CHAPTER IV

FINANCING OF CO-OPERATIVES BY THE STATE BANK OF INDIA AND ITS SUBSIDIARIES
The All-India Rural Credit Survey Committee on whose recommendations the State Bank of India was established, conceived for the Bank, a role of being responsive "to the needs of the co-operative institutions connected with credit and especially marketing and processing".¹ The Committee, however, felt that it was for the Reserve Bank primarily, to continue to lend support to co-operatives and the State Bank's role should be of a supplementary financing agency.

The Committee, appointed by the Reserve Bank of India in 1957 to formulate a programme of action for the State Bank of India, came to the conclusion that in meeting the credit requirements of marketing and processing societies, which would be of a substantial order, the Bank would be making a significant contribution in respect of rural finance and that production finance would continue to be made available by the existing co-operative financing institutions. The Committee, did not favour the two other alternatives placed before it, viz., transfer to the State Bank of India of all

the functions discharged by the Reserve Bank of India in relation to agricultural credit and replacement of the co-operative financing structure, consisting of the apex and central co-operative banks, by the State Bank of India.

The V.L. Mehta Committee\(^1\) on Co-operative Credit (1960), while noting with satisfaction the responsiveness of the State Bank of India to the needs of co-operative institutions, suggested only certain streamlining in the procedure adopted by the Bank for extending the credit facilities to marketing societies. The Informal Group on Institutional Arrangements for Agricultural Credit\(^2\) constituted by the Governor of the Reserve Bank of India in May, 1964, which reviewed the role of the State Bank of India in the sphere of rural and co-operative credit, concluded that the record of the State Bank of India in the matter of supporting non-credit co-operatives connected with agriculture had been on the whole, quite encouraging. The group envisaged that the Bank should, as a financier of the rural

---

and co-operative sector, divert its efforts towards the provision of working capital advance for procurement of foodgrains, whether undertaken by co-operatives or other organisations e.g., Food Corporation of India and extension and expansion of Credit to cover, in an increasing manner, the needs of various types of non-credit co-operatives, e.g., those connected with distribution, industrial production, marketing, processing etc. As regards the provision of production or development credit for agricultural purposes to cultivators, the Group recognised that, under the framework of agreed policies, this responsibility was to remain with the co-operative credit structure, which is expected to discharge it with appropriate assistance from the Reserve Bank of India. Thus, the State Bank of India had been, and continues to be, assigned a role of supplementary financing agency, the primary one being that of the Reserve Bank of India.

Within this framework, the Bank has been financing

---

co-operative marketing and processing societies and has also been extending remittance facilities and short term accommodation to the central co-operative institutions to stimulate and assist them in their operations. With the passage of time, the Bank has extended the scope of its assistance to a wider field to cover co-operative sugar factories, land mortgage banks, industrial co-operatives, wholesale consumer stores, etc. Assistance rendered to co-operative institutions by the Bank and the Subsidiaries stood at ₹ 107.23 crores in terms of limits sanctioned and ₹ 130.29 crores in outstandings as on 30th June, 1969.

In order to assist the apex and central co-operative banks to maintain the necessary level of liquid resources and to facilitate their day-to-day operations, the Bank grants them advances against authorised Government securities at concessional rates of interest. The Central Co-operative Banks are also given credit facilities on repledge of goods. In addition, the bank grants advances to co-operative banks on the guarantee of the State Governments for financing marketing and processing agricultural produce, distribution
of fertilisers and other agricultural inputs, as also for financing food procurement operations. The limits sanctioned to co-operative banks, as on 30th June, 1969, aggregated Rs. 65.73 crores against which outstandings amounted to Rs. 29.15 crores.

As envisaged by the Rural Credit Survey Committee, the State Bank has been particularly responsive to the financial needs of marketing and processing societies. These societies are provided credit against pledge of produce either belonging to them or kept with them by their members. The terms and conditions on which advances are granted to these societies are quite liberal. Where the societies or the godowns in which their stocks are proposed to be pledged, are inaccessible and supervision and servicing of advances are difficult, as also where, for one reason or another, the societies are unable to borrow on the security of acceptable stocks; the bank grants them clean accommodation up to an amount not exceeding their own funds on the guarantee of the apex or central co-operative banks or the apex marketing

---

societies and beyond that limit, where the guarantee of the State Government is forthcoming. Advances to co-operative marketing and processing societies are granted only where they are unable to obtain financial accommodation from their own financing agencies and the latter have expressed themselves as having no objection to such an arrangement. The limits sanctioned to co-operative marketing and processing societies, as at the end of June, 1969, by the bank and the subsidiaries aggregated Rs. 76.19 crores, while the outstandings amounted to Rs. 52.41 crores. As on that date, the bank and the Subsidiaries had also granted to these societies limits aggregating Rs. 37.43 crores (outstandings being Rs. 23.26 crores) through co-operative banks.

The various credit facilities available to co-operative sugar factories are (1) advances against pledge of stocks of sugar; (ii) clean credit facilities against the guarantee of the State Government for working capital, pending accumulation of stocks of sugar; (iii) interim accommodation, on the guarantee of the State Government, pending disbursement of loans from the Industrial Finance Corporation; or any other

financial institutions; and (iv) advances for the financing of sugarcane growers in the areas of sugar factories for their agricultural operations. The aggregate of limits sanctioned by the bank and the Subsidiaries to sugar factories, as at the end of June 1969, was Rs. 15.31 crores with outstandings amounting to Rs. 10.40 crores. In addition, limits to the extent of Rs. 6.09 crores had been granted to the sugar factories through co-operative banks.

With a view to enabling central land mortgage development banks to acquire mortgages, pending flotation of debentures, interim accommodation is granted by the bank and the Subsidiaries to such banks on the guarantee of the State Government. These advances are to be repaid as soon as the relative series of debentures are floated. The total of such limits sanctioned by the Bank and the Subsidiaries amounted to Rs. 20.97 crores, against which outstandings aggregated Rs. 11.96 crores as at the end of June 1969.

Another important line of assistance to the co-operative land mortgage/development banks available from the Bank and the Subsidiaries is their contribution to the
debentures floated by these banks. As at the end of June 1969, such investments of the Bank and the Subsidiaries amounted to Rs. 24.83 crores.

In pursuance of the recommendations of the First Working Group on Industrial Co-operative, appointed by the Government of India in 1957, the bank decided to finance industrial co-operatives for their working capital requirements provided (i) the concerned co-operative financing agency was unable to provide such accommodation, and (ii) the concerned co-operative financing agency/Registrar of Co-operative Societies, Director of Industries gave consent to the society being financed by the State Bank in following ways:

Firstly, advances to industrial societies are normally granted against raw materials and finished products (including those in the process of manufacture) and bills received. Secondly, clean loans are also granted, where considered necessary, on the guarantee of the State Government or of apex/central/industrial co-operative bank and lastly, medium-term loans are granted to acquire machinery and equipment and other capital assets. As at the end of June 1969, the limits sanctioned by the Bank and the Subsidiaries to industrial
co-operatives aggregated Rs. 1.19 crores, while the outstanding against these limits amounted to Rs. 0.72 crores. Limits sanctioned to co-operative banks for the financing of industrial co-operatives aggregated Rs. 0.31 crores as on that date.

Recognising that the co-operative sector has its own banking structure which generally operates in three tiers, that it has always been the general aim of the co-operative movement that as far as possible it should be self-sufficient within itself, and that co-operative institutions look at outside sources for assistance only if and to the extent to their requirements are not fulfilled from within the movement itself, the State Bank and the Subsidiaries, as a matter of deliberate policy, conduct their operations in such a way that they do not come in competition with co-operative financing agencies. Assistance to a co-operative institution is granted only if the co-operative bank does not have the resources to meet its financial needs adequately. The bank's assistance is, therefore, for the purpose of adding to the resources of the co-operative movement, without in any way affecting its cohesion.
In addition to the advances of various types, the Bank and the Subsidiaries also provide, within certain limits, free remittance facilities to co-operative institutions. Under the Reserve Bank of India Scheme, State Co-operative Banks and their affiliated central or industrial co-operative banks are eligible for transfer of funds, four times a week, free of charge, an amount of ₹ 10,000 (minimum) or in multiples of ₹ 5,000 on each occasion from any place for credit to either the State Co-operative Bank's account with the Reserve Bank of India or that bank's head office account maintained with an office of the bank which is located at the centre where the State Co-operative Bank has its headquarters. The bank provides the facility of remittance under its own scheme also, whereby remittance, once a week, in multiples of ₹ 100 with a minimum of ₹ 1,000 for each remittance, free of charge, is permitted from a State Co-operative Bank to each of its branches. Such remittance at present aggregate over ₹ 800 crores annually. Suitable remittance facilities are also available to co-operative

land mortgage banks.

As against an almost negligible level of credit in 1955, when the State Bank of India was established, credit limits sanctioned by the bank as at the end of June 1969 aggregated Rs. 168.29 crores with outstandings amounting to Rs. 115.38 crores. Subsidiaries' assistance between December 1960 and June 1969 increased from Rs. 3.45 crores and Rs. 1.40 crores in terms of sanctioned limits and outstandings respectively to Rs. 38.94 crores and Rs. 14.91 crores. As at the end of March, 1967, the latest date for which comparative data are available, advances by the public sector banks accounted for as much as 87% of the total credit provided to co-operatives by all scheduled commercial banks. Considering that public sector banks' advances to co-operatives, between March 1967 and June 1969, recorded a substantial increase from Rs. 106.71 crores and Rs. 47.22 crores to Rs. 207.23 crores and Rs. 130.29 crores, in terms of sanctioned limits and outstandings respectively, the proportion is expected to have gone up.¹ Despite this significant

achievement, efforts continued to attract as much additional business of co-operative as possible.

With a view to augmenting the liquid resources of apex/central co-operative banks so that they can step up their assistance to co-operative societies, the State Bank grants advances to them against authorised Government Securities and debentures of co-operative central land mortgage banks at a concessional rate of interest, viz., 1/2 per cent below the State Bank of India Advance Rate subject to a minimum of 4½ per cent per annum, irrespective of the amount of advance or the centre where the advance is granted.

Where co-operative banks have lent on the security of produce to their affiliated societies, they can obtain advances against a re-pledge of such produce at a rate of interest 1/4 per cent above the State Bank of India Advance Rate, minimum 5½ per cent per annum.¹

Advances are granted to apex/central co-operative banks on the guarantee of the State Government for financing

the marketing of agricultural produce and the distribution of fertilisers, agricultural implements etc. of the affiliated societies, as well as for financing procurement operations in the State; the rate of interest is ½ per cent over the State Bank of India Advance Rate, minimum 5½ per cent per annum. Advances to central co-operative banks for the aforesaid purpose are also made by the bank on the guarantee of the apex bank concerned, provided the financial position and affairs of the apex bank are on examination found to be satisfactory.

As agents of the Reserve Bank of India, the State Bank provides State Co-operative Banks and their affiliated central co-operative banks, free remittances four times a week, an amount of Rs. 10,000/- minimum or in multiples of Rs. 5,000/- for credit to either the State Co-operative Bank's principal account with the Reserve Bank of India or that bank's head office account maintained with the office of the State Bank of India which is located at the centre where the State Co-operative Bank has its headquarters.

The bank also provides, on its own, facilities for remittance of money once a week, free of charge, from a
State Co-operative Bank to each of its branches of affiliated Central Co-operative Banks and by a Central Co-operative Bank to each of its branches. Such remittances are also permitted direct from an apex co-operative bank to a branch of a Central Co-operative Bank, provided on the relative application, the apex bank certifies that the remittance concerned will be the only free remittance in the week to the particular branch of the Central Co-operative Bank. These remittances are for a minimum of Rs. 1,000/- and in multiples of Rs. 100/-.

Co-operative banks' own cheques are collected/purchased at a concessionary rate of 1/32 per cent, minimum ten annas, as against the usual rate of 1/8 to 1/16 per cent charged to others.

Bills/third party cheques on centre not served by branch of a State or Central Co-operative bank but where the State Bank has an office of its own, are also collected at concessionary rate of 1/32 per cent, minimum ten annas, the proceeds being remitted at par by drafts drawn on the Local Head Offices of the State Bank of India or on the
branches of the State Bank of India where head offices of the co-operative banks are situated.

Drafts/cheques drawn by co-operative banks on apex co-operative banks for the purpose of replenishment of funds are also discounted at 1/32 per cent, minimum 10 annas, within such limits as may be fixed by branch agents.

Co-operative central land mortgage banks finance primary land mortgage banks to enable them to issue long-term loans to their agriculturist-members for purposes of land development etc. These banks advance to their members on the mortgage of land owned by them and subsequently transfer these mortgages to the central land mortgage banks. To be in a position to lend to the primary land mortgage banks have to raise funds and it is here that the State Bank of India comes to their assistance. Accommodation is granted by the State Bank to co-operative central land mortgage banks on the guarantee of State Governments and from Loans so borrowed, these banks finance their primaries which in due course acquire mortgages and transfer them to the co-operative central land mortgage banks. The latter float
debentures on the security of mortgages so transferred and repay the accommodation obtained from the State Bank from the proceeds of debentures. It will be useful to mention here the terms and conditions on which the accommodation is generally provided. These are given below:

i) The State Government should guarantee the advance;

ii) The initial period of advance will not exceed six months and even if renewed the total period will not exceed twelve months, whether or not debentures are floated by the central land mortgage bank;

iii) The rate of interest to be charged will be the State Bank of India advance rate or the rate at which the debentures are proposed to be floated, whichever is higher;

iv) If the central land mortgage bank, at any time during the currency of the overdraft account floats debentures, the funds thus raised should be applied first for the repayment of any outstanding amount due in respect of the account;

v) The central land mortgage bank should send to the State Bank of India an estimate of its proposed lendings to members and a monthly statement of mortgages raised;
vi) The central land mortgage bank should keep the State Bank of India informed of its programme for floating debentures;

vii) The central land mortgage bank should operate on the overdraft account, as and when actually needed, and in any case, generally once a month and limit the drawal at a time to the amount of loans which it expects to issue in relation to the new mortgages to be obtained in that month; and

viii) The central land mortgage bank should forward to the Central Office of the State Bank of India, Bombay, and its concerned local Head-office, a monthly statement (see Appendix 'A') by the 5th of the succeeding month, duly certified by its President.

The State Bank subscribes, in suitable lots, to the debentures floated by Central Co-operative Land Mortgage Banks from time to time and thus helps them to find resources for their operations.

In order to improve the marketability of debentures of co-operative Central Land Mortgage Banks, the State Bank grants advances to holders thereof, within as well as outside, the co-operative sector on the security of such debentures.
Advances are also made on the security of "Rural Debentures" to the holders thereof, in case of any emergency or urgent necessity; the procedure for the grant of such advances has been made as simple as possible.

Co-operative Central Land Mortgage Banks are also eligible for remittance of funds, once a week, free of charge, to their affiliated primary land mortgage banks or to their branches where central land mortgage banks function through branches.

Besides, each of the branches or affiliated primary land mortgage banks of a co-operative central land mortgage bank can effect, a free remittance, once a week, for credit of the co-operative central land mortgage bank's account with that office of the State Bank of India where the co-operative central land mortgage bank has its headquarter. Overdraft/advance account, if any, maintained by a co-operative central land mortgage bank will not be deemed to be an account for this purpose.

As recommended by the Rural Credit Survey Committee the State Bank is particularly responsive to the financial
needs of marketing and processing societies. As already mentioned, in order not to affect the integrity and discipline of the Co-operative Movement, the role of the bank is supplemental to that of the co-operatives' own financing agencies. Co-operative marketing and processing societies, when they are not able to obtain financial assistance from their own institutional sources, can obtain accommodation from the State Bank for carrying on their operations. The terms and conditions on which facilities are made available to these societies have been quite liberal and recently these have been further liberalised.

Accommodation is provided against pledge of produce either belonging to the societies or left with them by members. The margin retained varies generally between 25 and 40 per cent depending on the nature of the crop. The objects of the societies, as stated in their bye-laws should permit the societies, in the course of their business, either to sell goods or to consign goods for the purpose of sale or to buy goods or to raise money on the security of goods. Further, to enable the State Bank to make advances to them, the bye-laws of the societies should also permit them to
borrow from non-members. The societies should maintain proper accounts and furnish to the bank periodical statements regarding pledge advances to the members.

Where a society has to obtain delivery of some stocks under pledge to the State Bank, either for sale or for return to the member but has no funds to repay the equivalent amount advanced on the security thereof by the bank, the bank would be prepared, if satisfied in regard to the merits of the case, to release such stocks, up to certain limits on the strength of a letter/receipt to be given by the society whereby the society acknowledges receipt of the goods and states that they are held by it as trustee for the bank and that it is acting as agent for the bank for the purpose of getting delivery of the goods, selling or warehousing them, and that it binds itself to pay over the sale proceeds to the bank.

Interest on pledge advances is charged at ½ per cent over the State Bank of India advance rate, minimum 5½ per cent per annum; godown staff's wages/salaries are not recovered from the societies except in case of large advances exceeding Rs. 5 lacs.
The State Bank is willing to reduce the margins to be maintained on pledge accounts if guarantees from the State Government or central co-operative banks/apex marketing societies are forthcoming for such reduction. But where such guarantees are furnished by co-operative banks/apex marketing societies, the bank has to satisfy itself by an examination of their affairs that both the guarantor and the borrowing society are in a sound condition.

Where the societies of the godowns in which their stocks are proposed to be pledged are inaccessible, thus rendering supervision and servicing of the advance difficult, as also where, for one reason or another, the societies are able to borrow on the security of acceptable stocks, the State Bank grants them clean accommodation, the amount not exceeding their owned funds, on the guarantee of apex/central co-operative banks/apex marketing society. This accommodation is given even though the society may have already borrowed from the co-operative bank. Clean accommodation is also provided on the guarantee of the State Government and in that case the amount is not limited to the owned funds of the society. Such guarantee as well as the guarantee in respect
of margins may be given separately in respect of individual societies or on a consolidated basis in respect of all the marketing societies in the State/Territory. Where the guarantee is a consolidated guarantee, it may specify an overall ceiling limit and may also stipulate any other restrictions in respect of the maximum sum to be advanced to an individual society. Subject to these considerations, if laid down, the bank has to be left free to make advances to any applicant society to such an extent and on such terms and conditions as it deems fit and its decision in this respect will have to be accepted as final and not be called in question.

Rate of interest is 1/2 per cent over the State Bank of India advance rate, minimum 5\(\frac{1}{2}\) per cent per annum, where the guarantee is that of the Government and in other cases 3/4 per cent over the State Bank of India advance rate, minimum 5\(\frac{1}{2}\) per cent per annum.

Processing societies may also get accommodation from the State Bank on similar terms. In addition, term loan facilities are available to processing units.
Warehousing aiming as it does at provision of facilities of scientific storage of commodities, is an essential corollary to the development of agricultural marketing. A comprehensive programme has therefore been envisaged in the country for setting up warehouses through the agency of the Central and State Warehousing Corporations established under the Agricultural Produce (Development and Warehousing) Corporations Act, 1956. Much of the success of the warehousing scheme depends on a general acceptance by the country's banking system of the warehouse receipt as security for advances. The State Bank has offered its full support to the scheme as it increases the range of the bank's usefulness and service in so far as it enables it to make advances to the producer in the rural areas who in turn acquires the necessary holding power to sell his produce when the market is favourable to him. Certain statutory provisions, such as those relating to the representation on the boards of the National Co-operative and Warehousing Board, the Central Warehousing Corporation and the State Warehousing Corporations and the bank's participation in the share capital of the Central Warehousing
Corporation, have helped the State Bank in actively associating itself with the warehousing programme. The State Bank has, in consultation with the Central Warehousing Corporation, permitted its officers to serve on the advisory committees for warehouses. It has been endeavouring to open new branches, as far as possible, at or near centres where warehouses of either the Central or State Warehousing Corporations are set up. It has also taken the initiative to evolve procedures for advances by banks against warehouse receipts.

To borrow from the State Bank on the security of a warehouse receipt, for the present, borrowers should have ordinarily full title to the goods either as the original depositors or as the first transeree of the receipt.

The State Bank charges interest on all advances against warehouse receipts generally at \( \frac{1}{2} \) per cent over the State Bank of India advance rate. In the case of co-operative banks and societies, however, the rate of \( \frac{1}{4} \) per cent over the State Bank of India advance rate, minimum 5\( \frac{1}{4} \) per cent

per annum.

The State Bank has also extended certain concessions to borrowers of small amounts on the security of warehouse receipts in respect of restoration of margins, etc. It has considerably simplified the procedure for obtaining opinions of intending borrowers against warehouse receipts and extended the scope of its pledge advances to include additional commodities which are expected to come to warehouses for storage. The State Bank has been endeavouring to adjust its procedures and terms in order to promote and popularise the warehousing scheme.

As compared to the commercial banking system which is mainly urban-oriented, co-operative banking has penetrated into the rural areas mainly as a result of official initiative and encouragement. The co-operative credit structure for short-term and medium-term credit is a three-tier federal one, with a State Co-operative Bank at the apex level in each State, the Central Co-operative Bank at the district level and the primary credit societies at the base -- agricultural credit societies in the villages and urban banks and other non-agricultural credit societies mainly in towns.
cities. In the nine States of Andhra Pradesh, Bihar, Gujarat, Madhya Pradesh, Maharashtra, Mysore, Orissa, Rajasthan and West Bengal, there were 2,367 active grain banks at the end of June 1967 which functioned as primary societies. The number of active grain banks has been declining over recent years. Their relative importance in the co-operative credit structure is insignificant. The amount of loans outstanding at the end of June 1967 was less than Rs. 4 crores. For long-term credit, there is a central land development bank in each State operating through branches in some States (Bihar, Gujarat, Jammu and Kashmir and Uttar Pradesh) or through primary land development banks at Taluka level (as in Tamil Nadu, Mysore and Andhra Pradesh) or at district level (as in Maharashtra). There are, in addition, a few industrial co-operative banks operating at the State or district levels.

The centres at which co-operatives provide credit facilities are not only numerous, but well dispersed. Though 141 offices of the 25 State co-operative banks are mostly at State headquarters, 346 central co-operative banks have 2,648 offices at district/taluka level at which they offer
### Table 16

**Co-operative Credit Structure Chart**

<table>
<thead>
<tr>
<th>Agricultural Credit</th>
<th>Non-Agricultural Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Short-Term &amp; Medium-Term</strong></td>
<td><strong>State Cooperative Banks (25)</strong></td>
</tr>
<tr>
<td><strong>State Co-operative Banks (25)</strong> &amp; <strong>Central Land Mortgage/Development Banks (19)</strong></td>
<td><strong>State Industrial Co-operative Banks (3)</strong></td>
</tr>
<tr>
<td><strong>Central Cooperative Banks (346)</strong> &amp; <strong>Primary Land Mortgage/Development Banks (767)</strong></td>
<td><strong>Central Cooperative Banks (346)</strong> &amp; <strong>Primary Non-Agricultural Credit Societies (Active) (10,993)</strong></td>
</tr>
</tbody>
</table>
| **Primary Agricultural Credit (Active) (2,367)** | **Of which:**
| **Grain Banks Societies (Active) (1,53,770)** | **Employees' Co-operative Urban Co-operative Credit Societies (Active) Banks (604)** $^c$ |
| | **(7,375)** |

---

**Note:**
1. Figures in brackets indicate number of institutions.
2. Data as at the end of June, '67.
3. State Co-operative Banks and the Central Co-operative Banks under Agricultural and non-Agricultural credit are the same.
4. Under the purview of the Banking Regulation Act, 1949, as on June 30, 1968.
5. In Bihar, Gujarat, Jammu and Kashmir, and Uttar Pradesh, the structure is unitary, the central land development bank operating directly, through its branches.

various banking facilities. The urban banks numbering 604 (as on June 30, 1968) which are under the purview of the Banking Regulation Act, 1949, also provide banking services to cities and towns. At the end of June 1967, there were 3,662 offices of co-operative banks*, situated in 2,710 centres. The contribution of co-operative banks in taking banking facilities to the smaller places can be seen from the fact that these banks accounted for as many as 791 out of the 1,135 bank offices in places with a population of less than 5,000 (Appendix ). In as many as 1,113 centres, there were offices of state or central co-operative banks, but none of the commercial or urban co-operative banks; of these, 1,064 centres had a population of less than 10,000 (Appendix ).

The primary agricultural credit societies which operate at the village level catering with the credit needs of the multitudes of villagers, numbered 1,78,738 at the end of June 1967; of these, 1,53,771 were active and the

* Offices of state co-operative banks, central co-operative banks, urban co-operative banks, industrial co-operative banks and land mortgage banks.
rest were dormant. The number of villages covered by active societies as on June 30, 1967, was 4,61,397 i.e., 82 per cent of all the 5,64,474 villages in the country (Appendix ).

More than 90 per cent of the villages were covered by the active primary agricultural credit societies in four States viz., Maharashtra (98 per cent), Madhya Pradesh (94 per cent), Haryana (93 per cent) and Gujarat (92 per cent).

By the end of the year 1966-67, the membership of the active primary agricultural credit societies was 24.1 million. The population in all villages has been estimated at about 401 million (mid-1967 estimate). Assuming that the average size of a family is five, the number of rural families (cultivating and non-cultivating) roughly works out to 80 million. On this basis, about 30 per cent of the 80 million rural families are covered by membership of active societies. The proportion of borrowing members to total number of members is only 40 per cent.

It would thus be seen that in terms of geographical coverage and population served, the co-operative credit system is today an important institutional credit agency. Although the coverage of the system is substantial, the progress of
the movement is highly uneven as between different States. During the year 1966-67, loans issued by primary agricultural credit societies amounted to ₹ 165 crores. Of this, more than 55 per cent was accounted for by only four States viz., Maharashtra (20.9 per cent), Gujarat (12.7 per cent), Uttar Pradesh (11.7 per cent) and Madhya Pradesh (10.0 per cent). Details are given in Appendix. The ceiling on borrowing power of an individual member varies from State to State. The average loan issued per borrowing member amounted to ₹ 344 during 1966-67. The average loan per borrowing member was the highest in Gujarat (₹ 748) followed by Maharashtra (₹ 497), Tamil Nadu (₹ 427), Mysore (₹ 352), Madhya Pradesh (₹ 321) and Punjab (₹ 308). In all the remaining States, the average loan issued per borrowing member was less than ₹ 300.

The average loan issued per member was around ₹ 400 in Gujarat and around ₹ 300 in Maharashtra, while it was round ₹ 200 in Madhya Pradesh and Punjab. In Tamil Nadu, though the average loan per borrowing member was high (₹ 427), the average per member was low (₹ 97), indicating that the proportion of borrowing members to the total membership

Report of a study group of the National Credit Council 1969.
was very low (23 per cent) and that a large number of members did not borrow from the societies.

The classification of loans issued by primary agricultural credit societies during 1966-67 was on amount basis, that is, according to the size of the loans advanced. It will be seen that, out of Rs. 365 crores advanced by the societies, only Rs. 32.8 crores or 9 per cent were in the form of small loans not exceeding Rs. 100 and Rs. 71.6 crores or 20 per cent were in amounts ranging from Rs. 101 to 300. Thus, loans up to Rs. 300 accounted for about 29 per cent of the total credit disbursed by agricultural credit societies. On the other hand, loans exceeding Rs. 500 formed a fairly large proportion, namely, 46 per cent of the total loans issued.

In assessing the overall progress of co-operative movement in various States, we should not go by individual indicators but take into account the totality of the picture. It will be found that the overall progress made by Gujarat, Maharashtra, Punjab and Mysore is generally more satisfactory as compared to the position in other States. The progress in
Assam, Bihar, Rajasthan, Orissa and Jammu and Kashmir is relatively unsatisfactory. Some States like Andhra Pradesh, Haryana, Kerala and Madhya Pradesh may be considered as coming under an intermediate group.

The main shortcomings of the co-operative system, which vary from State to State, are the problems of overdues, indifferent management, domination of co-operatives by vested interests, shortage of resources, lack of effort to mobilise deposits, untrained staff, certain policies and procedures followed, which are not suitable to local environment and the weak arrangements for linking credit with marketing. The All-India Rural Credit Review Committee has dealt with these and other shortcomings in its recent report. We may, however, discuss the problem of stagnation of co-operatives and their record in mobilising deposits with reference to two States, viz., Tamil Nadu and West Bengal, as illustrative cases. Tamil Nadu comes fairly high insofar as the percentage of population covered by active societies and the average loan issued per borrowing member are concerned, but its position in order of the proportion of the borrowing members to total membership of societies is fairly low. A preliminary study of the problem of stagnation of primary structure in Tamil Nadu
was made recently by the Agricultural Credit Department of the Reserve Bank of India with reference to two societies in the State. On the basis of this very limited study, it is not possible to generalise the causes of stagnation but factors concerned, seem to be common to a large number of societies in Tamil Nadu. The relevant extract is reproduced below:

It will be seen that, in more than one aspect the practice of co-operative agricultural credit in these societies is characterised by restrictive features in the removal of which little progress has been made. Though some features of the crop loan system have ostensibly been introduced viz., the fixation of scales of finance for each crop, due dates based on principles of seasonality and so on, the impact of this is not yet felt in actual practice because the managements of the societies are still, apparently reluctant to put them into practice. Thus, there is no enthusiastic effort to bring into the society all sections of cultivators. Nor are the loans sanctioned to members up to the amounts justified by the acreage and scale of finance. Surety loans are low, and the individual maximum borrowing power, in effect, has remained at much lower levels than those at which they are supposed to have been fixed in pursuance of the adoption of the crop loan system. These seem to be the main reasons why the disbursement of co-operative agricultural
credit in parts of the State has failed to reach satisfactory levels of performance.

Until recently, the direct financing of farmers by the State Bank was not envisaged. Even in the matter of financing of co-operatives, the role of the bank was kept secondary to that of the Reserve Bank of India, which continued and still continues to be the main source of finance for the co-operative financing agencies. Within this framework, the State Bank has been endeavouring to provide sizeable assistance to different agencies having their impact on the agricultural sector. The State Banks of Bikaner and Jaipur, Hyderabad, Indore, Mysore, Patiala, Saurashtra and Travencore also, consequent upon their having been taken over as Subsidiaries of the State Bank of India in 1959 and 1960, were embedded with the same policy. The total assistance rendered by the Bank and its Subsidiaries as at the end of June 1968 aggregated Rs. 335 crores, in terms of limits sanctioned, and Rs. 211 crores, in terms of outstandings, as shown in Table 1. In addition, the Bank and its Subsidiaries had invested Rs. 21 crores in the debentures of the Central Land Mortgage/Development
Table - 17

TABLE I- TOTAL ASSISTANCE FOR AGRICULTURAL FINANCE.¹
(Amount in crores of rupees)

<table>
<thead>
<tr>
<th>Description</th>
<th>No. of accounted limit -s.</th>
<th>Sanctioned limit -s.</th>
<th>Outstanding -s.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I. CO-OPERATIVES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Co-operative banks</td>
<td>365</td>
<td>54</td>
<td>9</td>
</tr>
<tr>
<td>2. Marketing and processing societies (other than sugar factories)</td>
<td>151</td>
<td>17</td>
<td>12</td>
</tr>
<tr>
<td>3. Co-operative sugar factories</td>
<td>33</td>
<td>15</td>
<td>7</td>
</tr>
<tr>
<td>5. Industrial co-operatives</td>
<td>109</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>6. Other co-operative institutions</td>
<td>33</td>
<td>1</td>
<td>@</td>
</tr>
<tr>
<td><strong>II. STATE GOVERNMENT &amp; F.C.I.</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. (i) Marketing of foodgrains</td>
<td>18</td>
<td>201</td>
<td>166</td>
</tr>
<tr>
<td>(ii) Fertilizer business</td>
<td>1</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td><strong>III. ADVANCES AGAINST WAREHOUSE RECEIPTS</strong></td>
<td>2,924</td>
<td>13</td>
<td>3</td>
</tr>
<tr>
<td><strong>IV. AGRICULTURE</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Agriculturists</td>
<td>15,969</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>9. Allied agricultural activities</td>
<td>142</td>
<td>1</td>
<td>@</td>
</tr>
<tr>
<td>10. Plantations</td>
<td>133</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>19,903</td>
<td>335</td>
<td>211</td>
</tr>
</tbody>
</table>

@ less than Rs. 1 crore.

Banks and Rs. 1 crore in the shares of the Central Warehousing Corporation.  

Advances to apex/central co-operative banks are granted for financing the marketing of agricultural produce and the distribution of fertilizers, agricultural implements, etc. as well as for financing foodgrains procurement operations, Central land mortgage/development banks receive interim finance, pending flotation of debentures by them, besides the assistance by way of investment in their debenture issues. Co-operative marketing and processing societies are assisted, where they are unable to obtain financial assistance from their own institutional sources, for their working capital requirements. Assistance to co-operative sugar factories is provided by way of interim finance, pending receipt of loan after sanction from the Industrial Finance Corporation of India for their block-capital needs, and for meeting their working capital requirements. The terms and conditions, as applicable to co-operative advances, are liberal. The share of the State

Bank of India and its Subsidiaries in the total advances of all the scheduled commercial banks to co-operative institutions was as high as 80 per cent in March 1966 (the latest date for which comparative data are available).

It would be observed from the figures furnished above that the bulk of the bank's assistance to the agricultural sector has been channelled through the co-operatives. Advances granted to agriculture directly aggregated Rs. 12 crores. This was mainly due to the official policy in this regard which kept, until recently, agriculture as the exclusive preserve of the co-operatives. The bank's assistance to the agriculturists in the past comprised mainly of advances against warehouse receipts and gold ornaments or to plantations.

The most significant experiment made by the bank in the field of financing agriculturists directly for agricultural activities has been the financing of a partnership firm in Amraoti in the State of Maharashtra. The firm which is engaged in the production of hybrid seeds, cereals, cotton, oilseeds and vegetables, was in 1966 granted by the bank a working capital finance of Rs. 3.25 lakhs to meet its production
requirements on over 600 acres of land. The experience gained in the first year encouraged the firm to undertake a bigger programme in the subsequent year i.e., 1967-68, when the bank granted working capital finance of Rs. 5 lakhs to cover 800 acres of land, medium-term loan of Rs. 3 lakhs for provision of irrigation facilities and instalment credit of Rs. 56,729 for purchase of tractors. The performance of the firm was satisfactory during 1967-68 as well. For the year 1968-69, the bank has granted loans aggregating Rs. 20.16 lakhs to meet the firm's working capital and medium-term requirements over a large area measuring about 1,300 acres.

In view of the happy experience of the bank, it was suggested to the firm to consider the desirability of expanding its activities by imparting technical knowledge to such farmers in the neighbouring areas as were prepared to grow hybrid/good quality seeds by adopting modern methods of farming with the financial assistance of the bank. A serious

problem which these farmers faced, related to the processing and marketing of their produce. This was resolved by working out an arrangement in terms of which the firm undertook, not only to impart technical assistance but also to purchase the entire seeds of the farmers. Under the scheme, 45 farmers have been assisted by the bank so far and many more are likely to be covered in the near future. Thus, with the active assistance of the bank, a new class of farmers who may not have adopted modern farming, has emerged on the scene.

Another major experience of the bank in the field of agricultural credit has been the provision of financial accommodation to fishermen in the Ratnagiri district of Maharashtra. The need for extending the bank’s activity for this purpose arose when the Maharashtra Government withdrew the subsidy extended to purchasers of marine engines about two years ago, at a time when this industry was faced with recession. Under the scheme, credit facilities are granted to fishermen for the purpose of purchasing hull, marine engines and other allied accessories, with a view to enabling them to undertake deep-sea fishing operations. By financing fishermen, the bank not only assisted the manufacturers of
marine engines but also helped in establishing a number of fishermen and increasing the availability of fish. Yet another social benefit, which this scheme has, relates to the increase in the habits of thrift of the fishermen. Under the scheme, a fisherman is required to deposit his daily earnings in a specially opened savings bank account with the bank, the balance of which is utilised by him towards the repayment of instalments on due dates. About 52 fishermen have so far been assisted to the extent of over Rs. 26 lakhs.

The success achieved in these experiments has been highly encouraging for the bank. In addition, there also arose the need to supplement the efforts of co-operatives in providing agricultural credit. The credit provided by the co-operatives increased from Rs. 25 crores in 1950-51 to Rs. 161 crores in 1961-62 and their share in the total borrowings of the cultivator households from 3.1 per cent to 15.5 per cent. The total credit provided by them further increased to Rs. 342 crores in 1965-66. Despite the achievement of the

co-operatives, the agricultural and professional moneylenders still continue to occupy a significant position in providing agricultural credit accounting for 49.2 per cent (in 1961) in the total borrowings of the cultivators' households. With the introduction of high-yielding and hybrid varieties of seeds, growing awareness among the farmers for larger use of fertilisers, pesticides and other plant protection measures and the need for having assured irrigation and for increasing farm mechanisation and modernisation, the demand for agricultural credit will be even larger in future years and is expected to be about Rs. 1,400 to Rs. 1,600 crores in 1970-71. Despite their best intentions, the co-operatives will be unable to meet the credit requirements of this order. It is in this context that the entry of commercial banks has been strongly advocated.

As early as November, 1967, the State Bank decided to consider proposals from farmers for instalment credit loans for the purpose of tractors, pump-sets, oil engines and other agricultural implements and farm equipment. Detailed policy

in this regard was, however, laid in April 1968 when the bank decided to finance all agricultural operations right from the sowing to harvesting of crops, processing, preservation, storage, transportation and marketing of agricultural produce. Finance is provided not only for meeting the working capital requirements, but also for the mechanisation and modernisation of farms, provision of irrigation facilities and development of land. Special farming activities such as animal husbandry, cattle breeding, dairy-farming, pisciculture, piggery, poultry farming, horticulture and orchards are also eligible for bank's finance. Advances are also granted for the purchase, storage and distribution of agricultural inputs such as fertilisers, pesticides, insecticides, seeds etc. Other activities undertaken by the bank for the financing of allied agricultural activities are:

1) Financing of joint stock companies, partnership firms or any other body corporate, for undertaking

agricultural operations such as production of sugar-cane, tobacco, hybrid seeds, etc. through farmers;

ii) financing of agro-industries corporations to enable them to extend hire purchase facilities to farmers for the purchase of tractors, power tillers, pump-sets etc. and to store tractors, power tillers, pump-sets, etc., and

iii) manufacture of agricultural inputs such as fertilisers, pesticides, tractors, motors, pump-sets, oil engines and other agricultural implements.

An appropriate and intelligent administration of farm credit requires knowledge of the existing agricultural patterns, actual estimate of the production possibilities and competent machinery for examining the loan proposals, giving technical advice and ensuring proper utilisation of credit. Agricultural Credit Cells have, therefore, been created at the bank's local head offices and head offices of the subsidiaries. Each of these cells has been placed in charge of a Development Officer (Agriculture) to co-ordinate the work of all branches in the circle or the subsidiary. Arrangements for the training of the staff have also been made with the Agricultural Universities in addition to the Bankers' Training College of the
Reserve Bank of India. A number of officials have already been trained and many more are in the course of being trained. The cells have also taken some of the officials of the Agriculture Departments of the State Governments, on deputation basis, for the operation of the bank's schemes.

Until the cells are in a position to build up sufficient experience and expertise, the approach has necessarily to be selective. To that end in view, it was decided to concentrate on areas which are most responsive and where extension of the activities would result in substantial benefit. About three to four centres have been selected in each State for the operation of the bank's scheme on an intensive basis. The basis of the selection has been that these areas should be assured of adequate water supply and there should not be long-term problems such as those relating to famines, susceptibility to floods, drainage and soil conservation. The areas included in the IADP, IAAP and HYVP have been given special preference in the matter of selection of centres. The selections have been done, as far as possible, in consultations with the State Governments. It is, however, not intended that agricultural finance should be strictly limited to these
selected centres and where worthwhile applications are received from farmers at other centres and prepared to accept such business provided arrangements for adequate follow-up and supervision can be introduced and implemented.\footnote{Report on Agricultural Finance by R.B.I. 1968, page 128.}

The problem of rural indebtedness being very vast, it was initially decided to finance owner-cultivators owning not less than 25 acres of land. Based on the experience, however, the emphasis has now been shifted from the size of land holding to the progressiveness of the farmers and the economic viability of the schemes. Farmers should be willing to adopt modern techniques of production and accept the discipline of commercial bank finance. The usual methods of credit evaluation such as purpose of advance, integrity of the borrowers, yield prospects and protection are duly taken into consideration. Particular emphasis is placed on the follow-up of advances so that it could supervise and ensure that the money is being utilised for approved purposes. In order to ensure that the advance is utilised for the purpose for which it is intended, in addition to providing for the payment of fertilizers, seeds, pesticides etc., being made to the suppliers direct, a schedule of cash disbursement at periodical intervals, based on the borrowers'
requirements for labour and other items of expenditure, where direct payments are not possible, is prescribed.

The scheme envisages that the advance granted should result in additional production. Interest rates generally charged may vary between 8½ per cent and 9½ per cent per annum. Advances for short-term working capital are granted either on cash credit basis (pledge, hypothecation or clean) or as demand loans or overdrafts. Hypothecation of standing crops forms the primary security for working capital finance. For instalment credit loans, mainly pledge or hypothecation of machinery and equipment is obtained and, for term loans, mortgage of farm land, with such collateral as may be available, is obtained. Third party guarantee is also accepted as collateral. In suitable cases, equitable mortgages are also accepted. A margin of 25 to 33.1/3 per cent has been envisaged for instalment credit loans and 50 per cent,1 for term loans relaxations being permitted in deserving cases. Margin in the case of working capital advance is dependent upon the borrower's own resources position; the main deciding factors for the latter are his own investment in the past and the portion of the last year's profit likely to be re-invested during the current year. Repayment instalments are conveniently fixed and related generally to the harvesting of the produce. Short-

term loans become repayable immediately after harvests whereas, instalment credit and other term loans are repayable in instalments of convenient maturity at quarterly, half-yearly or yearly intervals, depending upon the number of crops grown, the due dates coinciding with the harvesting periods of the crops.

As regards the bank's policy towards the co-operatives, it is not intended to compete with them. The role will have to be supplementary. The area of work is so vast and agricultural requirements are so enormous that there is more than enough scope for both the agencies to exist without overlapping and interference. The bank's policy is, therefore, to obtain a general clearance from the State Government Department concerned to the effect that they have no objection to the operating of the scheme for financing agriculture in the selected areas in the manner described above.

Sometime back there arose an occasion to obtain information from the offices concerned regarding credit limits sanctioned to agricultural activities under the newly formulated schemes which is given in Table 3.
Table 2 - CREDIT LIMITS SANCTIONED
(As at the end of June 1968).

<table>
<thead>
<tr>
<th>Category</th>
<th>No. of accounts</th>
<th>Limits sanctioned (in lakhs of rupees)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farm finance</td>
<td>221</td>
<td>110</td>
</tr>
<tr>
<td>Poultry farming</td>
<td>34</td>
<td>39</td>
</tr>
<tr>
<td>Fisheries</td>
<td>25</td>
<td>14</td>
</tr>
<tr>
<td>Dairy farming</td>
<td>10</td>
<td>6</td>
</tr>
<tr>
<td>Grape-vineyards</td>
<td>11</td>
<td>5</td>
</tr>
<tr>
<td>Horticulture</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Agricultural machinery and equipments</td>
<td>133</td>
<td>32</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1435</strong></td>
<td><strong>207</strong></td>
</tr>
</tbody>
</table>

Note: These figures are exclusive of advances granted to plantations and against gold ornaments and warehouse receipts.

The aggregate assistance rendered by the bank and the subsidiaries, has since then increased to Rs. 323 lakhs and the number of accounts to 1,203 as at the end of September, 1968. Furthermore, the bank and the subsidiaries had granted

Rs. 61 lakhs to sugar factories for carrying on the cultivation of sugarcane on the companies' own farms or on the farms of the sugarcane growers linked with the factories. Finance made available ranges from large limits covering sophisticated schemes for seed production right down to small limits of Rs. 1,000 for the purchase of fertilisers, pesticides and seeds.

In addition, the bank has agreed to finance special schemes, which are expected to make a significant impact on the agricultural economy of the country. Under the Tarai Scheme being implemented in the Naini Tal and other neighbouring districts of Uttar Pradesh, it is proposed to produce hybrid seeds over an area of 40,000 acres. This is an integrated scheme and the bank would not only finance the concerned agriculturists for all their requirements but also the setting up of five large seed processing plants. The total cost is expected to be Rs. 7-8 crores. The Varanasi-Etah Scheme envisages implementation of a programme of agricultural production through intensive ground water development or irrigation and a simultaneous integrated supporting programme for land development, crop planning, application of fertilisers, pesticides etc.
More than half (59 per cent) of the total number of farmers in the country are small farmers and unless they are brought within the purview of institutional credit, the problem of agricultural finance can never be solved. Also, the approach to the Fourth Five Year Plan lays down that

"In the irrigated areas or those with assured rainfall, the small farmer should be encouraged to use the high-yielding varieties of seed and other modern agronomic practices which maximise yields and, to this end, positive steps should be taken to ensure that he gets the necessary inputs - water, seed, fertiliser, credit, etc. in time and that arrangements for marketing and processing of his produce are available".

Further, "he must be positively encouraged to move away from subsistence farming to a commercial approach to agriculture through maximum production in whatever crops provide the best return". The bank has had discussions with certain State Governments and is contemplating the undertaking of provision of finance for certain special schemes for the benefit of small farmers. The details of these schemes are

being worked out.

The National Credit Council has estimated that commercial bank's assistance to the agricultural sector during 1968-69 (July-June) should increase by Rs. 35 to 40 crores. Of this, it is anticipated that Rs. 20-25 crores will be on account of fertiliser distribution and the balance for the financing of other inputs as well as direct finance - both short and medium-term to farmers. On the basis of the deposit holdings vis-a-vis those of other commercial banks, the bank and its subsidiaries may be expected to provide about Rs. 10 crores during 1968-69. The bank has fixed, within this overall target, separate targets for each Circle and Subsidiary. From the progress achieved by the bank and its subsidiaries so far, it would appear that the targets fixed for the bank will not only be achieved, but may even be exceeded.

In connection with the financing of agriculture by the bank and its subsidiaries, as in the case of other commercial banks, there are several difficulties which stand in the way of extending sizeable support for the purpose. Some of these difficulties are not insurmountable and are being cared for, while others, which are not within the control of the commercial banks, require, for their removal, the immediate attention of the State Governments and other
concerned agencies. Some of the important ones, falling within the second category, are as under:-

i) In many areas, valid mortgage of agricultural land is not possible, making it difficult for the banks to grant loans of longer maturities.

ii) In several places, mortgage of agricultural land requires permission of the revenue authorities which does not come expeditiously.

iii) Commercial banks are expected to provide finance for agriculture only by way of meeting the gaps and inadequacies. In the absence of any agency which can tell where these gaps and inadequacies exist, it has been found extremely difficult to ascertain such areas.

iv) Stamp duty on registered mortgage is heavy. The provision of agricultural finance is mainly the duty of the co-operatives. If they would have been in a position to do so, no stamp duty would have been payable by the farmers. Since they are unable to meet the entire credit requirements, it appears inequitable for the State Governments to collect stamp duty, the burden of which will, in fact, pass on to the agriculturists.
v) Various legislations are in existence to protect the cultivators from unscrupulous moneylenders. Some of these legislations also stand in the way of commercial banks extending finance to agriculturists.

vi) Most of the co-operative societies Acts provide for a first charge on all movable assets and, in many cases, on immovable properties of an agriculturist in favour of a co-operative financing agency for any loan that such an agency may have granted to the agriculturist and is outstanding. While it may be envisaged that concurrent financing should not be permitted, the problem arises where the farmer resorts to borrowing from co-operatives after he has obtained the loan from the bank.

In pursuance of its policy to bring about a financially and economically viable co-operative banking structure, the bank continued to (i) pay special attention towards rehabilitating and revitalising the weaker units in the co-operative credit structure, (ii) make transitional arrangements for maintaining the flow of production and investment credit for agriculture in the areas of weak central co-operative banks by involving the commercial banks to finance
the primary agricultural credit societies in such areas, (iii) endeavour in bringing about a greater degree of discipline and improvement in the lending policies and operational efficiency of co-operative credit institutions including land and development banks, (iv) widen scope and range of the bank's financial accommodation to the co-operative credit institutions and (v) introduce a number of special training courses at the bank's co-operative bankers' training college for the personnel of State/Central/Urban banks.

Based on the interim recommendations of the All-India Rural Credit Review Committee the proposals concerning the Small Farmers' Development Agency, the Rural Electrification Corporation and the Agricultural Refinance Corporation have been included in the Fourth Five Year Plan. The Rural Electrification Corporation which, among others, will finance rural electric co-operatives was set up in July 1969 and the scheme for establishing eight small farmers' development agencies in four States have also been approved.

The Review Committee submitted its final report in July 1969. Emphasising the need for the bank continuing its role in the sphere of rural credit, the Committee recommended that the formulation, review and modification of the bank's policies in this sphere should be placed in the hands of a high-powered body with appropriate status. Pending amendment to the Reserve Bank of India Act in this regard, the Standing Advisory Committee on Rural and Co-operative Credit was required to be suitably reconstituted as the proposed Agricultural Credit Board. Accordingly, the Committee has been reconstituted in February 1970 as the Agricultural Credit Board of the Bank with the Governor as Chairman, the Deputy Governor in charge of rural credit as its Vice-Chairman, the Chief Officer of the Agricultural Credit Department as the Member-Secretary and eleven members. The other recommendations of the Committee which, among others, related to the adoption of various progressive measures both by the Reserve Bank and other agencies of development for ensuring the timely and adequate flow of production and investment credit for agriculture, are proposed to be placed before the Credit Board for

1. Report on credit council by Reserve Bank of India 1969
In pursuance of the recommendations of the Working Group on Industrial Financing through co-operative banks, the State and Central co-operative banks have been advised (1) that they could invest 15 per cent of their disposable long-term resources or 5 per cent of their total deposit resources, whichever is more, in providing block capital loans to co-operative processing societies and (11) that they liberalise the standards as related to the societies' owned funds adopted in providing clean advances to marketing-cum-processing societies and the processing societies. Measures to bring about the reorganisation of the existing industrial co-operative societies with a view to making them viable units as recommended by the Working Group, have also been initiated by taking up appropriate field studies for the purpose. Following the discussions with the Khadi and Village Industries Commission, it was agreed to implement the scheme of providing working capital to the Khadi and Village industries co-operatives through central co-operative banks on a pilot basis, in Maharashtra.

The weaknesses of the co-operative credit structure, more particularly in certain parts of the country, resulted in a large number of agriculturists experiencing shortage of credit especially in the context of the technological develop-
ments taking place in agricultural production. This highlighted the need for meeting their credit needs even for a temporary period, through other institutional sources, till such time as the co-operative credit structure itself could be effectively strengthened to fill in the credit gaps. Action was, therefore, taken to seek the aid of the commercial banks in sponsoring a scheme for financing the primary agricultural credit societies.

In areas where the central co-operative banks were financially weak and unable to meet the huge demand for production and investment credit, a scheme of financing the primary agricultural credit societies by commercial banks was proposed by the Reserve Bank for implementation in certain districts in five States viz., Andhra Pradesh, Haryana, Madhya Pradesh, Mysore and Uttar Pradesh\(^1\). This proposal was endorsed by the Study Group of the National Credit Council and the Working Group of the nationalised banks as well and also agreed to by the State Governments and the co-operative banks concerned for implementation. Under the scheme, branches of commercial banks in the selected districts will finance primary credit.

---

agricultural credit societies in compact areas within a radius of about 10-15 miles of the branch offices. While the immediate objective of the scheme is to fill in, to the extent possible, the large credit gaps in this sphere, the long-term objective is to ensure that in the process of active involvement of the commercial banks, the co-operative system is under no circumstances weakened and, therefore, the State Government have been asked to draw up a positive programme for rehabilitation of central co-operative banks and revitalisation of primary agricultural credit societies. This programme is to be implemented simultaneously as an integral part of the scheme. Upto June 1970, 20 commercial banks including the State Bank of India group and 12 other public sector banks have selected 2,121 primary agricultural credit societies in 50 districts of the five States through their 325 branches. In some cases the banks have commenced financing of kharif 1970 operations under the scheme. The scheduled commercial banks financing the societies under the scheme are eligible for refinance facility from the bank at a concessional rate of interest of 4\% per cent.
As the measures mentioned above were only transitional expedients in the larger interest of agricultural production, the long-term objective was to draw up and implement simultaneously a positive programme of rehabilitation of the central co-operative banks and speeding up of the schemes of reorganisation and revitalisation of the primary credit societies. The State Governments have been advised to draw up special schemes in respect of each of the central banks so as to provide, among others, specifically for (i) a concerted drive under the guidance of the State Government for the recovery of overdue, (ii) strengthening the administrative and supervisory arrangements for timely recovery of loans, (iii) rationalisation of loaning policies and procedures, (iv) strengthening of the resources of the banks, wherever appropriate, by loan-cum-deposits and additional share capital contribution from State Government and (v) action to stimulate mobilisation of deposits through a programme of branch expansion. The bank has agreed to consider sympathetically the loan applications of State Governments for share capital contribution to central co-operative banks and primary agricultural credit societies in the areas of retarded growth in the co-operative sphere.
As mentioned elsewhere in the Report, the bank has also been trying to secure the benefit of insurance to the deposits of co-operative banks, which is expected to serve as an important incentive to deposit mobilisation. The services of the Regional Offices of the Bank's Agricultural Credit Department were also made available in assisting the co-operative banks in their efforts in rehabilitation and reorganisation.

Between January and June 1970, the Deputy Governor in charge of rural credit\(^1\) held annual discussions on all aspects of problems relating to the co-operative movement and development with the representatives of Andhra Pradesh, Assam, Bihar, Goa, Gujarat, Haryana, Jammu and Kashmir, Kerala, Madhya Pradesh, Maharashtra, Manipur, Mysore, Punjab, Rajasthan, Tamil Nadu, Tripura and Uttar Pradesh States. In the context of the schemes of financing the primary agricultural credit societies by commercial banks and to ensure better and closer co-ordination of the

---

\(^1\) State Bank of India Annual Report 1971.
activities of co-operative and commercial banks in the sphere of agricultural credit, the representatives of commercial banks were also invited to attend the Deputy Governor's discussions in respect of some of the States. The persisting weakness and the remedial measures suggested during such discussions related to mobilisation of deposits by co-operative banks, mounting overdues, adoption of the crop loan system with such modifications as were considered necessary in the context of local conditions, reorganisation of the structure at the primary level on the accepted pattern, co-ordination between the working of co-operative banks and commercial banks since the latter had come forward in a fairly large way in financing the agricultural sector, etc.

The basic policy followed by the bank in regard to the provisions of short-term financial accommodation to the State co-operative banks for financing seasonal agricultural operations and marketing of crops has been continued. The total credit limits sanctioned by the bank to the State Co-operative banks for financing seasonal agricultural operations and marketing of crops at the concessional rate
of interest of 2 per cent below the bank rate increased from Rs. 337.52 crores in 1968-69 to Rs. 370.16 crores during 1969-70. Withdrawals aggregated Rs. 425.09 crores as against Rs. 411.15 crores in 1968-69 while repayments were Rs. 394.06 crores as against Rs. 365.23 crores in 1968-69. The outstanding as on June 30, 1970, stood at Rs. 214.11 crores as compared with Rs. 183.09 crores as on June 30, 1969. The special short-term credit limits sanctioned to two State co-operative banks for financing the marketing of cotton and kapas during 1969-70 were Rs. 7.75 crores as against Rs. 8.35 crores during 1968-69. The withdrawals were Rs. 9.33 crores, repayments Rs. 8.24 crores, and the outstanding as on June 30, 1970 Rs. 1.99 crores. The corresponding figures for 1968-69 were Rs. 7.20 crores, Rs. 7.50 crores and Rs. 0.90 crore, respectively. In addition to the accommodation for financing seasonal agricultural operations and marketing of crops, the bank provided short-term finance amounting to Rs. 23.56 crores as against Rs. 23.05 crores in 1968-69 at the bank rate to two State co-operative banks for general banking purposes and the outstanding under this head as on June 30, 1970 stood at Rs. 0.23 crore. The bank continued to sanction credit limits
for financing the stocking and distribution of chemical fertilisers at the bank rate against government guarantee under Section 17(4)(c) of the Reserve Bank of India Act. During the calendar year 1969, the limits sanctioned, withdrawals and outstandings at the end of the year were Rs. 31.00 crores, Rs. 40.57 crores and Rs. 14.06 crores respectively. The corresponding figures for 1970 upto the end of June 1970 were Rs. 11.00 crores, Rs. 2.35 crores and Rs. 2.35 crores. With the emergence of commercial banks as a significant source of credit for the distribution of agricultural inputs, the bank had advised the co-operative banks and marketing federations in December 1969 to approach commercial banks for financing the business in chemical fertilisers and the bank had continued its advances for the purpose only where any specific difficulty was experienced in obtaining the required finance from commercial banks. During the year under report, the bank sanctioned for the first time a short-term credit limit of Rs. 2.00 crores to the Agricultural Refinance Corporation against trustee
securities at bank rate under Section 17(4E) of the Reserve Bank of India Act. The limit was availed to the extent of Rs. 1.65 crores by the Corporation and the entire amount was repaid in April 1970 leaving no amount outstanding as on June 30, 1970.

In the sphere of medium-term agricultural credit the general policy adopted by the bank was to encourage loans for such identifiable purposes as wells, pump-sets, etc., and to discourage an undue expansion of credit for purposes such as bunding, reclamation, purchase of bullocks, etc., particularly where the arrangements for verification of utilisation were not satisfactory. In determining the reasonableness of the norms for medium-term finance for various agricultural purposes, the bank had drawn on the useful studies conducted by the Agricultural Refinance Corporation wherever available, regarding the economic and technical feasibility of the schemes involving the medium-term investment. Following the recommendations of the Standing Advisory Committee on Rural and Co-operative Credit, certain relaxations in regard to the security for medium-term
loans for agricultural purposes issued out of funds availed of from the bank, were made in August, 1969. Accordingly, medium-term loans between Rs. 1,501 and Rs. 3,500 for the purchase of electric pumps, oil engines and for digging of wells could be issued without insisting on mortgage of land but subject to certain other conditions such as hypothecation, margin money, etc. During the year the bank had extended the facility of granting medium-term advances to State co-operative banks under Section 17(4AA) read with Section 46A(2)(b) of the Act for financing agriculturists for the purchase of shares in co-operative marketing societies/federations for setting up or acquiring shares in the processing units such as cotton ginning and pressing, groundnut oil mills and rice mills. In view of the increase in the capital outlay in the sugar factories and the consequent need for larger contribution from members, the bank had decided to enhance in October 1969 the individual ceiling of loans for purchase of shares in co-operative sugar factories from Rs. 1,125 to Rs. 1,250 under certain conditions.

1. Ibid.
The medium-term loans sanctioned by the Reserve Bank during the year at a concessional rate of 1¼ per cent below the bank rate amounted to Rs. 18.30 crores as against Rs. 19.00 crores has already been sanctioned. Withdrawals were Rs. 11.48 crores against Rs. 9.02 crores during the previous year. No medium-term loans were sanctioned at the bank rate. The outstandings as on June 30, 1970 were Rs. 20.45 crores inclusive of these under medium-term limits sanctioned at bank rate (Rs. 0.08 crore) as against Rs. 17.60 crores as on June 30, 1969.

With the inclusion of 22 broad groups of industries in the list of "approved" cottage and small-scale industries for accommodation under Section 17(2)(bb) of the Reserve Bank of India Act at the bank rate for financing their production and marketing activities, the maximum amount of credit limit that can be sanctioned to a district industrial co-operative bank or primary (urban) co-operative bank for the purpose had been increased to four times its owned funds.

The terms and conditions relating to the financial accommoda-
tion under Section 17(2)(bb) or (c) of the Reserve Bank of 
India Act to primary (urban) co-operative banks for financing 
the production and marketing activities of the approved 
cottage and small-scale industries owned by the individual 
firms and joint stock companies, etc., were finalised and 
circulated during the year under report.

During the financial year ended March 31, 1970,
eleven State co-operative banks were sanctioned credit limits 
aggregating Rs. 8.18 crores as against Rs. 7.37 crores to nine 
State co-operative banks last year under Section 17(2)(bb) or 
(4)(c) of the Reserve Bank of India Act, at 1½ per cent below 
the bank rate for financing the production and marketing 
activities of handloom weavers' co-operative societies (cotton, 
silk and woollen) and powerloom societies.1 The withdrawals 
amounted to Rs. 9.49 crores as against Rs. 8.12 crores during 
the previous year and the outstandings at the end of the 
financial year 1969-70 stood at Rs. 6.42 crores as against

1. Reserve Bank of India Annual Report - on Trend and 
Progress in banks, 1970.
Rs. 5.63 crores at the end of the previous financial year.

Four State co-operative banks were sanctioned credit limits aggregating Rs. 0.69 crore under Section 17(2)(a) or (4)(c) of the Reserve Bank of India Act for financing commercial and trade transactions of apex handloom weavers' societies as against Rs. 1.02 crores sanctioned last year. Drawals aggregated Rs. 0.11 crore and the outstanding balance at the end of the financial year was Rs. 0.06 crore. The bank had so far no occasion to sanction credit limits to State co-operative banks for financing industrial units coming under the 22 approved groups.

Following the introduction of the revised credit guarantee scheme from February 1, 1970, the bank advised the State and Central co-operative banks to take advantage of the guarantee facilities available under the revised scheme.

Due to the occurrence of natural calamities in certain parts of the country, the bank sanctioned medium-term credit limits to the extent of Rs. 11.40 crores at 1½ per cent below the bank rate to five State co-operative banks, out of the
National Agricultural Credit (Stabilisation) Fund for conversion of short-term loans into medium-term loans under Section 17(4AA) read with Section 46B(2) of the Act. The withdrawals made by four banks aggregated Rs. 3.01 crores and the outstandings as on June 30, 1970 were Rs. 4.35 crores as against Rs. 5.18 crores as on June 30, 1969. Besides, two State co-operative banks were sanctioned credit limits aggregating Rs. 1.88 crores at the bank rate under Section 17(4)(a) against Government and trustee securities representing the investments of their Agricultural Credit Stabilisation Funds to enable them in turn to convert short-term loans due from central co-operative banks into medium-term loans. The pattern of assistance by way of 75 per cent grant and 25 per cent loan to State Governments to build up stabilisation funds of the State co-operative banks as indicated in the last year's report continued for the year under review. During the financial year 1969-70, the Government of India made a provision of Rs. 2.01 crores as against Rs. 5.00 crores in 1968-69 by way of central assistance to State Governments. The stabilisation funds of State and Central co-operative
banks were permitted to be utilized for granting conversion facilities to the instalments of medium-term loans as well in times of natural calamities under certain conditions but without recourse to the National Fund of the bank. All the State Governments have set up the Agricultural Credit (Relief and Guarantee) Funds. An aggregate provision of Rs. 1.98 crores was made in the State Plans for the Fourth Plan 1969-74. The contributions to the funds during 1969-70 were Rs. 0.10 crore and the total amount to the credit of the funds stood at Rs.1.66 crores as on March 31, 1970.1

Some State Governments had proposed charging guarantee commission/fees for the guarantees extended by them on behalf of co-operative institutions. The fees proposed were as high as \( \frac{1}{2} \) per cent of the guaranteed amounts in respect of certain advances. Levy of guarantee fees in respect of the guarantees extended by the State Governments for and on behalf of co-operative credit institutions, viz., the State co-operative banks and the State land development

1. Ibid.
banks, would make borrowings of the latter costlier and consequently result in an increase in the rate of interest charged to the ultimate borrowers. The bank had, therefore, advised the State Governments not to charge any guarantee fee in respect of guarantees extended on behalf of co-operative institutions. Following this advice, 10 State Governments have indicated that they have no intention of charging any guarantee fee.

In the context of the increase in the guarantee business of the State co-operative banks, the bank issued certain guidelines for such business in December 1969. A ceiling was suggested for the aggregate amount of guarantees to be executed by a State co-operative bank and that such aggregate should not exceed one time its owned funds, while the total of unsecured guarantees should not exceed 25 per cent of its owned funds.¹

The scope of loans from the National Agricultural Credit (Long-term Operations) Funds of the Reserve Bank of India to the State Governments was extended during the financial

year 1969-70 to cover State participation in the share capital of primary land development banks and, on a very selective basis, in primary (urban) co-operative banks. Only such of those primary (urban) co-operative banks as had already undertaken the financing of small-scale industries or had a definite programme in that behalf were eligible for share capital contribution. The decision in respect of the primary land development banks was taken on the recommendation of the Standing Advisory Committee on Rural and Co-operative Credit and in respect of the urban banks as recommended by the Working Group on Industrial Financing through co-operative banks. Loans amounting to Rs. 7.29 crores (excluding renewal of Rs. 0.20 crore) were sanctioned to 14 State Governments during the financial year 1969-70 out of the National Agricultural Credit (Long term Operations) Fund under Section 17(4)(AA) read with Section 46A(2)(a) of the Reserve Bank of India Act for contribution to the share capital of 2 State co-operative banks, 70 central co-operative banks, 2,624 primary agricultural credit societies, 6 central land development banks, 254 primary
land development banks and ^ primary (urban) co-operative banks. The aggregate of drawings of the State Governments during the financial year 1969-70 amounted to Rs. 6.80 crores as against Rs. 3.92 crores during 1968-69. The total amount outstanding against the State Governments on this account was Rs. 33.83 crores as on March 31, 1970 as against Rs. 31.19 crores as on March 31, 1969.

As in previous years, a meeting of the representatives of Central Land Development Banks, Government of India etc., was convened by the bank in January 1970 to discuss and decide the debenture programme of land development banks for the year 1970-71. A programme of Rs. 141.20 crores was approved for 1970-71 as compared to Rs. 113.00 crores for 1969-70. The support from public sector institutions as well as of the Government of India had been placed at Rs. 44 crores. The commercial banks were expected to provide Rs. 30.00 crores to the debenture programme. In view of the arrangements made for ensuring adequate support to the debenture programmes of

land development banks, the bank continued to lay emphasis on the purposes for which loans would be disbursed by the land development banks and on their financial and operational soundness. The conditions that 90 per cent of the loans advanced should be for productive purposes of which 70 per cent for easily identifiable productive purposes, and that eligibility for support would depend on the recovery performance as laid down in the previous year, were continued during 1969-70 also. Land development banks with overdues of 15 per cent of the demand or less at primary level (or apex level where there are no primaries) were eligible for full support while those with higher overdues were eligible for lower support on a graded scale. The central land development banks floated during the financial year 1969-70 ordinary debentures of Rs. 113.75 crores to which the contribution from commercial banks were of the order of Rs. 31.84 crores as against Rs. 22.86 crores in 1968-69. The bank's contributions for the ordinary debentures were Rs. 9.20 crores and those of Government of India, Life Insurance Corporation of India, State Bank of India and State Governments were Rs. 52.36 crores. During the financial year 1969-70,
the central land development banks also floated rural debentures aggregating Rs. 5.10 crores, the bank's contribution during the period being Rs. 1.16 crores. The bank's total holdings of ordinary and rural debentures were Rs. 30.80 crores and Rs. 9.57 crores as on June 30, 1970 as against Rs. 28.52 crores and Rs. 8.97 crores, respectively, as on June 30, 1969.¹

The bank had considerably expended the scope of its inspections of the land development banks with a view to keeping a close watch on their working and operations which have increased considerably in recent years. Detailed guidelines issued in this regard aim at orientation of their lending policies, better management of the resources, appointment of adequate staff for supervision, creation of technical cells, etc.

As on June 30, 1970 there were 1,317 co-operative banks - 28 State, 366 central and 923 primary - coming under the purview of the Banking Regulation Act as against 1,348 co-operative banks at the beginning of the year. The decline

¹. Ibid.
In the number of co-operative banks was mainly due to the deletion of certain non-agricultural credit societies from the list of primary co-operative banks. During the year 1969-70, 10 co-operative banks - 2 central and 8 primary co-operative banks - were issued licences to commence banking business in India under Section 22 of the Banking Regulations Act, 1949 (as applicable to co-operative societies) raising the total number of licensed co-operative banks to 24. The number of offices of the co-operative banks which stood at 4,137 as on June 30, 1969 increased to 4,399 as on March 31, 1970. During the period July 1, 1969 to June 1, 1970, State and primary co-operative banks were granted 51 licences for opening new offices as against 35 licences granted during 1968-69. Another licence issued to the Madhya Pradesh State co-operative bank during the year was for shifting its Head-office from Jabalpur to Bhopal. Five co-operative banks were granted exemption by the Government of India under Section 53 of the Banking Regulations Act, 1949 from complying with the provisions of Section 11(1) of the Banking Regulations

Act for a period of one year up to February 28, 1970 and 6 co-operative banks were given similar exemption for a period of 2 years with effect from March 1, 1969. Of the 28 co-operative banks whose period of exemption expired on February 28, 1970, 3 were granted exemption for a further period of one year with effect from March 1, 1970, 7 co-operative banks have since complied with the provisions of Section 11(1) of the Banking Regulations Act, one has been amalgamated and another is under liquidation. The applications from six co-operative banks had been recommended for exemption to the Government of India and the remaining are under consideration of the bank.

The State and Central co-operative banks imposed a limit control on the advances against the security of cotton and kapas. The directive has been modified according to which the aggregate level of credit is computed in terms of certain percentage of liabilities in India on the last Friday of October 1969 instead of last Friday of October 1968 as was done previously.

The co-operative societies Acts in the States of Andhra Pradesh, Maharashtra, Madhya Pradesh and Goa, Daman
and Diu have been amended with a view to vesting in the Reserve Bank, powers relating to the supersessions, reconstruction, amalgamation and liquidation, etc., of the co-operative banks.¹ The bank is pursuing with other State Governments the question of amending the Co-operative Societies Acts so as to extend the benefit of the deposit insurance to the co-operative banks in these States.

Thirteen State co-operative banks, 246 central co-operative banks, 2 State industrial co-operative banks, 9 district industrial co-operative banks and 568 primary co-operative banks were inspected under Section 35 of the Banking Regulations Act, 1949. Out of 568 primary co-operative banks, 101 were inspected by the officers of the State co-operative banks on behalf of the Reserve Bank under Section 35(1) of the Banking Regulations Act, 1949. Besides, 18 central land development banks, 4 apex handloom weavers' co-operative societies and 1 apex marketing co-operative society were inspected on a voluntary basis. Copies of

inspection reports of 17 State co-operative banks, 391 Central co-operative banks, 3 State industrial co-operative banks and 19 district industrial co-operative banks were furnished to the banks concerned. Inspection reports relating to 18 central land development banks, 3 State handloom weavers' societies and 3 apex marketing societies were also furnished to the concerned institutions.

The number of primary agricultural credit societies declined from 1.68 lakhs at the end of June 1969 to 1.63 lakhs at the end of June 1970, mainly due to continued effort aimed at revitalisation and re-organisation of these societies for formation of viable units. The membership of these societies, however, increased by 2 per cent from 292 lakhs to 298 lakhs during the period. As at the end of June 1970, the societies covered 94 per cent of the villages in the country. The proportion of rural population covered by the active societies roughly works out to 34 per cent. The short and medium-term loans advanced by them in 1969-70 amounted to Rs. 487.77 crores and Rs. 52.34 crores, respectively. The short-term loans indicated a rise of 7 per cent over the previous
year while the medium-term loans rose by 10 per cent. The proportion of overdues to outstanding loans rose from 35 per cent to 38 per cent during the period.

The total number of central co-operative banks as on June 30, 1970 was 340. Their deposits rose by 9 per cent from 350.84 crores as on June 30, 1969 to Rs. 381.71 crores as on June 30, 1970. Loans and advances made by these institutions increased from Rs. 860.41 crores during 1968-69 to Rs. 872.50 crores in 1969-70. The proportion of overdues to outstanding loans as on June 30, 1970 was 29 per cent.

Both the deposits and advances of the 25 State co-operative banks showed a rise during the year 1969-70 over the previous year. The deposits moved up from Rs. 215.63 crores to Rs. 234.30 crores and loans and advances from Rs. 66.64 crores to Rs. 707.08 crores.

In the two-tier structure of long-term credit, there were 19 central land development banks at the apex level and

809 primary land development banks at the end of June, 1970. The loans went up from Rs. 143.62 crores in 1968-69 to Rs. 153.26 crores in 1969-70 showing a rise of 7 per cent.

In the sphere of co-operative marketing, strengthening of the primary marketing societies through a programme of revitalisation received considerable attention. Efforts were made to cover small market centres coming under the impact of high-yielding varieties programme by opening branches of nearby marketing societies. Emphasis was also laid on increasing the membership of individuals in primary marketing societies, prevention of infiltration of traders into the management of co-operative marketing societies and development of the integrated marketing system in the co-operative sector. By the end of the year 1969-70, there were 3,389 primary marketing societies, out of which 2,889 were organised on territorial basis and the remaining were specialised commodity societies. The super-structure of co-operative marketing consisted of 162 central marketing societies including 15 special commodity societies mainly at the district level, 20 State marketing societies, 3 commodity marketing federations at the State/inter-State
level and a National Agricultural Co-operative Marketing Federation at the All-India level.

The Food Corporation of India and the State Government continued to associate marketing co-operatives in their programme of procurement of foodgrains. The value of agricultural produce marketed by co-operatives during 1969-70 was Rs. 620.00 crores as against Rs. 588.00 crores in the previous year. The value of foodgrains marketed in 1969-70 stood lower at Rs. 209.00 crores as against the level of Rs. 221.00 crores in the previous year. Sugarcane continued to be the most important commercial crop marketed/processed by co-operatives accounting for Rs. 255.00 crores in 1969-70 compared with Rs. 227.00 crores in 1968-69. Other important commercial crops marketed by co-operatives during 1969-70 were cotton (Rs. 65 crores), oilseeds (Rs. 12 crores), fruits and vegetables (Rs. 8 crores) and plantation crops (Rs. 7 crores). In the inter-state trade, the marketing co-operatives handled agricultural produce worth about Rs. 60.00 crores during 1969-70. The agricultural commodities exported by them amounted to Rs. 6.00 crores during 1969-70 as against Rs. 4.65 crores during 1968-69. In addition, co-operative federations delivered 0.14 million tonnes of
raw sugar and coffee; co-operative processing societies delivered coffee worth Rs. 1.43 crores for export during 1969-70.¹

As regards linking of credit to marketing, during 1968-69, about 14 per cent of the short and medium-term agricultural loans (excluding cash credit and overdraft) advanced by the co-operatives, was recovered through sale of produce. As at the end of 1968-69 out of 1.68 lakh primary agricultural credit societies, 1.49 lakh societies (89 per cent) were affiliated to primary marketing societies.

The co-operatives continued to be the major agencies for the distribution of chemical fertilisers in the country. During 1969-70, they distributed fertilisers worth Rs. 232 crores as against Rs. 201 crores, in 1968-69. As on June 30, 1970, the number of co-operative fertiliser retail depots was 48,473². Besides distributing pool fertilisers, co-operatives continued to produce and distribute non-pool fertiliser. The value of free sale of fertilisers sold by co-operatives during 1969-70 was higher by about Rs. 50.00 crores as against about

Rs. 37.00 crores during 1968-69. Under the centrally sponsored scheme for provision of margin money for fertilisers distribution by co-operatives, as against the approved Fourth Plan outlay of Rs. 14.50 crores, assistance to the extent of about Rs. 3.10 crores was provided to co-operatives in 1970-71 as against Rs. 2.00 crores during 1969-70.

Development with social justice being the declared objective of our planning, the fruits of development must be more evenly distributed over regions and the population inhabiting them. The goal of achieving maximum social welfare is subject to several constraints of which the redistribution of income is a very significant one. Whether it is one of opportunities for employment, provision of credit, social services, aid to economic activity or the like, in the absence of a deliberate orientation of the programme towards the redistributive function, they are more likely to get localised with vested interests.

Over the years, the financial infra structure has developed fairly well in urban areas; but not so in rural areas. No doubt, the co-operative system with its three tier structure is meant in a way to cover the rural needs. That it has
not succeeded in rising to the occasion is by now well-known. Mounting arrears, lack of managerial skill, rise of 'little kingdoms' of vested interests and poor deposit mobilisation are only a few of the factors which have sapped the energies of the system. In some cases, the co-operative banks seem to have even ceded their business to commercial banks.

There is great uneveness in the distribution of institutional credit and virtually credit is not available at all to certain types of borrowers, particularly the small borrowers and the weaker sections of society. The major problem is one of meeting the credit requirements of disadvantaged cultivators and of those engaged in petty trades. They are unable to get the required financial help to keep the wheels moving as they have no tangible security to offer.

There are co-operative societies to distribute seeds, fertilisers and assist in the marketing of the produce; there are also credit societies to extend finance for production purposes. In a few rural areas where commercial banks have their branches it is possible that short-term
credit is given by them against tangible security. The long-term needs are to be met by Land Development Banks. Institutions no doubt, are many, but they have not made much headway in the rural sector for various reasons. Their resources are meagre since deposit mobilisation has not proceeded with the required vigour. As long as tangible security is the major consideration for giving loans, the disadvantaged sections continue to go without finance in the struggle for viability.

Moreover, there is no integrated approach to rural finance. In such a set up, there is no linking of credit with marketing, credit with inputs and credit (short-term and long-term) with the operational viability of the borrower. The greatest difficulty is that a borrower has to approach several agencies for his requirements. This presents serious obstacles to the small borrower. There should be co-ordination and integration of facilities provided through different institutions to avoid the hardships experienced by small farmers and other small borrowers. To be able to provide

a solution, there must, in the first instance be, a detailed knowledge of the financial needs. Again, the needs are to be assessed not from the viewpoint of tangibility of security that can be given by a prospective borrower but from the angle of the potential for realising higher output.

It is in the search for a programme of this type that the Lead Bank Scheme was initiated in some parts of the country. The essence of the Lead Bank Scheme is to take an area like a district for assessing the resource potential for banking development, surveying the number of agricultural, industrial and commercial units in the area, assess their credit needs, examining the facilities for marketing the produce, and exploring the possibilities of linking credit with marketing. Those who administer the scheme maintain liaison with Government and quasi-Government agencies to fill spatial, functional and territorial credit gaps in rural areas by the expansion of banking activities.

Under the Lead Bank Scheme, one major bank is to act as a Leader of the consortium assisting other financial agencies which are already functioning in the area. For its
success, some degree of centralised action is inevitable
and there should be a centralised machinery for the purpose.

The preconditions for meeting the financial require-
ment of the small borrowers include integration of lending
business with production and marketing activities and making
it possible for everybody to build up some kind of minimum
financial asset in the form of provident fund, insurance,
on savings or deposits with the banks/which initial advance
can be based.

In promoting the financial infrastructure in the
rural areas, the co-operatives have several advantages.
The co-operative system has already percolated into the
rural sector and it can easily identify the resources and
the needs and can quickly establish support with the pros-
pective clients. It can take within its fold small cultiva-
tors and the small artisans. The network of co-operative
marketing societies are readily available for linking
credit with production and marketing. The Lead Bank will
find it easier to provide finance on a large scale and in
a broadened way by channeling funds through co-operatives.
Because of the closeness to grass roots, the co-operatives
have an intimate knowledge of the local conditions for
evaluating the prospects for offering group loans. In organisational matters, they can now look to the Lead Bank for guidance and trained personnel. The sooner the co-operative structure gets strengthened, quicker can be the implementation of scheme of guarantee by the Government for provision of credit.

The area approach adopted under the Lead Bank scheme can be further extended to establish a system of simultaneity in processing applications for credit. To start with, a few important centres, in each district may be selected for operating the scheme. At all such centres, all applications for credit of all types (short-term and long-term) must be received by one agency, say the Lead Bank or the co-operative bank which is functioning there. There should be a working group with a representative each of the commercial bank, the land bank, the co-operative bank and even the revenue authority which administers tacaavi loans. This working group must decide at periodical meetings the action to be taken on the loan applications and all concerned agencies should take action that falls within their sphere so that delay is eliminated. The working group must keep a
continuous watch over the progress and pursue matters, if necessary to see that funds are made available in the shortest possible time. It should also initiate such complementary measures as may become necessary to improve the viability of the units seeking assistance. Such a procedure would cease the plight of the small borrowers. Despite some weaknesses of the co-operative movement, the record of deposit mobilisation by primary co-operative credit societies has been satisfactory. It would have been more satisfactory if all societies could be made viable units and if other weaknesses, referred to above, were rectified. The analysis also shows that favourable agricultural conditions, particularly the responsiveness of the farmer to modern techniques of cultivation and the consequent increase in incomes play an important part in the mobilisation of deposits by co-operative societies.

While efforts are being made, and will continue to be made, by the Bank and its Subsidiaries for extending finance for agriculture, wherever and to whatever extent considered expedient, much will depend on the action taken by the Government and other concerned agencies, in creating proper atmosphere for the active participation of the bank and its subsidiaries as also for other commercial banks, in this field.