CHAPTER XV
THE RESERVE BANK OF INDIA AND THE COOPERATIVE MOVEMENT

In April 1935 the Reserve Bank of India set up an Agricultural Credit Department "to maintain an expert staff to study all questions of agricultural credit and be available for consultation by the Central Government, Local Governments, Provincial cooperative banks, and other banking organisations"; and, "to coordinate the operation of the bank in connection with agricultural credit and its relations with Provincial cooperative banks, and any other banks or organisations engaged in the business of agricultural credit." The Bank provides loans and advances and offers rediscount facilities at concessional rates under Section 17(2)(b), (4) (a) and (4) (c) of the Reserve Bank of India Act wherever they are to be utilised for financing seasonal agricultural operations and marketing of crops. With the recent amendments in the Reserve Bank of India Act in April 1951, the stipulation that all loans and advances from the Reserve Bank to the state Cooperative Banks should be repaid by 30th September each year irrespective of the maturity of the bills is given up; the period of accommodation from the Reserve Bank specified in Section 17(2)(b) is extended from 9 to 15 months and the provisions of the Act are extended to the States' Unions to enable them to take advantage of the
Reserve Bank's accommodation facilities. During the last few years, Bombay, Madras, U.P., West Bengal, Orissa and M.P. obtained funds as loans and advances from the Bank under one or more of the provisions of Section 17 of its Act while other State cooperative banks could not avail of the facilities offered by the Bank due to their comparatively weak financial standing and not fulfilling the conditions laid down by it for financial accommodation. Reserve Bank's advances to apex banks under Section 17 of its Act have shot up from Rs. 1.5 lakhs in 1946-47 to Rs. 12.5 crores in 1951-52 and will continue to increase with other apex banks becoming eligible for such accommodation. It granted loans to Orissa and West Bengal apex banks under State guarantee to carry out their financial operations and expressed its willingness to help the proposed apex bank of Rajasthan and the reorganised Mysore apex bank by making advances under State guarantee. It should however be noted that Reserve Bank's advances to apex banks under State guarantee are transitional and given only to enable the cooperative credit structure to be self-reliant within a limited time. The need for the organisation of apex banks in those States' Unions where there are no such banks as at present and reorganisation of some of the existing apex banks in part "A" and "B" States is urgent to enable them to take advantage of the Reserve Bank's accommodation facilities, since, under the Reserve Bank of India Act, such facilities can be given to only those States which have an apex bank or a central bank reorganised by the State Governments concerned to function as an apex bank for this purpose.
Since 1951 an expert Standing Advisory Committee advise the Reserve Bank on matters pertaining to its Agricultural Credit Department and on subjects allied to those matters. The Committee meet periodically to review the results achieved and make recommendations as to future policy. Recently, the Bank sent its officers to tour various States of India to make personal investigations into the working of the credit structure and to offer suggestions to Governments concerned to reorganise the credit movement.

The Reserve Bank suggested that wherever the basic credit structure is weak and ineffective, it should be made economic and financially sound by reorganisation of the existing primaries, amalgamation of small units and liquidation of those which cannot be revived. It suggested that the re-organised primaries should undertake multipurpose activities after a careful assessment of all the relevant factors including availability of sufficient financial resources and their competence to carry on trading activities without incurring losses. It recommended Government subsidies in the initial stages towards the cost of management of reorganised credit societies laying emphasis on multipurpose activities. Saurashtra and Ajmer Governments were advised to convert the existing credit societies into multipurpose cooperatives while West Bengal, Bhopal, Pepsu and Rajasthan it was suggested that dormant societies should be reconstituted by amalgamation of small units, liquidation of uneconomic ones and checking hasty expansion.
Regarding those central banks which are small, uneconomic, financially unstable, incapable of borrowing at cheap rate to finance their affiliates and unable to maintain well qualified and adequate trained staff, the Bank suggested their amalgamation, specially in Hyderabad, Ajmer and West Bengal. It advised Bhopal, Ajmer, Vindhya Pradesh and Himachal Pradesh Governments that central banks in those small States are unnecessary and should therefore be amalgamated into the apex banks which may directly deal with the primaries or open branches at suitable centres for the same. West Bengal and Saurashtra were also advised to open branches of the apex banks in those districts where central banks could not run economically. In Mysore, the Bank favours the organisation of central banks as a link between the rural societies and the reorganised apex bank because the taluk multipurpose cooperatives with their trading activities and possibilities of risk in such business cannot be permitted to handle the banking aspect also to deal with rural societies.

The Reserve Bank emphasised the need to set up as early as possible the apex cooperative banks in Saurashtra, Rajasthan, Madhya Bharat, Himachal Pradesh, Travancore-Cochin, Pepsu, Vindhya Pradesh and Bhopal with substantial State help in the form of contribution to the share capital, subsidies in the initial stages in administrative costs, deficits and training of personnel and exemption from audit fees. Mysore, Hyderabad and Coorg Governments were advised to reorganise their apex
banks by reconstitution of the Board of Directors, strengthening the capital structure and standardising loan policy on strict cooperative banking principles. Officers of the bank visited West Bengal, U.P., Assam, Bihar, and Orissa to examine the working of the credit structure of the movement and to advise the Governments concerned regarding their development on right lines.

In underdeveloped States a "mixed system" in which there is the State control combined with local cooperative effort in the process of development of the credit structure becomes a necessity. Government participation and control at the apex level in various States will depend upon its contribution to the share capital, management costs and supply of trained personnel, while at the intermediate or primary stages, where there are central banks and primary societies, the management would be largely and essentially non-official.

Saurashtra, Ajmer and Madhya Bharat were advised to arrange for long-term credit by setting up a separate department in the apex bank. Besides providing short-term credit at concessional rate to cooperative banks, the Reserve Bank has helped land mortgage banks by purchasing fixed percentage of the debentures issued by them as in Bombay and Madras. It is also considering sympathetically the proposals of cooperators for the provision of medium-term finance to certain cooperatives in the movement.

The Reserve Bank has emphasised the need for better training facilities for the office-bearers of cooperative
institutions at all levels, primary, central and apex. It has helped partially solving the problem of dearth of well-trained, administrative, managerial and field staff for cooperative departments and institutions by giving subsidies to the Bombay Provincial Cooperative Institute for training official and non-official personnel for higher studies in cooperation at the Cooperative Training College, Poona. It has expressed its willingness to finance schemes for training cooperators at the Central Cooperative Institute, Madras for a few years in the initial stage. It offers the services of its talented staff to various Government Cooperative Departments and to the Movement for consultation and guidance.

The Reserve Bank is conducting a rural credit survey of a size which will adequately cover different strata of the agricultural population in representative parts of the country with reference to their credit requirements and to agencies, existing or needed, for fulfilling those requirements. It will also examine the pattern of savings and deficits in agricultural economy, the trends if any, towards shifts in income and the problem of capital formation in rural areas. Seventy-five districts covering 600 villages have been selected for purposes of survey on random sampling method. Villages are divided into two groups, one served by cooperatives and the other not served. Through demand schedules, 5 families of small cultivators and 10 families of larger cultivators are to be queried from each

1 & 2: Reserve Bank of India: Standing Advisory Committee on Agricultural Credit (proceedings of the Second Meeting held in Bombay on 24th and 25th April, 1952 - Reserve Bank of India, Bombay, 1952), p.34
village. In selected villages moneylenders and bankers will be interviewed. There will be an inspector for every group of four villages and two investigators in each district to supervise the work.

Research and publication work are other important fields in which the Reserve Bank has contributed to the progress of the Cooperative Movement in India. Research and investigations carried out by the Reserve Bank through the officers of the Agricultural Credit Department are published from time to time in the form of Bulletins, Reviews of the Cooperative Movement in India, for particular periods and Statistical Statements relating to the Cooperative Movement in India which are now published every year. The bulletins published by the Reserve Bank almost from its very inception and numbering 35 deal not only with the credit aspect of the Movement in India but cover non-credit aspects of the Movement in India and abroad to give a comparative idea of the growth of the Movement in various parts of the world and serve as a guide showing the lines on which cooperatives in India should develop subject to its social, economic and geographic conditions. Reviews of the Cooperative Movement in India deal with the trends in the movement in various parts of the country in its various aspects during the period covered and offer suggestions for their development on right lines. Statistical Statements relating to the Cooperative Movement in India, specially those published since 1949-50
are comprehensive enough to cover all aspects of the movement in various States and for the country as a whole and make an interesting study of the comparative growth of the movement in its various phases in different parts of the country.

The Reserve Bank has adopted a very cautious and strict policy in its advances and financially accommodation to the cooperative banks and has not helped the cooperatives in financing their activities requiring funds for a comparatively longer period. The Standing Advisory Committee have recently proposed for making medium-term finance available to cooperative banks; for provision of advances to cooperative banks to finance the production and marketing activities of cottage and small scale industries and to widen the connotation of the terms "Seasonal agricultural operations and marketing of crops" to include mixed farming activities and the processing of crops by agriculturists or their organisations. These recommendations are sympathetically examined by the Reserve Bank and are communicated to the Government of India for necessary action. It has agreed to advance Rs. 5 crores for medium-term finance as soon as a bill is passed to that effect in the Parliament. It should have a separate Land Mortgage Department to finance long-term needs of agriculture and should allocate a certain percentage of its profits for the development of agriculture. Under the present circumstances when problems of land utilisation are to be solved urgently to increase food production, adequate finance to reclaim, improve and utilise land in the most economic and profitable
way is badly required the Reserve Bank should have a separate Land Mortgage Department as in Australia.

To conclude, "as adviser, the Reserve Bank initiates schemes for adoption; and, as creditor, it participates in the constructive task of re-organising the cooperative structure in accordance with those schemes."

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