricultural credit. During this period, the Bank and the co-operative institutions came closer and there was a further liberalisation of the terms of financial accommodation provided by the Bank to the co-operative sector, especially for the financing of seasonal agricultural operations and the marketing of crops. It will be recalled that the Bank initiated during the war years a fresh move to induce provincial co-operative banks to utilise the Bank's credit facilities, by providing accommodation at a concessional rate of interest. Even so, their response remained no more than nominal. This was partly due to the lack of demand for funds from the co-operative banks on account of the war-time boom in prices of agricultural commodities and partly because they considered the rules and conditions governing the Bank's assistance too stringent to be fulfilled in practice. The co-operative sector was also critical of the limited scope of accommodation provided by the Bank and urged an extension of the period as well as some enlargement of the purposes for which its facilities might be availed of. In the light of such representations and its own experience the Bank gradually modified its policies suitably.

Several factors contributed to the Bank's beginning to take an active role in the sphere of agricultural credit. Firstly, the Bank was enabled to bring to bear on the consideration of policy issues a sound practical approach by the better understanding of the problems of rural credit in general and of co-operative finance in particular, gained by it through correspondence, meetings and discussions with officials and leaders of co-operation, and through the visits of senior officers of

the Agricultural Credit Department to the various Provinces. Secondly, reorganisation of the co-operative machinery during the post-war years was the subject of comprehensive review by various expert committees and the Bank's close association with the work of these committees helped in crystallising its views and shaping its policies in this regard. Thirdly, after Independence and in particular after its nationalisation, the Bank was expected to play an active role in the promotion of a satisfactory system of agricultural credit. While the major policy measures adopted by the Bank in pursuance of this objective belong to a subsequent period in its history, some important steps were taken during the period under review and much progress was made in laying down the lines of future advance.

The co-operative movement itself underwent a transformation in the post-war and post-Independence period through the opportunities that presented themselves in tackling the problems emerging after the war and the partition of the country, such as, distribution of controlled and other essential commodities, alleviation of housing shortages and rehabilitation of displaced persons. The emphasis shifted from the credit to the non-credit aspects of the movement, although numerically credit institutions still occupied a predominant position. The multifarious activities taken up by the co-operative institutions called for the utilisation of all available resources and there was a substantial increase in the quantum of accommodation obtained from the Reserve Bank.

The remittance facilities available to co-operative banks and societies in British India* were extended during this period to similar institutions in Indian States. Besides, provincial co-operative banks which did not have offices at the places where they maintained their principal accounts with the Reserve Bank, were allowed reverse transfer facilities from their account with an office of the Reserve Bank of India to an account maintained by them with an agency of the Reserve Bank at their main place of business.

The Agricultural Credit Department of the Bank began to pay increasing attention to bringing about better co-ordination in the policies pursued by the co-operative departments of Provincial Governments and eliminating the undesirable tendencies observed in the working of co-operative financing agencies. The Department provided guidelines to the Registrars of Co-operative Societies regarding audit classification of co-operative societies and the maintenance of fluid resources by co-operative banks. The deficiencies observed in the working of co-operative institutions were promptly brought to the notice of the Registrars for corrective action. The practical working

* Details given in Chapter 16.

of co-operative institutions in the various Provinces was also kept under close study through the periodical visits of the Chief Officer of the Department, who also participated in all important co-operative conferences and served as a member of various committees pertaining to agricultural credit or co-operation. At the instance of the Government of India, the Department also undertook the preparation of a scheme for the establishment of a Central Agricultural Finance Corporation for India, though the Bank was not in favour of such an institution. The publication of the *Statistical Statements Relating to the Co-operative Movement in India* and the *Review of the Co-operative Movement in India*, which had been suspended during the war period, was resumed. A number of brochures were also published on matters relating to the co-operative movement and agricultural credit.

There were renewed demands from indigenous bankers for linking them with the organised banking structure. But there was little progress as they showed no willingness to accept the basic conditions laid down by the Bank.

EXPERT COMMITTEES ON AGRICULTURAL CREDIT AND CO-OPERATION

The problems of agricultural credit and co-operative development in the post-war years formed the subject of comprehensive review by a number of expert committees between the years 1944 and 1950. Reference has been made in Chapter 16 to the *Agricultural Finance Sub-Committee* and the *Co-operative Planning Committee*, which submitted their reports in May and November 1945, respectively. These were followed by the *Agricultural Credit Organisation Committee* constituted by the Government of Bombay in 1947 to recommend the terms and extent of governmental assistance to be provided to co-operative banks and the *Rural Banking Enquiry Committee* set up by the Central Government towards the close of 1949 to consider measures necessary for the extension of banking facilities in rural areas. Besides, at the beginning of 1948, the Government of India appointed a *Co-operative Sub-Committee* in accordance with one of the resolutions passed at the Fifteenth Conference of Registrars of Co-operative Societies held in 1947. The Reserve Bank was closely associated with the work of these committees, which among them covered major questions of policy and principles concerning the growth of the co-operative movement and rural credit. It is, therefore, necessary to provide some details of the recommendations of these committees.

The Agricultural Finance Sub-Committee

In September 1944, the Government of India appointed a Sub-Committee, under the Chairmanship of Professor D. R. Gadgil, to suggest measures for the scaling down of rural indebtedness and the provision of finance, both short-term and long-term, for agriculture and animal husbandry operations, under efficient control. Its report was submitted in May 1945. The Sub-Committee's recommendations concerning adjustment and liquidation of rural debt are not of direct concern here. As regards the building up of an efficient system of agricultural credit, the Sub-Committee considered that co-operative financing agencies provided the best and the most lasting solution to the problem and made a number of suggestions for improving their functioning. It recommended that the primary credit society should continue to be the nuclear unit of the co-operative credit structure and that it should try to finance all short-term needs of its members and also, subject to certain limitations, their intermediate-term credit needs. The efficiency of co-operative finance was to be enhanced by linking credit with marketing and ensuring, through constant and careful supervision, proper utilisation of loans taken by members. The cost of credit to the ultimate borrower had also to be brought down to a level not exceeding 6 ¼ per cent. The Sub-Committee emphasised the need for co-operative banks to work on sound banking lines in order to attract deposits at low rates of interest. Besides, it recommended increased use by the provincial co-operative banks of the accommodation provided by the Reserve Bank at a concessional rate. In this connection, it suggested an increase in the quantum of the concession (which was 1 per cent at that time) to 1½ or 2 per cent, with a view to making co-operative credit somewhat less costly.

The Sub-Committee, however, found that the co-operative movement covered only a small proportion of the rural population and met only a fraction of their credit requirements; except in a few regions, their working was also not satisfactory. In the circumstances, the extension of co-operative credit to meet the requirements of credit-worthy agriculturists all over the country, within a short period of time, was considered impracticable without substantial State assistance and control, which might seriously affect the democratic character of the movement. This was the main consideration behind the Sub-Committee's recommendation for the establishment of *Agricultural Credit Corporations* in those Provinces where the co-operative system was not adequately developed. The Corporations were to be autonomous institutions with one-half of the capital provided by the State and the rest by co-operative and other institutional agencies. The Sub-Committee envisaged that these Corporations would establish

branches and agencies over their respective regions and provide agriculturists with all types of credit through co-operative societies or 'borrowers' groups' as well as directly. They were also to provide finance to co-operative societies where central financing agencies did not exist. The activities of the Corporations were expected to be co-ordinated with those of co-operative and other institutions. It may be mentioned that co-operative opinion in the country was highly critical of this proposal on the ground that, given the financial resources and assistance contemplated for the Corporations, the co-operative financing agencies could themselves meet the requirements of creditworthy agriculturists.

The other recommendations of the Sub-Committee related to the creation of conditions for the commercial banks to increase the volume and scope of their business in agricultural credit (through the establishment of regulated markets and licensed warehouses), improvements in legislation relating to money lending, etc., and the setting up of a Standing Committee in the Agricultural Credit Department of the Bank to serve as a general clearing house of information and a body for a continuous review of the progress of the co-operative movement. The Reserve Bank was directly concerned with two of the recommendations made by the Sub-Committee, viz., those relating to the increase in the interest rebate allowed to co-operative banks and the establishment of a Standing Committee in the Agricultural Credit Department. The former was implemented by the Bank in July 1946, while the latter was given effect to only in August 1951, after the Informal Conference on Rural Finance made the same suggestion in February 1951.

The Co-operative Planning Committee

In January 1945 the Government of India appointed a committee under the chairmanship of Mr. R. G. Saraiya, to draw up a plan of co-operative development. Its report was submitted in November 1945. The Committee made a detailed study of the problems facing the cooperative movement in the country and its recommendations ranged over both organisational and administrative aspects. The Committee recommended that the co-operative movement should endeavour to reach 50 per cent of the villages and 30 per cent of the rural population through agricultural credit societies within a period of 10 years and to bring at least 25 per cent of the marketable surplus of agricultural produce within the purview of co-operative marketing societies during the same period. The Committee was of the view that the co-operative form of organisation should embrace all aspects of the economic life of the rural population and, accordingly, favoured the development

of co-operative societies on the multi-purpose principle as well as the extension of co-operation to the fields of production and processing of agricultural commodities. It also recognised the useful role which co-operation could play in the non-agricultural sector and made suggestions regarding the formation of co-operative agencies for this purpose.

In the Committee's view, there was no need for any drastic reorganisation of the superstructure of co-operative credit and, hence, it did not favour the suggestion of the Gadgil Committee for the formation of Agricultural Credit Corporations. Rather, it was of the view that given the same measure of assistance proposed to be given to the new Corporations, the existing co-operative agencies could prove quite adequate to their task. The Committee felt that the aid to be given by Government to provincial co-operative banks might take the form of a contribution to their share capital and provision of finance at a concessional rate of interest. It also recommended that the period of accommodation provided by the Reserve Bank under Section 17(2) (b) should be extended to 12 months and that the meaning of the term 'crops' should be widened to cover animal products like milk, cream, butter, ghee, and wool as well as processed agricultural products like sugar, cotton that was ginned and pressed, decorticated groundnuts, vegetable oils and oilcakes. It also suggested that the scope of Section 17(2) (a) should be enlarged to include the activities of industrial co-operatives.

Finally, to ensure the development -of the co-operative movement on right lines, the Committee emphasised the need for adequate arrangements for training co-operative personnel and increasing the participation of non-officials in the development of the movement. The Committee suggested a number of amendments to the existing Co-operative Societies' Acts keeping in view the past experience and future needs of the movement. It also recommended the establishment of co-operative training colleges at the provincial level and of an All-India Institute of Advanced Studies in Co-operation by the Central Government.

The recommendation of the Co-operative Planning Committee for extending the period of accommodation under Section 17(2) (b) to 12 months was accepted by the Bank at the meeting of the Committee of the Central Board held on March 17, 1948. In January 1949, the Bank wrote to the Central Government for promoting the necessary amendment to the Reserve Bank Act. The amendment, which was passed in February 1951, came into effect in November 1951. The other recommendations of the Co-operative Planning Committee for extending the scope of Section 17(2) (a) to industrial co-operative societies and widening the meaning of the term 'crops'

appearing in Section 17(2) (b), were not accepted by the Bank then. The Bank felt that industrial co-operatives were not sufficiently advanced and financing them' would be treading on rather risky grounds'; as for institutions requiring finance in respect of goods like animal products and processed agricultural commodities (to be covered by the extended meaning of the term 'crops ') there were not many of them and those in existence appeared to be in an experimental stage.

The Agricultural Credit Organisation Committee

In February 1947 the Government of Bombay set up a Committee, under the chairmanship of Sir Manilal B. Nanavati, in pursuance of the resolutions passed by the Bombay Co-operative Banks' Association, whose reactions to some of the recommendations of the Agricultural Finance Sub-Committee were called for by the Provincial Government. The Committee was asked to recommend the terms and extent of Government assistance to be provided to co-operative banks in the Province and to suggest amendments and modifications to the existing constitutions of co-operative and land mortgage banks. The Committee submitted its report in July 1947. The recommendations concerning the facilities available from the Reserve Bank to the co-operative sector are of particular interest in this context.

In its report the Committee pointed out that, although the Reserve Bank had a scheme for providing finance to provincial co-operative banks at $1\frac{1}{2}$ per cent (that is, $1\frac{1}{2}$ per cent below the Bank rate, then at 3 per cent), it had not been possible for co-operative banks to take full advantage of the facilities for various reasons. The Committee felt that a solution to the problem lay in the adoption of a more liberal policy by the Reserve Bank and it made various suggestions towards this end. The more important of these related to (i) the extension of the period of loans for agricultural operations from nine to fifteen months, (ii) the waiver of the condition regarding the maintenance with the Reserve Bank of minimum balances by provincial co-operative banks, (iii) the acceptance of debentures of land mortgage banks as eligible securities for advances from the Reserve Bank, (iv) waiving the condition regarding the borrower being independent of the warehouseman in the case of co-operative societies for purposes of advances under Section 17(4)(d) of the Reserve Bank Act and (v) making provision for advances under the same Section against promissory notes bearing the signatures of a marketing society and the provincial co-operative bank supported by stocks held with the former. The Committee also considered it essential on the part of the Bank to lay down the procedure and arrangements for assistance to provincial

co-operative banks in emergencies. The restoration of free remittance facilities originally enjoyed by the co-operative banks was also one of its recommendations.

The Co-operative Sub-Committee

In February 1948, at the instance of the Fifteenth Registrars' Conference, the Government of India appointed a Sub-Committee, under the chairmanship of Mr. R. G. Saraiya, mainly to consider the recommendations of the Co-operative Planning Committee for setting up an All-India Council of Co-operation and to combine the Registrars' conferences with the non-official all-India co-operative conferences. Its terms of reference also included the amendments to the Cooperative Societies Act suggested by the Co-operative Planning Committee and the statutory and procedural changes necessary for enabling the Reserve Bank to provide maximum possible assistance to the cooperative sector. The Sub-Committee submitted its report in January 1949.

The Sub-Committee felt that co-operative banks had been hesitant in approaching the Reserve Bank for finance owing to the existence of a feeling among them that the limitations placed by the Reserve Bank of India Act on the nature and extent of accommodation that could be given as well as the conditions that had to be satisfied before it could be availed of were discouraging. In its view, there were a few important considerations which should govern the Reserve Bank's role in financing co-operative banks. These were: (1) in respect of agricultural finance, the Reserve Bank should not look upon itself as a lender of last resort, stepping in only at times of extreme financial stringency, but should normally regulate the volume of credit so that no crisis was likely to occur; (2) it was but proper that the Reserve Bank should use the national credit pool to back up the securities offered, so that agricultural paper both for long-term and short-term funds would have a free and ready market; this could be done by purchase of debentures issued by accredited co-operative institutions and by a freer acceptance of the demand promotes of primary societies and central banks as collateral for advances made to provincial cooperative banks; and (3) unless the Reserve Bank spread its accommodation to cover activities like marketing and distribution, the movement was likely to lose the momentum which it had gained in the recent past.

The amendments to the Reserve Bank of India Act suggested by the Sub-Committee related to (1) inclusion of demand promotes of co-operative societies as acceptable collateral security for loans to provincial co-operative banks, (2) deletion of the word 'seasonal' in Section

17(2) (b) to avoid confusion that accommodation would be available only during certain seasons, (3) replacement of the term 'crops' by the words 'agricultural produce and other prescribed goods' which should include goods, such as, cloth, wool, sugar and products of cottage industries, and (4) extension of the period of accommodation from 9 to 12 months with provision for extending it to 15 months in respect of crops like sugarcane and bananas. The Sub-Committee also wanted industrial societies to be covered by the provisions of Section 17 of the Reserve Bank Act.

The Sub-Committee also considered it necessary for the Reserve Bank to make procedural changes in the following directions. First, the term 'marketing' should be interpreted liberally to include procurement operations undertaken by marketing societies. Second, the stipulation regarding maintenance of minimum balances by co-operative banks, while unobjectionable in principle, should not be enforced rigidly in respect of smaller institutions. Third, in view of the fact that in some Provinces new co-operative institutions were classified initially into 'C' class and were thus precluded from the purview of accommodation from the Reserve Bank, the Bank should relax the condition of audit classification in the case of societies which the Registrar certified to be creditworthy and working on sound lines.

The report of the Sub-Committee was signed by the Chief Officer of the Agricultural Credit Department, who was a member, with a qualifying note. In this, he signified his dissent to the suggestions made by the Sub-Committee for amending the Reserve Bank Act except in regard to the extension of the period of accommodation. In fact, even before the submission of the report, the Reserve Bank had, as stated earlier, moved the Government for amending Section 17(2) (b) for extending the period of accommodation from 9 to 12 months.

The Sub-Committee also recommended the amalgamation of the three all-India co-operative associations, viz., the Co-operative Institutes Association, the All India Provincial Banks' Association and the Co-operative Insurance Association into a body to be called the 'Indian Co-operative Association'. Further, it suggested that the two all-India Conferences the All-India (non-official) Co-operative Conference and the Conference of the Registrars of Co-operative Societies should be merged into one Indian Co-operative Conference to be convened by the all-India body proposed. The first suggestion was given effect to in May 1949, when a new body called the All-India Co-operative Union was formed by the amalgamation of the three all-India associations (now called the National Co-operative Union of India). The Government of India accepted the suggestion of the Co-operative Sub-Committee for merging the official and non-official Co-operative Conferences and asked the newly formed

All-India Co-operative Union to hold a combined conference called the Indian Co-operative Congress. The first *Congress* was held in February 1952.

Rural Banking Enquiry Committee

The advent of a national Government and the nationalisation of the Bank led to the focussing of attention on the promotional role, which a central banking institution had necessarily to undertake in a developing country like ours. The major problem was the provision of adequate credit facilities in rural and semi-urban areas for the financing of agriculture and other activities and mobilisation of savings in these areas. As fresh approaches had to be thought of in these matters, the Government of India, at the suggestion of the Reserve Bank, appointed in November 1949 a committee called the *Rural Banking Enquiry Committee*, headed by Sir Purshotamdas Thakurdas; a senior officer of the Bank (Mr. N. D. Nangia) served as its Member-Secretary. The Bank also provided the necessary secretarial assistance and various other facilities. The Committee's report, a unanimous one, was submitted in May 1950.

Taking a broad survey of the various agencies providing banking facilities in rural and semi-urban areas, the Committee found that the structure of rural credit societies, taken as a whole, was impressive and had improved in certain respects as a result of the changes brought about by the war. With a few exceptions, commercial banks had not found it possible to extend their operations beyond the *taluka* headquarters and a few *mandis* and other trading centres. The growth of commercial bank offices was lopsided, there being a heavy concentration in larger towns. Indigenous bankers and moneylenders continued to play a significant role in rural credit, but their importance and activities had generally been on the decline.

In dealing with the question of suitable machinery for providing rural credit, the Committee felt that the establishment of a single financial agency to cover the entire field of rural credit would not be feasible and that, in each region, a varied and adequate machinery would have to be developed. Such machinery should be able to raise funds by way of share capital and deposits or debentures as also by tapping rural savings. It also felt that any scheme for a sound and efficient system of rural finance should place adequate emphasis on the building up of a sound structure of primary institutions. The Committee envisaged the future structure of banking to consist of, (a) the Reserve Bank of India with a branch or an office in each major Province or State, (b) the Imperial Bank of India and other commercial banks extending their activities to *taluka* or *tehsil*

headquarters or other semi-urban centres, (c) the provincial and central co-operative banks with their branches or affiliated banks extending to all towns and large or centrally situated villages, and (d) a chain of land mortgage banks in each region for meeting long-term needs.

The Committee felt that the ideal credit agency at the village level was provided by co-operative society and commended the plan for establishing strong multi-purpose societies for each group of contiguous villages, manned by competent paid staff and supported by the Provincial Governments, particularly by providing the needed staff for inspection and supervision. As regards the co-operative superstructure, the Committee felt that full use should be made of the existing institutions as far as possible, and new institutions or machinery like the Agricultural Credit Corporations recommended by the Gadgil Committee should be set up only in regions where co-operative banks could not be developed. Commercial banks, the Committee felt, should be able to provide finance for the marketing of produce to a much greater extent, with the establishment of regulated markets, development of grading and standardisation of agricultural products and the provision of satisfactory warehousing arrangements. They should also be able to play a greater part in agricultural finance in the shape of advances against produce, gold, and loans for purchase of expensive agricultural equipment. As regards the moneylenders, the Committee cautioned that while attempting to enact or enforce any legislation for controlling their activities, Government should take into account the pace at which an alternative machinery for supply of credit to the agriculturists could be developed. In this connection, it suggested a review of the existing legislation concerning debt relief, money lending, tenancy and land tenure insofar as they affected the commercial, co-operative and land mortgage banks, in order to enable these institutions to work unhindered.

The proposals of the Committee for the extension of banking and credit facilities in rural and semi-urban areas were of two types viz.,

(a) general proposals for the removal of existing impediments and provision of some indirect types of stimuli, available to all types of sound banking institutions and (b) special measures for assistance to or improvement of co-operative banks and societies.

Under (a), the Committee indicated the long-term measures necessary for the gradual removal of impediments like the deficit character of agriculture, lack of communications, illiteracy and conservatism of villagers. It also suggested the association of local persons of importance with banks as directors or employees for generating confidence in the rural population and the exemption of branches of banks in mofussil centres from the provisions of Shops and Establishments Acts and Awards of Industrial Tribunals, for bringing down operating

costs. Further, the Committee recommended (i) reduction of remittance charges to half of the existing rates, making available free remittance facilities to scheduled banks and co-operative banks whether or not they maintained an account with an office at the place from which remittance was required, and allowing remittances from branches of the Imperial Bank to any account with the Reserve Bank and not merely the principal account; (ii) provision of adequate facilities for conversion and exchange of notes and coins at offices of the Imperial Bank and treasury agencies; (iii) provision of facilities for keeping safes and chests for safe custody in the strong rooms of treasuries and sub-treasuries; and (iv) promotion of warehouses.

Regarding special assistance to co-operatives, the Committee recommended lower rates for postal remittances between co-operative institutions, relaxation of rules regarding maximum amount of postal savings deposits and number of times of operations, appointment of co-operative banks and societies as authorised agents for sale of National Savings Certificates, provision of qualified and adequate staff to manage, supervise, audit and inspect co-operative institutions and a closer liaison between the Reserve Bank and co-operative banks.

The Committee felt that the conversion of non-banking treasuries into banking treasuries would provide greater opportunities for 'the rural people to come into contact with banks, enable banks to serve a larger section of rural population, encourage use of instruments like cheques and help reduce handling of cash. It also made some recommendations for the improvement of postal savings bank services.

The Government invited the views of the Reserve Bank on the recommendations of the Committee. The Bank's views were formulated and submitted to the Central Board for approval in September 1950; in view of the need for careful consideration, the memorandum submitted by the Governor was discussed by the Board only at its meeting in December 1950. The Board approved, among others, the Committee's proposals for an extension of remittance facilities at reduced rates, for the removal of impediments in the way of the expansion of commercial banks in rural areas, as well as for the improvement of the machinery of rural finance both as regards the mobilisation of rural savings and the extension of rural credit. Earlier, in October 1950, as mentioned in Chapter 17, the Department of Banking Development had been created mainly with the object of implementing the recommendations of the Rural Banking Committee and in particular to give concentrated attention to the extension of banking facilities to semi-urban areas and to the problems of rural finance. Further, with a view to formulating a long-term as well as short-term policy in regard to the problems of rural finance, the Reserve Bank also

convened, in February 1951, an Informal Conference of representatives of the co-operative movement and other experts on rural finance; a brief reference to this Conference is made in a later paragraph. The approach of the Reserve Bank to the problems of rural finance and banking development in relatively underbanked areas in the following years has been mainly along the lines recommended by the Rural Banking Enquiry Committee and the Informal Conference on Rural Finance.

LIBERALISATION OF THE SCHEME OF REDISCOUNTS AND ADVANCES

It was mentioned earlier that the period was marked by some liberalisation of the Bank's policy in the sphere of agricultural finance for enabling the co-operative sector to make a freer and fuller use of its credit facilities. The measures undertaken by the Bank in pursuance of this policy were, however, more in the nature of a gradual adaptation of existing arrangements, mainly in response to the representations of the co-operative sector, than the outcome of a well-defined long-term plan. The scope of accommodation which the Bank could provide was circumscribed by the limitations placed on it under its statute; any enlargement of the nature and duration of such accommodation required amendments to the Reserve Bank Act. Since changes involving fresh legislation necessarily took time, the Bank's efforts, in the first instance, were directed towards a gradual liberalisation of the operational terms and conditions prescribed under its Scheme of Rediscounts and Advances. Briefly, the modifications made in the Scheme provided for enhancement of the interest rebate on accommodation granted against eligible paper drawn for financing seasonal agricultural operations and marketing of crops; extension of similar concession to cover advances against Government and trustee securities availed of for the two specified purposes mentioned above; acceptance of the guarantee of the Provincial Government in lieu of the second signature required for rediscounting agricultural paper; inclusion of debentures of land mortgage banks as eligible security for advances in appropriate cases; and liberalisation and simplification of procedural requirements. A brief account of developments relating to these matters is given in the following paragraphs.

Interest Concession

The first post-war change in the Scheme of Rediscounts and Advances was the enhancement of the interest concession on accommodation

provided under Section 17(2)(b)/(4)(c) against agricultural paper drawn for financing seasonal agricultural operations and marketing of crops, from 1 to 1 ½ per cent *below* Bank rate, effective July 15, 1946. It may be recalled that a special interest rebate of 1 ½ per cent was allowed for these purposes, in April 1945, to the U.P. Provincial Co-operative Bank on account of the high rates prevailing in the region. This was made initially for a period of one year after which the position was to be reviewed. On a reconsideration of the position in 1946, it was felt that the enhanced concession should be extended to all Provinces as the rebate of 1 per cent introduced in 1942 had not evoked much response. Recommending such a step in his note dated June 6, 1946, the Chief Officer of the Agricultural Credit Department observed:

As we are anxious to play our full part in financing agriculture within the limitations imposed by the statute, and as our intentions in the matter are being measured by the amount of finance we make available to the co-operative banks, I feel that the rate of rebate should be increased so as to make our scheme more attractive.

It will be recalled that the Gadgil Committee (1945) had also recommended enhancement of the quantum of concession. The revised concessional rate remained unchanged during the rest of the period covered by this volume.

The extension of the concessional rate of interest to cover advances availed of by co-operative banks for financing seasonal agricultural operations and marketing of crops under Section 17(4) (a), that is, against Government and trustee securities, came about as follows. The Bombay Provincial Co-operative Bank applied to the Bank in December 1947 for a limit of Rs.3 crores, of which Rs.2 crores was to be against Government securities owned by the bank and those pledged to it by the central co-operative banks. The authorities of the provincial bank met the Deputy Governor twice in connection with the application, on December 18, 1947 and May 11, 1948. It was explained at the latter meeting that the bank, which was also financing societies directly, found it difficult to offer documents of the societies as collateral security; hence, it was suggested that advances obtained by the bank against Government and trustee securities should also be made eligible for the concessional rate of interest provided the funds were to be utilised for financing seasonal agricultural operations or marketing of crops. This was agreed to by the Deputy Governor. The bank, however, did not pursue its application made in December 1947. It was the C. P. and Berar Provincial Bank which first availed of this concession in respect of the accommodation sanctioned to it in May 1949 (against Government guarantee). The details in this regard are given in a subsequent

paragraph. The Bombay Provincial Co-operative Bank got its first accommodation under Section 17(4)(a) at the concessional rate in October 1949, when it was sanctioned a limit of Rs. 25 lakhs. In the meantime, as more and more use was sought to be made of Section 17(4) (a) for obtaining finance for seasonal agricultural operations and marketing of crops, the Bank considered it necessary to issue a general circular on July 7, 1949 to all Registrars and provincial cooperative banks intimating the availability of advances under Section 17(4)(a) at 1 ½ per cent below Bank rate, for the two approved purposes.

Period of Accommodation

The extension of concessional finance for agricultural purposes under Section 17(4) (a) raised a legal issue in regard to the period of such accommodation. This Section provided for the granting of loans repayable on demand or for fixed periods not exceeding 90 days. Since loans availed of for agricultural purposes were normally required for longer periods, the question arose whether it would be permissible for the Bank to allow such loans to run on beyond 90 days. The legal opinion obtained by the Bank from the Law Department of the Government of India, in December 1946, indicated that the expression 'not exceeding ninety days' applied only to fixed loans and that there was no objection under the Reserve Bank Act for a *demand* loan being extended for any period up to 3 years (Limitation Act) from the date of the loan. However, as a matter of general policy the Bank decided in January 1947 not to allow any type of loan taken under Section 17(4) (a) to run for more than 90 days.

The question came up for review in January 1949. The Ajmer-Merwara Provincial Co-operative Bank, which had taken an advance under Section 17(4) (a) against Government securities for 90 days, asked for extension of the loan for a further period of 90 days. The Legal Assistant of the Bank was of the view that it would involve no contravention of the Act even if a fixed loan was left outstanding for more than 90 days, as it was not obligatory on the part of the Bank to recall the loan after the expiry of the fixed period even though it had a right to do so. It was only a matter of policy for the Bank to defer calling in a loan when it became due or to have it renewed as it thought fit. Accordingly, the Bank allowed extension of the period sought for by the Ajmer-Merwara Provincial Co-operative Bank on an *ad hoc* basis. Subsequently, in the course of the same year, the C. P. and Berar, Orissa and Bombay Provincial Co-operative Banks were granted demand loans under Section 17(4) (a) on the understanding that they would not be recalled within a period of nine months as they were for

approved agricultural purposes. This fact was not, however, specifically stated in the sanction letters since Section 17(4)(a) prohibited contractual obligations having a duration exceeding 90 days.

As the number of cases in which the loans were to be allowed to run for periods exceeding 90 days were on the increase, to enable the Agricultural Credit Department to deal with such cases expeditiously, the Bank decided as a general policy, in January 1950, that loans under Section 17(4)(a) granted to provincial co-operative banks for financing seasonal agricultural operations and marketing of crops should not be recalled within 90 days, but allowed to run for periods not exceeding nine months. The exercise of discretion in the matter was left to the Agricultural Credit Department. This decision was communicated to the Managers of the regional offices of the Bank, in January 1950, and to the Registrars and co-operative banks in July 1951, in the form of a general circular.

There was also a general criticism voiced by the co-operative opinion that the period of advances for seasonal agricultural operations at a maximum of nine months provided for in Section 17(2)(b) of the Bank's Statute fell short of the actual requirements of cultivators. As was noted earlier, the demand for extension of the period from nine to twelve, or fifteen months in the case of special crops like sugarcane, was also raised from time to time by various Committees on Co-operation. Although this was accepted by the Bank and amendments for this purpose were recommended to Government in January 1949, it was only in February 1951 that these were enacted, the amendments coming into effect in November that year. The Bank had proposed extension of the period of accommodation for seasonal agricultural operations and marketing of crops, under Sections 17(2)(b) and 17(4)(c), from nine to twelve months and the Bill as introduced by Government incorporated these changes. The extension of the period to fifteen months was recommended by the Select Committee of Parliament and this was incorporated in the amending legislation. While giving effect to this amendment in its circular dated November 23, 1951, the Bank indicated that normally it would accept only bills and promissory notes maturing within twelve months for rediscount under Section 17(2)(b) or advances under Section 17(4)(c) and allow a period of fifteen months only in special cases. The circular also mentioned that demand loans granted under Section 17(4)(a) for financing seasonal agricultural operations and marketing of crops would not ordinarily be recalled before a period of twelve months.

It may incidentally be mentioned that the amendments carried out in November 1951 also provided for the extension, to co-operative banks, of facilities for accommodation against *bona fide* trade or commercial paper under Section 17(2)(a).

Acceptance of Government Guarantee

A further modification of the Scheme became necessary in connection with the Bank's attempt to help the co-operative credit structure in Central Provinces and Berar. This was in allowing the substitution of the second signature required on bills to be discounted with the Bank [under Section 17(2) (b)] by a guarantee from the Provincial Government. During the depression and immediately after, the central banks in that region had to face heavy overdues and could not rehabilitate themselves for a considerable time. The provincial co-operative bank, however, carried on the business of agricultural credit, utilising the central banks as agents for disbursement and recovery of loans to primary societies. As the provincial bank wanted additional funds to meet the demand for agricultural credit, it applied to the Reserve Bank for a loan of Rs. 42 lakhs in May 1947. The Reserve Bank, at first, took the stand that it would not be possible to provide accommodation against the second signature of central banks which were considered to be in a very bad state by audit authorities. The Bank suggested that accommodation might be availed of against bills and promotes of societies which satisfied the conditions laid down by it; accordingly the provincial bank was asked to submit financial particulars of societies*whose bills were to be discounted.

The Food Minister of the C. P. and Berar thereupon took up the matter with the Governor in December 1948, requesting him to suggest a solution to the problem since the signatures of the central banks were not considered good enough and it was difficult to offer documents of a large number of societies to the Bank. The Governor arranged for a first hand study of the working of the co-operative institutions in the Province by the Chief Officer of the Agricultural Credit Department. The Chief Officer found that the movement there was in a generally unsatisfactory state and the central banks lacked popular support. Though the central banks had repaid their depositors in full and wiped out the losses incurred during 1929-39, they had not been able to attract sufficient deposits. Barring two or three, the central banks had a poor capital structure and many of them did not merit accommodation from the Reserve Bank on account of their smallness. In the circumstances, when an application for Rs. 35.35 lakhs was made by the provincial co-operative bank in March 1949 on behalf of twelve central banks, the Governor wrote to the Finance Minister on April 20, 1949, as under :

On a careful examination of the data received from the banks and also as a result of the tour of the Chief Officer, Agricultural Credit Department, in the Central Provinces and Berar in January last (1949), I feel that the banks have not yet recovered fully from their depression

troubles and their position and management are not such as to warrant our accommodating them individually. At the same time, I agree with you that some way should be found for assisting the agriculturists who need help in the shape of finance. The solution I would suggest is that we make a loan to the Provincial Bank for a consolidated amount under guarantee of the Government of Central Provinces and Berar.

The Governor also indicated that despite the Government guarantee loans taken from the Bank should be utilised strictly for the two specified purposes, viz., seasonal agricultural operations and marketing of crops. The Government agreed to give the guarantee and the limit applied for (Rs. 35.35 lakhs) was sanctioned on May 18, 1949.

Another provincial bank which was accommodated on the basis of Government guarantee in 1948-49 (July-June) was Orissa; in this case, the guarantee was taken to buttress the signature of the provincial co-operative bank itself, as it had been established only in 1947 and was not of sufficient strength for its signature to be acceptable to the Bank. The limit granted in this regard was Rs. 30 lakhs. The C. P. and Berar and Orissa Provincial Co-operative Banks could draw upon their limits only in 1949-50. These were also sanctioned limits of Rs.100 lakhs and Rs.35 lakhs, respectively, in the year 1950-51. In February 1951, the West Bengal Provincial Co-operative Bank was sanctioned a limit of Rs. 50 lakhs under Government guarantee for enabling it to make a fresh start in agricultural finance, since the co-operative movement in the State had almost become moribund after partition.

Procedural Reforms

Besides making the major changes set out above, the Bank also modified or simplified some of the procedural requirements laid down under the Scheme. One of the conditions to be satisfied by provincial cooperative banks for obtaining accommodation from the Bank under Sections 17(2)(b) and 17(4)(c), i.e., for seasonal agricultural operations and marketing of crops, was that their applications had to be accompanied by particulars of loans made by the central co-operative banks which were sought to be refinanced. The object of calling for the list of loans was to enable the Bank to satisfy itself that the funds provided by it were to be utilised only for the two specific purposes mentioned above or, at least, that an equivalent amount had already been so advanced. The Madras Provincial Co-operative Bank, however, took objection to this stipulation and wrote to the Reserve Bank in July 1946 stating that it was impracticable to comply with it. Although the Reserve Bank was of the view that the submission of such a list should not present any great difficulty it decided to take up a flexible attitude in the matter and agreed in August to waive this condition provided

the provincial co-operative bank furnished a certificate to the effect that the loans were used for the two approved purposes. However, the Bank desired that the information about the loans should be maintained by the institutions to be readily available for its scrutiny. This relaxation was communicated to all Registrars and provincial co-operative banks in September 1946 by transmitting to them copies of the correspondence with the Madras bank.

Another direction in which the Bank took action was in relaxing the norm regarding the quantum of credit limits sanctioned by it under the Scheme. As a matter of prudence, the Bank had been following the principle that the limits sanctioned should not exceed the 'owned capital' (that is, capital and reserves) of the central banks on behalf of which accommodation was applied for. Departure from this practice was first made in connection with an application from the Madras Provincial Co-operative Bank early in 1948 for a credit limit of Rs.90 lakhs in respect of eight central co-operative banks; the limits applied for were much in excess of their respective owned capital. The main considerations which weighed with the Bank in deciding to sanction limits exceeding owned capital were as under. Firstly, the borrowing powers of these banks provided for in their bye-laws generally ranged from twelve to twenty times of their owned funds and, in the circumstances, to restrict the Bank's accommodation to their owned capital would be of very little assistance to them. Besides, according to the Bank's new thinking, the owned capital had significance mainly in determining the borrowing power of an institution and counted very little as security for the Bank's loans as such, since depositors and other creditors as well had an equal claim over it. Secondly, as these limits were recommended by the Registrar of Co-operative Societies having intimate knowledge of their working, the Bank should normally accept them unless it had any specific reasons to act otherwise. Recommending the relaxation of the existing norm in his note of February 10, 1948, the Chief Officer of the Agricultural Credit Department observed:

The Reserve Bank has been subjected to a lot of unjust criticism that its attitude has not been very helpful to the co-operative movement and all our refutations of the charge and our reasonings have not been very successful in removing this impression. These applications seem to me to offer us a good opportunity to give the lie to the unjust accusation and prove that it is only the unsoundness of an application that makes us hesitant. Though the amounts asked for are large, the institutions appear to be sound both as regards their finances and their management and we shall not be taking much risk in being liberal in our consideration of the applications.

However, while sanctioning the loans the Bank made some discretionary reduction in the limits applied for, although the sanctioned limits

in the case of four out of the eight banks were in excess of their respective owned capital. Thereafter, the Bank generally refrained from applying this restriction in considering loan applications. As this relaxation concerned a matter of internal policy for the Bank and did not relate to any condition laid down under the Scheme, there was no question of communicating the decision to co-operatives at that stage. It should however be added that credit limits are still fixed as a multiple, a varying one from bank to bank, of the owned funds.

An aspect of the Scheme which required clarification on the Bank's part pertained to the concessional rate of interest. While introducing the scheme of concessional finance for marketing of crops in January 1942 (which was extended to seasonal agricultural operations in November 1944), the Bank required co-operative institutions to ensure that the benefit of the rebate was passed on to the ultimate agriculturist borrower. To enable the Bank to satisfy itself that this was done, the provincial co-operative banks seeking accommodation from the Bank were required to furnish a statement showing the respective rates charged by the provincial bank to the central banks, by the latter to the primary societies and by the primaries to the ultimate borrowers. In the case of loans sanctioned under the Scheme in the initial stages, for instance to the U. P. Provincial Co-operative Bank, the Bank observed that no commensurate reductions in the rates were effected at the various levels and, therefore, took up the matter through the Registrar of Co-operative Societies of that Province. The provincial bank replied that the funds provided by the Reserve Bank at the concessional rate formed only a fraction of the total loans extended by it and, therefore, an immediate and general reduction in the rate of interest was not possible. The Madras Provincial Co-operative Bank also represented the impracticability of conforming to this condition in its letter of July 29, 1946 referred to earlier. The Madras Bank wrote:

If this were to mean that the rebate allowed by you on the usance and promissory notes drawn by a particular central bank and endorsed by the provincial bank should be passed on to that particular central bank and in turn passed by the central bank to the societies which are financed with the funds arising from discounting that paper, it would result in an invidious distinction being made by the provincial bank between one central bank whose paper is discounted with the Reserve Bank and another whose paper is not so offered. Similarly, such invidious distinction will have to be made by the central bank as between societies for whom the proceeds of such discounted paper are disbursed and those societies which are financed with the funds of the central banks derived from their own deposits or by borrowings from the provincial or other banks.

The bank, therefore, desired that this condition should not be insisted upon and accommodation under the Scheme should be provided

freely to make it possible for the central banks and the primary societies to lower their general lending rate so that the ultimate borrower got funds at 5 per cent or lower. This goal was not reached as the rate to the ultimate borrower did not go below $6\frac{1}{4}$ per cent in Madras.

The Reserve Bank, in its reply dated August 27, 1946 (circulated to all Registrars and provincial co-operative banks), clarified its objective in stipulating this condition, in the following terms:

It is not our intention that this should be confined only to central banks (and societies and members in the chain) whose bills are rediscounted with us. What we expect is that all advances made by a provincial bank and the central banks and the societies (whether from the funds borrowed from us or out of their general resources) for the two purposes in question should be uniformly at lower rates. Assured of accommodation from us at 1½ per cent, it should be possible for the co-operative credit movement to reduce its borrowing and consequently lending rates on loans advanced for these two objects though we anticipate that this will also favourably react on the whole structure of interest rates in the movement and will contribute to the reduction of rates in general. Thus, we would be satisfied if as a result of the working of our scheme, the rates of interest charged on loans for the two objects in question are reduced in all institutions eligible for loans under it.

The matter, however, did not rest there. A revised circular on the Scheme was issued by the Reserve Bank on August 23, 1947, bringing together the changes made in it from time to time. This circular required the provincial banks to see that the benefit of the interest concession was passed on to the ultimate borrower and to furnish the Bank a certificate to this effect. This apparently was at variance with what was indicated to the Madras bank earlier and created some confusion. In May 1948, the Registrar of Co-operative Societies, Bombay, made a reference to this while forwarding the comments of the Bombay Provincial Co-operative Bank and the Bombay Co-operative Banks' Association on the circular of August 23, 1947. The Registrar referred to this point in the following terms:

The condition about passing on of the benefits of the low rate of interest to the agriculturists is also impracticable and unnecessary. In this Province, steps have already been taken to reduce the lending rates of interest of the central financing agency and the ultimate aim has been to make funds available to the agriculturists at $6\frac{1}{4}$ per cent. Infact the finance made by the Reserve Bank cannot be regarded as cheaper as in this Province, average borrowing rate of interest of central banks is about 1.8 per cent. In case the Provincial Bank has to keep a certain percentage of its balances free of interest with the Reserve Bank, the finance obtained from the Reserve Bank would actually be dearer because the Provincial Bank has then to charge at least half a percent (more) on the advances to be made to the central banks, on funds borrowed from the Reserve Bank. This pushes up the rate to 2 per cent.

This, therefore, would not be cheaper finance as it appears on the surface and the insistence on passing on the benefit of concession to the ultimate borrower as a condition prior to sanction of accommodation serves no purpose other than putting off of the actual provision of finance.

The Reserve Bank had, therefore, to issue a further clarification on this point in its circular dated July 28, 1948. This circular stated that what was expected was that all advances made by provincial and central banks and societies (whether from the funds borrowed from the Reserve Bank or out of their general resources) should be at uniform rates and that with the availability of accommodation from the Reserve Bank at the concessional rate it should be possible for the co-operative institutions to reduce their borrowing and lending rates which, in the long run would react favourably on the whole structure of interest rates.

Certain other procedural changes which were not in the nature of liberalisation of the conditions imposed under the Bank's Scheme of Rediscounts and Advances may now be referred to. In December 1948, the operational period for credit limits under the Scheme was altered from the calendar year to the twelve-month period October-September. This change was intended to wit the convenience of the agriculturists, as the harvesting and marketing of crops were generally completed only by April or May. However, as co-operative interests felt that this was not quite suitable to them, the period was changed in November 1951 to July-June.

The second change, also made in December 1948, related to the introduction of a new condition that all loans taken during a year (i.e., October-September) should be repaid before the end of the same year; this, too, was short lived as the Bank rescinded the stipulation in November 1951 on the recommendation of the Informal Conference on Rural Finance, along with the alteration of the operational period to July-June. The circumstances which prompted the Bank to introduce such a condition may, however, be indicated. The practice in force of allowing discounted bills to remain outstanding for the full period of nine months, going beyond the year in which they were discounted, appeared to have given room for banks making use of the Reserve Bank's credit limits for periods longer than those for which they were sanctioned. In October 1948, the Manager of the Madras office of the Bank made a reference regarding the premature retirement of bills discounted with the Bank by the Madras Provincial Co-operative Bank and substituting them by fresh bills with later dates of maturity, the intention being to have the period of the credit limit extended. The Madras Manager felt that this would in effect mean that the co-operative central banks would be availing of credit limits from the Bank all round the year. He suggested that a date might be fixed by which all

bills should be retired in any year. The Bank agreed with this view and issued the abovementioned circular in December 1948.

The Bank also noticed that central co-operative banks which were sanctioned credit limits through provincial co-operative banks resorted to the practice of drawing the entire amount under the limits fixed for them, repaid the loans in part or in full and again rediscounted fresh bills. This was apparently done under the impression that the limits fixed by the Bank were in force for the entire operational year and that, within that period, they could draw and repay as many times as they required, provided the outstandings at any time did not exceed the limits fixed. To stop this practice, the Bank issued a circular on June 1, 1950 to its Managers and all provincial co-operative banks. It pointed out that the credit limits were not in the nature of an overdraft or cash credit accommodation, but were to be regarded as fixed loans. While the central banks could draw and repay in parts, any part repaid could not be used again; once utilised, a limit ceased to have validity for rediscounting any fresh bills. However, this position was also reversed in November 1951 at the instance of the Informal Conference on Rural Finance.

Larger Credit Extension by RBI

The volume of short-term finance provided by the Reserve Bank to provincial co-operative banks at the concessional rate showed a marked increase over the period as a result of the liberalisation of the Scheme as well as the increasing demand for funds. The total credit limits sanctioned by the Bank increased from about Rs.7 lakhs in 1945-46 to Rs. 7.62 crores in 1950-51; the amounts availed of against these limits showed a corresponding increase from about Rs.1lakh to Rs.5.37 crores. The bulk of the accommodation was against agricultural paper under Section 17(2)(b)/17(4)(c), while the rest was against Government or trustee securities or Government guarantee under Section 17(4)(a). Besides, three provincial co-operative banks were sanctioned accommodation at the Bank rate. under Section 17(4)(a) for other purposes; practically the whole of this was accounted for by the Bombay bank, which borrowed in all Rs.7.33 crores out of a total lending by the Bank of Rs.7.44 crores. The year-wise and Province-wise lending by the Bank under the various categories are shown in the accompanying tables.

It will be seen that only two of the provincial co-operative banks, viz., Bombay and Madras, made any substantial use of the facilities. This was because the co-operative credit structure, especially at the provincial and central bank levels, was well-established in these Provinces only. In the other Provinces the co-operative credit movement

I. AT CONCESSIONAL RATE

(i) Against agricultural paper under Section 17(2) (b)/17(4)(c)

(Rs. lakhs)

July-June	Madras		Bombay		United Provinces	
	A	B	A	B	A	B
1945-46	—	—	—	—	6.80	1.25
1946-47	—	—	1.00	1.00	5.65	0.50
1947-48	60.00	15.00	—	—	7.70	1.80
1948-49	101.00	91.81	11.50	6.50	2.40	4.35
1949-50	150.00	156.00	36.00	41.00	3.00	0.75
1950-51	320.00	224.50	105.00	66.00	2.00	2.50

(ii) Against Government or trustee securities/Government guarantee under Section 17(4)(a)

	Bombay		CP & Berar		Orissa		West Bengal	
	A	B	A	B	A	B	A	B
1945-46	—	—	—	—	—	—	—	—
1946-47	—	—	—	—	—	—	—	—
1947-48	—	—	—	—	—	—	—	—
1948-49	—	—	35.35	—	30.00	—	—	—
1949-50	25.00	25.00	—	35.56	—	13.41	—	—
1950-51	150.00	150.00	100.00	53.10	35.00	26.70	50.00	15.00

A: Limit sanctioned.

B: Amount drawn.

NOTE: The explanation for the amounts drawn in some cases during 1949-50 being in excess of the corresponding limits is as follows. Since the operational period at the time was October-September, the drawals made in the last quarter (July-September) would naturally get included in the figures for the next year in the table.

II. AT BANK RATE

Against Government or trustee securities/Government guarantee under Section 17(4)(a)

	Bombay	Orissa	Ajmer-Merwara
1945-46	—	—	—
1946-47	30.00	—	—
1947-48	5.00	—	—
1948-49	518.00	—	1.50
1949-50	143.00	7.59	—
1950-51	37.30	2.00	—

was weak as a whole or at the apex and intermediate tiers, which affected their ability to make effective use of the facilities offered by the Reserve Bank.

Debentures of Land Mortgage Banks

The policy of the Bank in regard to the debentures of the land mortgage banks underwent a change during this period; the Bank agreed

to make advances against the debentures of the Madras Central Land Mortgage Bank and to subscribe up to 10 per cent of any issue of debentures floated by a land mortgage bank. The contribution was increased up to 20 per cent in August 1950.

ACCEPTANCE AS SECURITY: As mentioned in Chapter 16, the attitude of the Bank in regard to the acceptance of the debentures of the Madras Central Land Mortgage Bank as collateral for advances had softened in October 1941 itself following the Deputy Governor's discussions with the Madras Government. Apparently satisfied with the indication given by the Provincial authorities of their intention eventually to end Government guarantee of debentures and the measures taken by them for strengthening the apex institution, the Bank had then informed the Madras Government that it would be prepared to consider on merits any application for advances against the debentures and also support the guaranteed debentures by purchasing a small block of a new issue. The formal acceptance of debentures of the Madras Central Land Mortgage Bank as security for advances under Section 17(4)(a) was advised by the Bank, in its circular letter dated August 23, 1947, to all the Registrars of Co-operative Societies and provincial co-operative banks. The Bank explained this step as a sequel to its being satisfied about the marketability of these debentures. Such advances were to be available only in emergencies and to be restricted in amount to 80 per cent of the market value of debentures.

It may be mentioned here that the Madras Government, despite their avowed intent to end the guarantee, decided in December 1947 to continue the system indefinitely for the following reasons. For one thing, the Government felt that it would not be possible to eliminate the guarantee, because the demand for loans was increasing from year to year with changing conditions. Further, in agreeing to dispense with the guarantee earlier, the Government had overlooked the fact that these debentures had been made trustee securities by virtue of such guarantee; if the future issues ceased to be trustee securities by the withdrawal of the guarantee, the classes of investors who held most of the series would discontinue such investment in future, unless the Central Government were prepared to declare them as trustee securities even without the guarantee, which it was unlikely to do. Although the Bank had been critical of the system of guarantee as being inimical to land mortgage bank debentures acquiring inherent strength, the change in the policy of the Madras Government did not affect its decision to accept the debentures as security for advances under Section 17(4)(a).

The Bank's decision was welcomed in co-operative circles, but they were unhappy about the restriction of advances to emergencies only. The interests in Bombay were also unhappy at the non-inclusion of

the debentures of the Bombay Provincial Land Mortgage Bank as eligible security. The acceptance of land mortgage bank debentures in general as collateral for advances became normal policy in 1955 with the coming into prominence of the debentures of other central land mortgage banks.

SUPPORT TO DEBENTURE ISSUES: The decision to support the debentures of land mortgage banks by making a token purchase was taken in March 1948 though, as stated earlier, an indication of the Bank's attitude in this regard was given in 1941 itself. The ground for this was prepared during a visit of the Deputy Governor to the Madras Land Mortgage Bank in October 1947, when he agreed to consider favourably the question of the Reserve Bank's purchasing a part of the debentures floated by it. The actual request in this regard came in February 1948, when the Madras bank sought the assistance of the Bank for a series of debentures for Rs. 25 lakhs to be floated by it. The Bank signified its consent to support the issue by purchasing Rs. 2½ lakhs worth of debentures if they carried interest at 3 per cent and were issued at par. The Madras bank subsequently raised the total amount of the series from Rs. 25 lakhs to Rs. 40 lakhs and wanted the Reserve Bank to subscribe up to Rs. 4 lakhs, which was acceded to by the Bank. The floatation was a success and as the public subscription amounted to Rs. 38 lakhs, the Bank was called upon to take up debentures to the extent of Rs. 2 lakhs only.

The Madras bank decided to issue another series later in the same year (i.e., 1948-49) for a total sum of Rs. 50 lakhs. The Reserve Bank agreed to contribute up to Rs. 5 lakhs if the issue was not fully subscribed otherwise. The Bank had, however, to take up debentures of the value of Rs. 3.98 lakhs only. In the following year, the Bank was called to take up debentures for only Rs. 15,000, out of a Rs. 27 lakhs issue. Thus, out of a total issue of Rs. 117 lakhs made by the Madras Provincial Land Mortgage Bank during 1948-50, the Reserve Bank took up debentures of the value of Rs. 6.13 lakhs.

In August 1950, the Bank enhanced the ceiling of its support to the debentures to 20 per cent of the total issue again in response to a request from the Madras Central Land Mortgage Bank. Up to the end of June 1950, only one more central land mortgage bank, viz., that of Bombay, availed of this facility. The extent of Reserve Bank's support to the Bombay debentures was Rs. 4 lakhs out of the issue of Rs. 30 lakhs.

Co-operators' Demand for Other Concessions

Although the changes made in the policy and procedure for accommodation to co-operative banks under the Bank's Scheme liberalised

the position to some extent, they did not meet all the demands made by co-operative interests. Certain other concessions demanded by them, but which were not conceded by the Bank during the period are dealt briefly in the following paragraphs. Most of these demands, it may be noted, were later conceded by the Bank in November 1951 when it liberalised its policies further in the light of the recommendations of the Informal Conference on Rural Finance and the Standing Advisory Committee on Agricultural Credit.

FINANCE FOR PROCUREMENT OPERATIONS: One of the persistent demands of co-operative banks was for the inclusion of procurement operations as an approved purpose for which accommodation would be available from the Bank under its Scheme of Rediscounts and Advances for seasonal agricultural operations and marketing of crops. It may be mentioned here that, if procurement operations were not treated as marketing and brought under the 'scope of Section 17(2)(b), there was no other provision [until Section 17(2)(a) was extended to provincial co-operative banks in November 1951] in the Reserve Bank Act under which provincial co-operative banks could obtain accommodation from the Reserve Bank, even at the Bank rate, except borrowing against Government and trustee securities under Section 17(4)(a). On account of the food scarcity, many of the Provinces had resorted to intensive procurement and in some of them co-operative agencies like the consumers' stores and marketing societies were entrusted with the operations. These agencies needed financial assistance for the purpose and the problem assumed considerable importance in Madras. The Madras Provincial Co-operative Bank approached the Reserve Bank, in July 1946, to ascertain whether the Bank would provide funds at the concessional rate of 1 ½ per cent to finance procurement operations. This facility, the bank stated, would enable it to extend cheaper finance for the purpose and thereby help reduce the price of foodstuffs to the consumer. In a subsequent communication (September 1946), the bank pleaded that procurement should be treated as marketing of crops, as what co-operatives were doing was really *controlled* marketing of agricultural products. The Bank in its reply stated that these operations did not fall under either seasonal agricultural operations or marketing of crops, for which alone finance was available under its Scheme. The explanation was that co-operative marketing as envisaged in Section 17(2) (b) of the Reserve Bank of India Act was primarily in the interests of the producer, while the purpose of the procurement scheme was essentially to serve the interests of the consumer. When the matter was raised again, during the Fifteenth Conference of Registrars of Cooperative Societies held in Madras in May 1947, by the spokesman of the Madras Provincial Co-operative Bank, Shri. T. A. Ramalingam Chettiar, the representative of the Reserve Bank agreed to consider the

demand favourably, if the co-operators could convince the Bank that the benefit of the concession would be passed on to the *producer*.

The Co-operative Sub-Committee (1948), referred to earlier, also considered this question and supported the contention of the Madras Provincial Co-operative Bank that procurement operations should be treated as marketing. It stated that the Reserve Bank, by sticking to a narrow interpretation of the word 'marketing', had put outside its scope of assistance a very large class of activity which was barely distinguishable from marketing and which in the context of the continuing food crisis and control had assumed great importance. The Sub-Committee, however, recommended the concessional rate only in cases where there were arrangements to pass on the benefit of the low rate to the producer. It remarked:

When procurement is made by marketing societies or growers' cooperatives for purposes of sale-it may be at rates and to parties directed by Government -the Reserve Bank need have no hesitation in classifying such activities as marketing. We would urge the Reserve Bank to reconsider their attitude and treat such procurement activities as marketing and provide the finance needed for the purpose. In case of societies, where under the bye-laws, or by other means, arrangements exist for the benefit of such activities to be passed on to the producers, we would recommend that the finance provided should be given at concessional rate.

The fact remains that the Reserve Bank has not so far accepted the contention that procurement operations should be treated as falling within the scope of marketing of crops.

MINIMUM BALANCES: The demand for exemption of provincial cooperative banks from the maintenance of minimum balances with the Reserve Bank -at half the rates prescribed for commercial banks -was made on more than one occasion during the period. The Agricultural Credit Organisation Committee (1947) had supported such exemption. The co-operators also suggested an alternative, namely, that Government securities be substituted for cash, in the maintenance of such balances. There was also the suggestion that at least banks whose borrowing was less than 5 per cent of their deposit liabilities should be exempted from the condition.

The Reserve Bank did not agree to a relaxation of this condition. It was contended by the Bank that maintenance of minimum balances by banks with the central bank of the country was a recognised practice the world over, because these balances, to an extent, provided the central bank the resources to manage the monetary system and to extend credit facilities to member banks in case of need. The Bank was also of the view that the maintenance of such balances would not result in any hardship or inconvenience to the provincial co-operative banks.

It was observed that banks which had started maintaining such balances were actually keeping them at much higher levels than those prescribed by the Bank. The demand for the abolition of minimum balances wore off after the Co-operative Sub-Committee expressed itself in favour of the maintenance of minimum balances by co-operative banks with the Reserve Bank, though it recommended some flexibility in enforcing the requirement on the smaller banks. The stipulation regarding minimum balances thus continued. Under the Banking Laws (Application to Co-operative Societies) Act, 1965, the state co-operative banks are now statutorily required to maintain minimum balances with the Reserve Bank on a par with those maintained by scheduled banks.

ELIGIBILITY STANDARDS FOR ACCOMMODATION: The co-operative sector also sought the relaxation of the condition that accommodation from the Bank would be available for financing only 'A' and 'B' class institutions*. It was the Madras Provincial Co-operative Bank which raised the issue in its letter dated July 29, 1946. The bank's view was that the Reserve Bank should look primarily to the provincial bank for due repayment of the usance bills irrespective of the audit classification of the central co-operative banks whose bills were discounted. Further, with 'A' and 'B' class central banks more or less managing with their own funds, the need for accommodation arose mainly on behalf of 'C' class institutions. The Reserve Bank did not agree to this demand as it felt that the special concession it was offering should not be extended to financially unsound institutions, as it would mean, to some extent, tolerating inefficiency and unsoundness if not actually putting a premium on the same. However, as part of the relaxations made in November 1951, 'C' class central banks became eligible for being financed from Bank's funds provided the Registrar of Co-operative Societies made a recommendation to this effect and the Bank was satisfied about their financial soundness. In this connection, it became necessary for the Reserve Bank to tackle the problem posed by the varying standards adopted by the Provinces for audit classification of co-operative banks. The Agricultural Credit Department, therefore, addressed the Registrars of Co-operative Societies in June 1949, stressing the need for evolving uniform standards for facilitating Province-wise comparison with regard to progress and also for enabling the Bank to assess the position of a central co-operative bank for purposes of financial accommodation. The matter was referred by the Bank to the first meeting of the Standing Advisory Committee on Agricultural Credit convened in August

* Broadly, co-operative institutions which are in a sound condition are classified by audit authorities as 'A', while those which are in a fairly sound condition are classified as 'B'. The other categories are: 'C' - mediocre ones; 'D' - those functioning in a bad way; and 'E' - utterly hopeless.

1951. The Committee drew up detailed standards for audit classification of the central co-operative banks, with the recommendation that the proposals might be placed before the next meeting of the Registrars, so that the matter could be examined on an all-India basis. These standards, which were accepted by the first Indian Co-operative Congress held in May 1952, were circulated by the Reserve Bank in June that year to the various State Governments for adoption. They found general acceptance among the various States and form the basis for the classification of central co-operative banks even now.

GOODS AS SECURITY UNDER SECTION 17(4) (d): Since documents of title to goods were required as collateral for advances under Section 17(4) (d) of its Statute, the Bank, as already noted, had suggested legislation for the establishment of licensed warehouses and circulated a model bill among Provincial Governments in 1944 so that accommodation could be made available against receipts issued by such warehouses. Some of the co-operators, especially those in Bombay, considered that insistence on a warehouse receipt was unnecessary and that the Reserve Bank should be prepared to accept goods pledged as security. The Bank was not prepared to accept this proposition as it was not feasible for it to have the goods inspected and ensure proper storage arrangements in respect of every advance made by it and further because the security offered to it was not negotiable.

It may be mentioned here that the Bank agreed to provide exemption to co-operative agencies intending to run warehouses from the stipulations in the model warehousing bill prohibiting a warehouseman, licensed under the legislation, from dealing in or lending money against goods stored in his warehouse either on his own account or that of others. This relaxation was incorporated in the revised warehousing bill circulated by the Bank in 1948. The change apparently satisfied co-operative interests. The Co-operative Sub-Committee referring to this, stated:

We are pleased to find that in the revised draft legislation for the regulation of licensed warehouses proposed by the Reserve Bank the condition that warehouses should be institutions independent of the warehouseman has been waived in respect of co-operative societies owning godowns. . . . Thus a central co-operative bank or a co-operative marketing society can keep warehouses and its receipts will be accepted as valid and negotiable documents of title to goods. We are impressed by the arguments of the Reserve Bank and are not pressing the suggestion that the Bank should accept goods in the possession of societies as valid securities.

Some of the other suggestions made by co-operators in the country, especially expert Committees on Co-operation, for widening the purposes of accommodation by enlarging the meaning of the term 'crops'

and inclusion of cottage industries and for the acceptance of demand pronotes of societies were not agreed to by the Bank during the period. It was only in 1953 that the Act was amended to include a special subsection [17(2)(bb)] enabling the Bank to finance cottage and small scale industries. The meaning of the terms 'seasonal agricultural operations' and 'marketing of crops' was also widened at the same time to include animal husbandry and allied activities jointly undertaken with agricultural operations and processing of crops prior to marketing respectively. The plea for acceptance of demand pronotes has not been conceded by the Bank so far.

Informal Conference on Rural Finance

The Reserve Bank's interest in rural finance was intensified from 1951 onwards, the lead for this coming from the Finance Minister. The scale of the Bank's financial assistance to the co-operative movement also recorded a marked expansion. The Bank geared itself to play an intimate and active role in the sphere of agricultural credit and as a first step convened, in February 1951, what has come to be known as the *Informal Conference* on the role of the Reserve Bank in the sphere of rural finance. This Conference was convened mainly at the instance of the Government of India and the circumstances may briefly be mentioned.

During the consideration of the Industrial Finance Corporation Bill in November 1947 by the Constituent Assembly, the then Finance Minister, Mr. R. K. Shanmukham Chetty, expressed himself in favour of setting up a separate institution in the nature of a Central Agricultural Credit Corporation which would be helpful in focussing attention on various problems connected with agricultural credit and which would also serve as an apex bank for provincial co-operative banks. This matter was referred to the Bank for its opinion in November 1947; the Bank, in its reply sent in June 1948, did not favour the establishment of such an organisation as it would be physically impossible for a central organisation to cover crores of agriculturists scattered over the country; it felt that the co-operative movement, backed by the facilities for accommodation offered by the Bank, could itself find all the finance necessary to meet the short-term credit needs of its members. As, however, the co-operative movement had not developed uniformly in all the Provinces, the Bank favoured the establishment of Provincial Agricultural Credit Corporations of the type recommended by the Gadgil Committee. The Central Government agreed with the Bank's view in this regard and after consulting the Provincial Governments, abandoned, in August 1950, the idea of establishing a Central Agricultural Credit Corporation and left the matter

of establishment of Provincial corporations to the discretion of the Provincial Governments.

The Finance Minister, Mr. C. D. Deshmukh, was, however, not content to allow the matter to rest there; he was keen that the Central Government should take further interest in the matter. During the debate on the Reserve Bank of India (Amendment) Bill, in November 1950, he had stated:

I personally agree with the view expressed that this is not a matter which can be handled through a Central Agricultural Credit Institution; and it seems that the Centre and the States and the Reserve Bank must get together and see how this matter can be furthered and what difficulties there are in the way of establishing such institutions (provincial corporations) and what part either the Centre or the Reserve Bank could, in consonance with their responsibilities, play in the matter.

Under the Finance Minister's instructions, the Finance Secretary wrote to the Reserve Bank in January 1951 asking it to take the necessary initiative in this regard, as it had all along dealt with rural credit and the Government had no machinery for dealing with it. The Finance Secretary stated:

It is true that in the past the Finance Ministry as such have not taken any specific lead in regard to rural finance, but even the old regime could not entirely divest themselves of the responsibility for doing something in the matter and the Government was forced during the last stages of the Reserve Bank Bill, to incorporate Section 54 for setting up an Agricultural Credit Department in the Reserve Bank. In the present set up it would be even more difficult for the Government of India to take up the attitude that they have no concern with agricultural finance and that it is entirely a matter for the appropriate State Governments. If we do not give our attention to this problem and formulate a considered policy, there is danger of the Government being rushed into committing themselves to some ill-considered, hastily devised and undesirable action at the demand of Parliament. It is therefore necessary that the matter should be considered on the lines of the undertaking given by H.M. in Parliament.

The Finance Secretary also suggested that the Bank should first under-take a fact-finding enquiry into the existing state of the country's agricultural economy to know its needs, 'qualitatively and quantitatively'. For this purpose, he added, the Bank might consolidate the existing information on the subject and then undertake consultations with the representatives of the Bombay and Madras Governments (presumably because these were the States where the co-operative movement had made substantial progress and possessed considerable experience) and also experts like Professor D. R. Gadgil in regard to the measures that should be adopted. After discussion with the Finance Minister, the Governor, Mr. B. Rama Rau, decided to convene an

informal conference to examine the various issues in their proper perspective.

The Conference, which was held at Bombay on February 2-3, 1951, under the Chairmanship of Professor D. R. Gadgil, was attended by official and non-official representatives of the co-operative movement from Bombay and Madras, besides senior officials of the Reserve Bank. The recommendations made by the Conference may be classified into three broad categories. These concerned measures : (1) for enabling the Reserve Bank to function more effectively within the existing framework, (2) for enlarging the framework, so far as that could be readily decided upon and carried out, and (3) for eventually designing a new and co-ordinated framework in the light of facts to be ascertained.

The procedural modifications suggested by the Conference under the first category were, mainly, relaxation of the condition regarding payment of all loans by the close of the operational year, extension of accommodation on behalf of ' C ' class institutions on the special recommendation of the Registrar of Co-operative Societies and greater flexibility in the utilisation of credit limits. These have already been referred to at appropriate places. As regards enlargement of the existing framework, the Conference took note of the amendment before Parliament for extending the period of short-term accommodation from nine to fifteen months and suggested in addition the following changes : (1) inclusion of mixed farming and processing of crops by agricultural producers among the purposes for short-term finance, (2) provision of short-term finance for production and marketing activities of industrial co-operatives, (3) extension of medium-term agricultural credit to cooperative banks for periods between eighteen months and five years to a limited extent and (4) making provincial co-operative banks eligible for accommodation under Section 17(2)(a), that is, for financing *bonafide* commercial or trade transactions. It also recommended that the Bank should assist effectively in the reorganisation of the co-operative credit structure, wherever necessary, so as to make possible a larger flow of credit to these areas. Finally, for enabling the formulation of a long-term policy, the Conference recommended that an All-India Rural Credit Survey should be planned and conducted under the Bank's auspices.

The other recommendations made by the Conference related to the promotion of a closer liaison between the Reserve Bank and the cooperative movement by the appointment of a small Standing Advisory Committee to be associated with the working of the Agricultural Credit Department and the periodical inspection of co-operative banks as was being contemplated by the Bank.

The Government of India and the Reserve Bank accepted most of the recommendations of the Conference. The Reserve Bank also took

immediate steps to implement the suggestions relating to matters of procedure, while in regard to those which required amendments to the Reserve Bank of India Act the necessary legislation was recommended to Government. The Bank also organised a comprehensive All-India Rural Credit Survey in October 1951, with a Committee of Direction chaired by Mr. A. D. Gorwala *. The recommendations of the Committee which submitted its report in December 1954 formed the basis for a rapid expansion of the Reserve Bank's role in agricultural credit.

Statistics of Co-operative Institutions

Before concluding the account of the Bank's rural credit policies, the statistical picture of the growth of co-operative institutions during the period may be given. The data are presented separately for primary societies, central banks and provincial co-operative banks, in the tables on next page.

The progress makes a fairly good showing save for the decline consequent on partition. While agricultural societies continued to occupy a predominant position at the primary-level of the movement, the growth of non-agricultural societies was much more impressive, particularly from the point of view of deposit mobilisation and provision of credit facilities. The numerical growth of primary societies in the country does not, however, bring out the unevenness in their regional distribution. There was a marked concentration, of both agricultural and non-agricultural societies, in the States of Bombay and Madras and to a lesser extent in Uttar Pradesh; on the other hand, States like Bihar, Orissa and Assam lagged considerably behind. Also, the movement in the Punjab which was fairly well-developed, and in Bengal suffered a set-back on account of partition.

The growing emphasis on the non-credit aspect of the movement was one of the noticeable trends during the period. In the atmosphere of shortages and rising prices, the distribution of rationed and other essential commodities, especially in urban centres, came to be increasingly organised on a co-operative basis. In the rural sector also, there was a tendency for credit societies to function on a multi-purpose basis, although their non-credit functions scarcely went beyond distribution of essential commodities. There was, thus, a steady growth in various types of non-credit co-operative societies such as, consumers' stores, milk supply societies and unions, weavers' societies, cottage industries societies, housing societies, co-operative workshops, and transport and industrial societies.

* Prof. D. R. Gadgil, Mr. B. Venkatappiah and Dr. N. S. R. Sastry (Director of Statistics in the Bank) were the other members; Dr. Sastry was the Member-Secretary.

A. PRIMARY SOCIETIES

End of the year (July-June)	Undivided India		Indian Union			
	1945-46		1947-48		1950-51	
	Total	Of which agricultural	Total	Of which agricultural	Total	Of which agricultural
Particulars						
1. No. of Societies (000s) . . .	171	147	149	126	177	149
2. Membership. . . (lakhs)	89.36	55.01	98.47	62.16	135.00	85.19
3. Capital and reserves	35.14	16.46	39.54	16.82	59.07	25.26
4. Deposits. . .	34.25	5.20	35.35	4.39	53.41	8.08
5. Borrowings. .	16.27	11.36	20.58	13.49	37.02	24.16
6. Loans outstanding(a)	39.59	18.92	47.07	20.63	77.38	33.07
7. Loans made. . during the year(a)	37.27	14.60	49.28	18.57	85.20	33.52
8. Loans recovered during the year (a)	36.20	13.78	42.44	15.52	72.17	28.28

(a) Figures are in respect of loans to individuals only.

B. CO-OPERATIVE CENTRAL BANKS

End of the year (July-June)	Undivided India		Indian Union			
	1945-46		1947-48		1950-51	
	Total	A	Total	A	Total	A
Particulars						
1. No. of Societies (000s) . . .	601	—	469	—	505	—
		(Rs.crores)				
2. Capital and reserves	8.45	—	6.70	—	8.83	—
3. Deposits.(a)	32.66	23.88	29.25	20.51	38.65	27.05
5. Borrowings (b)	3.96	3.39	5.95	5.05	8.89	8.72
6. Loans outstanding(c)	20.36	18.53	21.78	19.81	34.14	30.99
7. Loans issued (d) during the year	43.07	37.64	62.91	58.13	82.84	75.24
8. Loans recovered (e) during the year	41.96	36.96	60.83	55.94	77.19	69.98

a) Figures in column (A) refer to deposits from individuals and non-co-operative institutions.

(b) Figures in column (A) relate to borrowings from provincial co-operative banks. (c), (d), (e) relate to transactions with co-operative societies.

C. PROVINCIAL CO-OPERATIVE BANKS

End of the year (July-June)	Undivided India		Indian Union			
	1945-46		1947-48		1950-51	
	Total	A	Total	A	Total	A
Particulars						
1. No. of Bank	13	—	11	—	15	—
		(Rs.crores)				
2. Capital and reserves	3.03	—	2.60	—	3.80	—
3. Deposits(a)	21.62	10.60	19.91	11.45	25.60	16.60
5. Borrowings(b)	0.25	—	1.54	—	5.02	—
6. Loans outstanding(c)	6.54	4.53	8.96	6.90	17.90	15.87
7. Loans issued (d) during the year	16.88	8.44	21.78	15.02	42.13	34.40
8. Loans recovered (e) during the year	17.15	9.08	21.87	15.52	38.21	30.78

(a) Figures in column (A) refer to deposits from individuals and non-co-operative intuitions.

(b) From Government and Reserve Bank.

(c),(d),(e) Figures in column (A) refer to transactions with central co-operative banks and societies.

The record of the fairly good progress of the movement presented above needs to be qualified in several respects. The general adverse features of the working of co-operative societies were their small area of operations and low membership, poor owned resources and deposits leading to excessive dependence on central financing agencies and lack of trained staff. The condition of co-operative banks, generally was also none too healthy. Many of the central banks were uneconomic units with meagre resources and their performance in tapping deposits from individuals and non-co-operative institutions was very disappointing; some of the apex co-operative banks also suffered from several weaknesses in their working. Though there had been a growth in deposits (from individuals and others excluding co-operative institutions) of co-operatives during the period from Rs. 60 crores to Rs.97 crores, it was largely accounted for by non-agricultural societies, particularly, urban banks and credit societies.

A few details of the working of co-operative land mortgage banks (now called land development banks), which provide long-term credit to agriculturists may now be given. The structure of co-operative land mortgage banks also presented a picture of uneven development. There existed only five central land mortgage banks at the close of June 1951, the same as at the end of June 1945; these were in Madras, Bombay, Orissa, Mysore and Travancore-Cochin. The number of primary land mortgage banks, which was 286 at the end of June 1951, showed practically no increase during the period. Of these 129 were in Madras and 79 in Mysore. The loans outstanding from members of the primary land mortgage banks amounted to Rs. 6.26 crores at the end of June 1951 as against Rs. 3.15 crores at the end of June 1945. Out of the total loans outstanding from members at the end of June 1951, as much as Rs. 4.53 crores were in respect of Madras while Mysore accounted for another Rs.0. 77 crore.

Conclusion

From the foregoing survey, it should be clear that the Bank's role in the sphere of agricultural credit entered an active phase in the late forties and there was also a considerable increase in the financial assistance provided by the Bank. Accommodation availed of by cooperative banks from the Reserve Bank increased from a little over Rs. 1 lakh in 1945-46 to Rs. 5.37 crores in 1950-51; the corresponding rise in gross advances of agricultural credit societies was from about Rs. 8 crores to Rs. 23 crores. Thus, finance provided by the Bank, which formed a negligible proportion of credit extended by agricultural societies at the beginning of the period constituted as much as 23 per cent of such credit in 1950-51. This has to be qualified by the fact that such assistance was mainly concentrated in the States

of Madras and Bombay, as it was only there that the co-operative banking structure was adequately developed to make effective use of the Bank's credit facilities.

It is difficult to say how far the finance provided by the Bank resulted in a lowering of the rate of interest charged -by co-operatives. An assessment made by the Agricultural Credit Department in a note submitted to the Informal Conference referred to earlier, indicates that in the Bombay and Madras regions, which made most use of Bank's accommodation, the co-operative agencies were able to provide funds at moderate rates to its members. It was stated:

In these two States, the financing banks are able to raise funds at 2 to 3 ½ per cent and the maximum lending rates of the primary societies have been brought down to 6 ¼ -7 ½ per cent. Elsewhere, however, conditions are not satisfactory. In several States such as Uttar Pradesh, Madhya Pradesh, Punjab, West Bengal, Assam, PEPSU, etc., the lending rates of primary societies are as high as 12 ½ per cent and even 15 per cent almost bordering the maximum rates which private moneylenders have been permitted to charge under the law.

Although, in absolute terms, assistance from the Bank was fairly large, it was far too little in relation to the estimated magnitude of overall credit needs of the rural sector. The problem brought out the need for a massive effort on the part of the Bank towards vitalising the co-operative credit structure and considerably widening the scope of its financial assistance. The Bank was poised for a leap forward in this regard towards the end of the period covered by this volume.

It may be appropriate to close this Chapter with the remarks of Shri R. G. Saraiya, an active co-operator and Chairman of the Bombay Provincial Co-operative Bank for over two decades, while presiding over the First Indian Co-operative Congress held at Bombay in February 1952:

A good deal is owing by all of us to the Reserve Bank of India not only for the financial assistance which it gives but also for the assistance and co-operation it gives us in all other directions. For example, I would like you to bear in mind that the Report of the Co-operative Planning Committee of which I had the privilege of being the chairman, would not have been completed but for the assistance which I got from the Reserve Bank of India, particularly from the late Mr. Wajahat Hussain who was then the Deputy Governor. I remember at the last meeting of the Joint Conference of the Registrars held in Bombay (held in rg44), it was the Reserve Bank which produced very useful notes on every subject and it was the real basis on which recommendations of the Planning Committee were made. The same spirit is followed here by the Officers of the Reserve Bank of India and, therefore, I think that although we may ask for more from them, more money, more guidance, more advice, we should not forget that the spirit of co-operation has now completely permeated the Agricultural Credit Department and the Governors of the Reserve Bank of India.