CHAPTER VII

THE STATE COOPERATIVE BANKS

There were 15 State Co-operative Banks in India at the end of 1951. These banks are organised in each of the part "A" States in the country and in Mysore, Hyderabad, Coorg, Ajmer, Orissa and Saurashtra they have been organised after the second World War.

An apex bank is the final link in the chain between the small scattered primary societies in the rural areas and the organised money market and the Reserve Bank of India, the central banking authority of the country from which short-term accommodation is available to the apex banks under certain restrictions. Usually, the provincial banks do not directly deal with the primary societies but through the central banks save in areas where there are no central banks or in backward areas. It may be noted that in Mysore and Coorg where there are almost no central banks and in backward areas in Bombay, the apex banks deal directly with the primary societies.

The organisation of an apex bank was necessitated to finance the central banks of the State as a whole as a financing agency; to link the remote parts of the countryside to the organised money market; to serve as a clearing house for capital transactions of central banks and as a balancing
centre for adjusting the funds from surplus areas to places where they are badly required. These banks are registered under the Indian Co-operative Societies' Act of 1912. Before they were organised as apex banks, an important central bank in each of the major States used to work as an apex bank in effect, though not in name. In 1917, the Madras Central Union Bank was converted into the apex bank for the whole province; in 1923, the Bombay Central Co-operative Bank was named as the Bombay Provincial Co-operative Bank and the Bengal apex bank was established in 1918.

All the apex co-operative banks except those in Bengal and the Punjab have had individuals as well as societies as members. In 1949-50 there were 7,703 individuals and 10,915 banks and societies as members, the increase in individual membership being contributed mainly by the apex banks in Bombay, Madhya Pradesh and Assam. Though it is desirable to have a purely federal apex bank with only societies and banks as members from the standpoint of an integrated Co-operative scheme, financiers with experience of commercial banking and veteran co-operators in the movement may be admitted as members and also co-opted on the directorate to strengthen the movement. The Maclagan Committee on Cooperation were indifferent as to whether the co-operative element had the upper voice in the management of such a bank or the individual shareholders, but in practice, the co-operative element in the form of representatives from affiliated co-operative institutions, have a dominating voice in the administration of these banks. In Bombay, where
the co-operative finance is highly developed the representation given to individual shareholders is comparatively more than in other States and this made the Nanavati Committee to remark that in the reconstituted apex bank care should be taken to see that individual shareholders are not over-represented.

The Bombay and the Mysore apex banks have branches while the Madhya Pradesh apex bank has opened offices of the bank to carry on commercial activities. The Bombay State Co-operative bank had 59 branches in 1950. It functions successfully as a direct central financing agency to societies in backward areas and the system may be continued till the central banks are organised in those areas.

In 1949-50 the working capital of the apex banks for the country as a whole aggregated to Rs. 30.45 crores, out of which owned capital was Rs. 3.43 crores thus representing 11.1 per cent of the total working capital of these banks. In the same year share-capital and reserves were Rs. 1.35 and Rs. 1.61 crores respectively, forming 4.5 and 3.33 per cent respectively of the total working capital of these banks. The Bombay and Madras apex banks contributed more than 50 per cent of total working capital of all the apex banks. The share-capital of the Bombay State Co-operative Bank was considerably increased in 1949-50 to enable it to function effectively in the scheme of "Integrated Agricultural Finance".

under which all creditworthy agriculturists-borrowers
are to be provided with institutional credit as recommended
by the Agricultural Credit Organisation Committee. The
Government of Bombay has also contributed to the share-capital
and held 33.1 per cent of the total share-capital of the apex
bank on 30th June, 1950. Madras, Hyderabad and Madhya Pradesh
apex banks have also to a lesser extent increased their share-
capital while the contribution of newly organised apex banks
is almost negligible.

The increase in the share-capital of apex banks becomes
necessary whenever the statutory limit of outside borrowing
has been reached which in normal cases in most apex banks
is 3 to 12 times the paid-up share capital and reserves. The
borrowing limit of apex banks is relaxed according to
circumstances and demand for financing non-credit activities
of co-operatives. In 1949-50 the borrowing limit of the
apex banks in Bombay was relaxed to 12 times the paid up share
capital and reserves while in Madras 15 to 20 times.

In 1949-50 out of the total deposits of Rs. 21.17
crores of these banks, deposits from individuals amounted to
Rs. 13.18 crores and represented 62.5 per cent of the total
deposits. Deposits from individuals and other sources (other
than central banks and societies) were prominent in Madras,
U.P., Mysore, Hyderabad and M.P. The apex banks' borrowings
in 1949-50 amounted to Rs. 5.85 crores forming 19.3 per cent
of their working capital, the principal sources of borrowing
being the Reserve Bank of India, the State Governments and the
joint stock banks. Very large portion of the total borrowings were due to huge borrowings by the apex banks to finance non-credit activities of cooperatives in Madras, Bombay, Orissa, Assam and M.P. The Hyderabad Apex Bank borrowed about Rs. 27 lakhs from commercial banks in the same year.

The main function of an apex bank is to balance the finances of the movement in its wider area of operation by pooling resources at a lower rate of interest and canalise the surplus funds of one locality to feed the underfinanced districts of the other thus serving as a balancing centre. It also serves as a clearing house for cooperative central and urban banks by facilitating the transactions of these banks and rediscounting commercial, government and co-operative paper. It co-ordinates the working and controls the finances of the movement on a provincial level. It links the village with the general money market and the Reserve Bank of India. It handles the movement in every State by the control and support of central banks and by holding periodical conferences adjusts credit and financial policy. It raises funds in the money market, gets accommodation from the Reserve Bank of India, the Imperial Bank of India, commercial banks and Government and advances funds to member banks through them to the primary co-operative banks and ultimately to the agriculturists. It also finances the non-credit activities undertaken by co-operative central, urban and primary banks. It is a sort of a study circle where central and other co-operative banks are provided with opportunities to discuss
matters of common interest connected with the co-operative banking and finance. It secures uniformity of banking policy and practice among the affiliated banks. It organises in collaboration with Co-operative department and central banks the primary societies; finances societies in backward areas, marketing, housing, industrial, consumers', weavers' and other co-operatives. It subsidises and advances loans for agricultural development in general, finances rural insurance schemes and Land Mortgage Banks and functions as a deliberative and consultative body to all co-operative organisations in its area of operation. It balances seasonal excess and deficiency of funds by taking off the idle money in the slack season and supplying the affiliated banks with fluid resources during the busy season, making thereby the affiliates independent of fluctuations in the local supply of capital.

Since the second World War, increased prices of agricultural produce accompanied by rising purchasing power of the agriculturists made repayments of loans to co-operative banks in the aggregate greater than the demand for fresh loans. The apex banks were therefore without any profitable outlet for their funds and some of them diverted their attention towards commercial banking activities. Large sums of money were advanced by these banks to traders and merchants against agricultural and industrial produce, bullion, government and other securities in Bombay, Madhya Pradesh,

and Hyderabad. In 1945-46 the C.F. and Borar apex bank which diverted more than 50 per cent of its total advances to individuals as an easier and remunerative outlet for funds by opening a number of offices to expand its commercial activities was described by the Reserve Bank as "almost a commercial institution"; though of late, it has increased its financing to crop-loan societies.

Since partition however, there is noticeable a reversal of the trend of surplus funds with apex banks. In 1948-49 the apex banks in many States resorted to financing the increasingly rapid demand for funds of the primary societies for the non-credit activities that they had undertaken in rural areas, especially the distribution of essential and rationed consumer goods such as sugar, kerosene, foodgrains, salt, cement, iron etc. They also financed the primaries in their procurement of foodgrains and in the distribution of agricultural implements, seeds, manures etc. The demand of funds for these activities was so great from the primary societies as well as from urban and central co-operative banks that the apex banks had not only had no problem to seek an outlet for their funds but were compelled to borrow from the Government and the money market that is, from the commercial banks, the Imperial Bank of India and the Reserve Bank of India. In Bombay where individuals were granted 30 per cent of the total loans in 1945-46 are now financed less and less as a policy and instead co-operative loans are advanced to "adjusted debtors" and to societies

under the Bombay Agricultural Debtors' Relief Act, a provision is made to finance all creditworthy agriculturist-borrower-members under its changed constitution. The Bombay State Co-operative Bank in 1948-49 was compelled to borrow to finance the distribution of cloth in urban areas while the Madras apex bank borrowed to finance the procurement and the distribution of foodgrains and other essential goods undertaken by the primary credit societies. The borrowings of these two apex banks amounted to Rs. 3.9 crores out of the total borrowings of Rs. 5.75 crores by all the apex banks in 1948-49. In the following year, due to the failure of North East monsoon in Madras the procurement of foodgrains was given up, in Bombay the distribution of cloth was not taken up and as a result the apex banks in these two States did not face financial stringency. One desirable outcome of this increased demand for funds from the primary societies due to their numerous activities was that the apex banks once again diverted their funds more and more to invest in co-operative channels to fulfil their true function of financing the movement in States. From 1947 onwards the loans advanced to individuals have more or less remained stationary while to societies and co-operative banks increased over three times.

In 1949-50 loans advanced to individuals by apex banks ranked high in Bombay, Madhya Pradesh and Hyderabad. Though the apex bank in Bombay advanced large sums to individuals,

1 Reserve Bank of India: The Review of the Co-operative Movement in India, 1946-48, 1960, op cit, p.66
2 Reserve Bank of India: Review of the Co-operative Movement in India, 1948-50, 1962, op cit, p.28
these loans formed only 11 per cent of the total loans advanced by the apex bank. While in Madhya Pradesh and Hyderabad the respective banks' loans to individuals represented 75 and 50 per cent of their total advances. But on the whole, there is a growing tendency on the part of the apex banks to divert funds for investment in co-operative channels since the Reserve Bank's right directive that the apex banks should serve the cause of the movement by advancing to co-operative institutions for which they are organized.

The apex banks in co-operatively advanced States like Bombay and Madras transact all types of commercial and exchange business; accept deposits from co-operative banks, public bodies, Government and the public; open current accounts for individuals, collect dividends from companies, interest on stocks and securities, insurance premia and pensions for their clients; offer overdraft, cash-credit and rediscount facilities to co-operative institutions against fixed deposits, government and approved securities and co-operative paper; discount bills, cheques etc and undertake any other banking business.

The Bombay State Co-operative Bank has interested itself in the development of consumers' stores, marketing, industrial and housing societies by advancing loans and subventions; organized co-operatives in backward areas with State assistance and helped the department in co-ordination of various co-operatives. Under the Land Improvement Scheme the State Co-operative Bank advances
loans for purposes of construction of wells and bunding at 3½ per cent to ultimate borrowers. The State Government has agreed to grant subsidies to meet the expenses of two Land Development Officers appointed by the Bank to carry on propaganda and development of the business particularly in areas where there are no arrangements for long-term finance. In Madras the apex bank has besides financing distribution and food-procurement work, contributed funds from its common good funds for education to the State Co-operative Union, interested itself in agricultural marketing by giving subsidies. It has also subsidized central banks for the rectification and rehabilitation of credit and societies and for the development and supervision of non-credit and multi-purpose societies in the districts.

Apex banks in other States have not shown remarkable results. They are mostly dependent upon borrowed funds either from Government or from the Reserve Bank under Government guarantee for financing the credit and non-credit activities of their affiliates. The progress of the U.P. State Co-operative Bank may be considered satisfactory looking to the short period of its working. It has a strong capital structure with sufficient reserves and has stabilized the movement. The accumulation of a fairly good amount of deposits with the

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apex bank in 1949 was a result of the compulsory deductions on State orders from agriculturists at a rate of 2 annas per maund from the price of sugarcane purchased by sugar factories in U.P. to be deposited with the State Cooperative Bank as "Cane Growers' Fixed Deposits." Leaving aside the work done for the Provincial Marketing Federation and the Cane Growers' Unions by the apex bank, much has not been attained in other spheres, though with the implementation of the new multipurpose Scheme good results are expected, with the phenomenal expansion of the Uttar Pradesh multipurpose co-operative societies, the Marketing Federation and other co-operative institutions under the New Development Plan undertaken by the State, the apex bank was compelled to borrow a loan of Rs. 1 crore from the State Government in 1948-49.

The partition of the country seriously affected the co-operative banking structure in West Bengal and the apex bank in the State would have entirely collapsed with its reduced area of operation, inadequate personnel, blocked capital and divided resources, had not the State Government taken over the management (the State appointed a Managing Director) of the bank and guaranteed the recovery of its investments in East Bengal societies to the extent of Rs. 1,24,61,000 estimated good. By the end of 1949-50 a loan of Rs. 50 lakhs was granted by the Reserve Bank under State Government guarantee for financing seasonal agricultural

operations and marketing of co-operatives. It is hoped, this will go a long way to rehabilitate the bank and place it on a sound footing. The Madhya Pradesh apex bank besides financing individuals, grants loans to Land Mortgage Banks as do the Bombay, Madras, Mysore and Hyderabad apex banks. The apex bank in Bihar organised on the lines of the Credit Agricole d'Egypte (1944) has confined its activities to the cash sale of seeds, manures, fertilisers etc to members and non-members through central banks acting as agents and also through depots directly under its control. Mostly dependent on Government finance, the Bihar Apex Bank has taken to distribution of cloth, salt and iron and steel materials for the manufacture of implements. The bank has not been able to finance even the credit needs of the agriculturists for cultivation expenses. In Assam the old apex bank is defunct and the new has through its 18 branches and central trading co-operatives consolidated the activities of primary societies. The apex bank makes bulk purchases and sales on behalf of primary societies and finances a thousand primary trading co-operatives. Despite blocked capital in West Punjab, the apex bank at Ambala works satisfactorily and is rehabilitating the movement in the State. The Orissa apex bank borrows from the Reserve Bank under State Government guarantee. Besides financing central banks for credit purposes it also grants loans to finance the distribution of cloth.

In the absence of central banks the Mysore and Coorg apex banks deal directly with primary societies. The Mysore
Apex Bank has a large amount of outstanding either frozen or invested in long-term credit and in the absence of an intermediary between itself and the primary societies proper supervision and control are not exercised. In Coorg the apex bank, due to its small area of operation not only serves the credit needs of primaries but also those of the marketing and consumer societies. The Ajmer Apex Bank also finances some of the primary credit societies directly as its Bombay counterpart does and has acted as an agent of the Civil Supplies Department to purchase yarn for weavers' societies.

It will not escape the notice that almost all the apex banks have relied more or less to extraneous financial assistance to supply funds to the co-operative banks and primary societies for their non-credit activities; and, some apex banks like U.P., Bihar, Assam and West Bengal have relied even for agricultural credit activities on outside financial agencies. During 1948-50, 11.81 crores have been borrowed by the apex banks to finance their member-banks for credit and non-credit purposes; Bombay and Madras apex banks alone borrowed Rs. 6.92 crores to finance their constituents' non-credit activities and for procurement and distribution of foodgrains, cloth and other essential goods. Orissa, Bihar, West Bengal and Assam apex banks have also during this period borrowed either from State Government or from the Reserve Bank of India and commercial banks, mostly under State guarantee to finance their constituents. Instead of relying on outside financial help, the apex banks should
endeavour to increase their owned funds, especially share capital and statutory and other reserve funds. Outside financial help taken from Government, Reserve Bank or the commercial banks should be considered a temporary measure against emergency. In this connection the Reserve Bank rightly remarked that at the most it can "help the provincial bank to tide over a temporary shortage of funds and as the funds advanced must be repaid within the time limit allowed by the Act the Co-operative Banks cannot make use of them for the purpose of continuing finance".

The Reserve Bank of India lends at reduced rates of interest to apex banks and also provides rediscount facilities at lower interest rates. The Reserve Bank may assist apex banks by loans and advances for a period not exceeding 90 days against government paper (approved debentures of recognised Land Mortgage Banks which are declared) and trustee securities (which are readily marketable). It may, for a similar period, accommodate these banks against promissory notes of central co-operative banks and drawn for financing seasonal agricultural operations or may grant facilities for rediscount of such promissory notes maturing within nine months. The Reserve Bank is also authorised to grant loans and advances not exceeding 90 days to Provincial Co-operative Banks against promissory notes of approved co-operative marketing or warehousing societies endorsed by provincial co-operative banks and drawn for the marketing of crops or rediscount of such promissory notes of provincial co-operative banks supported

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1 Reserve Bank of India: Statutory Report under Section 35(i) of the Reserve Bank of India Act, 1937, loc cit, p.57
by warehouse receipts or pledge of goods against which a cash credit or overdraft has been granted by the provincial co-operative bank to marketing or warehousing societies. The Reserve Bank is however, the final authority to decide the advisability and expediency of granting accommodation according to the circumstances of the time and cannot make large permanent promises in advance. It may require the banks getting accommodation to maintain financial statements in certain forms and periodically inspect them. It prescribes from time to time a minimum balance to be kept with it as sufficient fluid cover by those banks getting accommodation from it.

With the recent amendments to the Reserve Bank of India Act (on 27-4-1951) extending its provisions to part 'B' States and enabling the Reserve Bank under Sec 17(2)(b) to increase the volume of credit available for financing marketing of agricultural produce by purchasing or rediscounting agricultural bills held by commercial and co-operative banks, it can extend credit accommodation to co-operative and other banks interested in providing financial facilities for seasonal agricultural operations for a period of 15 months instead of 9 months which was too short a period. The relevant section of the Reserve Bank as now amended (sec 17(2)(b)) reads: The bank shall be authorised "to purchase, sell and rediscount bills of exchange and promissory notes, drawn and payable in India and bearing two or more good signatures, one

1 Ibid, pp. 36-37.
of which being that of a Scheduled Bank or a Provincial Co-operative Bank and drawn or issued for the purpose of financing seasonal agricultural operations or the marketing of crops or maturing within 15 months from the date of such purchase or rediscount, exclusive of days of grace." If the words "agricultural operations" are taken in the widest connotation of the terms as is now contemplated by the Government, financial assistance to agriculture by the Reserve Bank will further widen the scope. The introduction of the system of licensed warehouses, grading and standardisation of agricultural produce will mean greater accommodation from the Reserve Bank to apex banks for agricultural marketing. As most of the apex banks do not strictly abide by the sound banking principles and practice as laid down by the Reserve Bank, they cannot avail of the financial accommodation and other facilities from the latter. The apex banks should not only themselves observe sound banking principles and methods but guide and direct the affiliates to do the same to tone up the movement as a whole.

The Reserve Bank requires that the benefit of its concession rate of 1\% per cent to the apex banks be passed on in a reduced lending rate to central banks, primary credit societies and ultimately to the agriculturist-borrower who expectantly looks to the movement for cheap, prompt and adequate credit. It also extends to State Co-operative Banks joining its scheme of financial accommodation free remittance facilities.

1 "Commerce"m Vol. LXXXII No. 2102 (Editor: S.V. Rayan, Bombay, 5th May, 1951), p. 302.
for the transfer of funds between accounts maintained by different State co-operative banks in different offices of the Reserve Bank, treating their affiliated central banks for such remittances as if they were branches of the State co-operative banks.

As the main function of an apex bank is to serve as a financial centre for all the member banks in the State, sufficient fluid resources in the form of cash, money at call and short notice with the Reserve Bank of India, commercial banks and in the readily realizable Government and approved securities should be kept to meet any demand for finance from subordinate societies and from depositors. If the apex banks keep fluid assets of member banks, they may keep comparatively low fluid resources. The apex bank in each province should, subject to local financial conditions, adjust its funds in such a way that adequate fluid cover is maintained against current, savings, and fixed deposits. Due to increased non-credit activities of co-operatives in recent years there is not that surplus of funds as it was before five years in the form of fluid resources; however, the annual reports on the working of co-operative societies in Madhya Pradesh, Delhi and East Punjab observe that the apex banks (in the case of Delhi State the Central Co-operative Bank) have more than sufficient liquid resources with them and are facing the problem to invest them in some profitable outlet. As a contrast, Bombay, Madras and U.P. apex banks have to borrow enormously to finance the non-credit activities of their member banks. In general, in recent years adequate fluid resources are maintained by most of the apex banks.

1 E.M. Hough: The Co-operative Movement in India, 1850, op cit, p. 258.
It may be noted that for the country as a whole in 1949-50, fluid resources in the form of cash in hand and in banks represented 14.3 per cent of the deposit liability of the apex banks. The same year, investments in Government trustee securities (Rs. 10.8 crores) which enter into the calculation of fluid resources constituted 50.9 per cent of the deposit liability and formed 93 per cent of the total investments (Rs. 11.36 crores).

The apex bank usually restricts its loan operations to central banks for short-term credit needs of agricultural finance. However, the apex banks in Bombay, Mysore, Hyderabad and Madras advance loans for long-term credit needs of agriculture to land mortgage societies directly or through the central banks. In Mysore and Coorg the apex banks, in the absence of central banks deal directly with the primary societies. In Bombay in backward areas loan transactions are direct between the apex bank and the primaries. The apex banks in Bombay and Madhya Pradesh invest large sums in commercial activities. Despite these side activities, on the whole, the apex banks advance a very large amount of their total loan business to central banks for short-term needs of agriculture.

In 1949-50 loans advanced by 14 apex banks in the country amounted to Rs. 23.4 crores while repayment of loans during the same year stood at Rs. 25.7 crores. Though the repayment position for loan transactions of apex banks on the whole is satisfactory, overdues to the total loans outstanding.

Reserve Bank of India: Statistical Statements relating to the Cooperative Movement in India for the year 1949-50. loc cit, p.11.
was 16 per cent for the country as a whole in the same year. This high percentage of overdues is due to the West Bengal Provincial Co-operative Bank's 99 per cent of the total loans as overdues and the inefficient working of Mysore Apex Bank in the absence of any intermediary between the bank and the primaries.

As a security measure the State co-operative banks should have the same rights of control and supervision over the working of the central financing agencies as the latter have over the primary societies. The apex bank usually offers rediscount facilities against fixed deposits of central banks, government securities and sometimes against co-operative paper guaranteed by central banks for seasonal agricultural operations and for financing agricultural marketing and other non-credit activities. As in Bombay, it may allow central banks to open with it current accounts and give them an opportunity to conduct a fairly substantial volume of remittance business from one centre to the other. As in Bombay, it may in order to avoid delay in granting loans to central banks fix in advance an annual credit limit for each central bank (the limit being fixed on the basis of balance-sheets, profits and loss statements, audit notes and recent annual reports) to enable the latter to draw promptly as and when required up to the sanctioned limit. The apex bank gives financial accommodation to urban banks and banking unions in case the central banks cannot supply the credit needs of the former.
Unless the apex banks are given powers of inspection and supervision regarding the accounts, financial transactions, reports of detailed working and the general position of central banks they will not be able to judge the exact position of the central banks' financial standing. The central banks should send the returns of their activities and statements of their required credit needs to enable the apex banks to provide the former with funds in the form of direct loans, cash-credit rediscouting facilities and by allowing overdrafts. The apex bank should require the central banks to deposit their fluid resources with it to control the finances of these banks. It should scrutinise properly the applications for loans from member-banks and see that if the loans advanced are not utilised for the purpose for which they were granted, recall of loans advanced should be immediately effected. It may improve the working of central banks by inviting representatives of the latter at periodical conferences to discuss matters of common interest and to adopt a uniform financial and general policy subject to local variations from State to State. A separate department for the supervision and inspection of the agricultural operations of the apex and central banks as in Bombay may be created to integrate the co-operative finance in the State. In short, the apex bank should be able to wield those powers of supervision and guidance over the working of central banks which would be necessary to ensure the satisfactory working of the scheme of rural finance.
The difference between the borrowing and lending interest rates of the apex banks is the lowest in Madras, Bihar, U.P., and the Punjab; there, it does not exceed 1½ per cent. The usual lending rates of these banks have considerably declined during last 20 years and in 1949-50 the apex banks in Madras and Bihar advanced funds to affiliates at 3½ per cent; in Ajmer and Assam at 6 to 8 per cent. From this it may be gathered that interest rates for advances are high in co-operatively underdeveloped areas. In Bombay, Madras and to a lesser extent in U.P., Punjab and Hyderabad where there are better banking facilities, the apex banks manage to borrow at 3 per cent or even less. Despite these lower lending rates, it is imperative that such rates should be brought down to as low a level as possible. The interest rates for funds advanced by apex banks to the affiliated central banks and through them to the primary credit societies should be so low as to enable the ultimate borrower to get credit at 6½ per cent which is normally considered reasonable in view of the risk and period of investment involved in financing agriculture. For this, the Reserve Bank lends to apex banks at 2 per cent less than to other banks. Sometimes as in Bombay, a differential interest rate is charged between primary credit societies according to their comparative credit worthiness and between central banks and primary credit societies in former's favour. As the central banks cannot compete the apex bank with its wider area of operation, large resources and efficient management, they are granted funds at a reduced interest rate so that the interest rates
on funds advanced by central banks and the apex banks to
the primary societies are the same. An apex bank is normally
not permitted to finance other co-operative banks and
societies save the central banks in order to avoid competition
with the latter in loan operations. They may however, in
the absence of central banks, directly finance primary,
urban and other cooperative institutions.

On the management of an apex bank, representatives
of central banks, urban banks and banking unions may be
invited and also some enthusiastic co-operators with sound
banking experience and financiers may be co-opted. As the
apex bank is the controlling financing agency for the whole
State the directors should be highly qualified and experienced
in sound banking principles and methods to deal with the
financial, technical and managerial problems of the bank.
The appointment of a qualified full-time auditor is an
imperative necessity. The apex bank may convene periodical
conferences of affiliated and other co-operative banks to
review and discuss the general working of the movement in
the State and to formulate a uniform future policy in regard
to the successful progress of the movement.

Though the Maclagan Committee on cooperation were
indifferent as to the representation of co-operative or other
elements on the management of an apex bank, they however,
warned against the risk of a predominant voice of the
co-operative banks and held that shareholders, depositors and
businessmen must be proportionately represented. The Reserve
Bank in this connection remarked that "over-financing and underleniency in the matter of recovery might be checked if adequate representation could be secured to the depositors, either by nomination or other means on the Boards of Provincial and Central Banks." Where the transactions are heavy, the apex bank may appoint for the speedy and efficient despatch of business a small executive committee or one or more sub-committees, consisting mainly of resident members to attend to the routine work, to check the daily accounts, to scrutinise loan applications and generally to work up questions to be placed before the General Meeting. The directors should, under a sense of collective responsibility act as guardians of the interests of the General Body; look into important matters themselves instead of leaving them to one or two individual directors or the Secretary or the President; consider regularly the audit reports, take immediate steps to rectify defects brought to their notice and introduce checks and safeguards where required.

The management cost of the apex banks for the country as a whole averaged 0.8 per cent of their working capital in 1949-50. It was highest in Bombay - 1.4 per cent and the lowest in U.P. - 0.15 per cent. The high cost of management in Bombay may be attributable to the apex banks financing non-credit activities of co-operative institutions in the State and also providing funds to all credit-worthy agriculturists under the new "Scheme of Integrated Agricultural Finance."

1 Reserve Bank of India: Statutory Report under Section 55(1) of the Reserve Bank of India Act, 1937, op cit, p.22
2 Govt, of Mysore: Report of the Committee on Co-operation in Mysore, 1936, loc cit, p.75
3 Ibid., p.77
The accounts of an apex bank are audited either by the departmental officers; or, the Registrar may permit professional auditors to audit the accounts of such a bank and the audit fee is levied on the funds of the bank.

Despite restrictions in almost every State regarding the distribution of profits in the form of dividends, on an average for the country as a whole the rate of dividends average at 5 to 6 per cent. The practice adopted by some of the apex banks which distribute dividends without providing for bad and doubtful debts and unrealisable assets and interests amounts to paying dividends out of capital — a dangerous practice for the movement as a whole, since the apex bank holds a very prominent place in the financial structure of the co-operative movement in a State.

Provincial banks are generally required to contribute 25 per cent of the profits to the reserve fund. For the country as a whole in 1949-50 the total profits of all the apex banks amounted to Rs. 23.8 lakhs; only the Assam Apex Bank suffered a loss of Rs. 0.63 lakhs. The Bombay State Co-operative Bank shares its profits with affiliated co-operative institutions by giving the rebate in the form of reduced interest rates on advances to agricultural and multipurpose societies for punctual repayments. The apex bank in Bombay has entered into an agreement with the State Government that after paying 6 per cent as dividend the surplus profits of the bank will be shared at the end of every year between the members and the borrowing societies. The borrowing societies in the State get
rebate out of the profits on the basis of the interest paid by them to the apex bank. Some apex banks contribute funds for the promotion of education and training from their common good purposes funds.

Since the second World War, reorganisation of the apex banks in U.P. and Berar, Bihar and Assam is in process. The West Bengal apex bank which has severely suffered due to partition is also rehabilitated under State assistance and control. The new apex banks are gradually stabilising their position, especially in East Punjab and Uttar Pradesh.

The Bombay State Co-operative Bank has its constitution amended to finance all creditworthy agriculturists under its "Integrated Scheme of Finance." The new constitution of the apex bank represents all the interests concerned, the Government Departments of Finance, Agriculture and Co-operation, an Economist and various co-operative institutions such as representatives of central, urban and primary banks and of marketing co-operatives etc. A separate department has been created for the supervision and direction of agricultural operations of the bank and of central financing agencies. The Government have contributed to the share-capital and undertaken to bear losses if any to the apex bank while financing co-operatives in backward areas in the State.

Madhya Bharat and Rajasthan have yet to organise apex banks while Saurashtra has already one since 1961. Now that

part "B" States are eligible for financial accommodation from the Reserve Bank of India under the amended Act, each one of these States should immediately take steps to organise an apex bank to serve as a balancing centre as a coordinating agency and to prevent any kind of lopsided development in the movement.

The prosperity of an apex bank after all depends upon the prosperity of the tiller of the soil. To benefit him, the promotion of agriculture should be the main objective of such a bank. In this it can help him through central banks and primary financing agencies by advancing an increasing proportion of its funds against agricultural produce; developing agricultural marketing through co-operatives to realise better prices for him; providing him with better seeds, manure, irrigation facilities, agricultural implements; constructing walls and godowns; demonstrating the use of improved quality of seeds and agricultural technique and financing schemes of land improvement with surplus funds if any so as to ensure increased productivity of land wherever possible by the utilisation of machinery, bunding, planned irrigation, etc., on the basis of large-scale joint farming.

The provision of finance for the needs of agriculturists for above purposes is indeed a great problem. Despite the increasing role played by the institutional system of credit in recent years in providing finance to the agriculturists, the funds provided by it are much less as compared to those

1 R.G. Saraiya: The Bombay Provincial Cooperative Bank, Limited in Studies in Cooperation in Bombay State, 1951, loc cit, p. 91
provided by the moneylenders. In Bombay, in 1850-61, with its "Integrated Scheme of Agricultural Finance" under which all the creditworthy agriculturists are provided with institutional credit, the funds provided by the above system to the peasants represented only 40 per cent of the total credit supply to the agriculturists while private moneylending agencies supplied above 60 per cent of their credit needs. In other States, obviously the private financing agencies provide more funds to agriculture. Again with the sure disappearance of moneylenders as purveyors of agricultural credit in years to come, a vacuum will be created in the agricultural credit structure with serious repercussions on agricultural production and rural population if the institutional system fails to provide necessary agricultural finance.

According to the Planning Commission, funds available for short-term agricultural credit through institutional finance will not exceed Rs. 100 crores per annum at the end of the fourth year of the Plan. This provision is hardly adequate even to meet the cultivation expenses of the agriculturists. Shri V.L. Mehta suggested that besides credit facilities available from the Government, Reserve Bank of India and within the movement, the deficit of financial requirements of agriculturists may finally be made over by drawing funds from money available through deficit financing under the Plan.

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1 Shri V.L. Mehta while delivering a lecture on "The Place of Cooperation under the First Five Year Plan" at the Cooperative Training College, Poona on 18th April, 1953.
The present method of financing the agriculturists through an institutional credit system wherein there are a number of intermediaries such as the apex banks, central banks, banking unions and primary credit societies charging commission for their services makes almost prohibitive the supply of agricultural credit to the beneficiary who has to pay about 8 per cent as interest rate on funds borrowed since the raising of the Bank Rate from 3 to 3.5 per cent by the Reserve Bank of India. A State-sponsored Agricultural Credit Corporation directly advancing loans to the primary credit societies to finance ultimately to the cultivators will save the commission of many intermediaries and enable the primaries to lend at sufficiently cheap interest rates to the agriculturists.

In conclusion, the movement should be guided, controlled, and owned by cooperators and the cooperative institutions. The apex bank should assume and exercise powers of regulating the business of central banks and of the entire co-operative movement without outside financial or administrative assistance and the Governmental agency should function only with minimum statutory powers. To this objective, we should strive for.
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