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The Bank and Farmers

From the very beginning, the Reserve Bank had played a role in developing agricultural and rural credit, mainly by fostering the growth of cooperative credit institutions (see Volumes 1 and 2 of the history of the Reserve Bank of India). Until 1966, the main instrument for promoting the flow of agricultural credit was cooperative credit. With social control, the paradigm shifted. The possibility of commercial banks providing agricultural credit in increasing measure became evident. It also became clear that the credit needs of agriculture engendered by the new technology would have to be met by multiple agencies, rather than by one, as hitherto. Thus, from the mid-1960s, the role of the RBI became more varied, inasmuch as it began to emphasize a multi-agency approach to rural credit, and integration of term lending and working capital finance. Term lending for agriculture to primary land development banks was mainly undertaken by central land development banks with the support of the Agricultural Refinance Corporation (ARC)/Agricultural Refinance and Development Corporation (ARDC). Institutions also received its attention. The multi-agency approach, and the integration of term lending and working capital finance, reflecting a slight shift in focus, were high points of the period under review in this volume. This chapter discusses these developments.[1]

[1] The discussion is based on published accounts with clarifications, amplifications and confirmations gained from interviews with persons who were associated with cooperative credit and banking developments during the 1970s. The Reserve Bank's records on the subject were transferred to the National Bank for Agriculture and Rural Development (NABARD), upon the creation of NABARD. Unfortunately, with the collapse of the building in which the records were said to have been preserved by NABARD, all the records were reported to have been destroyed. We, therefore, had no option left than to go by published accounts and perspectives from 'oral history'.

Section 54 of the RBI Act in its original form had required the Reserve Bank to set up a special Agricultural Credit Department (ACD) with an expert staff to study all questions of agricultural credit, to be available for consultation by the central government, state governments, state cooperative banks and other banking operations, and to coordinate the operations of the Bank in connection with agricultural credit and its relations with state cooperative banks and any other banks or organizations engaged in the business of rural credit. The Bank's core financing role was covered under Section 17.

Under the provisions of the Act, the Reserve Bank enabled provision of agricultural credit either through scheduled commercial banks or through state cooperative banks for agricultural operations and for marketing activities. The Bank provided for medium-term loans to state cooperative banks for agricultural and allied activities against specified securities and guarantees of state governments, as also for conversion of short-term loans into medium-term ones when there were problems of recovery due to crop failures or natural calamities. Besides, the Bank provided long-term loans to state governments for contributing to the share capital of cooperative credit societies. The Bank also held debentures of land development banks, against which long-term loans were provided to them.

When regional rural banks (RRBs) were set up as scheduled commercial banks in 1975, the Reserve Bank supported them in so far as provision of credit for agricultural and other rural production and marketing activities was concerned. The Bank was instrumental in setting up the Agricultural Refinance Corporation (ARC) in 1963, and provided credit to it. The ARC was renamed as the Agricultural Refinance and Development Corporation (ARDC) in 1975. The Bank's credit support, thus, was not merely in terms of refinancing, but also consisted of extending short-term and long-term loans to institutions that provided credit for agricultural development.

By 1979 the authorities felt that the Reserve Bank would have to shed its function of supporting rural credit. Instead, a separate, government-owned, apex development finance institution dedicated to rural credit was envisaged. Thus was born, on 12 July 1982, the National Bank for Agriculture and Rural Development (NABARD), based on the recommendations of a Committee headed by B. Sivaraman, former Secretary, Ministry of Agriculture, Government of India. The ACD was wound up but its Rural Planning and Credit Cell was left intact as a separate department.

The RBI's financial support was largely by way of helping to refinance state cooperative banks to provide short-term and medium-term loans for agricultural purposes. But it was not such as to fill the gaps in credit for

TABLE 1 RBI's Short-Term Loans to State Cooperative Banks for Agricultural Purposes

(Rs crore, rounded off)

Years	Agricultural operations		Marketing of crops including cotton and kapas		Purchase and distribution of chemical fertilizers		Total	
	Amount drawn	Outstandings	Amount drawn	Outstandings	Amount drawn	Outstandings	Amount drawn	Outstandings
1	2	3	4	5	6	7	8	9
1960–61	131.7	79.1	–	–	–	–	131.7	79.1
1965–66	249.4	144.7	–	–	–	–	252.2@	146.3@
1966–67	305.1	149.1	–	–	–	–	311.2*	151.3*
1967–68	356.8	159.1	–	–	32.2	10.0	389.0	169.1
1968–69	403.1	208.9	–	–	38.3	10.5	441.4	219.4
1969–70	416.7	234.8	7.1	4.9	37.5	9.6	461.3	249.3
1970–71	413.2	265.4	7.8	3.4	11.3	1.7	432.3	270.5
1971–72	482.7	251.1	12.8	7.3	23.0	2.4	518.5	260.8
1972–73	549.8	237.3	95.4	12.2	7.5	–	652.7	249.5
1973–74	603.3	207.8	45.3	11.2	–	–	648.6	219.0
1974–75	785.7	335.8	64.7	22.1	29.0	7.4	879.4	365.3
1975–76	914.6	321.2	28.7	12.2	59.9	2.7	1003.2	336.1
1976–77	810.2	346.1	2.7	0.01	18.9	0.01	831.8	346.1
1977–78	892.2	419.5	3.8	0.01	22.4	–	918.4	419.5
1978–79	1220.5	396.1	4.0	0.01	8.3	–	1232.8	396.1
1979–80	985.2	351.8	–	–	2.7	–	987.9	351.8
1980–81	993.9	447.6	–	–	3.8	–	997.7	447.6
1981–82	1242.6	660.6	30.1	0.01	6.7	0.15	1279.4	660.8

Note: @ Inclusive of loans given for financing Intensive Agricultural District Programme.
* Inclusive of loans given for financing high-yielding varieties programme.
Source: *Reports on Currency and Finance* (various issues).

agriculture, which can only be estimated. If major cash inputs (i.e. excluding cattle feed, seed, manure and marketing charges) alone were to be reckoned, the share of short-term credit was about 36 per cent in 1970–71, moving down to around 30 per cent by 1980–81. If one reckons short-term credit as a proportion of 'key inputs' (defined as chemical fertilizers, diesel oil, pesticides and insecticides), it was at a high of 97 per cent in 1970–71, mainly because of the limited application of these inputs then, and it came down to 54 per cent by 1980–81, as key inputs were more and more utilized.

TABLE 2 **Credit Requirements for Agriculture**

Committees	Year of reference	Estimate (Rs crore)
1. All-India Rural Credit Survey of 1951–52	1951–52	750
2. All-India Rural Debt and Investment Survey of 1961–62	1961–62	1,034
3. Working Group of the Agricultural Production Board, Government of India, 1965	1970–71	
Short-term demand for credit		1,106
4. Panel of Economists that reviewed the Working Group estimate for 1970–71	1970–71	
(a) Method 1 as per cent of total borrowings		
(With 100 per cent for households)		1,228
(With 75 per cent for households)		1,011
(b) Method 2 as per total borrowings		
(With 100 per cent for households)		1,341
(With 75 per cent for households)		1,174
5. Fertilizer Credit Committee on	1970–71	
Fertilizer Credit Requirement		520
6. All-India Rural Credit Review Committee	1973–74	
(a) Short-term credit		2,000
(b) Long-term need		1,500
(c) Medium-term need		500
7. Sub-Group on Agricultural Credit of the Working Group on Cooperation for the Fifth Plan	1978–79	
Short-term need		3,000
1. National Commission on Agriculture (1976) * Total of short and term credit requirements	For 1985	9,400

Note: * The Commission's total credit requirements actually came to Rs 16,549 crore for meeting the full requirements of crop production but the realistic financial programme that could be met by cooperative and commercial banks—the graduation, as it was called—was placed at Rs 9,400 crore.

The increase in credit was obviously not matched by credit supply. Kahlon and Karam Singh estimated the share of term credit to gross private capital formation in agriculture at about one-third. Whether one agrees with the estimates or not, they show that credit gaps during the period of their study, which coincides with our own, were financed by non-institutional sectors including own savings and private credit agents such as moneylenders, friends and relatives.

Other estimates of credit gaps were given by some official Committees, Working Groups and Surveys. These estimates provide an idea of the magnitude of credit requirements in different reference years. None of the Committees, however, gave a widely accepted reasoning for the 'stability' of their estimates. Overall, the short-term credit requirement from institutional sources was anywhere between Rs 1,100–1,300 crore in the early 1970s, going up to around Rs 3,000 crore by the end of the decade. Then there was credit needed for investment and this was almost as much. But this was not conclusively stated by any of the official Committees and Surveys. This, despite the fact that the All-India Rural Credit Review Committee, which submitted its report in 1969, had worked out short, medium and long-term credit needs, albeit with a large number of caveats. The plausible conclusion from this Committee's findings was that medium and long-term credit needs would not be very different from short-term credit needs because agriculture required the infusion of a considerable amount of investment.

Institutional finance for agriculture grew sharply during the late 1960s and 1970s. The main institutions to provide credit were the state cooperative banks, central cooperative banks, primary agricultural credit societies, land development banks and scheduled commercial banks including RRBs. The outstanding loans and advances of the entire cooperative credit sector went up eight times, from Rs 603 crore in 1965–66 to Rs 1,435 crore in 1970–71 and further to Rs 4,939 crore in 1981–82.[2]

During this period, the proportion of RBI's outstanding loans to the cooperative sector to loans outstanding of the sector declined from 35.3 per cent in 1965–66 to 32.4 per cent in 1966–67 and further to 20.7 per cent in 1981–82. The average share for the period stood at 24.2 per cent. The shares declined in the years of severe credit tightening, in 1973–74 at the time of the first oil shock and again in 1979–80 at the time of the second oil shock. The falling share was accompanied by an increasing share of commercial banks' finance for agriculture.

State governments also gave loans to agriculture, mostly for short-term

[2] We have not considered the loans issued by the cooperative institutions because of absence of data of such loan issues between the tiers of the cooperative credit structure. It is only in respect of the data on outstandings that one could work out the correct amounts of loans outstanding against individuals and others that do not form part of any credit society. Avoidance of double counting of loans and advances was achieved by deducting the loans outstanding against cooperative credit societies from the total outstanding loans and advances of each of the tiers of the credit structure.

purposes. The *Report on Currency and Finance* for various years indicate that from Rs 70.20 crore in 1969–70, such loans increased to Rs 176.80 crore by 1972–73. In 1982–83, the amount was placed at Rs 202.6 crore.

Apart from its financing role, the Reserve Bank also provided advice and helped develop agricultural credit institutions. It became an important adviser to cooperative credit institutions and scheduled commercial banks on matters relating to agricultural credit disbursement and mobilization of resources from rural/semi-urban areas. It also collected enormous information on the liabilities and assets and cash flows of cooperative credit institutions and commercial banks. The ACD acted as an important centre for sanctioning short-term assistance and for regulation and inspections. Inspections of cooperative banks were placed on a statutory footing from 1966 onwards. The Bank also periodically inspected primary cooperative banks from then.

The Agricultural Credit Board was created on the recommendation of the All-India Rural Credit Review Committee, which submitted its report in July 1969. Its recommendations were quickly implemented. For example, one of the Committee's recommendations related to the need to adopt what came to be known as a 'multi-agency approach' towards agricultural and rural credit. This led to the establishment of the Rural Electrification Corporation and the Small Farmers Development Agency (SFDA), for identifying the problems of small but potentially viable farmers, and for ensuring that agricultural inputs, services and credit were made available to them. The Committee also recommended the linking of the rate of refinance from the Reserve Bank with the cooperative banks' own efforts to mobilize deposits.

As the volume of loan disbursements by cooperative credit institutions increased, their overdues also went up. In December 1972, the Reserve Bank appointed a study team to examine the growing problem of overdues of cooperative credit institutions and to suggest corrective actions. The team submitted its report in 1974; suggested automatic disqualification of managing committees/boards and relief from stabilization funds to those who were adversely affected by natural calamities.

To make sure that the cooperative credit structure in different states was strengthened, the Bank set up study teams for West Bengal, Assam, Kerala, Maharashtra, Bihar, Rajasthan, Madhya Pradesh, Uttar Pradesh, Himachal Pradesh, Jammu and Kashmir, Orissa, and Karnataka. Cooperative credit societies in these states were known to be weak or facing severe financial problems. The teams gave comprehensive reports on how to strengthen the cooperative credit structure, besides identifying credit gaps in the agricultural sector in the respective states.[3]

In spite of its efforts, by the end of the 1970s the impression gained ground that the Reserve Bank's actions in strengthening cooperative credit institutions and in integrating the different agencies' functioning for improving credit for agriculture had pretty much failed. This led to the demand for a separate apex bank for agricultural and rural credit, on the lines of the Industrial Development Bank of India (IDBI). The Working Group on Cooperation, appointed by the Administrative Reforms Commission, which had submitted its report in June 1968, was the first to recommend the establishment of a national bank for agriculture and cooperatives through a statute of Parliament. The interim report of the National Commission on Agriculture echoed this in 1971. By the end of the 1970s it was clear that this demand could no longer be kept in abeyance, especially since, notwithstanding the efforts of the Reserve Bank of India to bring about orderliness and discipline, the overdues of cooperative credit institutions had been rising year after year.

The logic behind the need for such a bank was impeccable and the RBI was unable to counter it. It came under pressure from the government to agree to examine the issue through an expert committee. Accordingly, it appointed a Committee in 1979 under the chairmanship of B. Sivaraman, former Secretary of the Ministry of Agriculture.[4]

Thereafter the Agricultural Credit Board lost its relevance and, with that, the role of the Bank in agricultural credit greatly diminished.

[3] Among the Committees/Groups constituted by the Reserve Bank, the major ones were the following: the Expert Group on State Enactments, having a bearing on commercial banks lending to agriculture (1970); the Committee on Cooperative Land Development Banks (1973); the Committee on Integration of Short-term and Long-term Credit Structures (1976); the Working Group on Multi-Agency Approach in Agricultural Financing (1976); the Committee on Regional Rural Banks (1977); the Expert Group on Agricultural Credit Schemes by Commercial Banks (1978); the Study Group to make an in-depth study of State and Central Cooperative Banks having Surplus Resources (1981); the Standing Committee on Term Lending through Cooperatives/Land Development Banks (1981); the Study Group to Review the Working of the Scheme of Financing Primary Agricultural Societies by Commercial Banks (1978); the Committee on Urban Cooperative Banks (1977); and the Committee to Review Arrangements for Institutional Credit for Agricultural and Rural Development (1979). These initiatives were in response to the evolving developments in agriculture and allied sectors.

[4] This was the Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development, popularly known as CRAFICARD. The inclusion of G.V.K. Rao as a member of the Committee was the first signal that the Reserve Bank would not be

Table 3 Overdues of Cooperative Credit Institutions: Short-term Credit (Rs crore)

Year	Total overdues				4 as % total
	PACS	DCCB	SCB	Total	loans outstanding
	(1)	(2)	(3)	(4)	(5)
1965–66	125	87	9	221	18.86
1966–67	160	124	17	301	23.14
1967–68	171	136	18	325	22.54
1968–69	214	173	23	410	23.85
1969–70	268	215	28	511	26.06
1970–71	322	274	36	632	29.66
1971–72	377	319	38	734	31.91
1972–73	368	310	42	720	27.25
1973–74	443	376	63	882	30.16
1974–75	503	434	44	981	28.48
1975–76	561	460	44	1065	29.38
1976–77	683	596	58	1337	29.82
1977–78	810	754	96	1660	31.59
1978–79	927	835	127	1889	32.59
1979–80	1089	969	175	2233	34.33
1980–81	1086	940	162	2188	29.39
1981–82	1248	1110	164	2522	12.78

Note: PACS: Primary Agriculture Cooperative Societies.
DCCB: District Central Cooperative Banks.
SCB: State Cooperative Banks.

Source: RBI/NABARD, *Statistical Statements Relating to Cooperative Movement in India* (various issues).

able to withstand the pressure for the creation of a separate agricultural development bank. Rao strongly believed that agricultural development required a combination of credit, policy and institutional support, which the Reserve Bank could not provide. The Committee gave an interim report in November 1979 in which it recommended the setting up of the National Bank for Agriculture and Rural Development (NABARD). The final report was submitted in January 1981 and NABARD came into existence in July 1982.

THE MULTI-AGENCY APPROACH

The All-India Rural Credit Review Committee submitted its report in July 1969, just before the nationalization of fourteen major commercial banks. It recommended the adoption of a multi-agency approach as the most feasible and appropriate response to the credit requirements of agriculture and allied activities. Commercial banks had begun to provide direct and indirect finance to farmers/agriculture even earlier. There were two driving forces behind this. One was 'social control', which forced banks to extend agricultural and rural credit on a significant scale. The other was the introduction of the high-yielding varieties programme from the *kharif* season of 1966. The programme involved large outlays on irrigation and inputs and, consequently, the credit disbursed by cooperatives was expected to expand enormously. But this did not happen. Cooperative credit institutions, especially the central cooperative banks and the primary agricultural credit societies in several states, continued to be in poor health. The Reserve Bank did not envisage any significant role for the commercial banks in ensuring timely and adequate credit for agriculture. But soon its view changed because of the comprehensive work done by the All-India Rural Credit Review Committee. The Committee estimated the credit requirements to be Rs 2,000 crore for short-term credit and another Rs 2,000 crore for capital investments. Given the state of the cooperative banks, this credit could only come from the commercial banks. Meanwhile, the Fourth Five Year Plan was to commence in 1969–70. It accepted the estimate of short-term credit needs as given by the Committee (Rs 2,000 crores by 1973–74) but said that the medium-term credit need could be placed at Rs 500 crore while the long-term investment need would be Rs 1,500 crore during 1969–74.

It was against this background of large agricultural credit requirements that the Plan document advocated a multi-agency approach. This required the Reserve Bank to encourage commercial banks to lend to agriculture, even as it took measures to strengthen cooperative credit institutions and to adopt a multi-pronged strategy that went beyond making additions to the capital base of land development banks through investments in their debentures, or providing refinance to state cooperative banks, or giving directions to cooperative credit institutions in regard to their deposits, lending and investment activities. These exhortative tasks were handled admirably by the Bank, as shown by the various circulars and exhaustive notes that the RBI staff prepared for consideration of the Agricultural Credit Board and its Standing Committees.

It was seen that the multi-pronged strategy worked in at least four areas.

First, the initiatives taken in respect of the Lead Bank Scheme helped commercial banks to usefully 'intermediate' between rural savings and rural investments in specific geographical areas. Second, the Bank attempted to reduce the legal constraints on banks for lending to agriculture and sought to promote special legislation for facilitating the flow of credit to agriculture. A sound legislative framework was considered necessary to provide greater confidence to commercial banks to lend to agriculture without facing unknown hazards. A Working Group led by R.K. Talwar, chairman, State Bank of India (SBI), made several important recommendations that involved amending a large number of enactments then in force in the states.[5]

[5] The main recommendations were:

LEGISLATIVE PROVISIONS

Land Alienation Rights of Agriculturists

(i) Cultivators who have no rights or have only restricted rights of alienation in their lands or interests therein—such as landholders belonging to scheduled tribes/castes, backward classes/castes, tenant-cultivators, fragment holders, allottees of *Bhoodan* land and of Government land—should be vested with rights to alienate land/interest in land held by them in favour of banks for obtaining loans for agricultural purposes.

(ii) In the case of sharecroppers, banks would be able to grant loans only if their status is properly recorded in the record of land rights. Further, they should be enabled to create a charge on the crops raised by them, notwithstanding the fact that they are not the owners of the land over which the crop is raised by them.

Priority of Charges

(iii) The general principle of priority, as between institutional credit agencies in regard to loans based on common security, should be such that the concept of first charge in favour of cooperatives does not adversely affect commercial banks. However, all institutional credit agencies should have priority of charge vis-à-vis private credit agencies.

(iv) The restriction on alienation of land subject to a charge in favour of a cooperative should be relaxed so as to permit subsequent alienation thereof for security supplementary credit from another institutional credit agency.

(v) On the same basis, where crop loan for current production purposes is granted by one institutional credit agency and term loan for development purposes is granted by another institutional credit agency against common security, priority of security should accrue to the agency providing the term loan, provided the encumbrance in its favour was made with the knowledge and concurrence of the institution holding the encumbrance for crop loan for current production purposes. The existing priorities under the cooperative legislation, as between the cooperative credit societies and land mortgage banks, will remain unaffected.

(vi) As between two institutional credit agencies providing term loans for development purposes against common security, priority of claim should arise according to the point of time of creation of encumbrances.

(vii) To facilitate expeditious disposal of loan applications, provision should be made to enable agriculturists to create a charge on land/interest therein by declaration in favour of

The Group also prepared a model Bill for state legislatures to bring under one statute all the rights and privileges that could be conferred on commercial banks.

The second meeting of the Agricultural Credit Board, held on 15 July 1971, endorsed the Group's recommendations. As the matter related to state governments, the Governor addressed letters in August to the Chief

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commercial banks. Appropriate arrangements should also be made to have such charge noted in the record of rights and in the office of the Sub-Registrar.

(viii) To overcome the prolonged delays involved in securing registration of mortgages created in favour of commercial banks, it is necessary to provide that it would be sufficient if a copy of the mortgage deed is sent for registration to the Sub-Registrar. The mortgage so created should also be noted in the record of rights.

Recovery and Other Operational Difficulties

(ix) Enactments relating to moneylending regulation and debt relief should exclude commercial banks from their purview.

(x) To facilitate prompt recovery of dues of commercial banks without having to resort to protracted and time-consuming litigation in civil courts, the State Government should empower an official with authority to issue an order, having the force of a decree of a civil court, for payment of any sum due to a bank by sale of the property charged/mortgaged in favour of the bank.

(xi) As banks may have need to foreclose mortgages of land executed in their favour, bring the property to sale and purchase the property if there are no bidders at auctions conducted for the purpose, they should be permitted to purchase the land and, if necessary, acquire land in excess of the ceiling limit fixed. However, State Governments may fix a time limit within which land acquired by banks is to be sold. Ultimate disposal of land by banks will, of course, have to be subject to State enactments as regards the persons to whom land can be sold etc.

(xii) In order to facilitate commercial banks financing agriculturists through primary agricultural credit societies, the societies should be made eligible to borrow from commercial banks. Further, the commercial banks concerned should be eligible for such facilities as are ordinarily available to a central cooperative bank.

ADMINISTRATIVE MEASURES

(xiii) To enable banks to get adequate and reliable information about the operational holding of an intending borrower land records should be made up-to-date.

(xiv) Meanwhile, it is necessary to prepare and maintain interim registers indicating the existence of sharecroppers and other informal tenants and the particulars of land cultivated by them.

(xv) As and when land records are brought up-to-date, pass books may be issued by State Governments to owners and tenants so that such a pass book can serve as prima facie evidence to the rights in land of an agriculturist and as a starting point to banks to verify such rights and details pertaining to encumbrances thereon.

(xvi) Cultivators borrowing from commercial banks should be exempted from payment of stamp duty, registration fee and charge for issue of non-encumbrance certificate to the extent to which they are eligible for these concessions if they borrow from cooperatives.

Ministers and Chief Secretaries emphasizing the need for urgent action. Some states, like Himachal Pradesh, Madhya Pradesh, Mysore and Uttar Pradesh, quickly initiated action but in general the progress was not uniform and satisfactory across the states. The Board reviewed the actions taken for implementation periodically. Till the end of 1976, only twelve states (Haryana, Himachal Pradesh, Karnataka, Madhya Pradesh, Maharashtra, Orissa, Rajasthan, Uttar Pradesh, West Bengal, Manipur, Bihar, Tripura) had enacted legislation and promulgated them, although in some of them the enactments were 'materially different' from the suggested model. The Reserve Bank pointed out the deficiencies and, by the end of 1979, Assam, Gujarat, Meghalaya, and Punjab had also enacted legislation. Of the sixteen states, however, the Acts passed by only nine (Assam, Haryana, Himachal Pradesh, Karnataka, Madhya Pradesh, Maharashtra, Manipur, Tripura, Uttar Pradesh) broadly conformed to the model Bill.

This slow progress ensured that banks were not placed at a disadvantage compared with cooperative credit institutions, in lending to agriculture. In several states, as Manmohan Singh, who was then Secretary, Department of Economic Affairs, pointed out in a tone of exasperation on 26 March 1979, while legislations had been passed, they were rendered inoperative because the rules thereunder were not framed. Even where legislation and rules were in place, there were complaints from commercial banks that loan recoveries were not forthcoming. The Agricultural Finance Corporation, a body set up by the commercial banks to evaluate projects, had set up a Committee to review the implementation of the recommendations of the Talwar Group but its efforts did not yield positive results till the end of 1980. The Reserve Bank was clearly aware of its limitation in persuading state governments to frame the rules, and had to be content with the knowledge that the states were aware that commercial banks faced constraints on their agricultural and rural lending. The states, on their part, were reluctant to place cooperatives on a different footing for quasi-political considerations.

The Reserve Bank also attempted to provide incentives to cooperatives for mobilizing deposits and to set in place disincentives to borrowing from the Bank. This was recommended by the All-India Rural Credit Review Committee. But since credit or refinance from the Bank was generally at a concessional rate, usually a few basis points below the Bank rate, the cooperative banks did not have enough incentive to mobilize deposits.

P.N. Damry, Deputy Governor of RBI, on 3 August 1970, at the first meeting of the Agricultural Credit Board, remarked that there was a tendency on the part of cooperative banks to exaggerate the requirements of credit for agricultural production programmes in their areas, and to ask for credit limits from the Bank to meet these requirements more or less fully. The Agricultural Credit Department had to, therefore, form its own view when sanctioning the credit limits. As the drive for deposit mobilization had not been successful, Damry suggested that the Bank should initially charge interest at 4.5 per cent and grant no rebate where less than 50 per cent of the deposit target was reached, and allow a rebate of 0.5 per cent where 50 per cent or more but not the whole of the target was reached and of 1.5 per cent where the target was reached or exceeded.

No agreement could be reached because of hesitation about the appropriateness of high credit requirements for agriculture, but the members agreed in principle to linking concessionality with deposit collection. The proposal, therefore, was referred to a Study Group under the chairmanship of Maganbhai R. Patel, appointed by the Governor in September 1970. After studying everything, the Group recommended an alternative formula:

(i) The Bank's lending rate could be fixed at 0.5 per cent below the Bank rate, and the central cooperative banks may be allowed a rebate of 1.5 per cent on (a) the borrowings up to the 'base' level, and (b) the additional borrowings up to twice the increase in the central cooperative bank's involvement out of its own resources in agricultural loans.

(ii) The highest level of borrowings from the Bank for seasonal agricultural operations reached during the preceding three years could be fixed as the 'base level'. Where the banks did not avail themselves of the maximum loans from the Bank and consequently the 'base level' had been unduly low, the entitlement for rebate on the additional borrowings could be higher than twice the increase in the central bank's own involvement and be even three or four times depending on the merits of each case.

This formula had the merit of protecting the banks by facilitating continuity in the availability of funds at the existing concessional rate and at the existing level of borrowings from the Bank. It also linked the additional rebate to the deposits mobilized and utilized in terms of agricultural loans.

But the problems in the delivery of credit to agriculture remained. Throughout the 1970s, the government and the Reserve Bank tried to improve matters but not to much avail. All sorts of problems, some anticipated and others unanticipated, arose.

The first meeting of the Standing Committee on Linking Borrowings with Deposit Mobilization was convened on 9 January 1974, and it discussed each of these problems threadbare. But nothing practical emerged. The Committee eventually took the position that only banks that had not attained a loan business of Rs 1 crore would be exempted from the scheme. Questions were also raised as to whether cooperative lending to small farmers should centre around production or consumption, and whether the linkage between borrowings from the Bank and deposit mobilization should not reckon such lending in the context of the possible drying up of credit for such farmers consequent upon the measures taken by state governments for moratorium and discharge and scaling down of debts from non-institutional sources.

The debate went on and the scheme kept getting modified. In March 1976, when the Emergency was its height, an Expert Committee on Consumption Credit was appointed by the government under the chairmanship of B. Sivaraman, Member, Planning Commission. It was asked to suggest measures for meeting the consumption needs of the weaker sections of the community. The Committee held that only those reorganized societies, including farmers' service societies (FSS) and large-sized multipurpose societies (LAMPS), with full-time, paid secretaries or managers should be allowed to grant consumption loans to their members. The weaker sections eligible for such loans were defined as borrowers cultivating up to 0.50 acre of land, landless labourers and rural artisans.

The Committee believed that central cooperative banks should be permitted to reimburse the loans issued by primary societies for consumption purposes from their own resources or from out of the borrowings from state cooperative banks. The Committee also held the view that the Reserve Bank should 'treat the finance so provided as a legitimate charge on the central bank's resources and sanction a higher credit limit for short-term agricultural purposes', and suggested that cooperative institutions should augment resources for facilitating consumption loans through deposit mobilization.

The Reserve Bank supported these recommendations but very soon it was confronted with representations to the effect that there would be diversion of resources by state/central cooperative banks from short-term agricultural loans to consumption loans, leading to a reduction in their own involvement in short-term agricultural loans. As a consequence, the banks' eligibility for refinance from the RBI at the fully concessional rate of 2 per cent below the Bank rate would be considerably reduced.

This issue was examined in detail by the Standing Committee of the Agricultural Credit Board at a meeting on 27 July 1977. It was decided that the own resources utilized by state/central cooperative banks for consumption loans to the weaker sections should be taken into account for determining the 'base level' and 'aggregate level' of borrowings from the

Reserve Bank. The 'aggregate level' was to represent borrowings over and above the base level, either up to twice the increase in a bank's involvement out of its own resources in short-term agricultural loans during the calendar year over and above the base calendar year, *plus* its involvement in medium-term conversion loans in excess of the stipulated level of 15 per cent, *plus* its involvement in consumption credit to the weaker sections in a financial year or the full extent of increase in loans granted by it to societies for small/marginal farmers during a financial year, whichever was higher.

But the issue of linkage did not figure in the discussions of the Agricultural Credit Board after its eighth meeting, held on 7 August 1975 under the chairmanship of N.C. Sen Gupta who was the Governor at that time. By then the decision had been taken to set up regional rural banks (RRBs) as entities sponsored by commercial banks to extend loans to small/marginal farmers and other relatively weak members of society pursuing allied activities.

The multi-pronged strategy had been devised within the framework of differing modes of operation of cooperative credit institutions, commercial banks and RRBs, with coordination rather than competition as the essential element in the financing of agricultural borrowers. The idea of coordination between cooperatives and commercial banks had been recognized in the days of social control of banks itself. This was reflected in a meeting convened by the Agricultural Finance Corporation (AFC) in June 1968, between representatives of the two types of institutions. A National-Level Consultative Committee was constituted, as a result, under the aegis of the AFC, which recommended the constitution of coordination committees at the state level and district level. But, as desired by the Agricultural Credit Board at its meetings on 3 August 1970 and 15 July 1971, the secretariat of the National Level Consultative Committee was shifted out of the AFC.

Coordination was then entrusted to a Standing Committee of the Board presided over by the Governor of the Reserve Bank. The first meeting of the Standing Committee was held on 30 July 1974. It reviewed the scheme of financing primary agricultural credit societies by commercial banks, besides the terms and conditions of financing agriculture by cooperative and commercial banks and of financing farmers' service societies. Integration of the lending operations of the different agencies turned out to be an issue that required to be tackled, to prevent duplication of banking facilities and unhealthy competition.

It was against this background that the Governor appointed a Working Group, in August 1976, to study the problems arising out of the adoption of a multi-agency approach to agricultural financing, with C.E. Kamath, chairman and managing director of Canara Bank, as its chairman.

The Group considered that there were many other important aspects requiring attention, such as a balanced dispersal of bank branches, rationalization of the rates of interest charged on agricultural advances by different lending agencies, effecting uniformity or developing satisfactory norms for obtaining security for agricultural advances, rationalization of inspection or supervisory charges for agricultural advances, and whether the premium payable to the Credit Guarantee Corporation (CGC) for covering agricultural advances should be absorbed by the lending agencies or passed on to borrowers. The Working Group's report was submitted to the Governor on 18 April 1978. After identifying the basic problems in the multiple-agency approach, the Group made recommendations in eight specific areas.

Area Demarcation

The most important issue emerging from the functioning of a multi-agency system was of defining the respective roles of cooperatives, commercial banks and regional rural banks in any given area of operation, and of evolving an appropriate mechanism for bringing about effective coordination between them in their operations. The Working Group considered several options: area demarcation, functional demarcation and consortium arrangements between several participating lending agencies.

There was a convergence of views regarding the demarcation of the area of operation for each of the credit agencies operating in a given area. The Working Group recommended a geographical demarcation of the operational area for each agency rather than a functional jurisdiction, because the former was considered to be more appropriate and practical.

In providing credit for agricultural and allied activities, the primary role, the Working Group felt, had to be assigned to the cooperatives, in view of the fact that only cooperatives possessed the organizational potential to reach out to the millions of small and marginal farmers, and to develop grassroot contacts. All rural areas needed to be covered by a network of viable cooperative credit institutions.

As regards areas served by more than one commercial bank/regional rural bank, the Working Group suggested that the bankers should mutually allocate villages in the district amongst themselves so as to avoid competition.

Commercial banks and regional rural banks, the Working Group felt, should play a supplementary role till cooperatives could be placed on a viable footing at the field level. To facilitate area demarcation amongst the different institutional lending agencies, the Group underscored the need for compiling an objective report for each district on the efficiency/efficacy of the cooperative institutions. The Reserve Bank could consider how this task could be efficiently and smoothly accomplished.

Focusing on the role of regional rural banks vis-à-vis that of commercial banks, the Working Group preferred the former because they were better suited to direct financing of farmers on account of their low-cost structure and rural ethos. The commercial banks needed to continue to extend refinancing facility to the regional rural banks. Viewed thus, the roles of commercial and regional rural banks were perceived to be complementary by the Working Group. Since large and medium farmers were not entitled to access credit from regional rural banks, the Working Group recommended that the regional rural banks be permitted to set aside a part of their resources for making advances to these categories of farmers; this recommendation, however, was based on the presumption that the norms applicable to RRBs prescribing such restrictions were removed.

Consortium Arrangements

The Working Group examined the suitability of consortium arrangements between commercial banks and the cooperative credit system as an alternative to the area demarcation approach. The operationalization of a consortium arrangement was considered to be beset with operational problems emanating primarily from the heterogeneous character of the concerned credit agencies. However, the Working Group suggested that a consortium arrangement could be tried on a pilot basis in a few selected areas.

Branch Expansion

It was generally perceived that credit gaps stemmed not only from paucity of resources but also from inequitable distribution of the available credit. In this context, the paramount need for regulating the distributive pattern of institutional lending agencies was underlined. Since cooperatives and commercial banks were expected to play a mutually supplementing and supporting role, the Working Group underscored the need for regulating future branch expansion of commercial banks and regional rural banks, so as to prevent multiplication/proliferation of branches in areas characterized by adequate presence of cooperatives. The branch expansion of commercial banks in rural and semi-urban areas was to be geared towards nurturing and strengthening the cooperatives for enabling them to emerge as the primary channel of credit, with commercial and regional rural banks as supplementary agencies. In an effort to curb the phenomenon of overlapping of banking facilities in rural areas, the Working Group suggested a slew of measures that included, among others, effective monitoring by the Reserve Bank in the context of the adoption of a multi-agency approach, strengthening the base level of the cooperative credit structure and encouraging the penetration of regional rural banks in unbanked rural areas.

The Working Group suggested that the Reserve Bank take into account a number of considerations in terms of its policy initiatives. These included, *inter alia*, avoidance of undue concentration of branches of commercial banks in rural and semi-urban centres; credit gaps in the operational areas and the availability of minimum infrastructural facilities; future branch expansion of commercial banks that had a wider base of operations in covering unbanked rural/semi-urban areas; consultations with state governments in regard to branch expansion; and, in the operational areas of existing RRBs, willingness of commercial banks to transfer their rural branches to RRBs through mutual consultation.

Interest Rates

The evolving integrated system of agricultural credit in the context of a multi-agency system brought to fore the issue of interest rates. The rate of interest on agricultural loans varied from 4 per cent to 16.5 per cent per annum. This, quite expectedly, prompted the Working Group to reiterate that a uniform pattern of interest rates be adopted by commercial banks as well as the cooperative credit system. Having taken into account all the relevant factors, the Group suggested the pattern of interest rates given below, for cooperatives and commercial banks:

(1) On short-term loans up to Rs 2,500, not more than 11 per cent per annum.

(2) On loans from Rs 2,501 to Rs 25,000, not more than 13 per cent per annum.

(3) On loans exceeding Rs 25,000, the rates need not be higher than the rates charged on loans for working capital extended to sectors other than agriculture.

(4) On term loans for investment purposes with a repayment period exceeding three years, not more than 10.5 per cent per annum.

(5) On term loans for diversified purposes with a repayment period exceeding three years, not more than 11 per cent per annum.

The suggested structure of interest rates was different from the rates under the Differential Rate of Interest (DRI) Scheme. The Working Group viewed the functioning of differential rates of interest with concern. It recommended a thorough review of the DRI Scheme and suggested putting in place a number of measures, such as a uniform system of interest rates with a concessional rate applicable to small and marginal farmers, and concessions in respect of security for loans, credit guarantee premia and supervision/inspection charges. The Group also underscored the problems associated with the implementation of the DRI Scheme.

Security for Loans

The procedures for lending (including the type of security) to agriculture, quite expectedly, varied from institution to institution. The evolving integrated agricultural credit system warranted uniform security norms. The Working Group underscored the need for a consensus on the fundamental necessity of obtaining land as a security for agricultural advances. The creation of charge in respect of land in favour of any credit institution was easy in states where legislation in line with the model Bill put forth by the Talwar Expert Group had been passed. The problem arose where such legislation had not been passed or had been passed with deviations from the model Bill. Therefore, the Working Group urged the Reserve Bank and Government of India to impress upon the concerned state governments to expeditiously implement the legislation suggested by the Talwar Group. The Group felt that credit should not be denied to an eligible borrower on the ground of his inability to furnish land or other tangibles as security. In such cases, the credit agency should rely on the feasibility and viability of the scheme/project, and the integrity and repaying capacity of the borrower.

Procedures and Systems

The system of an agricultural pass book issued by the concerned state governments, the Working Group felt, could eliminate the possibility of multiple financing of the same borrowers, provided the pass books were treated as authentic legal documents evidencing the ownership of assets and liabilities of farmers. The success of such a system was also contingent on the availability of up-to-date land records. The Working Group further suggested the introduction of a cash credit system in agricultural financing, to minimize the paperwork. It could generally be extended to areas where multiple cropping was practised and the cost of cultivating various crops was somewhat identical.

Inspection/Supervision Charges

The Working Group stressed the need for quality rather than periodicity of inspection, to ensure effective and proper end-use of credit. Recovery critically hinged on the quality of lending. To improve the quality of lending, the Group recommended a regional approach to branch expansion, whereby one or two banks having a strong presence in a particular region were entrusted with the responsibility of opening branches in underbanked/unbanked areas of the region. Moreover, the Group suggested uniformity in the periodicity of inspections, and inspection charges over and above interest charges. It clarified that the actual expenditure incurred by inspecting officials on periodical inspections should be borne by the respective credit institutions and not recovered from the borrowers.

Credit Guarantee Premium

The Working Group recommended that the credit guarantee premium be absorbed by the credit institutions and not passed on to the borrowers. While it did not favour the waiver of premium on small borrowers on grounds of practicability, it felt that reducing the premium rates could be kept in view along with upward revision of the limits of the Credit Guarantee Scheme (CGS) cover. The Group firmly noted that apart from interest and inspection charges, no other service charge should be levied on agricultural borrowers.

The Kamath Working Group report was discussed at the thirteenth meeting of the Agricultural Credit Board, held on 29 August 1978. Initiating the discussion, Deputy Governor Ramakrishnayya (in the absence of Governor I.G. Patel, who was indisposed) observed that while finalizing the branch licencing policy, the Reserve Bank had taken note of the views expressed at the previous meeting of the Agricultural Credit Board and, accordingly, no rigid stand in respect of branch licencing was envisaged in the newly formulated policy. Ramakrishnayya further clarified that a multi-agency approach continued to be the guiding principle, and that no hard-and-fast rule was prescribed relating to the setting up of regional rural banks. RRBs, he added, will have a significant role to play in rural credit and will not supplant the cooperative credit structure. Acceptance and implementation of the important recommendations of the Kamath Committee marked a watershed in the introduction of a multi-agency approach in agricultural financing.

It was against this backdrop that the National Cooperative Union of India organized a conference on 'Assessment of Multi-Agency Financing of Agriculture' at Srinagar on 14–15 June 1979, which was attended by representatives of Government of India, the Reserve Bank, the Agricultural Refinance Development Corporation, commercial banks, regional rural banks, Ministers of Cooperation for Karnataka and Jammu and Kashmir, and registrars of cooperative societies. The conference, supporting in principle the multi-agency approach, stressed that commercial banks should function so as to supplement and strengthen the cooperative structure and not to weaken and supplant it. It observed that, in view of a certain amount of overlapping of functions, there should be effective coordination among the agencies, governments and the Reserve Bank, to avoid any operational conflict. To address this issue, the conference suggested, though with very little conviction and without providing enough clarification, that the multi-agency approach could be implemented at the macro-level while at the micro-level there should be a single agency, viz. cooperatives. Direct financing by commercial banks and regional rural banks might be continued till cooperatives became a potent force to reckon with. To avoid conflict, adoption of the area approach and programme approach was considered to be effective and purposeful. The conference invited the response of the Department of Banking Operations and Development (DBOD) its recommendations.

Considering the staggering institutional credit requirements of the agricultural sector, the DBOD commented that no single financing agency could meet the total credit requirements of the sector. Credit gaps were especially large in areas characterized by a weak cooperative credit structure at the grassroot level. Demarcation of areas for credit institutions was, therefore, not acceptable. The DBOD felt that under the system of district credit plans (DCP), credit needs could be met by different agencies.

Another recommendation that emerged from the conference was that direct financing should be resorted to by commercial and cooperative banks only where cooperatives were unable to extend the required finance. Responding to this, the DBOD maintained that the suggested route could be considered only when all borrowers were covered by cooperatives, which was not the case at that point of time. The recommendation, in DBOD's view, was not based on economic logic, as cooperatives were not capable of meeting the entire credit requirements.

The conference also underlined the need for exchange of lists of borrowers to curb the phenomenon of overfinancing of any one individual or of a few individuals. It further suggested that commercial banks and RRBs should finance integrated development programmes and projects instead of confining themselves to production finance. The DBOD reacted sharply, and pointed out that commercial banks and RRBs did not extend only production finance. They were, in fact, actively participating in the IRDP and other programmes sponsored by Government of India.

The need for a fresh look at loans extended under the DIR Scheme was also raised by the conference, so as to ensure that the expectations in this regard were met. The Reserve Bank, in its response, pointed out that the DRI Scheme had been reviewed at the Prime Minister's meeting with chief executives of public sector banks on 8 October 1978, and accordingly, the minimum target for loans under the scheme had been stepped up from 0.5 per cent to 1 per cent of aggregate advances.

One of the most important recommendations to emerge from the conference related to the uniform rate of interest payable by ultimate borrowers and the introduction of interest subsidy, if necessary. The Agricultural Credit Department, in its communication to the Ministry of Finance, pointed out that the issue—providing subsidies to cooperatives to enable them to lend at 4 per cent rate of interest under the DRI Scheme in identified areas—had already been taken up with the Ministry of Home Affairs. This was expected to bring about parity in the interest rates charged by the cooperative credit structure and by commercial banks on short-term loans. Following the recommendation of the Madhava Das Committee, the rate of interest on refinance facility from the RBI for medium-term agricultural purposes was reduced to 6 per cent from January 1979, with a view to bringing about parity in the rates charged by cooperative banks on term loans for investment in agriculture and ancillary activities. Moreover, cooperatives were advised to charge ultimate borrowers interest rates of 10.5 per cent for land development purposes and 11 per cent for diversified purposes.

Further Initiatives

In support of the multi-agency approach to meet the requirements of agricultural credit, Government of India asked commercial banks to gear up their administrative machinery and to fulfil two national targets under a time-bound programme. The Reserve Bank directed commercial banks to ensure that their advances to the priority sectors was 33.33 per cent of their total outstanding advances by March 1979. This target was subsequently raised to 40 per cent, to be achieved by March 1985. The second national target set out 60 per cent as the credit–deposit ratio to be achieved by banks by March 1979 in respect of rural and semi-urban branches separately. The underlying rationale of the second target was to ensure that the deposits mobilized by banks in rural and semi-urban areas were not siphoned off to urban and metropolitan areas, but utilized at least to the tune of 60 per cent to meet the credit needs of rural/semi-urban areas. In other words, migration of credit to urban consumers was sought to be curbed by adoption of the 60 per cent stipulation.

The credit–deposit ratios of scheduled commercial banks, population group-wise, is shown in the table below. As it was stable for some time after 1975, the directive that newly opened branches in rural and semi-urban branches should separately achieve a target of 60 per cent by March 1979 was issued in February 1977. It was mainly because of this directive that the ratio touched 58.6 per cent in respect of rural branches in 1981.

TABLE 4 **Credit–Deposit Ratios of Scheduled Commercial Banks**

(As on the last Friday of June)

Population Group	1969	1975	1978	1981
Rural	37.5	52.0	52.5	58.6
Semi-urban	39.7	49.0	46.9	50.0
Urban	59.7	70.5	62.5	61.6
Metropolitan	106.1	88.2	90.1	83.7
All-India	77.4	72.2	69.8	67.2

INTEGRATION OF TERM LENDING AND WORKING CAPITAL FINANCE

In the first two volumes of the history of the Reserve Bank of India, mention was made of the evolution of the cooperative credit movement after the enactment of the cooperative Credit Societies Act, 1904. In the initial years of the movement, there was no distinct institutional agency to cater to the capital resource requirements of farmers. As the debt of agriculturists increased, it became necessary by the time of the Great Depression of 1929–31, to set up a separate wing in the cooperative credit structure to provide resources for redeeming the accumulated debt and for capital investment in agriculture. Till the mid-1950s, long-term capital needs were provided by land mortgage banks, later referred to as land development banks (LDBs), mainly for redemption of accumulated debt. Following the acceptance of the recommendations of the All-India Rural Credit Survey Committee (1952), this changed and long-term development finance needs became the focus of the LDBs.

The setting up of the Agricultural Refinance Corporation (ARC) gave a boost to the long-term cooperative credit structure. The Agricultural Refinance and Development Corporation (ARDC), which came into being in 1968 as an extension of the ARC and with additional activities, provided investment credit in significant measure for agriculture and allied activities. But requests were made to the Reserve Bank for sanction of refinance for medium-term agricultural purposes, partly because of the scheme-based refinancing of ARDC and partly because small farmers needed to invest in certain areas that did not involve large outlays but were not always considered viable. For example, assets that were essentially instruments of agricultural production and marketing, such as farm ploughs, seed drills, sprayers, bullocks/camels, bullock/camel carts, storage bins, pump houses, and *gobar* gas plants, were initially financed by the commercial and cooperative banks because of the availability of refinance facilities for these purposes. By the end of the 1960s it became clear that there had to be access to credit at a single point. The All-India Rural Credit Review Committee (1969), however, did not envisage integrated credit access; instead, it felt that the primary credit society could extend long-term loans on an agency basis.[6]

The Review Committee also thought that it would be useful to avoid 'splitting of security' among lenders, and to enable the lending institution to have complete control over the assets offered by the borrower and help improve his production and income. The Banking Commission's view was influenced by the interim report of the National Commission on Agriculture, submitted in 1971. The interim report noted that in the context of the application of science and technology in agriculture, farmers, be they medium/large or small/marginal, should be provided with resources such as credit, inputs, technical know-how, etc., in order to solve the problems of poverty, unemployment and underutilization of their 'resources and potentialities'. The interim report mooted the concept of farmers' service

[6] 'In each state a limited number of societies satisfying appropriate criteria pertaining to financial strength and operational efficiency be selected for functioning as agencies of the land development banks in their areas of operation and that this type of arrangement be gradually extended to an increasing number of societies after experience is gained as a result of this experiment' (paragraph 41, p. 795). The Banking Commission (1972), on the other hand, was more positive on the issue. It stated: 'It is sound in principle and convenient in practice for both the lender and the borrower to have an arrangement under which as far as possible a borrower gets his entire credit needs satisfied by one single institutional agency. This should be encouraged to the maximum extent possible.' It went on to argue that the rural banks it proposed 'and recognized primary credit societies should be enabled to make long-term loans also as agents of the Land Development Bank'.

societies (FSS) with emphasis on 'integrated credit, input supply and marketing facilities'.[7]

Nothing much came out of the recommendations of the Banking Commission and the interim report of the National Commission on Agriculture in terms of operational initiatives at the ground level. It was only at the suggestion of the International Development Association (IDA), during negotiations in March 1975 in respect of the Agricultural Credit Project, that the government agreed that a study would be instituted to examine the possibility of integration of the two wings (short-term and long-term) of the cooperative credit structure.

The Reserve Bank was consulted and eventually a fifteen-member Committee was set up in September 1975, with R.K. Hazari as its chairman. The terms of reference of the Committee were: to review the position of the two wings of the cooperative credit structure and to examine whether integration of the two wings will be advisable from the point of view of serving the object of lending adequate support to the massive investment programme in agriculture; to examine whether integration may be brought about simultaneously at all levels of the two wings or in a phased manner; and to examine the pattern of organization and staffing required at various levels to handle different types of credit and supplies after integration.

The Committee submitted its report in August 1976.[8] It found that the two wings of the cooperative credit structure were functioning in a mutually exclusive manner in different states, and observed that integration of the credit functions would enable cooperative credit societies not only to have a comprehensive view of the credit needs of farmers, but also to avoid the splitting of security between the two credit agencies and competition between them for realization of their dues. In the process, the primary agricultural credit society's business would go up substantially, improving its viability. Integration would help a common supervision arrangement to be set in place for better utilization of loans and effective recoveries.

[7] The final report (1979) reiterated the same point, and argued: 'There should be a single source of institutional credit that the farmer needs to approach for all his credit requirements. Financing of agricultural entrepreneurs should be done on the principle of viewing the credit needs of individual farmers in their entirety—covering both current as well as investment operations. The local banking unit, which may be either a branch of a cooperative or commercial bank, would deal with short-term, medium and long-term requirements of the local farmers. In addition, it would provide working capital to farmers having medium or long-term loans from land development banks.'

[8] B.S. Viswanathan, chairman, National Cooperative Land Development Banks' Federation, recorded a minute of dissent.

The Committee also considered it necessary to bring about integration of the credit functions of the two wings of the cooperative credit structure at both the intermediate and apex levels. At the intermediate level, if the primary land development banks (PLDBs) were allowed to continue after integration at the base level, they would in due course become unviable, as they would have to share their margin of profit with the primary agricultural credit societies (PACS) without any corresponding reduction in expenses, especially on account of staff. On the other hand, an integrated agency at the intermediate level would become viable and strong with its own staff, and with the benefits of better fund management. At the apex level, too, integration would help the apex agency to manage its resources in a flexible and efficient manner, and to plan and execute lending programmes in a coordinated fashion.

The Committee assumed that the three-tier structure will generally continue to prevail even after integration of the credit functions, although structural patterns could differ in certain states. It recommended the setting up of new institutions at the district and apex levels—the state cooperative development bank (SCDB) and the district cooperative development bank (DCDB). At the primary level there was to be no new institution, but the Committee favoured the PACS taking over the existing as well as the new business of the PLDB. If PACSs were to take over only new business, then the 'existing' business of PLDBs would have to be transferred to the DCDBs. For it to be effective, state governments would have to quickly identify areas where integration could be effected. The Committee favoured the setting up of a Cooperative Personnel Development Board for each state, to handle personnel management functions including recruitment, placement and appraisal.

The Committee suggested that the system of debenture issues be replaced by issue of bonds in the form of promissory notes, transferable by endorsement and delivery and exempted from payment of stamp duty. This would facilitate access to refinance from the ARDC in the form of loans. The Committee also recommended introduction of farmers' pass books for facilitating quick disposal of applications for term loans and preparation of credit limit statements for crop loans. Loans should also be provided against hypothecation of moveable assets where land cannot be offered, and against group securities, say, as in the case of small farmers and landless labourers.

In the view of the Committee, the integrated agency could charge the then existing rates of interest on long-term credit, which were generally lower than the short-term rates of interest, so long as there were no changes in the overall interest rate policy.

The report of the Committee was placed at the eleventh meeting of the Agricultural Credit Board, held on 18 July 1977. The Planning Commission, in a letter of 9 December 1976, urged the Reserve Bank 'not to take a decision in haste and watch the performance of the newly organized primary agricultural credit societies for some time.… At the present stage of multi-sided rural development, there are some advantages in not disturbing the existing arrangement of disbursing long-term agricultural credit.' The minute of dissent by B.S. Viswanathan was essentially an example of the opposition to integration by the National Cooperative Land Development Banks Federation. On the other hand, the All-India State Cooperative Banks' Federation noted that the question of implementation of the Hazari Committee report 'should be based on detailed study of the conditions existing in different states. A Committee consisting of Chairman and Vice-Chairman and a few Chief Executives of the state cooperative banks would undertake studies in a few states and report its findings to the Board.' Among state governments, the ones that favoured integration were Karnataka, Goa, Meghalaya, Punjab, and Jammu and Kashmir. Some states gave conditional acceptance: Andhra Pradesh, Rajasthan, Tripura, Himachal Pradesh and Orissa. The states that did not favour integration were Gujarat, Pondicherry, Uttar Pradesh and West Bengal. Out of the seventeen state land development banks which responded, fourteen were opposed to the proposal. They belonged to Andhra Pradesh, Assam, Bihar, Gujarat, Himachal Pradesh, Karnataka, Madhya Pradesh, Maharashtra, Pondicherry, Rajasthan, Tamil Nadu, Tripura, Uttar Pradesh and West Bengal. Two banks, belonging to Kerala and Punjab, accepted the integration proposal, subject however to certain conditions. The Jammu and Kashmir state land development bank stated that while it opposed integration, it wanted farmers' service societies to be established to cater to all the needs of farmers. Fourteen state cooperative banks agreed with the integration; of these, six banks placed certain conditions for acceptance.

At the eleventh meeting of the Agricultural Credit Board, the chairman observed that as the Reserve Bank was yet to get all the responses to the integration of the two wings of the cooperative credit structure, the Board would take up the Hazari Committee's other recommendations on procedural matters. Professor M.L. Dantwala agreed that since the views received till then on the main recommendation were sharply divided, it was advisable to consider the other recommendations of the Committee. I.J. Naidu, Secretary in the Ministry of Agriculture, proposed that, as the main recommendation was a major policy issue, it be taken up for consideration at the ensuing annual conference of registrars of cooperative societies and state

Ministers for Cooperation. Several other views were expressed at the meeting and no consensus emerged. Summing up the discussion, the chairman felt that consideration of the main recommendation should be deferred. The Reserve Bank then issued the necessary circulars.

In the meantime, the Punjab government forwarded its proposals on the main issue of integration of the two wings of the cooperative credit structure in the state. This, as we shall see, triggered a change in the Reserve Bank's stance on integration.

The Punjab proposal was placed before the thirteenth meeting of the Agricultural Credit Board, held on 29 August 1978. It wanted an integrated credit structure that covered all agricultural credit institutions and that had only two tiers, namely, the SCDB and PACS. The apex bank would deal directly with the 'reorganized' primary credit societies in extending short, medium and long-term loans through its branches.

Section 4 of the Punjab State Cooperative Societies Act envisaged the organization of only the PACS. The secondary level institutions were intended only to facilitate the functioning of these societies. The DCCBs had failed to support the PACSs and also failed to mobilize sufficient deposits. As extension blocks in Punjab were very large, the Punjab government had decided to form small clusters of villages, numbering 500, as focal points for effectively implementing the integrated rural programme at the base level. Each cluster was to be served by a branch of the proposed SCDB such that no village was beyond 3 miles from a branch of the bank. There were to be 700 such branches.

The PACSs at the base level were to be reorganized and reduced from 10,000 to about 2,500. To a question as to whether the proposal had taken into account the performance of the long-term credit wing of the structure, it was explained that while the primary land development banks had in general fared better than the PACS, they accounted for just Rs 20 crore, as against the need to build up capacity for disbursing Rs 300 crore per annum. Overdues were of the order of 15 per cent. It was therefore necessary to dispense with primary land development banks, just as DCCBs were unnecessary.

M. Ramakrishnayya, Deputy Governor of RBI, felt that the high level of overdues alone should not be the consideration for making fundamental alterations in the structural set-up. He enquired as to how the proposed two-tier structure would be immune to pressures that had caused overdues in the first place. E. Chandrasekharan Nair felt that if central cooperative banks were to be amalgamated with the apex bank, then their overdues would be reflected at the apex level, and the best way of tackling the problem of overdues was to revitalize and reorganize PACSs, a task that had not yet been taken up in Punjab. Nair's view was widely supported. Viswanathan, who did not attend the meeting, wrote to the Governor that if the Punjab proposal was accepted, it would more or less mean a state-sponsored cooperative bank centralizing all the powers, like any commercial bank, with no trace of the cooperative character. Professor M.L. Dantwala felt that the proposed institution could well turn out to be bureaucratic in character. As always, the arguments went on without a decision emerging.

At the fourteenth meeting of the Agricultural Credit Board, held on 26 March 1979, the proposal from Madhya Pradesh in regard to the integration was considered. The Madhya Pradesh government proposed that the apex level—the state cooperative bank and state land development bank—be retained but both were to function independently through DCDBs and PACSs in retailing credit. DCDBs would be created by the merger of the existing primary land development banks and DCCBs.

Viswanathan's response was sharp. The state government, he said, had not provided enough evidence to show that farmers would be benefited by the integration scheme. The overdues, both at the level of PACS, and primary land development banks, were substantial and would be reflected in the integrated structure. He also pointed out that the Cooperative Congress, at its seventh and eighth sessions held respectively in February 1976 and March 1979, had unanimously come out against integration. The central government preferred to defer the issue partly because of lack of enough information about what would occur to the economy due to implementation of the proposal, and partly because such proposals should command consensus support within the state. Most of the others also came out with their objections to the Madhya Pradesh proposal. Once again nothing was decided and the state was advised caution in going ahead with the proposal. I.G. Patel said that while the Reserve Bank could not legally block the state government from implementing its proposal, the Bank could exercise its power of giving final approval to the proposal only upon fulfilment of certain conditions.[9]

The fifteenth meeting of the Board, held on 14 December 1979, consi-

[9] The conditions were: (i) the state government should place special funds at the disposal of PACSs to enable them to absorb overdues for which no assistance from RBI would be available; (ii) all reorganized PACSs should be manned by trained secretaries; (iii) state government should provide subsidy to the extent of the deficit if any, in the Cadre Fund maintained for payment of salaries to the secretaries of PACSs; (iv) time limit should be

dered the proposal from Rajasthan for integration of the short-term and long-term credit structures in the state. The proposal envisaged amalgamation of twenty-five district cooperative banks and thirty-five primary land development banks with the state cooperative bank to the extent of residuary assets and liabilities after allocation of individual assets and liabilities to the PACSs. The assets and liabilities of primary land development banks relating to individual borrowers would be transferred to the concerned PACSs of the areas, and the residuary assets and liabilities would be transferred to the Rajasthan state cooperative bank. In the case of central cooperative banks and the state land development bank, all the assets and liabilities would be transferred to the state cooperative bank. Individual allocations of the membership of primary land development banks between different PACSs in their areas of operation and allocations of their assets and liabilities were to be done at the time of implementation of the integration proposal.

Thus there would be only one apex bank, viz. the Rajasthan State Cooperative Bank, operating through its branches at the intermediate level, and PACSs at the base level. Elimination of the middle tier—central cooperative banks and primary land development banks—was proposed because the middle tier was found to be weak. Besides, the proposal was said to provide a 'unified command' in implementing developmental policies.

The proposal was sufficiently elaborate and submitted with a considerable amount of data. Once again, several views were expressed, mostly in opposition. Government of India, it was stated, 'was firmly of the view that any sweeping alterations in the structure would not be conducive to expansion of credit'. Patel reiterated the conditions that needed to be fulfilled if the state government were to go ahead with its proposal—on the lines indicated earlier in the case of the Madhya Pradesh proposal. A letter was sent accordingly by the Reserve Bank to the government of Rajasthan.

The narration of events relating to the idea of integration of long-term and working capital finance shows that after initial active interest in it, both the Reserve Bank and the central government developed second thoughts for reasons not attributable entirely to economic circumstances.

Besides, the Hazari Committee report came out at a time when Hazari

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fixed for holding elections to the Board of Directors of institutions at the primary/district/state levels; (v) state government should provide assistance to district institutions whose level of overdues exceeded 55 per cent of demand, since no assistance for this purpose would be available from the Reserve Bank; and (vi) state government should provide funds to make good the deficit in the bad and doubtful debts reserve.

had lost his strategic position within the Reserve Bank. The conditions and stipulations placed by the Bank if a state government were to go ahead with its integration scheme were essentially to safeguard the apex tier of the cooperative credit structure with which the Bank dealt for refinancing or loaning purposes. Such a framework of conditionality was mooted for the first time by I.G. Patel when the Madhya Pradesh proposal was considered, and reiterated by him with respect to the Rajasthan proposal.

Patel was aware that the Board could not legally stop a state government from changing its cooperative credit structure because cooperation was a state subject. But he could always influence it by placing conditions associated with the financial capacities of the credit institutions in the cooperative fold. A weak apex bank, the Reserve Bank recognized, would mean a lower repayment capacity, and it did not want to be placed in a situation of not being able to recover its loans to apex cooperative banks on the due dates.

The subject did not figure in the subsequent meetings of the Agricultural Credit Board and received a silent burial. The Committee, in turn, felt that the distinction between working capital finance and term lending was blurred over time.

INSTITUTIONS

As was pointed in Volume 2 of the history of the Reserve Bank of India, it had become clear by the end of the 1950s that the problem of rural credit was not going to be solved by the commercial banking system. Nor were the cooperative credit agencies in a position to meet the growing demand for agricultural credit. Opinion therefore veered around to setting up specialized institutions and, eventually, in 1962 Parliament passed the Agricultural Refinance Corporation Bill. The result was the Agricultural Refinance Corporation (ARC), which was set up in July 1963 and in which the Reserve Bank held 60 per cent of the shares. The ARC was to refinance eligible institutions, viz. central land mortgage banks, state cooperative banks and scheduled commercial banks, which were shareholders for building up long-term production capacity in agriculture. In the initial years, it was not to provide working capital finance.

Then, in July 1969, the All-India Rural Credit Review Committee, which had been set up in 1966, submitted its report. The Review Committee had been appointed by the Governor of the Reserve Bank of India, in the context of the Fourth Five Year Plan and intensive agricultural programmes, for reviewing the supply of rural credit. It was headed by B. Venkatappaiah, Member, Planning Commission. In its final report, the Review Committee made the following major recommendations: reorganization of rural credit in the Reserve Bank, involving the setting up of an Agricultural Credit Board; formation of a Small Farmers Development Agency in each of a number of selected districts throughout the country; creation of a Rural Electrification Corporation which, among other things, would be of benefit to undeveloped areas with an agricultural potential; formulation of a more active and bigger role for the Agricultural Refinance Corporation, along with enlargement of its resources; and adoption of various measures for ensuring timely and adequate flow of credit for agriculture through cooperative and commercial banks.

The Review Committee recognized that the demand for rural credit was much larger than in 1951–52, when the Rural Credit Survey was conducted, and that it was bound to expand rapidly as a result of recent developments in agriculture. The growing need was not only for short-term credit to purchase inputs such as fertilizers and pesticides, but also for medium-term and long-term credit for such purposes as land-levelling, minor irrigation and rural electrification. The Review Committee also drew attention to the special credit needs of areas that are not well-endowed by nature, and of classes of farmers not well equipped to take advantage of the new techniques. Special measures, therefore, were to be devised for them.

The supply of credit was found to be lagging in relation to credit demand; nonetheless there was substantial progress. For example, short-term and medium-term loans advanced by cooperatives went up from Rs 24 crore in 1951–52 to Rs 405 crore in 1967–68. While this was the all-India position, there were, however, several states in the country, such as Assam, Bihar, Orissa, West Bengal, Rajasthan, and Jammu and Kashmir, where cooperative credit had made slow or insignificant progress. Besides, there were weaknesses in a number of individual banks and societies, such as relatively low deposits, high overdues and a general lack of professional management. The Review Committee, therefore, emphasized that reorganization of cooperative credit should be pursued with the integrated scheme of rural credit being implemented with vigour. It pointed out that cooperatives would function better, and the farmer would be better served, if other institutions coexisted with the cooperative organization in healthy competition.

The Review Committee re-emphasized the need for viability at the primary stage of the cooperative credit structure. Reorganization of primary societies was, therefore, necessary. Rehabilitation of weak central cooperative banks was another major line of action. Active administrative and policy measures for checking overdues were recommended, including improved arrangements for supervision as also flexibility in the conversion of short-term dues into medium-term loans in the event of severe crop failure. Special measures were proposed for areas where the growth of co-operative credit was sharply constrained. A key role was accorded in this respect to the concerned state cooperative banks.

Two sets of measures were suggested so far as the lending policies and procedures of cooperatives were concerned. One of these included selective relaxation of the condition that a part of the loan should be disbursed in kind, simplification of application forms, reduction of the stages of scrutiny of loan applications, and provision of cash credit facilities on a selective basis to cultivators engaged in multiple cropping. The other set of measures was intended to improve the access of the small farmer to cooperative credit. The Review Committee recommended that while the small cultivator may be granted a loan equal to the full entitlement on the basis of crop-wise scales of finance, the medium cultivator may access credit only to the extent of a specified proportion of the scale, and the large cultivator, an even smaller proportion. This would have to be done gradually and with reference to local conditions. As another measure in the same direction, the Review Committee recommended that the rate of interest charged on large loans by cooperatives may be higher than on smaller loans. It also suggested that large cultivators may be required to make a proportionately larger contribution to the share capital of cooperatives; further, small cultivators may be allowed to make their contribution in instalments.

A series of special pilot programmes were recommended by the Review Committee for a number of areas, of which there would be at least one in each state—namely, the establishment of Small Farmers' Development Agencies (SFDAs). The SFDA was designed to assist cultivators with small holdings who were unable to benefit from the new agricultural strategy because of inadequate inputs and credit, but who could transit from the stage of subsistence agriculture to commercial farming if assured of these supplies and services. The main function of the proposed SFDA was to identify the problems of small but potentially viable farmers in its area, and to help ensure that inputs, services and credit were available to them where possible through existing institutions and where necessary otherwise. For stimulating the flow of cooperative credit to small cultivators, the SFDA would provide grants to cooperative credit institutions, partly to help them build up special funds for covering the risks apprehended in such financing and partly to strengthen their managerial and supervisory staff. The

Review Committee envisaged that the outlay of the SFDA would be based on a substantial contribution from the centre.

Term credit for financing investment in agriculture also received considerable focus in the Review Committee's recommendations. It suggested in respect of all such loans, that: (i) the technical feasibility and economic viability of the schemes should be regarded as a primary consideration; (ii) the period of the loan should be based on repaying capacity; (iii) such lending should be carefully followed up and supervised; (iv) as far as possible, a 'project' approach should be adopted; and (v) such lending should be closely coordinated with the local government authorities connected with the supply of water, electricity and fertilizer. While noting the remarkable progress made by cooperative land development banks in recent years and their large programmes for the Fourth Plan period, the Review Committee suggested measures for reorienting their loan policies and procedures so that they conformed to principles of sound investment credit and helped ensure expedition and flexibility in operation.

In connection with the term credit requirements for investment in agriculture, the Review Committee assigned an increasing role to the Agricultural Refinance Corporation. The Committee expected the ARC, in conjunction with the Agricultural Credit Department of the Reserve Bank, to play an active part as coordinator, adviser and financier of the long-term structure of agricultural credit. It recommended that adequate resources be put at the disposal of the ARC, including Rs 50 crore from the national agricultural credit (long-term operations) fund of the Reserve Bank of India, during the course of the Fourth Five-Year Plan. (This was in addition to the Plan resources of Rs 140 crore already included in the Fourth Plan in the light of the Committee's interim recommendations.) The Review Committee also recommended that the ARC should strengthen its offices in the states in step with the increase in its business, and that measures be taken for expanding the categories of institutions eligible for facilities available from the ARC.

Closely related to these measures for larger credit for investment in agriculture was the Review Committee's recommendation for the creation of a Rural Electrification Corporation (REC). The Committee emphasized that if an estimated 12.5 lakh additional pump sets were to be energized by 1973–74, it was necessary for the state electricity boards to find the necessary resources to extend power lines to rural areas. To meet this requirement and, at the same time, to place the supply of rural electricity on an increasingly viable basis, the Committee proposed the creation of an REC with a fund that would add to the normal provisions available from governments and existing institutions. The nucleus would be contributed by the central government and substantially supplemented from US-Use Funds. The REC would be an autonomous body under the Union Ministry of Irrigation and Power, and would use the fund for: (i) financing rural electrification schemes in priority areas in the states; (ii) subscribing to special rural electrification bonds to be issued by the electricity boards; and (iii) providing block capital loans to rural electric cooperatives to be organized in different states. The Review Committee recommended the adoption of a 'project' approach, which implied that schemes financed by the REC would be examined and selected for their economic viability, and that there would be coordination between this programme and that of project-wise establishment of tubewells and other works of minor irrigation. The Committee also recommended that each state electricity board issue a series of rural electrification debentures or bonds, on the analogy of the rural debentures of land development banks, for financing specific rural electrification schemes.

Another aspect of rural credit that received considerable attention in the report of the Review Committee was the role of commercial banks. It must be noted that the Committee's recommendations in this respect were finalized before the announcement of bank nationalization in July 1969, but as they postulated an active and positive role for commercial banks in the sphere of agricultural credit and dealt with important aspects of procedural reform, they remained relevant even after the nationalization. In fact, in a postscript, it expressed the hope that the policies and procedures urged by it would be all the more readily adopted and speedily implemented in the wake of nationalization. The Committee recommended direct financing of cultivators by commercial banks but did not rule out indirect financing through suppliers of inputs or those engaged in marketing or processing the produce. Apart from agricultural production and investment, related activities that commercial banks were expected to finance were distribution of fertilizer and other inputs; marketing of agricultural produce, including government procurement operations; and the entire expanding infrastructure of processing, storage and transportation. The Committee, at the same time, recommended that state governments should help remove the disabilities that handicap commercial banks and other agencies, including cooperatives—in meeting the credit needs of cultivators, e.g., in the matter of availability of up-to-date land records and the identification of cultivators' rights in land. It recommended, in this context, the constitution of a state-level coordination committee with representation from the relevant departments of the government, cooperative banks and commercial banks.

Even after all these factors were taken into account, the need would remain, according to the Committee, in some areas for supplementary institutions of credit. Legislation already existed for the establishment of agricultural credit corporations. The states concerned should quickly take decisions regarding these corporations. Since the agricultural credit corporations were intended only to meet a transitional need, the Committee emphasized that the cooperative credit structure in each state should be geared to meet the tasks that awaited it.

In the context of a probable increase in the diversity and magnitude of agricultural credit, the Committee reviewed the question of the role of the Reserve Bank in rural credit. It concluded that the various promotional, refinancing and coordinating functions in this field, which the Reserve Bank was discharging, were appropriately located in the central Bank of the country, and that a separate all-India institution would not only be unnecessary but prove inadequate for the discharge of these functions. It would only add to the number of channels through which credit passed and therefore only serve to increase the cost of credit. At the same time, in view of the expanding dimensions and complexity of the role of the Reserve Bank in relation to agricultural credit, the Committee considered it necessary to create an Agricultural Credit Board (ACB) within the Bank. In the Committee's opinion, there was need for a major structural change in the present arrangement so as to ensure that the formulation, review and modification of the Bank's policies in the sphere of rural credit were effectively placed in the hands of a high-powered group of knowledgeable persons. The Deputy Governor in charge of rural credit was favoured to be the chairman of the ACB, which would deal with such activities of the Bank pertaining to agricultural credit and other cooperative credit as the Central Board of the Reserve Bank may, from time to time, delegate to it. The ACB would consist of: (i) six members who may be drawn from different parts of the country and represent the interests of cooperative as well as commercial banks, as also persons with special knowledge and experience in regard to rural economics or agricultural credit; (ii) three members from among the directors of the Central Board; and (iii) two members who would be officials of Government of India from the relevant ministries. The ACB would set up one or more standing committees to advise it on implementation of policy, and to provide a forum for representatives of state governments and cooperative institutions to put across their points of view.

Another aspect of the role of the Reserve Bank examined by the Review Committee related to the refinancing facilities offered by the Bank. On a review of the degree of dependence of cooperative banks on accommodation from the Reserve Bank, the Committee came to the conclusion that, on the one hand, positive efforts should be made to step up deposit mobilization by banks, and, on the other, measures should be taken that will restore to cooperative banks the incentive to raise more deposits. The Committee suggested that commercial and cooperative banks should make active efforts to mobilize deposits by offering efficient and varied banking services to potential depositors, opening branches, etc. In particular, drew attention to the large deposit potential of rural areas and suggested that an offer of higher interest rates on deposits in rural centres may be actively considered wherever appropriate. Correspondingly, in the Committee's view, there should be a willingness to raise lending rates where necessary.

So far as the Reserve Bank was concerned, the measures proposed sought to correct the present inclination of cooperative banks to borrow more from the Reserve Bank since such accommodation, at a concessional rate of 2 per cent less than the Bank rate, was less costly than funds raised in the form of deposits. The Committee suggested that the Reserve Bank should set a target for each central cooperative bank in respect of the amount by which it should increase its deposits during a year on the basis of all the relevant data available, and with special consideration for banks that were at a relatively early stage of growth. If this target was reached or exceeded, the concerned bank should be charged on its borrowings from the Reserve Bank during the year, a rate of interest that is 0.5 per cent below the concessional rate charged for such finance. On the other hand, if the bank failed to achieve the target and the shortfall was less than 50 per cent, it would be charged an additional rate of 0.5 per cent above the concessional rate. If the shortfall was more than 50 per cent, the additional rate would be 1 per cent from the then 2 to 1.5 per cent so that, given the Bank rate of 5 per cent, the effective rate would be 3.5 per cent instead of 3 per cent. The Committee felt that, ordinarily, apex and central banks should be able to absorb in their margins the small increase in rate paid to the Reserve Bank, if at all it resulted from a shortfall in reaching the deposit targets. Another important recommendation of the Committee was that, with a view to enabling the Reserve Bank to provide resources to the ARC, the annual contribution from the Bank's net profits to the national agricultural credit (long-term operations) fund should be stepped up from year to year so as to reach Rs 20 crore in 1972–73. It also suggested that, in order to promote the observance of seasonality in cooperative agricultural credit, the Reserve

Bank may sanction separate credit limits for seasonal agricultural operations and marketing of crops, and, further, specify for each central bank certain months in the year during which no drawals on its credit limits would be permitted.

Among other recommendations of the Review Committee were those concerned with credit facilities for animal husbandry and allied activities. The Reserve Bank of India Act should be amended suitably so as to make it possible for the Bank's accommodation to be provided for financing animal husbandry activities even when undertaken independently of agriculture. The scope should also be extended to the financing of fisheries.

On the important question of recruitment and employment, the Review Committee drew attention to the need for cooperatives to attract competent personnel in adequate numbers. It was also necessary to evolve correct conventions in regard to demarcation of responsibilities between elected boards of management and paid executives and other managerial personnel. The institution of cadres for key personnel of cooperative credit institutions was recommended as a measure that would help tone up their administration and give a new dimension to cooperative employment. The Committee also recommended that steps should be taken to improve the existing training arrangements by placing greater emphasis on the institutional and practical aspects of cooperative credit, and that the Reserve Bank should play an active role in this sphere in close coordination with other agencies.

The Reserve Bank of India Act was accordingly amended in August 1971. The ARC Act was also amended to enable the Corporation to borrow from the national agricultural credit (long-term operations) fund maintained by the Bank. This amendment was critical as it enabled the ARC to access resources supplemental to those available from the central government and the open market. The ARC was enabled to meet the enhanced demands for funds emanating from eligible institutions, and to provide financial assistance for all activities connected with the development of marine and inland fisheries.

The Committee also suggested the incorporation of an enabling provision in the ARC Act to access foreign currency loans, and borrowings from the World Bank and other multilateral agencies, for financing the purchase of tractors and equipment for rigging, fishing, dairying, etc. This acted as the trigger for the ARC to access funds from the World Bank and the IDA. The first such loan was availed in 1969–70.

The ARC Act underwent further amendments in subsequent years. Commercial banks had opened a sub-mortgage or sub-hypothecation of the security obtained from their constituents in favour of the ARC. As this was neither necessary nor costless, the ARC Act was amended in 1973 empowering the Corporation to waive security or government guarantees. Following this, the security requirements for commercial banks for refinance were removed.

In 1975, the ARC Act was amended again to eliminate the provision prohibiting the Corporation from extending working capital. This was done to ensure that the long-term capital that was being made available from the World Bank for agriculture was effectively utilized. Without such an amendment, the Corporation would have been compelled to arrange for short-term working capital from other institutional sources to support its long-term financing. This would have been administratively cumbersome. With this change, and with the extension in the scope and coverage of its long-term capital financing to include financing of minor irrigation channels including bore wells, bamboo wells, fisheries, poultry farming, etc., the ARC became a truly development-oriented organization. The Corporation was converted into the Agricultural Refinance and Development Corporation (ARDC) in 1975.

The ARDC's role was not to supplant cooperatives, land mortgage banks, and commercial banks including RRBs but to supplement these agencies, and to work in concert with the AFC to provide consultancy services regarding the viability of agricultural and other rural projects. The ARDC was managed by a board comprising nine directors, with a Deputy Governor from the Reserve Bank as its chairman. Underlining the organic link between the RBI and the ARDC, the Bank nominated one director, apart from appointing a managing director. Three directors were nominated by the central government and the remaining three directors were selected by the state land development banks, the state cooperative banks and other categories of shareholders. The authorized share capital of the ARDC, which was fully guaranteed by the central government, was Rs 100 crore. The Reserve Bank was statutorily required to hold not less than 50 per cent of the share capital. The Bank sanctioned a credit limit to the Corporation to facilitate drawals from the national agricultural credit (long-term operations) fund. The amount withdrawn from this fund carried a rate of interest of 6 per cent and was repayable over ten years in equal annual instalments. On a few occasions, the Corporation also availed of short-term credit to meet temporary shortage of funds.

In April 1968, the collective efforts of commercial banks in extending rural credit culminated in the setting up of the Agricultural Finance Corporation (AFC). The AFC was an institutional device to create an enabling environment for banks to participate actively in the financing of agriculture and rural development. Registered under the Companies Act, 1956, the Corporation had an authorized capital of Rs 100 crore, and subscribed capital and paid-up capital of Rs 10 crore. With the nationalization of fourteen major commercial banks in July 1969, the AFC took a conscious decision not to undertake direct lending. Its role, in the words of its chairman, was to be 'somewhat like a Research and Development wing servicing the commercial banks, rather than an independent financial institution. It seeks to do collectively for the member banks what each of them would have been required to do individually.' In the years that followed, because of its nebulous role, there was always uncertainty about its future.[10] The AFC, as it eventually turned out, could not be anything more than a consultancy organization.

Consultancy services by the AFC for projects did not, however, get automatic acceptance from the financing banks or from the ARDC. They wanted to have these projects independently evaluated to satisfy their own sanctioning authorities. This aspect appears to have weighed with CRAFICARD when it observed: 'There appears to be a good deal of avoidable duplication resulting from the lack of fuller coordination between the AFC on the one hand and the banks/ARDC on the other.'

CRAFICARD had reviewed projects appraised by the AFC involving an estimated loan requirement of Rs 745 crore. An inquiry made by the Committee of banks for ascertaining the progress of implementation of the projects appraised by AFC showed that out of twenty-six projects prepared for three banks which responded, only nine could be operationalized; the others had failed to get off the ground due to a variety of reasons. Looking at the future role of the AFC, CRAFICARD observed that despite the consultancy assignments undertaken by it all these years, the bulk of the Corporation's earnings was contributed by interest on deposits and only about 20 per cent of its earnings emanated from consultancy work. The message underlying the Committee's observation was that even in its

[10] The National Commission on Agriculture (NCA), in its interim report submitted in 1971, said that it might be ultimately necessary to set up an agricultural development bank by consolidating the expertise and experiences of various agencies such as the ACD of the RBI, the ARC and the AFC into a single national organization directing the flow of credit according to needs, for full utilization of land and manpower. In 1972 the Banking Commission held that there was a strong case for combining the Agricultural Refinance Corporation and the Agricultural Finance Corporation. The Commission felt that the new institution formed by merging the two Corporations could serve the purpose of an Agricultural Development Bank of India.

chosen role of consultancy, the AFC was not able to make any perceptible dent on the farm front.

CRAFICARD's views on the future role of the AFC was based on the feedback received from twenty-five banks in response to a set of questions addressed to them. One aspect that surfaced prominently from these replies was that the schemes prepared by AFC should be accepted for automatic refinance by the ARDC. However, the majority of the owners of AFC took the view that Corporation could retain its separate identity and specialize in certain fields. CRAFICARD came to the conclusion that an independent, all-India body like the AFC could coexist with regional or specialized consultancy agencies.

Towards the National Bank for Agriculture and Rural Development

It was noted earlier that the National Commission on Agriculture (NCA) had recommended the setting up an apex bank for agriculture, but the Deputy Governor of the Reserve Bank was not enthusiastic. The Bank, however, never expressed its view on the matter openly. Nor did it react to the NCA's recommendation in its interim report of 1971.

The Banking Commission, too, did not recommend the creation of a development bank for agriculture on the lines of the Industrial Development Bank of India (IDBI). It merely suggested the merger of ARC and AFC to serve the interests of development financing of agriculture. It is relevant to ask why the Banking Commission did not pursue the idea thrown up by the NCA. Since the Commission was serviced by the Reserve Bank, could it be that the Bank's opposition got reflected in the Commission's report?

A secret internal note written by B. Venkata Rao (deputy chief officer of agricultural credit development, working in the secretariat of the Banking Commission) had suggested a comprehensive scheme for consolidating, restructuring and developing a cooperative banking structure, and for promoting coordination between the cooperative and commercial banking sectors, including the setting up of RRBs. The note had also suggested the setting up of a national bank for cooperative banks, to which the state cooperative banks, the state land mortgage banks, etc., would be affiliated, and which would raise funds in the money market. The note envisaged a credit guarantee system to be operated by the local associations that would be provided counter-guarantees by the Credit Guarantee Corporation of India Ltd.

The proposal was logically consistent with the Banking Commission's recommendation for setting up rural banks. It also gave the Reserve Bank a greater role. The Bank would transfer its responsibilities of sanctioning credit limits to individual banks and of laying down detailed loan policies for co-operatives to the suggested national bank, and would concentrate on policies relating to credit allocation among different sectors in rural areas, development of cooperative banking and rural banking, formulation of principles of coordination between cooperative commercial banks, and helping the national bank to raise resources from the market through issuance of bonds/debentures.

The Banking Commission did not entirely share Venkata Rao's views, in that it did not recommend Rao's comprehensive scheme. But it accepted most of its components. This was perhaps because the scheme was not in the mould of a 'classical' development bank that would cater to the needs of an economic activity-oriented sector, and, perhaps, also because a national bank for cooperative banking was not regarded as viable. In oral discussions with Rao, it appears that the Banking Commission felt that its recommendation could serve as a first tentative step towards the eventual establishment of an agricultural development bank in India. The Bank kept its own counsel.

The submission of its final report by the NCA in 1976 triggered the government's interest. It recommended the creation of an all-India institutional framework that could take an integrated view of agricultural and rural credit needs. A Cabinet Committee was set up in September to look into this, with the Minister for Agriculture as chairman. The Department of Banking, in a note to the Cabinet Committee, submitted that in light of the views expressed by the Banking Commission, it was perhaps not necessary to set up a separate agricultural development bank at this stage, and that the purpose could be served by as well broadbasing the board of directors of the ARDC.

In a separate note, the Secretary of the Department of Banking observed that while the merger of ARDC and AFC could serve the need of the time and could be a part of the agricultural development bank, the Agricultural Credit Department of the Reserve Bank need not be merged with it because the time was not yet ripe for divesting the Bank of its short-term credit function in regard to agriculture.

But the Department of Agriculture emphasized the need to have an agricultural development bank comprising the ARDC, AFC and ACD of the RBI, in order to provide the larger volume of resources needed for investment in the rural sector. The Department of Rural Development agreed with this view. The differences in opinion arose mainly from the fact that agriculture required substantial investment, as well as policy and institutional support. The Reserve Bank was involved in agricultural credit mainly in the form of refinancing and in terms of strengthening the cooperative credit structure. The Agriculture Ministry's concerns were more broad-based.

The Cabinet Committee considered the various notes submitted to it on 21 January 1977 and came out in favour of setting up an agricultural development bank with ARDC and AFC merged in it initially. At a later stage, it felt, the short-term needs that were not met by the ARDC could be brought under its purview. Besides, it said, 'agriculture' should include dairy farming, poultry, fisheries, etc. It also decided that a Working Group of secretaries of the concerned departments should go into the scope and functions of the proposed agricultural development bank within the framework of the parameters indicated by it, and submit to it a paper along with a draft legislation. Soon, general elections were called and the Congress included the proposed apex agricultural development bank in its election manifesto.

The Working Group met once, on 3 March, and favoured the creation of agricultural development bank. In so far as short-term credit facilities were concerned, the Group took the view that in the existing framework, the Reserve Bank should continue to provide short-term credit through the cooperative credit structure. Once the agricultural development bank gained experience, the question of gradually transferring short-term credit from the RBI to it could be considered. The Group was to meet again later that month but the second meeting did not take place as the government was defeated and a new government came into office. The agricultural development bank proposal receded to the background.

The Department of Agriculture, however, would not give up. It resurrected the proposal in September. A note was prepared by the Department's credit expert (who, incidentally, was none other than B. Venkata Rao). The Minister took up the matter with the Finance Minister who, however, preferred to defer it. According to oral accounts, his view was based on the premise that establishment of the agricultural development bank was not a part of the election promise of the new government. It was only after he was replaced by Charan Singh, known for his strong pro-farmer views, in early 1979, that the proposal was revived.

What happened next is captured by the Deputy Governor of RBI in charge of rural credit, M. Ramakrishnayya, in his book, *Two Administrators: Interaction between ICS and IAS*. He wrote that he was instructed in January 1979 to visit Delhi and meet the officials of the Agriculture and

Finance Ministries, because Charan Singh wanted 'to do something spectacular for satisfying the farm lobby'.

> Bhanu Pratap Singh, the influential Minister of State in the Ministry of Agriculture and G.V.K. Rao, the Secretary, were vigorously pushing the proposal to set up an Agricultural Development Bank, separate from the RBI. Although the proposal was said to be based on the recommendation of the National Commission on Agriculture in one of its Interim Reports and a brief but favourable decision taken thereon in principle by the Indira Gandhi government during the Emergency, the details had not been worked out by its advocates. The Bank had grave doubts, and was not willing to shed its role in agricultural credit in a hurry in favour of a new and half-baked institution. Dr Patel was ready to get the experts to study the proposal, but this did not satisfy Charan Singh who wanted something done at once. (p. 107)
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> Soon I produced a scheme for lowering the rates of interest on loans to farmers. The essential precondition of the scheme was that the cost of funds to ARDC should be brought down partly by exempting it from income tax and partly by reducing the rate of interest charged by government on the loans against the World Bank's line of credit. This scheme was promptly approved, as it had a superior message than the establishment of a separate Agriculture Development Bank. Charan Singh also agreed to get the latter idea examined by an expert committee, to be appointed by the RBI, provided it included G.V.K Rao, the nominee of Bhanu Pratap Singh. Sivaraman was chosen as the chairman by unanimous consent. Other members were L.C. Jain, Manu Shroff and myself. Patel and I deliberately widened the scope of the committee to include non-farm activities and rural development in its widest sense. (p. 107)

This Committee was, as already mentioned, CRAFICARD. Ramakrishnayya's observation as to why the Reserve Bank was sceptical was perhaps a refined version of the fears within the Bank that its hold on agricultural credit would slip if such an apex bank were established. The widening of the scope of the Committee to include non-farm activities and overall rural development was an admission of the thrust of the argument of the Departments of Agriculture and Rural Development Sivaraman, as chairman of the Committee, favoured the approach. So did G.V.K. Rao.

The Committee, under the chairmanship of B. Sivaraman, Regarding the Arrangements For Institutional Credit for Agriculture and Rural Development (CRAFICARD), constituted on 30 March 1979 by the Reserve Bank of India, had H.B. Shivamaggi, then Adviser, Economic Department, as member-secretary. The Committee submitted its interim report to the Governor, on 28 November 1979, suggesting the establishment of the National Bank for Agriculture and Rural Development (NABARD) as a step forward in the organizational evolution of the Reserve Bank itself.

The Committee strongly endorsed the recommendation of the Dantwala Committee for transferring the entire control, regulation and promotional/developmental responsibility relating to regional rural banks from the central government to the Reserve Bank, with the suggestion that NABARD should replace the Reserve Bank in the restructured set-up. However, the inspections of these banks, was recommended, should be carried out by the Reserve Bank itself, with a view to ensuring that their operations were being carried out in conformity with the provisions of banking laws. The Committee sought to ensure the organic link between the Reserve Bank and NABARD by suggesting, among other things, that a Deputy Governor of the Bank should be the chairman of the board of directors of NABARD.

The Committee was in favour of continuation of the Agricultural Finance Corporation (AFC) as a separate entity, with a close link with the ARDC/NABARD to facilitate foreign consultancy assignments. In the Committee's view, ARDC/NABARD needed to extend finance to the AFC. In this connection, the Committee suggested that ARDC/NABARD, as a financing agency, should prescribe: (i) certain basic parameters for the programmes that had hitherto been developed; (ii) in new areas, fix in advance, in consultation with the AFC, criteria that will satisfy them.

The Committee was informed by the RBI Governor in January 1980, that Government of India had, in consultation with the Reserve Bank, accepted in principle the setting up of NABARD as an apex-level institution, as recommended by it in its interim report. With a view to assisting the Committee in the preparation of the draft Bill on NABARD, a Working Group was set up by the RBI with the member-secretary, CRAFICARD, as its convenor, and representatives of ARDC and concerned departments of the RBI as the other members. The draft Bill on NABARD was submitted to the Governor in April 1980.

Acceptance of the recommendations of CRAFICARD culminated in the separation of the Agricultural Credit Department (ACD), which used to handle refinance for the cooperative credit system, from the RBI, and its merger with the ARDC, which had earlier been set up by the RBI to handle investment finance for agriculture. The Bank undertook its own organizational restructuring, as reflected in the setting up of the Department of Urban Cooperative Banks and the Rural Planning and Credit Department to oversee and monitor the broad policies of the RBI and the working of NABARD.

NABARD would continue to have organic links with the Reserve Bank by virtue of the latter contributing half of its share capital (the other half was contributed by the central government) and three members of the Central Board of Directors of the Reserve Bank being appointed on its board besides a Deputy Governor of RBI as chairman. The links were provided to enable the Bank to give continued guidance and financial assistance to NABARD in the years to come.

The final report of CRAFICARD was discussed at the seventeenth meeting of the Agricultural Credit Board held on 7 May 1981 and presided over by the Governor, I.G. Patel. M. Ramakrishnayya, Deputy Governor, reported to the Board that the Union Ministry for Planning proposed to convene a conference of all concerned union ministries, state ministers and other concerned institutions like the Reserve Bank of India, ARDC and IDBI, in the first week of January 1982, for formulating an action plan based on the recommendations of CRAFICARD.

NABARD came into existence on 12 July 1982 as an apex bank to serve the financing and technical needs of agricultural and rural development activities.