CHAPTER VI

THE PROVINCIAL COOPERATIVE BANK AND
ITS FUTURE PROGRAMME

With the establishment of central banks, it was found that certain banks were not able to secure sufficient capital from the money market to fulfil the needs of their constituent societies. On the other hand, certain banks had surplus funds for a temporary period and they had difficulty in their proper investment. It was in the interest of both, that they should interlend. However such a course was not free from dangers to the whole movement when such interlending was to be on a large scale. The money may be lent out to the borrowing bank on terms, which do not make it available when wanted, and the interlending of finances may result in the fall of one, bringing down unnecessarily a number of others. So it was necessary that there should be one central apex organisation which should control and coordinate the activities of all central banks. In case when there was general shortage of funds in the movement, it might also supply the funds from the money market. Besides the above important function which this apex bank was to perform, it was also considered desirable that this apex bank should be the sole media for dealing with joint stock banks while at the same time it could also arrange more economically for the fluid resources required by these central banks. It was to take up all these functions that the need for an apex central bank arose, and the Maclagen Committee (1914) strongly advocated for such an apex institution in each major province.
Old Provincial Cooperative Bank, Lahore (West Punjab)

It was on the recommendation of the above committee that the Provincial Cooperative Bank, Lahore, for the un-divided Punjab was registered in December, 1924. It will not be justified to make a detailed historical survey of this bank since its formation, as it is no more an apex institution for this state since partition but a brief account of its activities before the partition seems to be essential for two reasons: (1) To see as to how this bank coordinated the activities of the central banks in this State before the partition, and (2) to judge how with the partition of the country, its siezing to work as an apex institution has affected the central institutions in this State.

Its Brief Review: Immediately on its formation in 1924, the bank took up the function of arranging transfer of funds from one central bank to the other which was previously performed by the Registrar. However the bank was not able to take up this function completely till 1928, when prohibition was imposed upon the central banks regarding mutual inter-lending. As a consequence of this prohibition on central bank the working capital of the bank also rose immediately from Rs.392 lakhs in 1928 to Rs.700 lakhs in 1929. The unions were, however, allowed to deal with their district central banks as it was considered that the central banks being at hand will be in a better position to supervise and judge their financial position. The bank accepted the money from the surplus banks, lent out the same to others at a low margin of 1%, and thus was able to bring a uniformity in rates of deposits and lending throughout the State. The cash credit limit of central institution to draw funds for emergent needs was gradually fixed, and the bank also financed these institutions from its own funds on certain occasions.

In the year 1926, the bank floated debentures to the value of Rs.5 lakhs, with Government guarantee of interest at the rate of 6 percent for 20 years for the benefit of land mortgage banks. These debentures
were redeemed later on in the year 1937 from the sinking fund created out of the profits, as the bank has the option to return this money after 10 years. Since then the money advanced to the mortgage bank was covered by long term deposits. From the year 1928 the Government which was previously advancing money to the mortgage banks directly, agreed to advance further loans through this bank and the bank took the responsibility for the recovery of these loans from them. The bank had also been maintaining adequate fluid resources to meet its liabilities since its very inception.

The membership of the bank was confined to registered societies in the State. The progress made by the bank since its formation in respect of its working capital, advances made to central banks, mortgage banks and fluid resources kept, may be had from the following statement:

<table>
<thead>
<tr>
<th>Table No. XXXII</th>
</tr>
</thead>
<tbody>
<tr>
<td>Progress in the Working of Provincial Bank Lahore (1925 to 1946)</td>
</tr>
<tr>
<td>(Rs.1,000)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>C.Banks &amp; Societal Funds, Other Deposits</th>
<th>Non-Central Loan</th>
<th>Working Capital Loans</th>
<th>Recov. At R.C.</th>
<th>Fluid Resources Held</th>
<th>Fluid Resources Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>1924-25</td>
<td>4,860</td>
<td>23</td>
<td>16</td>
<td>1,75</td>
<td>4,22</td>
<td>7,27</td>
</tr>
<tr>
<td>1929-30</td>
<td>13,008</td>
<td>10,91</td>
<td>11,54</td>
<td>56,58</td>
<td>10,74</td>
<td>96,51</td>
</tr>
<tr>
<td>1934-35</td>
<td>13,611</td>
<td>11,301</td>
<td>6,69</td>
<td>24,80</td>
<td>89,91</td>
<td>138,10</td>
</tr>
<tr>
<td>1939-40</td>
<td>12,204</td>
<td>11,413</td>
<td>5,49</td>
<td>45,65</td>
<td>71,70</td>
<td>142,39</td>
</tr>
<tr>
<td>1944-45</td>
<td>11,822</td>
<td>11,609</td>
<td>3,06</td>
<td>37,02</td>
<td>236,79</td>
<td>307,23</td>
</tr>
<tr>
<td>1945-46</td>
<td>11,361</td>
<td>11,668</td>
<td>3,77</td>
<td>15,04</td>
<td>49,40</td>
<td>187,90</td>
</tr>
</tbody>
</table>

From the figures given above, it is evident that the bank had been commanding huge resources, and its financial position was quite sound at the time of partition. It had a huge reserve of Rs.23.8 lakhs. Thus the bank was really serving as an apex institution of the cooperative credit movement in the State. It needs mentioning that the Bank paid a slight higher rate of interest on deposit from central banks than from the individuals to avoid direct competition with former. The rate charged on
fixed loans and cash credit advances was generally equal to the Imperial Bank rate and sometimes even less than that. It may also be stated that at the time of partition the bank had large surplus funds with it, which it had to employ in Government\textsuperscript{1} securities, due to lack of other profitable investment. This phenomenon had been occurring since 1933, as the central banks themselves had funds more than their requirements. At the end of July, 1946, the amount advanced to all the central institutions was only Rs.4.34 lakhs against its total working capital of Rs.373 lakhs. Thus most of its funds were employed outside\textsuperscript{1} the movement.

**Effect of Partition:** The partition of the province in August 1947 cut off the activities of this bank with the cooperative institutions in this State. This affected the movement of this State to a very great extent. Not only that the assets of the bank could not be divided, but the central institutions in this State (East Punjab) which had deposited their large surplus funds amounting to Rs.291 lakhs in the shape of deposits and Government Securities, could not withdraw them. This gave a rude shock to their financial position, of which a detailed account has been given in the last chapter. It was after a long and protracted negotiations that the Provincial Bank Lahore, released a part of this amount in May, 1950, but a sum of Rs.80 lakhs is still due from it and the bank is not paying any interest over this amount. As regards the divisions of the assets of this bank, i.e. share capital of Rs.11.50 lakhs and Reserves amounting to Rs.23.8 lakhs these have not yet been divided. The matter was referred to the Inter Dominion Arbitral Council in 1948, which however declined to deal with this matter on the ground that it was not within its perview. The matter was then taken up with the West Punjab Government but it refused to agree on the division of its assets. It has now been referred to the Government of India to be taken up at the Dominion level.

\textsuperscript{1} In the year 1946, out of the total working capital of Rs.373 lakhs,\textsuperscript{1} 350 lakhs were invested in Government Securities.
East Punjab Provincial Cooperative Bank: Much time was not lost after the partition for the formation of a new Provincial Cooperative Bank in this State to render necessary help to the central institutions which have received a rude shock due to the blockade of their funds in the Provincial Bank, Lahore. A scheme for the registration of the bank was drawn up at the end of 1948 on the model of the Provincial Bank, Lahore in the undivided Punjab. Draft bye-laws were referred to the Reserve Bank of India for expert advice by the State Government and the suggestions made by the former were mainly incorporated in the final draft. The bank was finally registered on 31st August, 1949 with its head-quarters at Simla.

Pending registration of the new bank the State Government in exercise of its powers under Section 2(c) of the Reserve Bank of India Act, 1934, authorised the Ambala Central Cooperative Bank in January 1948 to perform the functions of the Provincial Bank for the East Punjab Cooperative Institutions. To start with, a loan of Rs.10 lakhs at the rate of 2½ per annum was granted to it for one year by the State Government for the purpose of reconstruction and rendering financial help to the deficit central institution effected by partition.

Working of the Bank: On resuming this function, the Ambala Central Bank immediately took up the work of helping those central institutions, which were most affected by partition, and advanced a sum of Rs.9 lakhs within the next six months to the end of August, 1948. This amount gradually increased to Rs.31 lakhs in 1952. The total amount advanced to central institutions has slightly decreased from Rs.31 lakhs in 1952 to Rs.27 lakhs in 1953, but it will not decrease much till all the funds of these institutions are released by the Provincial Bank, Lahore. The bank has also advanced loans to ex-servicemen transport societies from the extra funds placed at its disposal by the Government. The progress in the resources of the bank since its formation may be had from the

1. The Government gave a sum of Rs.2.8 lakhs in 1949 from the Post War Reconstruction Fund for making advances to ex-servicemen transport societies.
Following table, from which certain conclusions can be drawn:

**Table No. XXXIII**

**Progress of the East Punjab Provincial Cooperative Bank Ltd.**

(1948 to 1953)

(Rs.1,000)

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Mem</th>
<th>Share Capital</th>
<th>Reserve Fund</th>
<th>Other Funds</th>
<th>Deposits</th>
<th>Central Loans</th>
<th>Loans from Working Banks</th>
<th>Recoveries at &quot;I &amp; L&quot;</th>
<th>End figure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Rs.</td>
<td>Rs.</td>
<td>Rs.</td>
<td>Rs.</td>
<td>Rs.</td>
<td>Rs.</td>
<td>Rs.</td>
<td>Rs.</td>
</tr>
<tr>
<td>1947-48</td>
<td>96</td>
<td>15</td>
<td>6,99</td>
<td>10,00</td>
<td>17,15</td>
<td>8,75</td>
<td>6,75</td>
<td>22,40</td>
<td>32,96</td>
</tr>
<tr>
<td>1948-49</td>
<td>995</td>
<td>40</td>
<td>5,30</td>
<td>12,80</td>
<td>10,60</td>
<td>5,87</td>
<td>2,52</td>
<td>12,10</td>
<td>17,32</td>
</tr>
<tr>
<td>1949-50</td>
<td>1,425</td>
<td>1,43</td>
<td>47,07</td>
<td>71,41</td>
<td>22,45</td>
<td>17,43</td>
<td>17,11</td>
<td>32,98</td>
<td>63,63</td>
</tr>
<tr>
<td>1950-51</td>
<td>1,61</td>
<td>15,61</td>
<td>23,60</td>
<td>23,60</td>
<td>3,70</td>
<td>2,00</td>
<td>53,20</td>
<td>14,72</td>
<td>5,59</td>
</tr>
<tr>
<td>1951-52</td>
<td>1,78</td>
<td>1,78</td>
<td>25,87</td>
<td>61,31</td>
<td>15,46</td>
<td>8,66</td>
<td>51,08</td>
<td>27,13</td>
<td>63,63</td>
</tr>
<tr>
<td>1952-53</td>
<td>11,43</td>
<td>11,43</td>
<td>20,83</td>
<td>65,26</td>
<td>9,62</td>
<td>13,63</td>
<td>37,09</td>
<td>42,55</td>
<td></td>
</tr>
</tbody>
</table>

1. **Membership & Share Capital:** The membership of the bank which is exclusively confined to registered cooperative institutions in the State has been steadily rising, but has not increased much. Out of the total of 8697 credit institutions in the State in 1952 only 1549, i.e. 18 percent have become its members till June, 1952. One of the main reasons for the unwillingness of other societies to become its members is the lock up of their shares in the Provincial Cooperative Bank, Lahore (West Punjab), of which these were members before the partition. Besides this the other two reasons are: (1) that certain credit societies mostly in the Ambala Division which are in a moribund condition are not willing to buy its shares on account of their little business; and (2) it being a new bank, it takes time to regain confidence of the people.

The share capital of the bank, had been rising slowly, but did not increase much till the end of 1952. After this it suddenly rose from Rs.2 lakhs in 1952 to Rs.11 lakhs in 1953. The main cause for slow increase in its share capital till 1952 had been its smaller membership and that also confined to societies only, which generally buy one or two shares each. The sudden increase in its share capital had been due to the fact, that after 1952 all the central institutions in the State were
ordered by the Registrar to invest a part of their statutory reserves (i.e. 50 percent in case of central banks & 25% in case of banking unions) in the share capital of the bank.

2. **The Reserves:** In the short period of its existence it has not been possible for the bank to accumulate any large amount of reserves. The bye-laws of the bank provide that at least \(\frac{1}{4}\) of the profits should be carried to the statutory reserve fund. There is also provision for the creation of certain other funds such as bad & doubtful debt fund, depreciation fund, building fund, building fund etc., but much cannot be allocated to these reserves in the initial stages, particularly when the turnover of the bank is small.

3. **Deposits:** The progress in respect of deposits though not speculative has been encouraging and would have been much better, had the funds of central institutions in the West Punjab been released. The position of these deposits under the three heads fixed, saving and current accounts may be seen from the following table. It will be observed that the amount of fixed deposits to the others has been larger, which is also an encouraging feature of the bank:

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Deposits</th>
<th>Fixed</th>
<th>Saving</th>
<th>Current</th>
<th>Fluid Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Held</td>
</tr>
<tr>
<td>1947-48</td>
<td>6,99</td>
<td>55</td>
<td>11</td>
<td>6,33</td>
<td>7,92</td>
</tr>
<tr>
<td>1948-49</td>
<td>5,80</td>
<td>5</td>
<td>15</td>
<td>5,60</td>
<td>-</td>
</tr>
<tr>
<td>1949-50</td>
<td>21,74</td>
<td>13,26</td>
<td>32</td>
<td>8,15</td>
<td>41,94</td>
</tr>
<tr>
<td>1950-51</td>
<td>26,80</td>
<td>22,64</td>
<td>55</td>
<td>3,61</td>
<td>17,69</td>
</tr>
<tr>
<td>1951-52</td>
<td>16,74</td>
<td>11,01</td>
<td>80</td>
<td>4,93</td>
<td>16,03</td>
</tr>
<tr>
<td>1952-53</td>
<td>16,37</td>
<td>5,83</td>
<td>84</td>
<td>9,70</td>
<td>32,52</td>
</tr>
</tbody>
</table>

4. **Working Capital:** The increase in the working capital of the bank has also been satisfactory, but has not been very remarkable. It was 19 lakhs in 1949, 50 lakhs in 1951 and rose to 63 lakhs in 1953. It is however worthy of note that the bank has returned the loan of Rs. 10 lakhs advanced by the State Government at the initial stages.
**Fluid Resources:** The bank has been maintaining adequate fluid resources to meet its liabilities according to the standard laid down by the Reserve Bank of India, as is self-evident from the above table.

From the progress made by the bank in the last few years, it can be said that the bank has made appreciable progress, with the slender resources at its disposal, but much more still remains to be achieved. The most usual rate on lending for secured advances has been the same as that of the Imperial Bank of India, i.e. 4%, but for unsecured loans it charges 4½%. The most usual rate of borrowing is 2½%, which shows that the bank has been keeping a low margin of profit to help the institutions as far as possible. The bank has tried to make maximum advances to the central institutions from its resources taking into account its own safety, but it has not been possible for it to meet all the demands of the central banks, particularly of those affected by partition because of its small resources. Besides its normal functions, the bank has also taken another activity for a temporary period and that has been of repaying the deposits of displaced persons who had deposited the same in the central institutions in the West Punjab in the prepartition period. It may also be mentioned that in December 1951, bank changed its head-quarters from Simla to Jullundur due to the unsuitability of that place.

**ITS FUTURE PROGRAMME**

At present the bank is not in a position to perform all its function and fulfil the credit needs of all the central institutions with its present resources. Some of the central banks are even in a stronger position.

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1. The total amount payable on this account was Rs.591 lakhs, which was placed at its disposal by the State Government after the settlement arrived at between the Government of East and West Punjab; for the return of these deposits. The amount of Rs.47 lakhs has already been paid uptill September, 1953, while Rs.12 lakhs still remains with the bank, due to certain disputes over the claims of the depositors.

2. For instance the Jullundur Central Bank had a working capital of Rs.74 lakhs as compared to Rs.63 lakhs of Provincial Bank in June, 1953.
than this bank and it will be very difficult for it to control those banks as an apex institution unless its resources increase. Moreover, with the re-organisation of the movement when the village multi-purpose societies will have to cater all the needs of their members, the demand for credit will increase all the more. In these circumstances it will not be possible for the bank to serve as an apex institution and to supply all the required capital needed unless its capital resources increase which means a large increase in the working capital of the bank.

1. Increase in Share Capital: The basic condition on which the bank can increase its resources or working capital is that the bank must increase its owned capital on the basis of which it can raise its borrowing capacity.

Now this owned capital consists of share capital and reserves. The reserves are formed out of annual profits of the bank, which under the present circumstances, when the bank is quite in its infancy stage and the total turnover during any year is small, are bound to remain small. Thus the bank cannot increase its reserves in a short period. If, however, a portion of accumulated reserves of the Provincial Cooperative Bank, Lahore (West Punjab), which is its genuine right, is given to it, the position of the bank will become sufficiently strong. But that is a thing of future, and it is not sure when the final settlement about that will arrive at. So the only course feasible at present is that the bank must increase its share\(^1\) capital to increase its owned funds.

1. We have stated in the previous pages that the share capital of this bank has recently increased by ordering the Central Banks to invest a part of their statutory Reserve Funds in the share capital of this bank. But it is highly objectionable from the fluidity point of view. The reserves are meant to meet contingencies and when they are invested in fixed capital they may not be available immediately and the whole movement may be jeopardised. So these reserves should only be kept in the form of cash deposits or Government securities. This step has been taken under stress from the Reserve Bank of India, which has been pressuring the Bank to increase its owned funds, to avail of discounting facilities. But it is desirable that the proper method should be adopted to increase this share capital. Moreover the above capital has not increased to the extent required. The Reserve Bank has suggested that it should have at least Rs.25 lakhs as its share capital while the present amount is Rs.13 lakhs only.
To increase this share capital, it may be suggested that all the registered credit societies must buy at least one share of the bank, but that is not possible for the reasons already explained. Moreover, when it is compulsory for the credit societies to become the members of central banks in their own areas and buy at least one share of those, compulsion imposed upon them to become the member of the provincial bank may not be justified. Such a compulsion can be imposed in case of Central Banks, and the number of shares that each may take may be related to its working capital. However their number being small, they will not be in a position to buy a large number of shares. So the only other alternative is that either the state should buy some of its shares or individuals should be allowed to become its members. But in the case of this bank the membership of both, state and individuals, is not only desirable but seems to be essential, and such a course has been recommended by various committees and commissions. That the state should purchase the shares of the Provincial Bank, had been recommended by the Cooperative Planning Committee. The Committee remarked, "In reorganising a Provincial Cooperative Bank, it will be necessary for the state to provide a good deal of the share capital, and for providing finance at such a rate of interest as will help it to advance loans to the ultimate borrowers at not more than 6½ percent per annum for short term loans and at about 4 percent per annum for long term loans." Many state governments, such as Bombay, Uttar Pradesh, Assam etc. have already purchased the shares of their Provincial Banks and this state should not also hesitate to do the same. It will also give some control to the state over this bank, to safeguard the interest of the depositors. The individual in this bank are also necessary because (1) The apex bank require high

1. Cooperative Planning Report, P. 75
2. It has been learnt that the State has agreed to buy shares of Rs. 10 lakhs from the Annual budget of 1953-54.
business talent which cannot be furnished by the representatives of cooperative institutions in its Board of Directors. The Maclagan Committee had rightly observed 1 "The management of a Provincial Bank requires most expert knowledge and experience than that of a Central Bank and it is permissible and often desirable that the management should be mainly in the hands of businessmen. The representatives of societies are seldom capable of taking any effective part in the management of a bank of this class." (2) The majority of the members in its directorate are the representative of cooperative institutions who are generally borrowers and cannot look to the interest of this Bank more than of their own. (3) The urban people who supply the necessary skill and business talent enhance the public confidence and help in attracting deposits at a cheaper rate. Therefore there should not be any grudge against the individuals to become members of this bank. This will increase the prestige and efficiency of the bank. Moreover, the advances by the bank are limited to cooperative institutions only and individual cannot do any harm to the bank. To have further safeguard the number of directors on the board can be limited as has been done in the case of central banks.

2. Change in Constitution of the Directorate:— Under the present bye-laws, the directorate of the bank consists of the following:

(1) Registrar and the Chief Auditor both ex-officio directors.
(2) One director from each district to represent member societies.
(3) Five directors to represent central banks and banking unions.
(4) One director preferably a leading businessman or a banker to be nominated by the Registrar.

It is evident from above that majority of the directors under the present bye-laws are the representatives of societies (i.e. out of a total number of 21, 17 are the representatives of societies) and thus there is lack of business talent in the directorate. With the changes proposed above in the membership of the bank, the constitution of the

1. Maclagan Committee Report, P.98.
Directorate will also change, which will correct this tendency. There is one point which however would need attention even then. The primary societies which are the members of the central banks, are already represented on the directorate of the central banks, and these banks send their representatives to the directorate of this bank. So if these societies which hold shares in this Bank send their separate directors to this Provincial Bank as they do under the present bye-laws, there is unnecessary duplication of representation which serves no useful purpose. It is therefore better if the societies are prohibited to send separate representatives, while the number of representatives representing these central institutions can be increased as is the procedure followed in the Bombay State.

3. Issue of loans and Inspection: The loans to Central banks are granted on the recommendation of the official agency, i.e. the cooperative Inspector and the Assistant Registrar, who are not supposed to be such experts in the banking business as to judge their financial soundness. The only control that is exercised by this apex bank, is the receipt of return every month from the central institutions giving the position of fluid resources, recoveries investment etc. at the end of the month. There is no statutory provision for the inspection of these central institutions by it by virtue of lending money to them. The Reserve Bank of India during inspection in May, 1952 had taken a serious view of this point and had stressed for some kind of supervision over the central institutions to see if the loans given by this bank were utilised for the purposes given in the Promissory Notes. The provision for such a type of inspection by the State Bank does exist in the States of Bombay and Madras and the necessity of the same hardly need any emphasis in this State. The Provincial Bank should employ its own Inspection Staff to assess the credit of these central banks and inspect their accounts at the time of sanction of loans if the need arises.
4. **Reserve Bank Assistance:** So far the Provincial Bank has not availed the facilities of Reserve Bank of India, which it affords to the cooperative institutions for financing seasonal agricultural operations or the marketing of agricultural crops under Sec.17(2) (b) and 17 (4) (c) of the Reserve Bank of India Act at concessional rates. This bank along with other certain central institutions in the State were inspected by the officers of the Agricultural Credit Department in May 1952, to assess their credit worthiness and to fix their credit limits for providing these facilities.

The two serious objections raised by the Reserve Bank of India during its inspection were (1) In case of Provincial Bank the outside liability incurred by the Bank was already much higher\(^1\) as compared to its owned funds. So it was not possible for the bank to provide re-discounting facilities to it, unless the bank increased its owned funds on the basis of which the Reserve Bank could make further advances. (2) That the bank was advancing loans to central banks against demand promissory notes, and the similar procedure was being followed by the central banks in case of primary societies. Under the Act the bank could not offer re-discounting facilities on demand promissory notes. So before these banks could make use of these facilities both these objections were to be removed.

The Provincial Bank have now decided to take time promissory notes in future and the similar procedure will have to followed by the central banks. As regards the question of increasing owned funds of the provincial Bank, it has also been tackled temporarily to a certain extent, while for further increase in the share capital suggestions have already been made. It is learnt that negotiations are going on with the Reserve Bank of India and it has agreed to advance Rs.30 lakhs to the Central Banks through the Provincial Bank on the time promissory notes of the primary societies.

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\(^1\) At the time of inspection the Bank's outside liability was 33 times to its own funds, while it should not have been more than 12 times in any case. In June 1952 its owned funds were Rs.1,81 lakhs and outside borrowings Rs.59,50 lakhs i.e. 33 times.
5. **Long Term Credit**: The necessity and urgency for starting land mortgage banks in this State has been greatly emphasizes in the chapter on long term credit. Here it will be sufficient to add that in the beginning the function of Central State Land Mortgage Bank may be taken up by this bank till the work develops to the extent that a separate Central Land Mortgage becomes a necessity. It is not advisable to start a separate Central Land Mortgage Bank in the beginning, as the overhead expenses may be too high, as compared with the volume of work. The area of operation of this apex bank now being small, it can easily take up the function of central Land Mortgage Bank. Such a course was even recommended by the Gadgil Committee (1940), which stated that both 'long term' and 'short term' credit should be supplied by the State Agricultural Credit Corporation. It may, however, be pointed out that if this function is taken up by this Provincial Cooperative Bank, the State Government will have to guarantee the debentures floated by it, in respect of both principal and interest.

**AGRICULTURAL CREDIT CORPORATION**

**Not Necessary.**

The question of setting up Agricultural Credit Corporation in each State was first advocated by the Agricultural Finance Sub-Committee (1940). The Committee recommended that all State Governments should organise Agricultural Credit Corporations for their own States, with the exception of those, where the Government felt that the cooperative financial agencies were so strong and had such a large field of activities that they could make finance available to all credit worthy borrowers. The Corporation was to be an autonomous public corporation established by the State and working under its general supervision and direction, but whose day to day working and normal business transactions were largely to be conducted

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1. In 1926 the Provincial Bank, Lahore (West Punjab) floated debentures on the condition that the trustees of the sinking fund will have prior charge on all the assets of the Provincial Bank. Because of this condition the Imperial Bank of India refused to give credit facilities to the bank unless the Bank deposited the full amount of debentures in the Sinking Fund.
on an independent basis. The Corporation was to provide all types of agricultural credit to all the solvent agriculturists in the State at a rate of interest, which for short term and development finance were not to exceed 6\% and 4\% respectively. To enable it to fulfill its objects the State was to assist the Corporation in various ways, such as contribution of 50 per cent to its share capital and direct subsidies for meeting the cost of administration and supervision in less developed areas. The two main reasons for not entrusting this work to the cooperative agencies were; firstly, the Cooperative banking organisations were not equally strong in all the States to provide finance to all credit worthy agriculturists, and secondly, they were essentially autonomous bodies ruled largely by their own members, while further problems might arise in linking the cooperative banking structure with non-members.

Soon after it, this question of setting up such corporations was thoroughly examined by the Cooperative Planning Committee (1946) and later on by the Bombay Agricultural Credit Organisation Committee (1947). Both these committees disfavoured the idea of setting up these corporations, parallel to the cooperative financing agencies and recommended that this work should be entrusted to the State Cooperative Banks and other central cooperative financing organisations. They would provide the agriculturists with all the credit facilities which are intended to be given by the Agricultural Credit Corporations, provided the same measure and type of aids, as those recommended to be given to the Agricultural Credit Corporation, were given to them. In support of this recommendation they gave the following arguments:

(1) Much time may be lost in preparing a scheme for the new Agricultural Credit Corporation and in setting up the detailed organisation. On the other hand Provincial Cooperative Bank and other Central Financing Agencies are already there and can, where necessary, be suitably reconstituted to shoulder the additional burdens which will be imposed upon them. Moreover, it is doubtful whether the new corporation will be able
to have closer link with the rural areas and with sufficient branches within a short period.

(2) Agricultural Credit Corporation is also intended to deal with the agriculturist through the medium of cooperative organisations wherever they exist.

(3) The Gadgil Committee's anxiety for providing a larger number of agriculturists with an institutional credit, as an alternative to money lenders' credit, will be met, if the Provincial Governments adopt the targets fixed by them for increase in the number and function of primary societies.

(4) The Corporation which does not provide adequate representation in the management by those in need of credit, is likely to be dominated by lenders.

(5) These central institutions have already been able to attract a host of capable and disinterested workers and public funds have also been attracted by them, while in the other case large government funds will be needed.

(6) The organisation of a rival agency buttressed mainly by a large measure of Government support will not only arrest the further growth of the movement by supplying finance at a lower rate, but may even lead to its disintegration.

(7) The cooperative movement will help in reorganising the entire rural life while the corporation will look only to one aspect of the question, i.e. finance.

(8) In the case of Bombay State even the non-members are financed by these institutions under the Bombay Agricultural Debtors Relief Act, who are admitted on payment of a nominal admission fee.

The question of setting-up of these corporations in the country was therefore shelved for some time. Recently it has again come up for vivid discussion among the economists of the country. Dr. G.B. Agrawal, one of the stronger advocates for the organisation of these agricultural
credit cooperations parallel to cooperative financing agencies, has made out a strong case in their favour, in his book "Reorganisation of Agricultural Credit". His three main arguments are:

(1) The Gadgil Committee recommended the assessing of credit worthiness for cooperative loans on the basis of the repaying capacity of the agriculturist. This would entitle every tiller of the soil to crop finance, as normally the crops loans can be recovered from the sale proceeds of the crops grown, while in actual practice credit worthiness is mostly judged on the basis of tangible security. Thus the majority of agriculturists farming about 80 percent of the total are excluded from the scope of the cooperative loans, as their assets are not enough to secure sufficient and reasonable amount of loan necessary to satisfy their needs.

(2) These 80 percent of the farmers who are not credit worthy under the strict banking rules should not be financed by these cooperative societies. If they do so, the confidence of public, who entrust their deposits to them, may be shaken. But it is this class of low income group of farmers which is exploited to the utmost by the money lender and stands in the greatest need of an institutional machinery for credit.

(3) Objections are raised that where the Provincial Cooperative Banks were functioning, an Agricultural Credit Corporation would merely duplicate the machinery for credit, would lead to the disintegration of the cooperative movement and would add to the cost of credit. But the machinery and working of the corporation proposed hereafter are free from any such snag.

Then he suggests that each state should set up an Agricultural Credit Corporation for granting direct loans to the farmers who will be the members of the village cooperative, but are not credit-worthy and fit to get loans from the societies under strict banking rules. Loans to them will be issued on the recommendation of the Village Cooperative Society. The proposed Corporation will have branches at district headquarters, and, sub-branches for every 20 to 25 villages, parallel to coop
erative financing unions. The three fourth of the share capital of the Corporation will be contributed by the State Government, while 1/4th will be contributed by Joint Stock Banks and other institutions such as Cooperative Banks.

**Criticism:** Although Dr. G. D. Agrawal in his first two arguments is himself not clear whether cooperatives do not advance loans to their members on the basis of repaying capacity, or they should not do so, under the strict banking principles, yet, we shall try to meet both his objections. His first assumption is that loans by Cooperative societies are granted on the basis of tangible assets instead of repaying capacity of the members, but such an assumption is totally wrong and is not based upon the actual practice followed in the cooperative societies. Loans in all societies are sanctioned on the basis of repaying capacity of the members and not on their tangible assets. In good societies while sanctioning loans particular attention is given to the character of the member, his repaying capacity and his past dealings with the society. Even the annual maximum credit limit of each member fixed in the Property Register of the society, is based on the annual income of the member and not upon his tangible assets.

The second argument of Dr. Agrawal is that those agriculturists who are not credit-worthy under the strict banking rules, should not be financed by the cooperative societies. This is because they have no tangible assets, thereby shaking the confidence of the general public to invest their funds in the cooperative institution. But this argument of Dr. Agrawal also does not hold water. (1) If the cooperative societies grant loan on the basis of material assets, there does not remain any difference between the cooperative institution and a capitalist association, where as in cooperative principles, character and dealing of the member are the first consideration. (2) That public confidence will be shaken if such a procedure is followed, is not convincing. History of the cooperative movement shows that in spite of severe depression and heavy over
 dues in the past, the cooperative institutions did not suffer for want of funds, while, on the other hand, they had funds in excess of their needs. (3) Even if according to his suggestion cooperative societies only grant loans to those who have got sufficient material security to offer, the transactions of the societies will be drastically cut. According to his estimate, the societies will only deal with 20 percent of the agriculturists. The annual turnover of the societies will fall, and they will have less business, small profits and thus will not be able to employ paid secretaries, which is one of the serious draw-backs in their efficiency at the present stage. When their turn-over will be less and lending will be more which means a great loss to the agriculturists. On the other hand, the increase in their business will give them all these advantages.

His third argument is that there will be no clash between the two agencies, as the second agency will support the cooperative agencies and hence the cost will be less. Even if it is admitted that there will be no clash between the two, will it be possible for the State Governments to find such huge capital to finance 80 percent of the agriculturists? In the present circumstances, when they have to spend huge amounts on development programmes, they will not be able to arrange for such huge capital. His proposal that one fourth of the share capital will be provided by other organisations such as Joint stock banks and cooperative agencies, appears to be rather impracticable. No business agency will buy shares of such a corporation having no profits, as the corporation will have to supply finance to credit-unworthy borrowers. Dr. Agrawal himself admits that the State will have to write off a considerable sum annually. Some of the Governments including this State (Punjab) have already shown their inability to raise such a huge capital on a proposal circulated by the Reserve Bank of India for the setting up of such a corporation. He further states that cost of credit will be less, for which he proposes the establishment of one cooperative banking union and one sub-agency of
the Corporation for every 20 to 25 villages. But is this course economi-
cal? Here he seems to have ignored the banking principle altogether.
We have seen in the last chapter that the unions having a smaller area
of operation have the most inefficient service and at the same time charge
a higher rate of interest. This is because their turnover is small, pro-
fits less and cost of management comparatively high, while some of them
have been constantly running under a loss. Banking business requires
larger turn-over, if margin between the borrowing and lending rate is to
be kept low. Even if there is one institution whether Cooperative
Union or the agency of the corporation, it will not be possible to run
it efficiently and economically, unless its area of operation increases
to about 70 to 80 villages.

So the only suitable agency which can provide finance to all the
agriculturist in the secured areas at a reasonable rate of interest and
for all purposes is the cooperative structure, and no agency, whatsoever,
can replace it. But to provide finance to all the agriculturist, the
State help in the form of share capital and other such measures recomme-
ded by the Gadgil Committee, are most essential and to this effect sugges-
tions have been at other places in this chapter. As to the advantages of
cooperative finance over the other agencies, such as private money lender
or state corporation or Agricultural Credit Corporation, this topic has
already been thoroughly discussed by the various Committees and specially
the recent two, i.e. Cooperative Planning Committee (1946) and Narvati
Committee (1947), and needs no repetition. In a country where a large
majority of the peasants are illiterate, no other machinery can work so
well, and have better and closer relations with the borrowers as the
cooperative organisations.
Conclusion: To sum up the broad conclusions we can say that the Provincial Cooperative Bank Lahore (West Punjab) which was the apex institution for the undivided Punjab performed its functions well till partition, when it ceased to function as an apex institution for this State. It had huge resources at its command just at the time of partition check. The cut of its activities gave a rude/to the movement in this state due to blockade of large funds of central institution in this bank and non-division of its assets. A part of the blocked funds has been released by this Bank but a sum of Rs.80 lakhs is still due from it, while no decision has been arrived at about its division of Assets.

To fill the lacuna caused by Partition the new Provincial Cooperative Bank for this state has been organised since 1949, which has rendered all possible help to the central institution by charging a reasonable rate of interest. However the bank has not been able to meet all the demands of central institutions due to small resources at its command. In order to fulfill all the credit needs of central institution it is essential that the bank must increase its owned funds on the basis of which it can raise its outside liability and have rediscounting facilities. For this the bank should increase its share capital, which should be purchased by individuals as well as by the State Government. The work of Central Land Mortgage Bank, of which there is great necessity, should be taken up by this Bank in the initial stages to avoid large overhead expenses till the business develops sufficiently. There is no need of setting up Agricultural Credit Corporation in the State, and its function can easily be performed by the Provincial Bank provided the same help required to be given to the said Corporation is given to this Bank.