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## The Bank and Cooperative Credit

The Report of the All-India Rural Credit Survey and its vision of an integrated system of rural credit with State participation gave a powerful sense of direction to the cooperative movement. Although the measures flowing from it would themselves soon be enveloped in controversy and uncertainty, its perspective nevertheless cut a swath through earlier debates over the relative roles of cooperative institutions and the State in the field of rural credit. The Report highlighted the potential for complementarity and partnership between two entities which conventional wisdom generally viewed in opposition to each other, and pointed to ways in which only the State could contribute to the essential strengthening of the cooperative movement. At the same time the partnership would give the State a popular, voluntary, and relatively non-bureaucratic agency through which to deliver credit, and potentially other agricultural and developmental inputs, to rural areas. The Bank was the principal arm of the State in the proposed arrangement, and the support which the Survey's proposal for State partnership generally evoked among cooperators owed, no doubt, partly to their expectation that the Bank would represent the State in this alliance. The Bank appears too, to have been energized by the Report of the Rural Credit Survey and it began to transform itself from being a somewhat distant adviser and lender of last resort to the cooperative movement, to being an active participant in its reorganization and subsequent progress.

### REORGANIZING THE COOPERATIVE FINANCING STRUCTURE

It is helpful to recall here that the cooperative credit structure usually followed a three-tier arrangement, with an apex cooperative bank at the top of the pyramid in each state. The intermediate level of the structure was made up of district or central cooperative banks, while primary credit societies reached out to villages and individual members. The Rural Credit Survey followed a

distinguished line of expert bodies in identifying the state or apex cooperative bank as the principal cooperative agency interacting with the Bank and routing its resources to other levels of the cooperative pyramid. But these apex banks did not exist at all in many states or were in urgent need of strengthening where they did. Hence an important priority of the Bank from the early fifties was to help establish or place on a sounder footing, these state-level institutions. This task was complicated by the reorganization of states in 1956 which necessitated the division and merger of many existing institutions. However, thanks to the efforts of the Bank, local governments, and cooperators, apex banks came to be formed in almost every state within a reasonably short time and with remarkably little controversy. Simultaneously, efforts were also made to help organize central cooperative banks in each district. The establishment of primary societies proved more contentious however, as the Bank and the government came to disagree on the principles of cooperative organization at this level. These and other differences over cooperative policy between the two agencies created some uncertainty for the cooperative movement at the time and helped slow the pace of its development.

#### *Organizing Apex Banks*

The short-term cooperative credit structure was intended to be federal in design. With the earlier debate over the relative merits of apex cooperative institutions and state-owned and managed agricultural credit corporations having been settled, at any rate temporarily, in favour of partnership between the State and the cooperative system, it was proposed following the Rural Banking Enquiry to establish state-level cooperative banks in every state. Central cooperative banks at the district level and primary societies at the village level completed the pyramid. An amendment to the Reserve Bank of India Act in 1951 brought state-level cooperative banks of the former princely states under the Bank's purview for the purpose of loans and advances under section 17 of the Act. This was of little avail to states which did not have an apex institution. Hence the informal conference convened on the heels of the Rural Banking Enquiry recommended the early establishment of apex banks in all the states of the Union. Apart from linking the cooperative movement with the Bank, apex banks were thought to be essential also because they could mobilize resources at a lower cost than smaller institutions, act as balancing centres for funds of central cooperative banks, and help coordinate and promote a measure of uniformity in cooperative banking practices.

The Bank followed up the informal conference by deputing officers to study the condition of the cooperative movement in various states. Besides, the Executive Director and the Chief Officers of the Bank's Departments of

Banking Development and Agricultural Credit initiated meetings with state governments and cooperators to formulate agreed programmes of cooperative reorganization. The programme for each state varied, inevitably, with local circumstances. In Saurashtra and Rajasthan, for example, apex banks were to be established with substantial state subscription to share capital. The state governments in both cases assisted their new apex banks by offering them a managerial subsidy in the initial years. In addition, the apex bank in Saurashtra was exempted from audit fees, while the Rajasthan government agreed to guarantee the state apex bank's borrowings from the Reserve Bank. In Madhya Bharat, an apex bank was formed by amalgamating three existing central cooperative banks. In Travancore-Cochin, cooperatives were well developed in the former Cochin state, but poorly developed in the Travancore area. With state government assistance, an apex bank was formed by amalgamating the Cochin and Travancore banks. Since cooperative institutions did not exist at the district level, particularly in the Travancore area, the reconstituted apex bank was allowed to open branches at district towns. In Himachal Pradesh a local commercial bank—the Bank of Sirmur—was converted into an apex bank; likewise in Bhopal where the Bank of Bhopal was already partly under State ownership. In West Bengal it was proposed to strengthen the existing bank, with the state government lending Rs 20 lakhs to its share capital and acquiring representation on the board. The Bank also agreed to improve the apex bank's liquidity by sanctioning loans aggregating Rs 90 lakhs against securities and guarantees of the state government. By 1954–55 thanks to the combined efforts of the Bank and state governments, apex banks were established in all eighteen Part A and Part B states and in seven of the ten Part C states. At the time of the informal conference only three years earlier, apex banks had existed in eleven Parts A and B states and two Part C states.

The birth pangs of apex cooperative banks were prolonged, however, by the reorganization of states in 1956. Apart from the Bank's own interest in the functioning of apex banks, state governments also sought its help in resolving problems arising from the redrawing of their jurisdictional boundaries. Briefly, three sorts of situations were expected to arise. The principal problem was that some apex banks, such as the Hyderabad, Madhya Pradesh, and Bombay State Cooperative Banks, would have their head offices in one state, while their members and borrowers were likely to be scattered across several others. These state cooperative banks would, almost overnight, become 'multi-unit societies' with activities spread across more than one state. But the 'multi-unit model' was not envisaged to apply to credit societies, whose operations generally required greater coordination and supervision. These could become more difficult and cumbersome in the new situation. The other

two were anomalies more than problems. Apex banks, e.g. the Saurashtra State Cooperative Bank in Gujarat, the Andhra State Cooperative Bank, and the Mysore State Cooperative Bank, existed in each of these states. But the central cooperative banks of the new territories falling under their jurisdiction would not be affiliated to them. Thirdly, the new state of Madhya Pradesh would have within its boundaries three State Cooperative Banks, viz. those of Madhya Bharat, Vindhya Pradesh, and Bhopal. It is proposed to confine the focus here to the restructuring of apex banking in the states carved out of the old composite Bombay state, since it provides a good illustration of the most important problem which the reorganization of states created for the cooperative movement, and of the Bank's role in resolving it.

According to the recommendation of the States Reorganization Commission, the old Bombay state was to be split into Bombay City, Maharashtra, and Gujarat, and some of its areas transferred to the new Mysore state. These changes were to take effect from 1 October 1956. Both the Union and Bombay governments felt that there was no need to amend the States Reorganization Bill to provide for transitory arrangements in respect of cooperative societies. The Bombay government, which held nearly 43 per cent of the share capital of the Bombay State Cooperative Bank, took the view that the latter was a 'mere voluntary ... association' in respect of which no special transitional provisions were necessary in the States Reorganization Bill along the lines of those made for state electricity undertakings, transport corporations, etc. The task firstly of attempting to minimize the effect on the cooperative movement of the impending political and administrative changes and secondly of making adequate transitional arrangements devolved, therefore, on the Bank and the leadership of the Bombay State Cooperative Bank.

The latter considered retaining the original jurisdiction of the apex bank for another year, i.e. until the end of September 1957. The term 'principal society in the state' in section 2(f) of the Reserve Bank of India Act allowed the apex bank of one state jurisdiction over a neighbour only if it was the 'principal' society in the latter state as well. But since the Bombay apex bank's presence was likely to be limited to those areas of the new states which had formed part of the old Bombay state, the legal view was that the Bombay apex bank would not, unless the Reserve Bank Act was amended, qualify as the 'principal' society for the other states. Meanwhile, a meeting of Bombay's apex cooperative institutions was held in April 1956 at the invitation of the Bombay Provincial Cooperative Institute. This meeting was attended by the Chief Officer in the Bank's Agricultural Credit Department, J.C. Ryan. There was consensus in this meeting that nothing should be done to bring about a hasty disintegration of the Bombay apex bank. It was also agreed that

the Multi-unit Cooperative Societies Act and the Reserve Bank of India Act should be amended if necessary to allow these transitory arrangements to come into effect.

The future of the Bombay State Cooperative Bank also figured in a series of discussions between the Deputy Governor, B. Venkatappiah, and R.G. Saraiya, Chairman of the cooperative bank, V.L. Mehta, Chairman, Bombay Provincial Cooperative Institute, and D.R. Gadgil. Their shared view was that the apex bank would, if not reorganized before 1 October 1956, be governed by the Multi-unit Act, with jurisdiction over parts of the new states, and the proposed Union Territory of Bombay City. But the latter Act, it was felt, suffered from some infirmities, particularly in relation to the role and effectiveness of the central Registrar of Cooperative Societies appointed to oversee multi-unit cooperatives. Whatever the nature of the eventual resolution of this problem, it was agreed that as a first step, regional banks should be formed before 1 October 1956 for those areas of Bombay state ceded to Gujarat and Mysore. These would eventually merge with their respective apex banks, but function until then as apex banks for their respective areas. It was also proposed that while the division of the common assets of the Bombay State Cooperative Bank might, if necessary, take place before 1 October 1956, the residuary organization covering Bombay city and Maharashtra districts would continue for one more year. Amendments were proposed to the Multi-unit Act and the Reserve Bank of India Act—to recognize as a state cooperative bank an institution not located within the state—besides state-level legislation for the division of the assets and liabilities of the state cooperative bank.

Keen to safeguard the integrity of the cooperative development plans it was engaged in promoting, the Bank took the initiative to convene an informal conference in May 1956 of Secretaries of Cooperation in the states, Chairmen of apex and land mortgage banks, and Registrars of Cooperative Societies to agree on some general principles of reorganization of apex banks and the legislative measures required to give effect to them. The conference endorsed the principle that each state would eventually have only one apex bank, and that no apex bank would serve more than one state. Mergers and divisions of existing apex institutions were to be completed, wherever possible, before 1 October 1956. Adequate transitional arrangements were also to be made where necessary, so that farmers were assured uninterrupted availability of credit during the reorganization phase.

The schedule for amalgamation and division drawn up at the informal conference could not however be adhered to, with the result that some reorganized states started off with more than one apex bank. While Bombay

had three apex banks, there were, to begin with, two each in Andhra Pradesh, Madhya Pradesh, and Punjab. The governments in these states declared each of these institutions as state cooperative banks within the meaning of the Reserve Bank of India Act. Apex banks in Madhya Pradesh and Punjab were merged in 1957-58. Bombay completed the process in May 1961, while it was not until August 1963 that a unified apex bank came into existence in Andhra Pradesh. While four apex banks functioning in the former princely states of Ajmer, Bhopal, Coorg, and Vindhya Pradesh were converted into central cooperative banks from 1 November 1956, new apex banks were established in Manipur and Tripura. The union territories of Andaman and Nicobar Islands and Pondicherry, however, had no apex banks. Subsequently, apex banks were formed in Goa (1964), Haryana, and Chandigarh (1966). The creation of the state of Nagaland in 1966 also led to the establishment of an apex cooperative bank in that state, bringing the total number of such institutions in the country in 1967 to twenty-five.

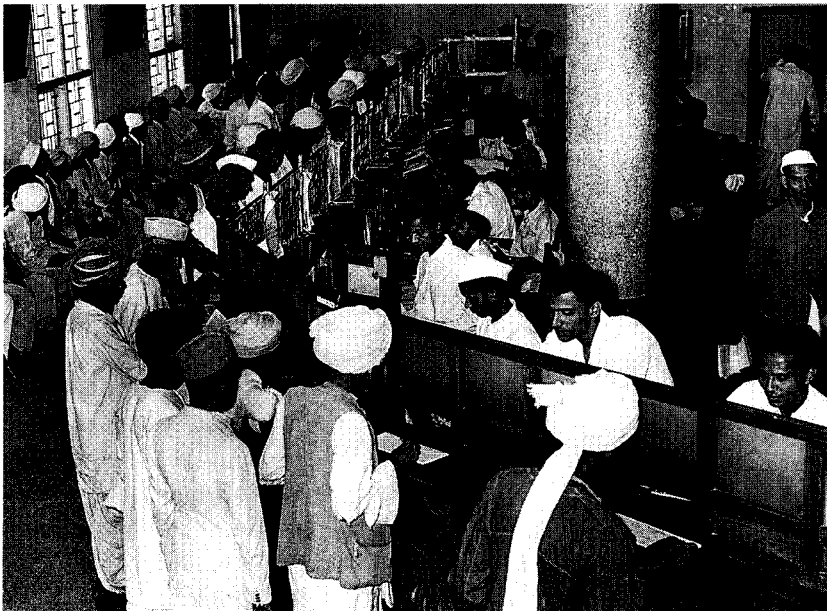
#### *Organizing District Cooperative Banks*

In general, other things such as finance, local support, and administrative efficiency being equal, the Bank preferred central cooperative banks functioning at the district level to branches of the state cooperative bank. However it was not averse to branches of apex banks being established in relatively undeveloped areas, so long as they made way in due course for full-fledged district cooperative banks.

The broad principles governing the establishment of cooperative banks at the district level were formulated at the second meeting of the Bank's Standing Advisory Committee on Agricultural Credit in April 1952. The issue came to the fore following a letter from Saraiya to Venkatappiah, that local enthusiasm for starting central or district financing agencies was often not matched by the availability of resources. He noted that many existing institutions in Mysore, Hyderabad, Travancore-Cochin, PEPSU, and West Bengal were already proving to be of uneconomic size and might soon be wound up. Saraiya therefore proposed that the Standing Advisory Committee take it upon itself to advise state governments about standards which they could adopt for recognizing central financing agencies, and cited the example of the formula used in Bombay. A subcommittee of the Standing Committee which was formed to study the issue however felt that the standards evolved for Bombay state would not be suitable for other states facing different conditions. Even in Bombay, the subcommittee noted, many district financing agencies had failed to achieve the prescribed standard of Rs 3 lakhs for share capital and Rs 20 to 25 lakhs for working capital. Rather than prescribe uniform standards,

it was felt that states should be left reasonably free to decide on viability norms for central cooperative banks on their territories. However, the Bank and the Standing Advisory Committee believed, as a general proposition, that no district should have more than one central bank. Apart from being more viable, a single central bank, it was felt, would not have to compete for the business and deposits of Zilla Parishads or District Committees. A single central cooperative bank would also find it easier to build close links with the administration of the district.

The Bank was forced to reiterate this principle from time to time, since it received several requests from state governments to allow more than one central cooperative bank to function in some districts, particularly where special development programmes were under execution. The Bank's response to these requests generally depended on whether the second central bank was likely to prove viable. In 1965, following a long-standing request from the Andhra Pradesh government to be allowed to set up two central cooperative banks in the Guntur district, of which one would exclusively serve the Nagarjunasagar project area, the Bank's Standing Advisory Committee clarified that average outstanding loans of Rs one crore represented the minimum viable level of business for a central bank.



Members of service cooperatives in Dharwar district cashing their loan cheques at the central cooperative bank

Apex and central cooperative banks were afflicted by several ills in the 1950s. These included a weak capital structure which affected their financial soundness and eligibility for credit, the practice of making advances to individuals and the consequent reduction in funds available for lending to cooperatives, and preoccupation with trading and other such activities and the diversion of available resources for non-agricultural purposes. The most important element in the programme of financial reorganization of these institutions related to the strengthening of share capital. State governments, assisted by loans from the Bank's Long-term Operations Fund, made substantial contributions towards strengthening the share capital of cooperative banks at both state and district levels. Thus while the number of apex banks rose from 17 in 1952-53 to 25 in 1966-67, their total paid-up capital rose more steeply from Rs 217 lakhs to Rs 3,116 lakhs. Following the Bank's efforts to restructure the network of central cooperative banks, the number of such banks declined from 505 in 1952-53 to 346 in 1966-67. But their total paid-up capital rose more than sixteen-fold from Rs 519 lakhs to Rs 8,599 lakhs over the same period. State governments' contribution to the share capital of apex banks went up from Rs 50 lakhs to Rs 1,035 lakhs, and to that of central cooperative banks from scratch to Rs 2,163 lakhs, over these years.

Although cooperation was a state subject, the Bank remained deeply interested in the functioning of apex and district cooperative banks. Thanks partly to its efforts—which took the form mainly of periodic inspections and exchanges with state governments—practices such as lending directly to individuals (other than against their own deposits) and combining trading with banking were largely discontinued. The Bank also exercised a close influence on the lending policies of these cooperative institutions. For example, following the growth of the Bank's concessional lending to the cooperative movement, apex banks began charging differential lending rates on their loans, even when they were all for the same purpose, depending on whether such loans were discharged out of concessional Bank resources or other non-concessional resources. This introduced an element of discrimination in the lending practices of state and central cooperative banks, which the Bank was anxious to set right at the earliest. Following its insistence, most apex and central banks began charging interest on the basis of the purpose of the loan, rather than the source of its refinancing. They also adopted the more appropriate practice of pooling their resources from all sources to arrive at a weighted average cost of funds on the basis of which an interest rate could be charged to the ultimate borrower for loans for any given purpose.



## PRIMARY SOCIETIES

The base of the cooperative credit pyramid comprised numerous Primary Agricultural Credit Societies (PACS or primary societies). Primary societies were of crucial importance to the health of the cooperative movement as a whole, since their members were individual farmers—its principal intended beneficiaries. They were consequently responsible for delivering to the end-user, the services which the cooperative credit structure was geared to provide, viz. assessing a member-borrower's requirement for credit, sanctioning and disbursing the loan, and effecting its orderly recovery. But it was at its base that the cooperative structure was most in need of strengthening. In June 1951, according to the All-India Rural Credit Survey, there were 1,15,462 primary societies, with a total membership of over 5.15 million. The majority of these were 'single-purpose' credit societies of the type favoured by the Royal Commission on Agriculture (1928). But there were, in addition, also about 40,000 'multi-purpose societies'. The rapid growth in the number of societies of the latter type from about 9,500 in 1946-47, reflected the widespread view, then shared by the Bank, that primary societies should widen their activities to match the services provided by village moneylenders who were often also the source of the farmer's most essential requirements.

But numbers did not present an accurate picture of the availability of cooperative services at the village level, since a large number of primary societies were not working well. Nearly 6,900 societies were stated to be under liquidation in 1951. Further, according to the 1950-51 audit classification of cooperative societies, healthy cooperatives (conforming to audit categories A and B) were preponderant only in Bombay, Coorg, and Mysore, while a majority of the societies in West Bengal, Uttar Pradesh, Madhya Bharat, Travancore-Cochin, Vindhya Pradesh, and Saurashtra were saddled with large overdues, and were classified in audit categories D or E.<sup>1</sup> In addition, there was no information about the audit classification of many societies. The proportion of villages covered by primary societies was very low in some states—ranging in 1953-54 between 4 and 8 per cent in Bhopal, Assam, Rajasthan, and Vindhya Pradesh. The Rural Credit Survey Committee found primary societies, in general, to be weak and fledgling irrespective of the range of activities they undertook. In particular, primary cooperative credit societies satisfied neither the principles of good cooperation nor of sound credit, and had failed both in promoting thrift and savings, and in providing productive credit.

<sup>1</sup> However as standards of audit classification were not uniform, audit categories were not comparable across states.

Since the entire cooperative credit structure rested on these thousands of primary societies, their reorganization and strengthening was vital to the future of the movement. Progress in this sphere depended largely on apex and central banks, and the cooperative departments of state governments. But the Bank provided governments a realistic appraisal of the health of individual primary societies, conceptualized the pattern of reorganization which was needed, and actively helped formulate packages for restructuring potentially viable societies and amalgamating or liquidating unviable or dormant units.

As pointed out earlier, the Rural Credit Survey Committee put forward a relatively novel model of reorganization of primary societies. The Committee noted that the Reiffeisen formula of 'one society to one village and one village to one society' had failed principally because it made for numerous small and unviable institutions. On the other hand, the anticipated advantages of small societies, viz. better information and voluntary service, were rarely realized in practice. The Committee was therefore of the view that the aim of cooperative credit policy at the primary level should be to create bigger and more viable societies covering larger areas. Consequently, it recommended that wherever new primary societies were created or existing societies required to be reorganized, they should cover, 'according to local conditions, groups of villages with a reasonably large membership and reasonably adequate share capital'. The latter, the Committee also proposed, should be strengthened by contributions from the state government. Primary societies organized along these lines were to provide crop loans based on anticipated crop, rather than title to land, supply medium-term loans for productive purposes, lend against gold, jewellery, and other approved securities, and also meet their members' requirements for basic, standardized consumer goods. A few societies were also expected to be able to build small warehouses and diversify into marketing.

The cooperative credit development programme included in the second five-year plan envisaged the organization of 10,400 large-sized societies, each capable of achieving an annual business turnover of Rs 1.5 lakhs within a few years, with state governments contributing Rs 11 crores to their share capital. The total membership of agricultural credit societies was proposed to be raised from less than 6 million at the outset of the plan, to 15 million at its end. Short-, medium-, and long-term loan targets were also set at Rs 150 crores, Rs 50 crores, and Rs 25 crores respectively. The fulfilment of these targets, it was expected, would enable cooperatives to meet a quarter of the total demand for agricultural credit by 1960-61, as against 3 per cent in 1950-51. The conference of Ministers of Cooperation of state governments, which convened in Mussoorie in July 1956, resolved to accelerate this programme and fulfil its targets in four years. In all about 7,300 large-sized

societies were organized during the first three years of the second plan, some by amalgamating existing small-sized societies and others by fresh registration.

The Mussoorie conference also agreed that while the principle of state partnership and financial assistance for managerial staff would be confined to large-sized societies, small societies which showed promise of viability would continue to receive financial and other assistance as hitherto. However a few months later in January 1957, the Union Government instructed state governments to formulate schemes for strengthening existing small-sized societies and establishing new ones. These schemes were to be included in their cooperative development programmes for 1957-58. The new proposal also lowered the potential viability criteria, with societies judged capable of expanding to an annual business turnover of Rs 20,000-25,000 within three years qualifying for support from the government. In September 1957 it was decided to give such societies annual subsidies of Rs 120 to Rs 150 for three years. Although such confusing signals abounded, the cooperative development plan for 1957-58 envisaged setting up 3,025 large-sized societies, exceeding even the enhanced target of 2,684 accepted at Mussoorie in July 1956.

#### BANK-GOVERNMENT DIFFERENCES COME TO THE FORE

Until 1957, the Bank had a relatively free hand in managing the reorganization of cooperative credit. Thereafter, however, its role and initiatives in this area came increasingly to be contested by the government. Among other things, the Bank and the government came to differ quite substantially on the model of cooperative organization to be adopted at the primary or village level and the principles that would govern agricultural lending. These differences were not easily resolved, nor was their eventual resolution always very satisfactory from the Bank's viewpoint of building a viable cooperative credit structure. The shorter-run impact of these differences on the vigour and sense of direction of the cooperative movement was also considerable, more especially as the central government tended at this time to act first and talk later, whether with the Bank, state governments, or cooperators, even when by doing so it reversed policies of many years' standing and around which had grown a substantial consensus of official and non-official opinion. So that for a period of several months towards the end of the 1950s, the cooperative movement remained mired in some confusion and uncertainty.

#### *Large vs. Small Societies*

Expanding the cooperative movement was an explicit aspect of the government's programme for rural development in independent India. But it ranked low in its priorities until the mid-fifties. Consequently, the government

was generally content to cede initiative on the matter to the Bank, and to support the measures it took to expand and strengthen the movement. From 1957, however, interest in cooperation grew at the highest levels of government. This interest owed to several factors. Firstly, the government was becoming increasingly aware of the need to formulate a 'food policy' in the context of the programme of rapid development of heavy industry in the second plan. An immediate source of concern was the rising trend in food prices, which led the government to prompt the Bank to restrict lending against agricultural commodities. Farmers, as well as traders, were thought to be holding back crop in anticipation of higher prices, and both the Prime Minister and the Finance Minister expressed concern to the Governor, H.V.R. Iengar, over the role of cooperative credit in enhancing the farmer's ability to accumulate inventories. Reflecting a common tendency to collapse and conflate all types of cooperative activity, the Community Projects Administration of the Food and Agriculture Ministry also reported a lack of enthusiasm among the rural population for enhanced agricultural production and cooperatives. At almost the same time, the Nagpur session of the All-India Congress Committee passed a resolution envisaging the village as the basic unit of economic development, and cooperatives and panchayats as the principal instruments for accomplishing it. Following this, the All-India Congress Committee too expressed itself in favour of smaller, village-level, 'service cooperatives' (as distinct from credit cooperatives), preference for which seems to have been rather marked in Uttar Pradesh, Bihar, West Bengal, and Orissa. Although some of these states were more highly stratified and economically and cooperatively less developed than say, Maharashtra and Gujarat, it was difficult to ignore the drift of opinion in these regions in favour of local, village-level, service cooperatives.

The Planning Commission was independently dissatisfied with some aspects of existing cooperative policy, in particular the stress on large-sized societies and on State participation in their share capital. It also appears at one time to have been in favour of compulsory membership in primary societies. Consequently, the Commission initiated and led a rather furtive campaign to revise the premises upon which the cooperative movement had grown and consolidated since the turn of the decade. It argued that large-sized societies negated a basic principle of cooperation, namely that of mutual knowledge among members. Decrying the emphasis on the business aspect of cooperative activity and arguing that large-sized societies were not conducive to the village developing along democratic lines, the Commission advocated a 'one village, one society' policy.

The Bank and the Planning Commission were ranged on opposing sides of the controversy for much of the time. The Bank was convinced that the social objectives of the cooperative movement would not be achieved if the institutions which made up its foundations were not financially viable. Besides, it was keen to ensure a fair trial for the existing cooperative policy 'which had been adopted by the Government of India with the agreement of the State Governments', and was convinced that a 'policy of "chop and change" ... at frequent intervals' would be 'ruinous to [the movement's] progress'.

The Bank's objection to the new suggestions was not merely, or even principally, procedural. As Iengar clarified to the Standing Advisory Committee in July 1958, both small and large societies had a part to play in rural credit, and the Bank was as concerned with small societies as with large. But it might not be possible to revive many small societies, whatever the assistance extended to them. Besides, there were few practicable ways of assisting such societies, since the burden on state governments or other institutions of subsidizing unviable primary societies would prove unsustainable. Hence the Bank strove, though in the end unsuccessfully, to defend the existing cooperative structure and policy, and to ensure that the debate about its correctness might take place without seriously disrupting the movement's progress.

Getting wind of the Planning Commission's moves in March 1957, H.V.R. Iengar who had been in office only a few weeks, sought a meeting with the Finance Minister, T.T. Krishnamachari, to convey to him the Bank's views on the issue. At first the Finance Minister expressed himself in agreement with the Commission's perception, but appears to have changed his mind after hearing the Governor elaborate on the recent successes of the cooperative movement in Bombay. Iengar found TTK 'greatly interested' in his exposition.

Apparently somebody has been talking to him about the dangers of ... 'collectivism'. I told him that the success of the integrated credit experiment in Bombay has been due to 'cooperative' effort; and it is resulting in the elimination of the middleman. The Minister agreed that whether this is called cooperation or collectivism, it seemed a pretty good thing deserving of encouragement.

The Bank's relief was short-lived. Not only did the Planning Commission persist in its efforts to overturn the country's cooperative policy, it also seems to have attempted to bring the issue to the boil quickly by discontinuing official financial assistance to large societies. Such tidings prompted the Governor to seek the Prime Minister's intervention. Writing to him early in August 1957, Iengar recalled that

the integrated scheme for rural credit was adopted after extensive consultations at various levels. The Planning Commission and the Parliament were both parties to the programme. However, the Governor regretted, the entire issue was now sought to be reopened by the Planning Commission.

Anyone who feels strongly that a wrong step has been taken, more particularly a member of the Planning Commission, is entitled to ask that the problem be re-examined. But what has caused me concern and prompted me to seek your intervention is the ... [Commission's suggestion] ... that financial assistance to large-scale societies—without which they would not find it possible to function—should be suspended pending consideration of the whole basic issue. This is likely to bring the whole scheme to a halt; which I would consider most unfortunate.

The Governor urged the Prime Minister to ensure that the existing administrative and financial arrangements for the cooperative movement were not suspended whilst alternative policies were being debated.

The Planning Commission remained unyielding in its preference for village societies, while opinion in favour of them continued to harden in the corridors of government. Following a cursory review of cooperative policy, the Commission concluded that the establishment of large-sized societies had not proceeded on the right lines. These societies either covered very extensive areas or had been formed after compulsorily amalgamating small credit societies. The Commission pointed out, in justification, that while the second plan envisaged 10,400 large societies covering about 50,000 villages, the nearly 7,000 societies established until then covered nearly 75,000 villages. Based on this review, the Planning Commission recommended in September 1958 that large-sized societies should be confined to backward areas and that while the current annual plan for large-sized societies should be implemented, no state where a tenth of the villages were covered by cooperatives should allow large societies to be registered after 1958–59. The Commission also insisted that no primary society should cover more than four or five villages, and that existing large-sized societies should be reorganized to reduce the number of villages they covered.

If the Bank expected the Finance Ministry to join it in opposing the Planning Commission's stand, it was disappointed. A meeting in October 1958 with Morarji Desai, who had meanwhile taken over as the Finance Minister, left Iengar dispirited. As he noted in his own hand:

I am afraid he [Morarji Desai] is wholly unsympathetic to our views. He is quite prepared for us to stop further expansion of Reserve Bank credit for agricultural production till what he calls the basic objective is achieved, viz. of setting up cooperatives which can move on their own (people's) momentum, without official support or patronage. He thinks that the decisions taken on the basis of the Rural Credit Survey Committee Report were completely misconceived and that the sooner they are reversed the better. All he is prepared to do is not to break up the large-sized societies that have (unfortunately) already been set up. In view of [the] Finance Minister's attitude we must assume that Cabinet will approve ... [the] Planning Commission's views. I think we must now reconsider the entire problem of [the] Reserve Bank's policy and administrative arrangements.

Matters moved thereafter at a rapid pace and came to a head in the National Development Council (NDC) at its meeting the following month, rather than as the Governor had anticipated, in the Cabinet. Concerned over the failure of the government's food policy, the Prime Minister directed changes to be made to cooperative policy at the NDC, but neglected to spell out the reforms he had in mind. As the agency servicing the NDC, the Planning Commission wielded considerable influence over the formulation of its agenda and resolutions, and the Prime Minister's misgivings gave it the opportunity to stamp its influence on the future direction of cooperative policy. At its meeting in November 1958, the NDC recommended radical reforms in the pattern of organization of societies at the village level. It maintained that cooperation could develop as a people's movement only if primary societies were organized for individual village communities and if the initiative for social and economic development at the village level rested with the village cooperative and panchayat, both serving identical areas.

Underlying this rhetoric was a model of cooperation in which the village cooperative continued to supply credit in the form of crop loans to cultivators on the 'basis of their need' for it. But it would also carry out a wider range of functions including formulating, coordinating, and monitoring household and village-level agricultural production plans, supplying inputs and extension services, and marketing the produce. The Planning Commission also believed cooperatives had a key role in helping to realize a national 'food policy' consistent with rapid industrialization. State trading in foodgrains was an important element of the latter policy, and the Commission hoped to make cooperatives a major source of supply of food to the state sector. Consequently,

it emphasized the integration of production and marketing activities in the cooperative sector, with village societies federating into marketing unions. Once linked to a wider marketing union, village societies would coordinate production plans with a marketing programme, and also utilize the latter to effect timely recovery of their loans.

By linking marketing societies with village societies and using the latter as agencies for collection and sale at assured prices at the village level, it will be possible not only to obtain large supplies of foodgrains for meeting the needs of urban areas but also to expand greatly the credit facilities available for rural areas,

the National Development Council underlined. Its resolution visualized the cooperative movement, modelled on these lines, developing in such a manner as to bring within its fold all rural families before the end of the third plan. State governments were also asked to make special efforts to revitalize existing small credit societies, and increase the membership of cooperative societies from about 9 to 10 million to about 15 million by the end of the second plan. As credit requirements under the proposed arrangements were likely to be much larger than those visualized in the second plan, the Council recommended making suitable financial arrangements in consultation with the Bank.

His demoralizing meeting with the Finance Minister in October 1958 led the Governor to strike a rather philosophical note, and wonder whether the new policy left any role for the Bank and its Agricultural Credit Department to play in the cooperative movement. The Chief Officer of the latter department missed the speculation entirely, and proceeded to argue that the policy shift did nothing to diminish his case for more staff and branch offices at several regional centres. More heartwarming for the Bank, Ryan reported that Registrars and other officials of state governments were opposed to the new policy, which they felt could not but undermine existing plans to strengthen the cooperative credit structure.

The formalization of a new policy in the form of the NDC resolution did nothing to lift the enveloping mood of gloom in the Bank, and there was a brief moment when it looked as if it would withdraw into itself. Although there was 'no question of withdrawing cooperation' to the government, top officials of the Bank felt that they could not, in all propriety, participate in meetings at the Planning Commission to formulate annual plans for the cooperative sector, and yet avoid being implicated for the new policy. Iengar and Venkatappiah also noted uneasily that the NDC resolution advocated agriculturists being financed freely and without regard to prudent banking principles, and wondered aloud about the future of the Bank's association



with the cooperative movement. However, even the NDC had failed, apparently, to subdue Ryan, who responded to the Governor's rhetorical query by dwelling at length on the very large segment of the cooperative movement regarding which there was no dispute between the Bank and the government. Not even the Planning Commission, the Chief Officer pointed out, could possibly be unaware of the risk of the Bank reducing its exposure if 'cooperative financing banks' were not organized on the basis of State partnership, so that it was likely to leave this principle undisturbed in the case of apex and central cooperative banks. The Bank's relationship with these institutions, the Chief Officer stressed, was therefore unlikely to be immediately affected by the new policy.

J.C. Ryan's intervention had the effect, on this occasion, of presenting the new developments in a fresh and more hopeful perspective. It could also become a false one unless the Bank exerted itself more decisively to influence the outcome. The Bank was also far too closely involved with cooperation to lightly throw away the achievements of the past few years or the links it had painstakingly cultivated at every level of the movement. Iengar convened an informal meeting of some leading cooperators to discuss the NDC resolution and the Bank's future relations with the cooperative movement. This meeting, which was held towards the end of November, was attended by D.G. Karve, R.G. Saraiya, and V.L. Mehta, all leading cooperators, and M.R. Bhide, Adviser, Programme Administration in the Planning Commission. Criticizing both the substance of the NDC resolution and the procedure adopted in passing it, the Governor wondered whether the Planning Commission or any other agency had estimated the total volume of credit the Bank was expected to provide in the new dispensation and the capacity of small societies to absorb the credit. Nor had sufficient attention been paid, in the Governor's opinion, to the monetary policy implications of enhanced credit to the cooperative sector.

The assembled cooperators were unanimous in criticizing the NDC resolution as ill-considered and impractical. The plan to integrate credit and service functions in a small society attracted particular criticism. It was also pointed out that even state cooperative banks would hesitate to lend to small societies unless the state government stepped in to guarantee such loans. However, the meeting failed to produce an agreed course of action. The Governor rejected Karve's suggestion that state cooperative banks should be advised to protest the proposed changes at the political level, pointing out that it would make no impression on the Prime Minister who had already made up his mind on the matter. However, at Mehta's instance, Iengar wrote to the Food Minister, A.P. Jain, the following day, drawing attention to the

implications of the NDC resolution, particularly for the volume of credit to be provided by the Bank. The Minister responded—rather unsatisfactorily from the point of view of the Bank—by repeating that it would be consulted about any additional credit that may be necessitated by the new arrangement.

The resolution having been passed, the Planning Commission set up a Working Group to 'consider the administrative and organizational arrangements' required to give effect to it. Venkatappiah was one of its members. The Bank proposed to the government that the Working Group should be broadened by the inclusion of leading non-officials and cooperators. Although the Prime Minister supported the idea, it did not, for some reason, make headway at the official level.

The Bank had two concrete reservations about the general thrust of the NDC resolution. The first was that it threatened to sacrifice the primary society's financial viability to its compactness. The Bank was not convinced that this was the right way to pose either the issue or the trade-off. Compactness was of little use for its own sake, and it was demonstrably clear to the Bank that, whatever the criteria adopted, small primary credit societies were less effective in their intended role than large ones. The Bank's annual sample surveys and other studies showed that a greater proportion of the membership of large societies, than of small ones, was made up of medium and small farmers. Not only did large societies lend more, per member and per borrower, than small societies, the former also tended to lend proportionately more against the pledge of future crop than the latter. Sample data obtained from Andhra Pradesh showed that nearly half the loans advanced by large-sized societies were to small farmers and tenants, while data from Madras reported large-sized societies lending substantial sums even to landless labourers. In the case of one of the four Madras societies for which data were available, loans to landless persons registered an eleven-fold increase within one year of its reorganization as a large-sized society. The number of landless beneficiaries had merely trebled, so that the average size of the loans extended to landless persons had also increased during this interval. The Bank's studies also showed that having smaller portfolios, small societies were understandably more conservative and cautious in their lending policies.

Secondly, the NDC resolution sought to burden the proposed small societies with a wide assortment of responsibilities, including those for coordinating agricultural production plans in the village, distribution of seeds, compost, and manure, management of water resources, etc. In the Bank's experience, the village society was often too small to be viable even as a credit society, let alone as a service or multi-purpose agency. It was not convinced village cooperatives were effective in a wider role or that any useful purpose would

be served by expecting them to play it. In Iengar's words, cooperatives were not, as the Planning Commission supposed, 'the short-cut to the millennium'. Let alone handle wider responsibilities, cooperatives found it difficult in practice to recover their loans or fulfil even fairly ordinary marketing responsibilities. There was, according to a Bank sample study (1956) which followed up the Rural Credit Survey, a 'general tendency on the part of cultivators to withhold payment of crop loans to the extent possible'. Part of the problem, the following year's report noted, was that repayment was spread over the first half of the calendar year and societies, or their financing agencies, made no effort to recover loans immediately after the harvest. A possible solution lay in tying agricultural credit to marketing. But the Bank's officials knew from experience that cultivators were generally not 'loyal' to their cooperatives even when they were in debt to them, and needed little prodding to break their marketing agreements with them. Marketing societies were most effective in enforcing marketing contracts for sugarcane and other intermediate commercial crops which had to pass through a 'processing bottleneck'. They were virtually ineffective for food crops which could be disposed of locally, often at higher prices than marketing societies were prepared to offer. Citing examples, the Bank's officers also pointed out that state trading, with fixed procurement prices at which marketing societies bought farmers' stocks and sold them to the government, might further weaken the effectiveness of marketing cooperatives.

Once the immediate sense of outrage over the NDC resolution passed, officials at Mint Road began to recognize that, important as the principle of viability was, the Bank had also to come to terms with the government's determination, whatever its other motivations, to use cooperatives as a tool of wider policy. Nor could it continue to view cooperation exclusively through the prism of credit, while other agencies of the State took a broader view. The Bank's principal interest lay in ensuring the health of cooperative credit institutions, and not necessarily in restricting their other activities if these did not weaken the base of the rural credit pyramid. The problem, as well as the solution, lay therefore in safeguarding the viability of primary credit disbursing agencies despite cooperative societies diversifying their activities.

It fell to Venkatappiah to attempt to satisfy the political demand for 'multi-purpose' village societies without weakening the base of the credit pyramid. The Deputy Governor hoped to achieve this seemingly impossible reconciliation through his plan for credit unions. Under this plan, a few village societies would federate into unions to deal with their members' credit requirements. Freed from the burden and risks of purveying credit, village societies were to 'devote themselves to as many aspects as practicable of the

economic development of the village community as a whole'. Under this proposal, each village would have its own society unless it was too small to support one. Groups of small villages could also come together to form a society provided their combined population did not, as the NDC had suggested, exceed one thousand. The society would formulate production plans for the village on the basis of individually approved household production plans, and ensure their success by mobilizing resources and facilities to carry them out. Some of these resources, such as improved seeds, green manure and compost could be sourced locally. But others, such as credit, whether to individuals for production, or to groups of individuals for productive works like contour-bunding, soil conservation, and constructing or maintaining minor irrigation works, would normally be provided by the credit union to which the village society was affiliated. The credit union would advance credit only to members of its affiliated village societies which, in turn, were to be responsible for assessing the loan, monitoring its use, and effecting recovery, to the extent possible, through a linked marketing society functioning at the local mandi. In this way, Venkatappiah hoped, small village societies would be protected from the risks of purveying credit, while institutions performing the latter task would be large and viable enough to face them. The arrangement also conformed to the spirit of the NDC resolution, which proposed federating multi-purpose societies, while ensuring the 'viability and strength of resources so important for providing adequate credit'.

The Venkatappiah plan received considerable support in the early stages, particularly as it seemed to bridge the wide gap between the positions of the Bank and the concerned departments of the Government of India. Both the Prime Minister and the Home Minister, G.B. Pant, who took a personal interest in the cooperative movement, seemed to approve of it. However, it got mauled beyond recognition in the Working Group. Tarlok Singh, Additional Secretary at the Planning Commission, believed Venkatappiah's plan went beyond the scope of the Working Group which was set up to 'take the [NDC] resolution as a text' and draw up an appropriate programme of action on its basis, rather than to 'interpret' the resolution in different ways. Both he and Bhide, who had by now become Additional Secretary to the Government of India in the newly-created Ministry of Cooperation, insisted that small, multi-purpose, unfederated village-level units, set up without State assistance to share capital, should remain the normal form of organization of primary societies. Apart from helping to formulate and implement agricultural production plans, the latter were to undertake educational, advisory, welfare, and marketing activities. Credit unions, which were referred to as 'Alternative II' by the Working Group to distinguish them from the small society model

(‘Alternative I’), were to be the exception rather than the rule. They would be established only in backward and tribal areas, and in areas where the cooperative movement either did not exist or had become dormant. Even here, the Working Group stressed, the credit union should be a transitional form of organization which would exist only so long as village-level societies were not established.

The Bank, in particular Iengar, had been hopeful that the Working Group would help lift the pall of indecision and uncertainty which had descended over cooperative policy and activity during the past several months. The support which the credit union scheme seemed to receive from the Prime Minister and the Home Minister gladdened Iengar and may have lulled him into the hope that the Bank’s row with the Planning Commission was about to blow over. Hence the Working Group’s report came as a major disappointment to him, more so as it appeared also to implicate his Deputy Governor. Nervous perhaps that Venkatappiah’s membership of the Working Group might mislead the government into assuming the Bank’s acquiescence in its report, the Governor responded with ‘complete frankness’ to Bhide’s invitation to comment on the document. No one, Iengar said, could quarrel with the government’s efforts to organize rural economic activities, in general, along cooperative lines, nor with the view that artisans and landless workers should be brought within the ambit of cooperative organizations. But he was sure the proposals of the Working Group would ‘retard rather than promote progress’ in the cooperative sphere. The Working Group had made a dogma of the principles of ‘one village, one society’ and ‘one society, all functions’, instead of leaving the size of the cooperative and the range of its functions to be determined by ‘pragmatic considerations’. Several factors, such as ‘compactness of area, accessibility to all members and ... viability’ had to be balanced against one another in establishing a cooperative, and this was best done at the local level. Therefore, rather than promoting any one model of cooperation, government policy should, he underlined, aim to give maximum scope for local opinions and initiatives to prevail in organizational matters. Likewise there was, in the Governor’s view, no need to take a dogmatic view of State participation in primary societies. The Madras and Andhra experience showed that State participation ‘helped very appreciably in attracting deposits from the rural area ... and mobilizing rural savings’. Hence rather than ruling it out completely, State participation should be allowed wherever state governments and the local people were in favour of it.

Iengar also took the opportunity to defend the functioning of large-sized societies. Arguing that the latter were conceived as large enough to be viable

and compact enough to be cooperative and that a society's turnover rather than the area or population it covered would represent the truer index of its size, the Governor said much of the criticism of large societies was 'ill-informed' and based on ideological preconceptions rather than detailed knowledge of their working. Large societies had succeeded in providing 'adequate credit, ... attracting deposits, effecting prompt recoveries, and ... inspiring confidence and enthusiasm in the people'. A large society was also relatively free from official interference because it could afford to employ a paid secretary. In contrast, small societies depended on district cooperative banks or the cooperative departments of state governments even for routine tasks, and were consequently vulnerable to domination by officials of these institutions. Since large societies had, on the whole, performed well, the Governor hoped the government would not 'stop or curtail' the agreed programme for establishing them without first surveying their functioning.

Nor were leading cooperators greatly enthused by the Working Group's conclusions. D.R. Gadgil remarked that the report had done little to illuminate the NDC's motivations for making radical changes to cooperative policy. The Working Group seemed to regard the NDC resolution as 'an oracular pronouncement which they diffidently try to interpret' but dare not criticize or depart from. It had done nothing to dispel the impression that

cooperative policy is made not after rational, scientific study and full uninhibited participation of non-officials and officials in all the states but by fits [and] starts [and] through personal predilection or prejudice in Delhi.

Consequently, cooperative policy in India was in a 'sorry state'.

Gadgil deprecated, in particular, the tendency to lay down the pattern of cooperative organization from Delhi, since no one model could fit the needs of the entire country. He was critical of the report for having rejected the principle of State participation at the primary level. It was 'illusory' to suppose that small, village societies would be able to mobilize their own resources without 'external help'. It was only where agriculture was 'already secure and well-developed and the grip of the moneylender-trader interest ... relatively weak' that external help could be dispensed with. 'To talk of depending on internal resources from the beginning is tantamount to condemning, as in the past, all the poorer and moneylender-dominated areas to permanent stagnation', he declared. Another leading cooperator, R.K. Patil, wondered whether the NDC and the Working Group were not papering over contradictions and antagonisms in rural society and falsely assuming a homogeneous village

community where none existed. Motives which underlay the cooperative movement such as mutual benefit often broke down because of 'internal contradictions' within the village. Consequently, 'slogans' such as 'a plan for every family' were likely to prove 'exaggerated and somewhat meaningless' in practice. Other leading cooperators, including V.L. Mehta, R.G. Saraiya, G. Parameswaran Pillai, and P.S. Rajagopal Naidu, spoke out along similar lines.

These reservations notwithstanding, the NDC virtually reiterated the conclusions of the Working Group, and the Government of India issued a 'policy letter' in May 1959 making radical changes in cooperative policy. Under this policy, no new large societies were to be set up in the future, nor would the State participate in the share capital of primary societies. The latter would be predominantly small, village-based bodies, except where a village proved too small to support a society. In the latter event, a few villages, not exceeding a combined population of 1,000, could come together to set up a primary society. Primary societies were to keep their doors open to all 'eligible persons', with anyone refused membership having the right to appeal. Primary societies, according to the new policy, would not only dispense credit, but also supply inputs, market members' produce, and formulate agricultural production plans. The new policy envisaged a cooperative membership of 20 million by the end of the second plan, and making available to the movement a much larger volume of credit than the Rs 100 crores advanced in 1957-58. Hence consultations were proposed between the central government, the Bank, and state governments to consider ways in which the enhanced credit requirements might be met. Finally, the letter proposed a programme for organizing new societies and 'revitalizing' existing societies, with the State extending to each new society a 'managerial subsidy' of Rs 900 over five years.

Iengar and Venkatappiah had hoped that the government would use the Working Group's report as a basis for extensive consultations with official and non-official opinion at various levels. Although the government sought and obtained the views of the Bank and of some cooperators on the report, it thereafter paid little heed to them. In fact, initially, no effort was made even to circulate these comments. A conference of Ministers for Cooperation in the state governments was scheduled to be held in Mysore in July 1959, and the Governor had been assured in April that a final decision on cooperative policy would be deferred until the conference. Yet, the following month, the government issued its 'policy letter' making radical changes in cooperative policy. Disappointed at the government's attitude both on the substantial issue and on matters of procedure and propriety, Iengar was initially disinclined

to attend this conference. But he was persuaded to do so by S.K. Dey, the Union Minister for Cooperation, who assured him that the government did not favour a 'rigidity of approach' to cooperation, and that no decision could be 'absolutely final'.

At the Mysore conference, representatives of several state governments and many non-official participants criticized the Union government for having made major changes to agreed policies in a peremptory manner and without prior consultations with non-officials and cooperators. However, the conference generally accepted the new policy and fixed targets for establishing 20,000 new societies in 1959-60 and 30,000 in 1960-61. Following demands from several state governments and cooperative organizations, the conference decided to refer the question of State participation in the share capital of primary societies to an expert committee.

The Mysore conference did not entirely ring the curtain down on large societies. The latter were soon to make a comeback as numerous primary societies became sick or dormant and the government recognized, belatedly, the importance of taking steps to ensure their viability. The efforts once again to revitalize and reorganize the cooperative movement at the primary level are discussed below. For the moment, however, it is instructive, in laying this section of the narrative to rest, to recall the verdict the All-India Rural Credit Review Committee passed a decade after the controversy. The decision to discontinue the organization of large primary societies, the Review Committee said,

resulted in an extremely unfortunate setback to the progress which was being made at the primary level of cooperative credit. Notable among the events which contributed to this setback was the resolution on cooperative policy adopted by the NDC in November 1958.

One might add, for the sake of completeness, that M.R. Bhide, who had in the meantime joined the Bank as a Deputy Governor, and B. Sivaraman, Secretary to the Government of India in the Ministry of Food, Agriculture, Community Development and Cooperation, were members of this Review Committee.

#### *Financing Cooperatives*

It was mentioned above that the controversy over the optimal size of primary societies partly reflected concern over the basis on which large societies might evaluate and grant credit. Although the available evidence pointed to the contrary, the government believed that lacking knowledge about the borrower's character, large societies would generally be prone to lend only against the pledge of his movable or immovable properties.



Once property became the sole qualification of credit, cultivators without property would have to do without credit as well. The All-India Rural Credit Survey had anticipated and warned against this problem, while both the Bank and the government were keen to avoid it. The system of crop loans, which financed the cultivator's need for productive credit against the pledge of his future crop, was designed for this purpose. Although cooperatives were enjoined to grant as large a volume of their short-term credit as possible in the form of crop loans, this often proved difficult to implement in practice.

The government and the NDC were also both keen to liberalize cooperative credit and base it, as it were, on 'need'. The stress on more liberal lending had important implications for the Bank. The latter was the principal agency refinancing apex and central cooperative lending institutions against credit limits set at a multiple of their owned funds. The multiple chosen in each case depended on the creditworthiness—proxied by audit classification—of the bank in question. Unless more liberal lending at the primary level was matched by an increased mobilization of owned funds, the former would necessitate larger assistance by the Bank. Besides, the government's determination to limit the size of the average primary society and refuse to sanction State participation in its equity increased the likelihood of owned resources financing a declining proportion of cooperative credit, and of greater dependence upon the Bank. Hence where the Bank was concerned, the twin issues, of the size and model of organization of the primary society, and of the criteria on which lending was based, were related. Each gave an edge to the other and the Governor confessed to V.T. Krishnamachari, Deputy Chairman of the Planning Commission, whilst educating him about the rising volume of credit which the Bank made available to agricultural cooperatives every year, that his 'real anxiety' was that the Bank might be 'called upon in the future to provide a large amount of credit to societies which are structurally weak ....'

From early 1959 there were strong signals that the government, in particular the Planning Commission, was contemplating a radical change in cooperative credit policy. It was virtually public knowledge now that the Planning Commission was dissatisfied with the Bank's lending activities, and a paper it submitted proposed dealing with the 'problem of [cooperative] credit ... in a fundamental manner'. Accounts of a meeting at the Commission also revealed that the latter wanted the Bank to lend on a 'large scale' to new societies 'on the basis of needs and not of a multiple of the share capital and reserves'. Stressing that Bank lending should always be related to the creditworthiness

of its borrowers, Iengar explained to the Finance Minister, Morarji Desai, in April that

it would be a complete disaster to the financial reputation of India which at present is very high, if the Reserve Bank had to show in its books sums as overdues from cooperative institutions. The Bank would have to take up a firm position with regard to the grant of credit to institutions beyond the limits of creditworthiness as assessed by [it]. If the issue was forced by Government and it was decided finally that sums should be advanced against the Bank's considered judgement of the appropriate credit limits, ... it would be more appropriate if the problem were handled not by the Reserve Bank but by a separate institution to be set up for the purpose of handling agricultural credit. It would be open to Government to give such loans to this Corporation as they might consider appropriate. Eventually, of course, the money would be advanced by the Reserve Bank, but channelling the funds through a separate corporation was desirable partly to avoid the risk of the ... Bank having to show bad debts in its books and partly to indicate more clearly the nature of the transaction.

Iengar first mooted the proposal for a separate apex agricultural credit institution to his officials in October 1958. Then it was regarded as a counsel of despair. It also had some shock value, but Iengar was not keen to test the idea on V.T. Krishnamachari for fear that he might snap it up. It is in some degree a sign of the Bank's growing disenchantment with the recent direction of the government's cooperative credit policies that the Governor was willing now to talk more openly about this proposal.

J.C. Ryan pointed out to Iengar that a new corporation to finance cooperatives might 'protect the Reserve Bank, but throw the cooperative movement as a whole in danger'. Indeed the danger to the integrity of the cooperative credit movement was closer than the Bank had imagined. In the summer of 1959 the Ministry of Community Development and Cooperation came forward with a proposal to open a supplementary line of credit of Rs 8 crores for rural cooperatives. This figure represented about a sixth of the cooperative sector's outstandings to the Bank by way of short-term loans at that time. Part of a 'pilot project' intended to be implemented in 200 blocks or 4,000 villages around the country, the scheme aimed to ease the resource constraint on primary societies (whose credit limits, it may be recalled, were

typically a multiple of owned funds) and enable them to make productive loans to 'cultivators who cannot at present obtain credit' from them. The additional loans were to be made on the basis of cultivators' production plans which primary societies were to help formulate, oversee, and execute. Recovery was to be effected by moving crops through local marketing societies.

Financed by means of a medium-term loan from the government, the supplementary scheme envisaged no immediate draft on the Bank's resources. This however made little difference to the Bank's view of the matter. Opposing the scheme, the Governor pointed out to the Finance Minister that apart from being the government's statutory adviser on agricultural credit, the Bank provided the bulk of the financing which the new line of credit was intended to supplement. Yet the central government had not thought it necessary to consult the Reserve Bank. The Governor's objection was not only procedural, 'though even as a procedural matter it is one of considerable importance'. Criticizing the credit scheme as 'immature and ill-advised', Iengar underlined that it invoked a distinction between 'normal' and 'supplementary' lending which was tantamount to inviting the society to adopt 'a double set of standards for its borrowers'.

A conservative society will have every temptation to become even more conservative so far as its own risks are concerned, for it can readily relegate to the supplementary category all cases about which it has the slightest misgivings, including those which in normal circumstances it might well have considered favourably and lent from its own resources. There can be no better way of demoralizing ... cooperatives than to introduce double standards of this kind.

He added that if the government bore all the risks of the lending, recoveries were bound to be poor and arrears substantial. On the other hand, if cooperatives were expected to bear the risks of supplementary lending, 'it may be asked what there is in the project to impel central cooperative banks and primary societies to extend their lending programmes, and ... their risks so considerably'. He also pointed out that the Bank's existing credit limits themselves remained invariably under-utilized. Even the government recognized that a 'shortage of funds' was not the main reason for district cooperative banks not lending more to societies. Yet, Iengar marvelled, it went on to 'propound a remedy of which the main feature is the putting of more funds at the disposal of central banks!'



B. Venkatappiah, Deputy Governor, 1955-62

Largely at the Bank's instance, Venkatappiah, Karve, and a team of officers of the Government of India and the Planning Commission undertook a field-study of rural credit in Mysore, Madras, Andhra Pradesh, and Bombay in the summer of 1959, during which they held elaborate discussions with officials and cooperators about the government's plan for a supplementary line of credit. Almost everyone the study team interviewed was sceptical about the plan. Villages did not have production plans, nor could village societies afford to make or help implement such plans. The scheme too made no provision for engaging technical staff who could draw up production plans or otherwise support village societies in their expanded responsibilities. Further, there had

been no progress in linking credit with marketing, and marketing societies did not exist or function at most places. Finally, the scheme threatened to institutionalize an invidious distinction between two categories of farmers—those whose credit needs were met out of the village society's 'normal' funds, and others whose needs would be met from 'supplementary' funds. Echoing the findings of the study team, the Governor pointed out to the Finance Minister that the government's scheme was a 'counsel of perfection' which was silent about how it would be translated into reality. There was no suggestion for how village societies might be expected to tackle the additional responsibilities which the scheme placed on them. On the other hand, they were being required to

act as if certain assumptions were true—e.g. that village production plans exist and marketing societies are effective .... What is more, the society is to incur the financial risks involved in acting on these assumptions. Thus it may give a loan for production, but may find itself unable to recover it because effective marketing has not meanwhile been organized. It seems to me that, as a pilot scheme for production cum marketing cum credit, the project under discussion is wholly inadequate because it has no concrete proposals for either production or marketing.

The Deputy Governor, who in Iengar's words was a 'missionary in ... the field of cooperative credit' capable at the same time of 'keep[ing] his feet on the ground' and 'look[ing] at the stars', was regularly in the habit of touring villages 'more extensively' than any cooperative official. As such it is unlikely that the field-study revealed to Venkatappiah much that he did not already know. But judging by the radical conversion they underwent, it would appear that their rural excursion proved an educative and chastening experience for the officials of the Union government who undertook it. The study team decided after their tour to jettison, in effect, the government's proposal for a supplementary line of credit. The pilot project, it was agreed, would now be confined to providing or strengthening staff in selected villages to draw up agricultural plans. The concerned primary society would extend production credit to enable eligible borrowers to fulfil their plans, and recover it through marketing societies.

The team expected the volume of credit extended by primary societies to rise considerably in the pilot villages, but not beyond the ability of central cooperative banks, many of whom had unutilized credit limits, to finance it. Central cooperative banks would, if necessary, relax rules of access for primary societies to meet their 'genuine requirements ... in ... full', while the Bank

too, for its part, agreed to relax the former's credit limits wherever it was possible. The Deputy Governor assured the study team that the Bank would find 'all the finance required for the scheme ... on the same lines as at present' if prior conditions such as adequate staff were satisfied. In order to compensate for the higher risks associated with their expanded operations, primary societies in the pilot villages were to set up a 'bad and doubtful debts fund' out of grants from the central and state governments. A guarantee fund, to make additional payments to societies whose actual losses exceeded the grant they received on account of 'bad or doubtful debts', was also proposed. In a further affirmation of the Bank's stance, the letter announcing the revised pilot project advised state governments to select for the project only villages with 'reasonably good cooperative societies which have been in existence for some time'.

While Venkatappiah was largely successful in persuading the central government to withdraw its supplementary line of credit, he was not as successful in persuading the Planning Commission and the agriculture ministry to agree that the Bank's present arrangements for the cooperative sector sufficed to provide 'adequate finance for the country as a whole'. Hence, the Mysore conference, while approving the pilot project in its diluted form, also referred the wider issue of augmenting the resources of the cooperative credit structure to an expert committee.

#### BRIDGING DIFFERENCES: THE COMMITTEE ON COOPERATIVE CREDIT

It fell to the Committee on Cooperative Credit (Vaikunth Lal Mehta Committee, 1960) to attempt to reconcile the diverging views of the Bank and the government. The constitution of this committee, by the Department of Cooperation of the Government of India, was a minor victory for the Bank, which had been emphasizing to the government the need to make cooperative policy in consultation with the leading representatives of the movement. The committee, which was headed by V.L. Mehta, distinguished cooperator and Chairman, All-India Khadi and Village Industries Commission, had thirteen members of whom five were leading cooperators. Apart from Venkatappiah, the Managing Director of the State Bank of India, Bhide, who was now Secretary in the Department of Cooperation, and the Joint Secretary to the Planning Commission, the committee also included four representatives of state governments. Undoubtedly, therefore, the Committee on Cooperative Credit was the most expert body of inquiry in its field since the All-India Rural Credit Survey submitted its report in 1954.

The committee's terms of reference were to inquire into 'existing standards for credit limits' and their justification from the 'point of view of ... sound cooperative banking', 'loan policies and practices of cooperative credit institutions', measures to enhance the borrowing powers of primary societies, including revising their credit limits, so that they may finance agricultural production plans more effectively, and the desirability of share capital participation by state governments in primary societies. The committee was also set the task of studying 'a few representative societies' which had suffered losses and overdues, defaulted on their obligations, or gone into liquidation; and a 'few good societies in different states' from the point of view of 'adequacy of credit', 'coverage of families', 'inclusion of smaller farmers and tenants', extent of lending for productive purposes, recovery and repayment record, and 'deposits and encouragement of thrift generally'.

It is impossible to do justice to the committee's report within the space of a few paragraphs. Nor is much of the report really germane to our objective of following the history of the Bank's involvement with the cooperative credit movement. A brief summary of the committee's conclusions regarding the main points of the outstanding controversy between the Bank and the government which it was established to resolve should therefore suffice for our purposes here.

The Mehta Committee confirmed that village production plans did not, as a rule, exist and that it was not possible to make them without a large technical staff. It noted that almost a third of the nearly 1,66,000 primary credit societies in the country were working at a loss or were not making a profit. Many of them were burdened with overdues. Over two-fifths of the 418 central cooperative banks in the country did not come up to the minimum standards prescribed by the Reserve Bank of India. Hence, the committee concluded, it was essential to build the resources of central cooperative banks and 'rectify and revitalize' primary credit societies.

The committee recommended a 'systematic programme of rectification, consolidation, [and] revitalization of dormant primary credit societies ....' Societies were to be strong enough to function efficiently at the start and withstand the strains of additional responsibilities they might have to assume. Future policy, the committee emphasized, should be to build viable primary units without the latter having to cover too extensive an area. No village in a society's area of operations should be more than three or four miles from the village which served as its headquarters, and the combined population of these villages should not exceed 3,000 persons and 600 families or 500 *cultivating* families. Recommending that state governments should contribute to the share capital of primary societies which sought such contributions, the

committee stressed that all government assistance should be directed towards promoting the viability of a primary society within the quickest possible time. State governments' contributions to the share capital of primary societies should, according to the committee, range between Rs 1,000 and Rs 10,000 on a matching basis. In addition, a primary society was to raise an additional share capital of not less than Rs 3,000 within three to five years of the State entering into partnership with it. The committee also proposed that state governments should extend a managerial subsidy of Rs 1,200 to each primary society over a period of three to five years. In order to compensate societies and banks for the risks inherent in their expanded lending operations, the committee proposed the creation of special bad-debt reserves at the primary and the district level, out of contributions from the government of 3 and one per cent respectively of the *additional* agricultural finance provided each year.

The committee affirmed that individual members of primary societies should be extended credit on the basis of their 'repaying capacity'. It felt that there was no need for a general relaxation of the existing credit limits of institutions at various levels of the cooperative credit structure. However, the Registrar might, in special circumstances, permit limited liability primary societies to borrow up to 10–12 times their owned funds (against eight times currently) and unlimited liability primary societies up to one-sixth of their net assets (as against one-eighth currently). District banks were to be allowed to borrow 12–15 times and apex banks 15–20 times their own resources. As for the Reserve Bank, the committee felt that impressive as its performance had been as a lending agency, it was possible further to strengthen its refinancing role. While the cooperative structure had to be strong and viable if it was to attract the resources of the country's central bank, the former would not be self-supporting for a long time to come. Hence the committee proposed that the Bank increase its normal credit limits to central banks with superior audit classifications ('A' and 'B') to four and three times their owned funds respectively. In addition the former were to be sanctioned additional limits of twice their owned funds and the latter additional limits equal to their owned funds if they could show to the Bank outstanding loans to societies for agricultural purposes for twice the amount borrowed. In other words, the committee expected the central cooperative bank to meet half the excess of its loans for agricultural purposes over and above the normal Bank limit, out of its own resources. The committee also recommended that outstanding loans for the purpose of additional limits would be calculated after excluding loans which were overdue, thus paving the way for the concept of 'non-overdue cover' around which the Bank anchored its refinancing operations over the next few years.

The committee's report was taken up for consideration at the conference of



Ministers of Cooperation in the state governments which was convened in Srinagar in June 1960. There was a large measure of agreement at the conference around the substance of the committee's report. However, two of its recommendations stuck in the gullets of officials of the Planning Commission and the Food and Agriculture Ministry. The proposal to allow multi-village societies to cover populations of 3,000 persons was one, with officials including Shriman Narayan, Member, Planning Commission, arguing that it undermined the resolution of the NDC. The committee's endorsement of the principle of State participation in the share capital of primary societies was another, and officials of the government attempted to whittle down the recommendation and reduce the ceiling for such contributions from Rs 10,000 to Rs 5,000. Efforts were also made to relate the governments' contribution to the bad-debts reserve to *additional* finance that societies made available to 'weaker sections'.

The committee having endorsed the idea that primary societies should be viable, the Bank took a hard line and vigorously opposed moves to dilute its recommendations. The Governor, H.V.R. Iengar, declared to the Srinagar conference that the NDC could not sanctify a decision on the size of societies that experience had shown was dogmatic and unwise. The Bank also saw no reason to depart from the recommendations of the committee on the size of the state governments' contribution to the share capital of primary societies. Relating the bad-debts reserve to criteria such as lending to 'weaker sections' would, in the Bank's view, 'introduce so many complications that the scheme ... would be rendered unworkable'. Besides, the function of primary societies was to lend 'adequate amounts to all producers', and in so doing cater to smaller producers who 'can and will repay'. Alerted by the discordant but influential voices raised against it, the Bank decided that the report of the Mehta Committee should stand or fall as one whole. The report was, in the Governor's words, an 'integrated series of recommendations'. But some people, he warned, may be tempted to accept the recommendations dealing with liberalized lending while 'putting on the shelf' those parts of the report intended to safeguard the viability of cooperative institutions and tone up their functioning. Any effort to 'tear the report ... into compartments' was unacceptable to the Bank, the Governor said in a rare public display of firmness, and added that it would only 'accept this report as a whole' or not at all.

The Srinagar conference accepted the report in principle, leaving the details of its implementation to be finalized by the Bank and the government. However, the conference recommended funding the bad-debt reserve at 5 per cent of the 'additional agricultural loans advanced to the underprivileged classes'. After a series of meetings at the Planning Commission and the Ministry of

Cooperation, in the course of which the Bank repeatedly underlined its resolve not to notify the liberalized financing norms recommended by the Mehta Committee unless the government accepted its report in its entirety, the Government of India signified its acceptance of the report. Finally, at its meeting in September 1960, the NDC accepted the recommendations of the Mehta Committee, including its more contentious ones. The only exception made was in respect of state governments' share capital contributions to primary societies. The NDC set the ceiling for such contributions at Rs 5,000, though in special cases they might be increased to twice that amount. Following this decision, the Bank agreed to put into effect the liberalization of credit limits suggested by the Mehta Committee. The conference of Ministers of Cooperation which took place in New Delhi in October 1961 noted these decisions and formulated a programme for cooperative development for inclusion in the third plan.

#### STRENGTHENING THE COOPERATIVE SYSTEM

The Working Group on Cooperative Development for the third five-year plan concluded that about 2.5 lakh village societies were required to cover every village in the country. This involved organizing 50,000 new societies and rectifying 60,000 existing societies. In 1961, the Government of India and the Bank jointly evolved ways to rectify and revive dormant societies. However, with resources in the Long-term Operations Fund being limited, the Bank advised state governments to initially submit applications for contributions to the share capital of only 250 small primary agricultural credit societies in each state. In order to ensure that only viable or potentially viable societies were selected for participation by state governments, the Bank further confined share capital contributions from the Long-term Operations Fund to societies under audit classes A, B, or C with overdues not exceeding 30 per cent of loans outstanding, and which had collected a minimum share capital of Rs 1,500 from members. Following a decision by the conference of Registrars and Ministers held in New Delhi in October 1961, the minimum contribution to each society was reduced from Rs 2,500 to Rs 1,500. During 1961-62, ten state governments approached the Bank for loans for share capital contributions, and a sum of Rs 78 lakhs was sanctioned as contribution to the share capital of 2,445 societies.

#### *Revitalizing Primary Societies*

The question of reorganizing primary cooperative credit societies on the basis of viability was discussed in considerable detail at the conference of Ministers of Cooperation held in Hyderabad in June 1964. A primary society, according

to the criteria recommended by the conference, would be viable if it could afford to engage a full-time secretary, set up a regular office of its own, contribute to statutory and other reserves on the scales considered necessary, and pay a reasonable dividend. The survey of societies to establish their viability or otherwise plan their restructuring was left to state governments. In a development which confirmed the correctness of the Bank's judgement and marked a major revision of the position the Union government had adopted since 1957, state governments were asked to delimit areas of operations for primary societies to enable them to develop viable levels of business. Where more than one society existed in a given area, the state government was advised to select one of these as the local society, make efforts to merge or amalgamate other societies with it, and liquidate defunct societies. The viability of the primary society, moreover, was not to be sacrificed to ensure that its jurisdiction coincided with that of the panchayat. State governments were also asked to pay special attention to the difficulties of tribal, sparsely populated, or dry areas, or areas characterized by small landholdings, and to take special measures to make societies in those areas strong and viable.

Progress however remained slow and unspectacular. The responsibility for revitalizing primary societies lay with state governments, many of whom were tardy in conducting surveys and delimiting the area of operations for individual primary societies. Where both steps had been taken, programmes to amalgamate weak societies and liquidate defunct ones were either not formulated, or remained largely on paper. The annual conference of Ministers of Cooperation, which was convened in Bombay in October–November 1965, recommended completing the revitalization programme by 1966–67. The number of primary societies declined as a consequence of the programme from 2,09,622 at the end of June 1964 to 1,91,904 at the end of June 1966. Of the latter, however, nearly 24,000 societies were dormant. On the other hand, the number of villages covered by primary societies increased from 4,69,328 to 5,02,816, during the same period, leaving about 61,000 villages outside the pale of the movement. During these two years, 2.4 million additional members were enrolled, taking the total membership of primary societies to 26.1 million (including 1.5 million members in dormant societies) at the end of June 1966. Loans disbursed rose from Rs 297 crores during 1963–64 to Rs 316 crores in 1964–65, and Rs 342 crores in 1965–66. However, these achievements were well below the targets set for the third plan, of 2,30,000 societies, with a total membership of 37 million, and outstanding medium and short-term loans of Rs 529 crores. The plan had also envisaged 100 per cent coverage of villages by primary societies. In the event, the actual coverage achieved was just under 90 per cent.

There was little consolation for the Bank in the knowledge that the financial underachievement vindicated its judgement, rejected at the time by the government, that the third plan's lending targets were too ambitious and unrealistic. Nor could the Bank take much satisfaction from the fact that the accent of policy had shifted from cooperative expansion for its own sake, as reflected in the initial third plan exercise, to one based on consolidating the cooperative structure and ensuring its viability. Many precious years had been lost in the process, and the setbacks which the cooperative movement suffered during the interval were not easily remedied. Viability too remained a distant dream. Only in Gujarat, Kerala, and Manipur did the average loan business per society exceed Rs 50,000 per year in 1967-68, while recent experience indicated that even this was below the minimum level of business needed to ensure viability. The average turnover was between Rs 20,000 and Rs 50,000 in nine states, between Rs 10,000 and Rs 20,000 in six states, and below Rs 10,000 in four. Equally tellingly, the vast majority of primary societies failed a crucial test of viability: only about 27,000 of them could afford to engage full-time secretaries in 1966-67.

#### *Standardizing Audit*

Although the Bank's involvement with cooperative credit institutions expanded and diversified from the 1950s, it obtained statutory powers of control and regulation over the cooperative credit system only in 1966, when certain provisions of the Banking Regulation Act were extended to cooperative societies. Nevertheless, from the earliest stages, the Bank directed attention towards supervision, audit, and inspection arrangements of cooperative banks and societies as a means of monitoring and improving the performance both of individual institutions and of the system as a whole. Training of cooperative personnel was another aspect which attracted the Bank's attention from an early stage.

Only central cooperative banks classified under audit categories A and B were eligible to avail of Bank finance. Subsequently, the Bank agreed to allow banks in the C category into the club, on the specific recommendation of the state government concerned. However, standards of audit classification varied from state to state and were not comparable, and this created some unintended discrimination in the direction of Bank credit to the cooperative sector. The Agricultural Credit Department of the Bank therefore made efforts in the early 1950s to evolve a uniform system of audit classification. The Standing Advisory Committee discussed this in its first meeting in August 1951, and a subcommittee appointed by it recommended certain audit standards for classifying central cooperative banks. These standards were communicated

to state governments in June 1952 after they were approved at an informal conference of Registrars of Cooperative Societies. Bihar and Orissa experienced some difficulties in implementing these standards, but the Bank saw little justification for adopting different standards whilst extending accommodation to cooperative banks. But it proved impossible in practice to enforce audit standards strictly across states.

The Rural Credit Survey also examined arrangements for supervision and audit of cooperative institutions. The Committee recommended making supervision the responsibility of apex and central cooperative banks. However, governments of states where cooperation was not well developed were allowed to appoint supervisors to cooperative financing institutions. Where audit was formally the responsibility of the cooperation department, the Survey proposed making the Chief Auditor independent of the Registrar. It recommended standardizing departmental audit norms in continuation of the efforts already initiated by the Bank, and supplementing departmental audit with professional audit, concurrent audit, and interim audit.

The standardization of audit norms returned to the fore in 1960 in the context of the Standing Advisory Committee's review of the cooperative movement in Orissa. Following the Standing Committee's suggestion, the Agricultural Credit Department undertook a study of audit standards in four states, viz. Madras, Punjab, Uttar Pradesh, and Maharashtra. The study found the standards 'vague'. Nor did definite yardsticks exist for classifying societies. Classification was often distorted by subjective evaluations that were too liberal in some cases or too strict in others. The findings of this study were discussed by the Standing Advisory Committee in February 1961, which referred the matter to a working group comprising the Registrars of Cooperative Societies of the four states, the Chief Officer of the Agricultural Credit Department, and a representative of the Ministry of Community Development and Cooperation. The working group recommended evaluating a society's working under four broad heads, viz. capital structure, credit and financial stability, management, and general working. With most Registrars and the Government of India approving the proposals of the working group, the Bank advised state governments of the revised standards of audit classification of primary credit societies in November 1962. While the weight attached to each head of audit was indicated, state governments were allowed, in consultation with the Bank, to modify these weights to reflect the differential development of those particular aspects of the cooperative movement in their respective states.

In 1964, the Committee on Cooperative Administration recommended audit functions being carried out by a Joint Registrar of Cooperative Societies

subordinate to the Registrar, but heading a separate and independent chain of command for audit purposes. All state governments, with the exception of Uttar Pradesh where audit remained the responsibility of the state finance department, accepted these recommendations.

#### *Supervision of Primary Credit Societies*

The Rural Credit Survey recommended keeping audit and supervision of primary credit societies independent of each other. While audit was to be the responsibility of the cooperation department, supervision was to be entrusted to central financing agencies and central and apex cooperative banks. A subcommittee of the Bank's Standing Advisory Committee on Agricultural Credit endorsed these recommendations in 1956, following which the Bank began commending them to state governments for implementation. However in 1960, the Ministry of Community Development and Cooperation opposed following a set pattern of supervision for the country as a whole and proposed leaving decisions in this regard to state governments. While the first conference of Ministers of Cooperation held in New Delhi in 1955 supported the recommendations of the Rural Credit Survey, the Mysore and Jaipur conferences decided that existing arrangements for supervision should not be disturbed if the state government concerned was satisfied with them. The Mehta Committee reviewed the subject keeping in mind the anticipated expansion of cooperative lending activity. It recommended central financing agencies assuming responsibility for supervising the primary credit societies they financed. At the government's instance the matter was placed before the Standing Advisory Committee in February 1961, where the Governor recalled the Bank's consistent advice to state governments to entrust supervision to central financing agencies. The Standing Committee underlined its earlier view that financial supervision should be in the hands of central financing agencies. This view was later seconded by the Committee on Cooperative Administration (1963), which also urged states where supervision was carried out departmentally to transfer the function to central cooperative banks in a phased manner. While a majority of the states accepted this recommendation, Uttar Pradesh, Haryana, Himachal Pradesh, and Jammu and Kashmir preferred to exercise supervision departmentally. In Mysore and Rajasthan supervision was carried out jointly by the cooperative department and the central bank. In Maharashtra, supervisors remained government employees, but were attached to local supervising unions.

Since state cooperative banks occupied an important position in the cooperative credit structure and in the provision or channelling of agricultural finance generally, the Bank considered it useful to subject them to periodic inspections. Accordingly, at the Bank's instance, a few state cooperative

banks were inspected in the early stages by the Registrar of Cooperative Societies. The Bank drew up a detailed format for such inspections. But following the 1951 informal conference, the Bank initiated steps to inspect apex and central cooperative banks that volunteered to be inspected by it. With the Bank gaining more experience of the need for such inspections and its priorities in undertaking them, four regional offices were opened in April 1957 to facilitate regular inspections of cooperative banks. By June that year nearly 200 cooperative banks had been inspected. Of these, 31 were state cooperative banks many amongst which were inspected more than once.

Cooperation being a state subject, the Bank had no statutory authority to conduct inspections of cooperative institutions until its powers of supervision over cooperative banks were strengthened in the mid-1960s as a prelude to extending to them the benefits of deposit insurance.<sup>2</sup> Nevertheless, even in the 1950s, the Bank contrived to include periodic voluntary inspections as part of its credit agreements with cooperative banks. Well-run banks generally tended to welcome inspections by the Bank. Inspections helped improve functioning and check or correct problems at an early stage. Besides, they were also a means of affirming the creditworthiness and viability of the institution. In later years the Bank expanded the scope of its voluntary inspections to cover central land mortgage banks and apex handloom weavers' cooperative societies. Periodic meetings to finalize credit limits of individual cooperative banks, or debenture programmes in the case of central land mortgage banks, provided the Bank opportunities to monitor banks' compliance with the recommendations of its inspection teams.

### THE BANK AND THE GREEN REVOLUTION

It became apparent halfway through the second plan that while food production had increased considerably, faster growth was needed to keep pace with rising consumption needs and the accelerated tempo of industrial investment. As agriculture became more central to development policy, policy to be adopted for the sector came under fierce debate. The Government of India's continuing efforts to liberalize cooperative lending, recounted earlier in this chapter, were intended to help translate the agrarian reforms of the 1950s into higher agricultural production. But debate over agricultural policy was decisively joined towards the close of the 1950s and its thrust deflected when a Ford Foundation team recommended increasing the intensity of cultivation and

<sup>2</sup> These developments are discussed in chapter 11.

yields through cultivators' adopting a package of 'improved' practices covering seeds, fertilizers and pesticides, implements, and soil and water management.

This 'package scheme' was implemented from 1960–61 as the Intensive Agricultural District Programme (IADP) in 49 of 140 blocks in seven districts spread over as many states. Since the strategy depended on the timely delivery of a package of inputs and services including credit, marketing of produce, and technical assistance to farmers covered by this programme, the Bank, together with the Government of India and the Ford Foundation, undertook studies of cooperatives in the selected districts. It identified several areas for action, including the reorganization and strengthening of primary societies and central banks, better supervision of these institutions, identifying well-run and healthy cooperatives and extending the programme to cover all their members, and timely availability of credit and marketing services. Acting on the Bank's advice, central banks in the programme districts secured special credit limits of Rs 3.57 crores to finance production plans in the first year. The Bank took the opportunity offered by the IADP to rationalize its credit policy and procedures in the package districts along the lines it had sought unsuccessfully to do earlier. In particular, it strove to link credit and production requirements by introducing crop-wise scales of finance for different areas, disbursing credit in instalments both of cash and kind, and effecting recovery through marketing societies.

#### *Intensive Agricultural Areas Programme (IAAP)*

A modified version of the IADP was introduced on a wider scale in 1964–65. The new programme was intended to increase the production of crops such as rice, millet, wheat, cotton, sugarcane, and groundnut in selected areas, once again by the coordinated use of material and technical inputs. Priority was accorded to strengthening the cooperative credit structure in the 114 districts selected for this programme, and the Bank and the government drew up an accelerated programme for the purpose in 1964.

The IAAP too gave the Bank an opportunity to put into practice and generalize its preference for crop loans as the principal vehicle of short-term credit. At its instance the basic features of the crop loan scheme were incorporated into the IAAP action plan. Short-term credit needs of members were assessed on the basis of scales of production expenditure which were fixed per acre on a crop-wise basis. Subject to a borrower's capacity to repay, these needs were to be met in full. Practical difficulties in assessing this capacity reliably, led to the latter being fixed, rather arbitrarily as the Bank readily acknowledged, at half the farmer's estimated total cash income from the sale of produce and non-farm income. Short-term loans were given up to two-thirds of this capacity, and the



servicing of medium-term debt (which was generally assessed at three to five times the residual) was expected to consume the remainder. Short-term loans were made in bundles of cash and kind, the precise proportions of the two varying between rain-fed and irrigated crops and on the extent to which the farmer moved his crop through a marketing society.

In 1964 the Bank advised state governments of its decision to evaluate applications for short-term credit limits on the basis of applicants' lending policies according with the crop loan system. Convinced that the time for firmness had come, the Bank threatened to withdraw the liberalized credit limits recommended by the Mehta Committee unless crop loans were introduced expeditiously. The enhanced limits, as the Bank reminded the states, were intended principally to finance the increased demand for credit likely to arise from the adoption of crop loans. The Bank also dropped dark hints about other punitive measures.

There were good reasons for the Bank to adopt a tough posture. Its reports revealed that the crop loans system had been implemented only in Maharashtra and Gujarat, though a beginning had been made in the IADP districts of the other states. There was evidence too, that funds released by liberalization of credit limits were benefiting larger cultivators to the exclusion of the needs of smaller cultivators and tenants. The Programme Evaluation Organization of the Planning Commission also reported that there was a misapplication of cooperative funds to the tune of 20 to 25 per cent. When the Standing Advisory Committee considered these findings in April 1965, a debate ensued on what action might be taken to popularize crop loans. While the Bank was in favour of sanctions and other punitive measures, some members advocated caution because sanctions might affect cultivators and production more than cooperative financing institutions. The wisdom of the Bank's stress on the crop loans system was also questioned by V.P. Johar, Registrar of Cooperative Societies in Punjab, on the ground that it betrayed a lack of faith in the cultivator and his ability to choose the right mix of crops. Crop loans also involved extensive paperwork and necessitated larger staff. Nor was Johar convinced that threats of reduced credit limits would force primary societies in Punjab, which generally had substantial deposit resources of their own, to adopt crop loans.

Following the Standing Advisory Committee meeting, the Government of India convened seven state-level conferences between June 1965 and March 1966 to popularize crop loans. These meetings were attended by representatives of the Planning Commission, the Ford Foundation, and the Bank. The latter prepared a manual on the crop loans system, explaining its objectives, the policy and procedure for fixing short-term and medium-term credit limits for agricultural purposes, and the administration of such loans. The implementation

of the system was reviewed regularly at several conferences of cooperators and officials and at a succession of Regional Conferences on Cooperation where it was resolved to adopt the system throughout the country by 1967–68. Yet, despite a decade having elapsed since the system was first mooted and intense efforts during the mid-sixties, progress in implementing it was uneven. It was particularly poor in Assam, Bihar, West Bengal, and Jammu and Kashmir, and remained partial in several other states.

#### *High-yielding Varieties Programme*

The High-yielding Varieties Programme (or HVP) was launched during kharif 1966–67 as part of the new agricultural strategy geared towards achieving self-sufficiency in food by 1970–71. The programme envisaged introducing the newly evolved high-yielding strains of paddy, wheat, maize, jowar, and bajra over fairly large areas. The cooperative departments of state governments recommended launching the programme in the IADP and IAAP districts since the latter had a relatively strong cooperative structure, and that the Bank should relax the terms and conditions of the credit limits it sanctioned to central cooperative banks. The Bank, for its part, assured state governments that the programme would not be allowed to suffer for want of finance and that special credit limits would, if necessary, be sanctioned to cooperative banks. The Bank also agreed to relax two conditions, viz. credit limits at a multiple of owned funds and 'non-overdue cover'. Instead, special credit limits were sanctioned subject to the condition that primary societies would not finance defaulting members and that borrowers would contribute 10 per cent of their loans to acquire shares in their societies. Loans for inputs such as fertilizers were to be disbursed only in kind, loans were to be repaid at the end of the crop season, and finally, borrowers would sell their produce through approved agencies. At the same time, at the Bank's insistence, the government agreed that farmers who were not members of cooperative societies would not be offered credit on terms more favourable than those available to members of cooperative societies. In its turn, the Government of India advised state governments to take steps to strengthen cooperatives in the HVP areas and ensure adequate and timely credit to participating cultivators. The latter once again meant crop loans, strengthening and rationalizing the cooperative structure, enrolling all farmers under the HVP programme in primary societies, and linking credit to marketing. However, of the total limits sanctioned by the Bank of Rs 17.47 crores to fifteen states, only eight availed of loans to the tune of Rs 3.36 crores under the programme during the 1966 kharif season. The poor demand for credit was found to be largely due to cultivators' resistance to new practices, lack of proper motivation and orientation amongst extension

staff, and reduced operational efficiency of central banks and primary societies.

### RETHINKING COOPERATION

A strong rural credit structure was imperative to boosting agricultural production. On the other hand, the cooperative credit mechanism on which had principally rested until then the country's hopes of setting up a viable and inexpensive system of making credit available to agriculturalists, remained weak and ineffective at most places. Hence in March 1964 the Bank constituted an informal group, chaired by the Governor, P.C. Bhattacharyya, to review institutional arrangements in the field of agricultural credit. The group's report, which was submitted in January 1965, affirmed that the three-tier cooperative credit structure was the most suitable means of dispensing agricultural credit in Indian conditions. The cooperative credit policies adopted were, according to the group, generally adequate, but they were not always fully implemented. It recommended persisting with existing policies in Gujarat, Maharashtra, and Madras, where cooperation had registered impressive advances. Greater vigour in implementing agreed policy was needed in less advanced states such as Andhra Pradesh and Punjab. The group also identified a number of regions where the cooperative movement was largely sick. These included Assam, Bihar, Orissa, Manipur, Rajasthan, Tripura, and West Bengal. It was no longer realistic, the committee felt, to expect the cooperative credit structure to meet the entire agricultural credit needs of these regions. It therefore recommended the setting up of agricultural credit corporations to supplement the availability of credit in areas which were not effectively served by cooperatives. Credit corporations were however to be temporary and transitional in nature, and strengthening cooperative credit institutions in these states so that they might resume supplying agricultural credit in full, remained the longer-term object. Despite the group's temporizing approach, its recommendation reopened an issue which was thought to be settled earlier, namely the relative merits of cooperative and corporate forms of organizing rural credit services.

The Government of India accepted this recommendation and proposed to introduce the enabling legislation during the course of the year. But the conference of Ministers for Cooperation held in October 1965 revealed the existence of strong opposition to the idea because it was felt to undermine the cooperative movement. Following this conference, it was proposed to convene a joint meeting of concerned state governments, central ministries, the Planning Commission, and the Bank to consider ways in which cooperative institutions might be enabled to meet rural credit needs in areas where they were weak and ineffective. Even as this meeting failed to take place, a conference of

Chief Ministers and Agricultural Ministers convened in April 1966 endorsed the plan for agricultural credit corporations. Not long thereafter, the State Agricultural Credit Corporations Bill was passed by Parliament and it became law in December 1968.

The decision of the Chief Ministers' conference underlined the extent to which earlier hopes for the cooperative movement had given way to disillusionment, and the need for alternative ways in which to meet agricultural credit requirements. In much the same vein, the Government of India began examining the possibility of involving commercial banks and corporate institutions in rural credit. The context for this exercise was provided by plans to farm nearly 40 million acres of irrigated land more intensively, and the increased requirements they entailed for hybrid seeds and fertilizers, and consequently for credit. In general, the government felt it was necessary to review earlier estimates of rural credit requirements for the fourth plan. Besides, it wished to make an assessment of the credit required to finance both farmers and independent marketing and distribution agencies—which would handle vastly increased quantities of agricultural inputs—to fulfil the targets set by the intensive cultivation programme, and review arrangements for meeting it. Finally, the government remained convinced that the Bank had not done enough to liberalize agricultural lending and enable cooperatives to extend larger volumes of short-term credit. To consider these subjects, and more generally that of increasing the availability of agricultural credit, the Finance Ministry decided, in February 1966, to set up a committee of several officials. The committee was to be chaired by G.R. Kamat, Secretary, Planning Commission, and included M.R. Bhide, who had meantime joined the Bank as its Deputy Governor for rural credit.

The Bank was not opposed, in principle, to 'another look', as Bhide referred to it, at estimates of rural credit requirements and ways of ensuring their delivery. However it was not convinced of its necessity. The informal group had recently reviewed the problem, and its recommendations still hung fire. Besides, credit to finance the government's plans for intensive cultivation of about 40 million acres of irrigated land could be met 'well within the target for credit' worked out by the Bank and other agencies. The crop loan system remained the only 'satisfactory solution to the problem of credit for agricultural production', according to the Bank, and the principal problem here was of state governments not implementing agreed policies. The Bank urged the system on state governments 'every year but without much result'. Rather than set up a fresh committee, Bhide informed the Finance Secretary, the central government must use its energies to prevail upon state governments to implement the crop loan system in all earnestness. Bhide also acknowledged

that cooperatives could not be expected to meet the entire demand for agricultural credit. Other agencies, such as 'friends, relatives, commercial banks ... and ... moneylenders' would inevitably have to play a role, the latter for 'quite some time' and the others 'for ever'. However, there was no prospect in the near future, much as the Bank would welcome it, of commercial banks playing a significant role in providing rural credit, Bhide noted.

Visiting Delhi a few weeks later, Bhattacharyya was handed a note by the Minister for Food, Agriculture, Community Development, and Cooperation, containing the views of his Ministry on how best to ensure adequate supplies of credit for the proposed special schemes for agricultural production. The note observed that short- and medium-term credit extended by cooperatives during the fourth plan would fall short of demand, partly because of the loan policies and procedures followed by the Bank. The 'approach', the note added

has now to be need-based rather than resource-based and the Reserve Bank as the national institution for providing resources for agricultural credit will have to accept the responsibility for meeting the entire requirements minus what the cooperative credit structure has been able to raise.

The note went on to suggest a monthly review of applications submitted to the Bank for sanction of credit limits for the high-yielding varieties programme. However, the Governor succeeded in impressing the Ministers for Planning and Agriculture of the need to set up agricultural finance corporations in the states, rather than delay matters by referring the proposal to another committee. He also managed to persuade the Finance Minister of the superfluity of the proposed committee, but agreed, at his instance to set up a committee of the Reserve Bank to 'review the ... state of progress of supply of rural credit' and the role of non-cooperative institutions in this area.

The Agricultural Credit Department of the Bank also began now to take the view that cooperatives could not be expected to meet the entire credit needs of agriculture. Nor would it be proper for the Bank to go beyond the recommendations of the Mehta Committee and lend resources to cooperative institutions without heed to factors such as the extent to which the latter mobilized internal resources or recovered loans, and the inflationary potential of Bank lending. Raising the question of reviewing rural credit and the Bank's policy with regard to it at the Standing Advisory Committee on Rural and Cooperative Credit, as the body had been renamed, when it met towards the end of April, Bhattacharyya expressed concern that there was a 'certain amount of loose talk about the Reserve Bank's attitude [towards rural credit] being rigid'. A 'tripartite' forum, such as the Standing Committee which comprised

the Bank, the government, and cooperators, the Governor said, was a proper forum to discuss the merits of such a view.

The Secretary in the Ministry of Agriculture, B. Sivaraman, who was a member of the Standing Advisory Committee, reported his department's view that the credit programme for agriculture had not been 'properly evaluated' and responsibility for it 'clearly apportioned'. Suggesting that the Bank tended to view agricultural credit as being synonymous with cooperative credit, Sivaraman wanted a study of the ability of other institutions such as commercial banks to supply agricultural credit. Implicit in this suggestion was a wider shift in the approach of the government, which had tended earlier to envisage cooperatives as the principal suppliers of agricultural inputs and services. Thus, Sivaraman stressed that crucial as they were, agricultural credit had to be viewed more broadly than merely as loans to farmers. The agricultural revolution under way involved moving large quantities of new agricultural inputs such as fertilizers, seeds, and pesticides. Inventories of these goods and their movement had also to be financed at various levels, but this was not something the cooperative credit movement, as presently organized, could be expected to do. The Bank, he suggested, should therefore constitute a 'strong committee' to study agricultural credit and 'link up [its] different aspects'.

The Standing Committee approved Sivaraman's proposal, and set up a committee with the limited objective of reviewing the demand and supply of rural credit in the context of the fourth plan and the government's programmes for intensive agricultural production. Out of this decision was born, in July 1966, the All-India Rural Credit Review Committee (Venkatappiah Committee) which included the Deputy Governor, M.R. Bhide. At the Finance Ministry's instance, B. Sivaraman was also made a member of the Committee, whose detailed terms of reference included the review of the 'progress made in the supply of rural credit' by the agencies specified by the Rural Credit Survey, the supply of credit for intensive agricultural production and marketing from all institutional sources including commercial banks, working of the crop loans system, progress of rural branches of commercial banks, measures recommended by the Bank's informal group, and coordination between different agencies involved in rural credit.

The All-India Rural Credit Review Committee submitted its report in July 1969. It made a number of recommendations such as establishing an Agricultural Credit Board at the Bank to deal with all aspects of rural and cooperative credit, Small Farmers' Development Agencies in selected districts to assist small and potentially viable farmers, and a Rural Electrification Corporation to facilitate energizing irrigation pump-sets. It also proposed a more dynamic role for the Agricultural Refinance Corporation, and various

measures to ensure timely and adequate flow of credit for agriculture through both cooperatives and commercial banks. A more detailed examination of this committee's recommendations will have to await the next volume of the Bank's history.

## CONCLUSION

The earlier volume of the Bank's history concluded its account of rural credit with the setting up of the All-India Rural Credit Survey. The present chapter brings the story up to the setting up of the All-India Rural Credit Review Committee. The years that separated the Review from the Survey were extremely eventful for India's rural economy, its credit institutions, and the Bank. The Rural Credit Survey gave cooperative institutions the central role in purveying organized rural credit, and an important part of the Bank's efforts during the 1950s and the early sixties was devoted towards fitting these institutions out for their expanded responsibilities. These years were not without achievement. Cooperatives now came to account for nearly a quarter of all rural credit as against the meagre 3 per cent they had supplied at the time of the Rural Credit Survey. In other respects too, the progress of the cooperative movement was impressive in quantitative terms. But the quality of this progress left much to be desired. The movement remained weak and ineffectual in many places, the position with regard to overdues and recoveries remained unsatisfactory, and strong doubts remained about the ability of the cooperative movement to serve the small farmer. The inability of cooperative institutions to raise their own resources also lent a controversial edge to the Bank's role as a financier to the movement. By the mid-sixties, patience with the cooperative movement was clearly wearing thin, and thoughts in the government and at the Bank turned towards alternative means of meeting rural credit needs. So that in some sense, the period ended on a strikingly different note from the one on which it had begun. The Rural Credit Survey had preferred cooperatives to corporations. This preference could not be expressed with as much conviction at the end of this period, and from the mid-1960s the idea of agricultural credit corporations and other institutions such as commercial banks playing a bigger role in supplying agricultural credit began to gain new adherents. In one respect, however, there was little ambiguity. The period ended as it had begun, with search resuming for an answer to the question which had last been asked in the early 1950s, of how best to purvey credit to agriculture.

The Bank's involvement in rural credit flowed from its founding statute and was a source of considerable satisfaction to it. Yet it had also to face constant

criticism for factors that often stemmed from the failure of other agencies involved with cooperation. As the country's central bank, the Bank was statutorily responsible for upholding monetary stability. On the other hand, it could not, even if it so wished, turn its back on the financial needs of the agricultural sector. Hence, while financing cooperatives, the Bank never gave up attempting to ensure that these were sound, viable, and responsible. Equally, the Bank did not wish to see its financing operations substituting for cooperatives raising their own resources. Creating a viable institutional structure was a slow and unspectacular process whose pace, or lack of it, contrasted sharply with popular expectations of rapid progress. The clash of priorities which resulted led to the Bank and the government differing quite fundamentally over the model of organization of primary societies and the principles informing the former's lending to cooperative financing institutions. The Bank largely held its own in these debates, maintaining, without however being dogmatic or inflexible, that its role as the agricultural refinancing agency had to be reconciled with its other responsibilities for preserving the country's monetary and credit stability and ensuring the health and soundness of its banking institutions. Successive committees vindicated the Bank's stand on several of these issues. Yet the pressures for liberalizing lending did not altogether cease, as various lending institutions over the next two decades would discover in different contexts and circumstances.



**Table 11: Progress of Cooperative Banks**

	Position as at the end of				
	1950-51	1955-56	1960-61	1965-66	1966-67
<i>A. State Cooperative Banks</i>					
1. Number of banks	15	24	21	22	25
2. Membership ('000s)	21	27	30	21	21
3. Share capital	1.58	4.37	18.24	28.82	31.18
4. Reserves	2.22	3.28	5.76	16.13	24.28
5. Deposits	22.08	36.67	72.33	146.51	147.38
6. Borrowings	8.54	19.02	125.32	198.52	199.93
7. Working capital	34.42	63.34	221.65	389.98	402.95
8. Loans & advances	42.12	67.86	258.20	474.22	513.16
9. Outstandings	17.90	34.77	166.69	307.93	325.16
10. Overdues	2.15	3.70	6.97	9.34	16.92
11. State government contribution towards share capital	N.A.	N.A.	6.46	9.86	10.35
	Position as at the end of				
	1950-51	1955-56	1960-61	1965-66	1966-67
<i>B. Central Cooperative Banks</i>					
1. Number of banks	505	478	390	346	348
2. Membership ('000s)	207	300	388	362	352
3. Share capital	4.04	4.37	18.24	28.82	31.16
4. Reserves	4.79	3.28	5.76	16.13	24.28
5. Deposits	37.79	55.71	112.02	236.59	259.32
6. Borrowings	9.75	21.80	141.17	244.99	263.34
7. Working capital	56.37	92.66	304.05	583.52	638.30
8. Loans & advances	82.84	79.83	354.38	771.66	943.53
9. Outstandings	34.14	54.34	220.03	437.72	499.35
10. Overdues	2.96	7.88	27.43	87.05	124.17
11. State government contribution towards share capital	N.A.	N.A.	10.31	19.27	21.63

contd.

**Table 11:** contd.

	Position as at the end of				
	1950-51	1955-56	1960-61	1965-66	1966-67
<i>C. Primary Agricultural Credit Societies</i>					
1. Number of societies	1,15,462	1,59,939	2,12,129	1,91,904	1,78,735
2. Membership ('000s)	5,154	7,791	17,041	26,135	26,709
3. Share capital	8.40	16.80	57.75	115.32	128.61
4. Reserves	8.86	12.45	17.80	33.60	36.88
5. Deposits	4.48	7.05	14.59	34.49	39.09
6. Borrowings	19.21	42.80	183.78	363.15	420.62
7. Working capital	40.95	79.10	273.92	546.56	625.20
8. Loans & advances	22.9	49.62	202.75	341.75	366.47
9. Outstandings	29.13	59.84	218.00	426.90	477.46
10. Overdues	6.38	14.96	44.30	125.36	160.15
11. Coverage					
(a) Population ('000s)	N.A.	N.A.	1,98,561	3,26,652	3,60,122
(b) No. of villages	N.A.	N.A.	4,22,818	5,02,816	5,07,212

NOTE: All amounts in Rs crores.

SOURCE: *Statistical Statements relating to Cooperative Movement in India*, various years.

**Table 12:** Progress of Cooperative Land Mortgage Banks

	Position as at the end of				
	1950-51	1955-56	1960-61	1965-66	1966-67
<i>A. Central Cooperative Land Mortgage Banks</i>					
1. Number of banks	5	9	18	18	19
2. Membership ('000s)	10	91	187	403	772
3. Owned funds	65	132	544	1,804	2,246
4. Deposits and other borrowings	32	226	563	1,018	909
5. Debentures outstanding	675	1,494	3,654	17,837	23,200
6. Working capital	772	1,853	4,760	20,659	26,360
7. Fresh advances	133	283	1,162	5,641	5,885
8. Recoveries	46	137	303	1,100	1,600
9. Loans outstanding	598	1,308	3,661	16,326	20,737
10. Overdues	1	115	122	305	450
	Position as at the end of				
	1950-51	1955-56	1960-61	1965-66	1966-67
<i>B. Primary Cooperative Land Mortgage Banks</i>					
1. Number of banks	286	302	463	673	707
2. Membership ('000s)	215	314	669	1,048	1,255
3. Owned funds	69	103	246	1,273	1,599
4. Deposits and other borrowings	588	1,012	2,453	12,420	15,760
5. Working capital	666	1,135	2,699	1,3693	17,359
6. Fresh advances	129	174	717	4,122	4,084
7. Recoveries	46	80	173	999	1,073
8. Loans outstanding	626	1,051	2,466	12,433	15,467
9. Overdues	8	24	64	442	574

NOTE: All amounts in Rs crores.

SOURCE: *Statistical Statements relating to Cooperative Movement in India*, various years.

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- PR.40 Expert Committee on Cooperative Credit appointed by  
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- PR.84 Provision of Agricultural Credit by Commercial Banks
- AC.61 Reorganization of States and Division of Apex Cooperative  
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- PR.7(Gen)-58 Contribution to Share Capital of Cooperative Credit  
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- PR.7(Gen)-60 Loans from NAC(LTO) Fund—General

*Memoranda to the Central Board and Committee of Central Board.*