CHAPTER V

AGRICULTURAL FINANCE IN U. P.
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AGRICULTURAL FINANCE IN UTTAR PRADESH

"The lesson of the Universal History is that an essential of agricultural is credit. Neither the conditions of the country, nor the nature of the land tenure, nor the position of agriculture effects, but the great defect is that the agriculturist must borrow".

Finance is the life blood of all economic activities, it is pivot around which the whole economic science clusters. Agriculture is no more exception and the success or otherwise of agriculture depends upon the provision of timely credit. Right from the ploughing of the field and sowing of the seeds to the final disposal of crops, finance plays, a very vital role. Thus European and American countries are able to produce man fold as compared to India one acre and if their agriculturists are prosperous and well to do supply of adequate money is the
biggest contribution for this prosperity. On the other hand if Indian agriculture is still backward, absence of financial facilities is the biggest retarding factor. The rural banking Enquiry Committee of 1950 supports this point, when it observes. Because of the inadequate a financial resources and the absence of timely credit facilities at reasonable rates. Many of the farmers, even though willing are unable to go in for improved methods and techniques of production. Actually in the absence of finance no improvement both the name can be a made because every tool and every implement requires money. But agriculture finance exhibits two main peculiarities, Firstly, agriculture is mostly one man's or one family's business, hence it can not be itself provide enough resources and has necessarily depend upon outside borrowings. Secondly, expect land, the agriculturists has no other security to offer. Crops and cattle may be given but their value is too uncertain. Overall result if these two features is that the most of the financial institutions are hesitant to lend to agricultures. This hesitancy is more so in India where "Agriculture is a gamble in rain".
excess or stringency of rains may destroy the entire standing crops. Thus, agriculture finance becomes highly uneconomic and inconvenient proposition.

FINANCIAL REQUIREMENTS OF AGRICULTURISTS

An agriculturist requires money in order to meet the following objects:

1. To pay current expenses of cultivation such as purchase of seed, manual, etc. The purchase of cattle, improvements and raw materials, to acquire new land.

2. To improve land by irrigation, drainage, weeding and planting.

3. To pay up old debts.

4. To build and repair their houses.

5. To purchase food stuffs and personal necessities.

6. To pay land revenue and irrigation charges, to Government.

7. To meet expenses connected with marriage and other social events in the family.

8. To buy jewellary and conduct law suits.

9. These above mentioned expenditures are of:
   a. Directly productive.
   b. Indirectly productive and
c. Unproductive in nature.

Money spent on cultivation purchase cattle, fodder and implements and strong the grain for fair market price may be included indirectly productive whereas as money spent or payment of land revenue, discharging of old debts, personal maintenance and and education may be regarded as "indirectly productive" Among unproductive are included expenses on litigation and social and religious ceremonies.

CLASSIFICATION OF AGRICULTURAL CREDITS

"Rural Credit Survey Committee" was formed to find out the financial requirements of the agricultural agriculturists. It classifies agricultural credit one period, purpose, security and creditor basis. The basis of period of term in the most common means of describing it i.e. short period medium and long term period. The period wise classification is regarded as the sub-division within each group. According to the Committee, the chief feature of periodwise loans are as follows:
1. **SHORT TERM OR SEASONAL CREDIT:**

   It provides peasants with the working capital which they require for meeting day to day expenses run to the farm efficiently. This crop of credit if generally paid after harvest, when crop is disposed off. The period of this type of credit does not exceed is 15 months.

2. **MEDIUM TERM CREDIT**

   Medium term loans are taken for period varying from 2 to 5 years for purposes of purchase of cattle implements, construction of wells, houses and such other needs.

3. **LONG TERM LOANS**

   Long term loans are contracted for a period of 5 to 20 years for purposes like levelling of land, reclaiming waste land, construction of tubewells and purchase of costly machinery like tractors etc. For the viewpoint of creditors loans may be classified into (1) safe loans (2) Fairly loans (3) Speculative loans.
The period long term loans differs from country to country. Our country is lowest in the world, as evident from the following table:

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>DURATION OF LONG TERM CREDIT IN YEARS</th>
</tr>
</thead>
<tbody>
<tr>
<td>FRANCE</td>
<td>75</td>
</tr>
<tr>
<td>IRELAND</td>
<td>68</td>
</tr>
<tr>
<td>HUNGARY</td>
<td>63</td>
</tr>
<tr>
<td>DENMARK &amp; ITALY</td>
<td>60</td>
</tr>
<tr>
<td>SWITZERLAND</td>
<td>57</td>
</tr>
<tr>
<td>AUSTRALIA</td>
<td>52</td>
</tr>
<tr>
<td>NEWZELAND</td>
<td>54</td>
</tr>
<tr>
<td>THAILAND</td>
<td>30</td>
</tr>
<tr>
<td>INDIA</td>
<td>22</td>
</tr>
</tbody>
</table>

It is very difficult to ascertain the credit requirements of a country as working capital. There is no prima facie principle for ascertaining credit requirement. It has been estimated on the basis of credit issued to a particular locality. It is estimated on sampling methods. Credit requirements for Indian farmers have been estimated by several learned persons and committees. Regarding finance it is estimated that 30% of food crops and 80% of cash crops are marketed. Under the prevalent conditions of
The finance for marketing would be on high side if the chain of middlemen are to be eliminated and practice of the tie up loans is to be prohibited. Assuming marketing finance at one third of production finance the amount required would be Rs. 3883 millions.

HERRICKS RURAL CREDIT REQUIREMENTS OF GOOD SYSTEM OF CREDIT FOR AGRICULTURE

Agriculture should serve really useful purpose and should conform to the following criteria:

1. Credit should be granted for the sufficiently long time to commensurate with the length of operation which it is designed to facilitate.

2. It should be granted at a low rate of interest in other words it should ensure equalisation of credit terms.

3. It should be adequately incurred in order to avoid any abuse of credit facilities, but the security should not necessarily be material. If necessary, it should be in the form of personal credit secured mainly on borrower's moral standing and the ability of cultivation.
4. It should be adopted to the average yield and capacity for the repayment of farms particularly in the period of depression.

5. Credit should be given on ware houses receipts with the maximum rate of interest.

It should be placed in the hands of directors which have special training and had actual experience in Banking Business.

The Rural Credit Survey Committee recommended that the recognised system of institution, the credit should satisfy the following requirements:

(a) It should be an effective alternative to the private agencies of credit.

(b) There should be adequate resources to cope with trained personnel to handle it.

(c) The system should be in a position to co-ordinate its relative activities. It should not only be correlated with different sectors pertaining to short, medium and long term credit, but also complementary arrangements like processing, marketing and other activities of the cultivator

(e) It should be only lend on the security of land or martagage of produce or ware-house
receipt, but also on the security or anticipated crops.

(f) It should be associated with the policies of the State.

(g) It should help in the effective growth and Development from the village, of the Co-operative Form of association.

AGENCIES OF AGRICULTURAL FINANCE IN INDIA

The Rural Credit Survey popularly known as Gowala Committee estimates the total annual borrowings to be Rs. 7.50 crores of the Indian agriculturists and also gives the various agencies which provide this amount and their respective proportions.

The table given by all India Credit Survey Committee (1951/52):

<table>
<thead>
<tr>
<th>AGENCIES</th>
<th>PERCENTAGE OF TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Government</td>
<td>3.3%</td>
</tr>
<tr>
<td>2. Co-operative Societies</td>
<td>3.1%</td>
</tr>
<tr>
<td>3. Commercial Banks</td>
<td>0-9%</td>
</tr>
<tr>
<td>4. Relations</td>
<td>14.2%</td>
</tr>
<tr>
<td>5. Land Lords</td>
<td>1.5%</td>
</tr>
<tr>
<td>6. Agricultural money lenders</td>
<td>24.5%</td>
</tr>
<tr>
<td>7. Professional Money Lenders</td>
<td>44.8%</td>
</tr>
<tr>
<td>8. Traders and Commission Agents</td>
<td>5.05%</td>
</tr>
<tr>
<td>9. Miscellaneous Sources</td>
<td>1.08%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>
From the table it is clear that more than 90% of credit requirements are still met by private agencies and Govt. Co-operative Societies and Commercial Banks provide only 7.3% of the total agricultural finance. As large as 69.7% of borrowings are advance by moneylenders. Which can still be described as the monopolists of rural field. It is strange indeed that despite so much Govt. action the encouragement to other institution like Co-operative Banks, Post Offices and Commercial Banks, money lenders enjoy the same supreme positions. The reasons are not far to seek. They are the convenient an easy methods of business of the money-lenders, their secret lending and personal contact, grant of loans on personal security without very much carrying for for the mortagage of the house and property and above all delivery cash to borrower as soon as the request is made. But the finance by money lenders is very seriously harmful and has thrown our ignorant farmers into permanent debt through various frauds and excesses. Large scale transfer of lands from the farmers the money lenders, reduction of agricultural profit and high rates of interest are the main defects. This kind of credit
according to Dr. K. N. Raj they charge interest from 20%. A humorous saying has become prevalent.

"Bania marey Janey thag marey an janey".

Though Government has been rendering assistance to our agriculturists yet how little this assistance is, clear from the poor percentage of 3.3 Government Finance comes mostly in the shape of courtyard loans under the land Improvement Loans Act 1883 and the Agriculturists Loans Act 1884 but our defects are:

(i) Inadequate amount (ii) Inequality in distribution

Mostly big approachable agriculturists are able to get courtyard loans (iii) In convenience of timing,

redtapism and unsatisfactory behaviour of official towards the villagers and (iv) Absence of supervision over the finance provided to the farmers.

The contribution of the commercial banks is negligible because it does not meet even 1% of the total requirements. The Banks follow "Touch me not policy" and it is rather difficult to get loan from them. There is no surprises in it because Banks in India are contributed on British pattern which specialise in financing to trade, commerce and
business and not to agriculture or Industry. But the most startling revelation of rural credit survey of 1951/52 is the insignificant part played by Co-operative credit Societies. Their existence is now more than 50 years old and the Government has actively helped them every now and then but even today as less as 3.1% of the total annual borrowings. The Gorwala Committee with profound sorrow remarks, "Co-operation has on the whole failed as it could not help failing in these conditions". This failure is partly due to the ignorance of our farmers and partly due to lack of Scientific co-operative method. Our Co-operative is haphazard and unlike Denmark, Holland and Germany. It has not taken the main sectors of agriculture on Co-operative lines. Really people have faith in Co-operation although its potentialities are undisputed:

(1) RURAL MONEY LENDERS:

"The Country is in the grip of Mahajans"

It is the bonds of debt that shackle agriculture.

The role of money lenders in the agricultural economic has been apply described by the U.P. Banking
Enquiry Committee in the following words in its report:-

"He is certainly not philanthropist, his object is to make money and he is not always particular regarding the means by which does it. He will deduct future interest from the principal be pays to the borrower, he debt his client with all incidental expenses. He will cause an illiterate borrower to put his thumb impression on a blank form and subsequently fill it up with a sum in excess of the amount actually lent. He charges a rate of interest which is always high and after compounding it at intervals extricates from the client. Never-the-less, when concession arise he does leniency. He will not for instance use his round lent bond unless his client forces him to go to law by being a defaulter. Again if his debtor is prompt in payment he will often allow him rebate of interest when amount is fully disclosed.

Mean time, it is to him that needy peasants turn for help in every trouble. It is he, who finances the marriage, suits and law suits are almost as inevitable
as the other. He does not keep the borrower waiting for money till the time for its profitable spending has passed. He does not press for payment at due date and if he knows that such repayment is inconvenient he does not conduct, embarrassing enquiries into his client's haysiat (financial condition) for what is his worth, he knows it already and the element in it to which he is attached. Most important is the client's reputation for prompt and regular payment.

Out of all agencies engaged in providing agriculture finance the individual money lender is by far the most important, both from the point of view number and value, of business. There are two classes of money lenders, who combines his business with trading in village produce, he may be termed as, "village bania" who at the time of advancing loans make agreement that all produce of cultivator will pass through him and he is free to purchase at pre agreed or money price. The other form is non professional money-lenders which is generally day/land owners, well to do agriculturists, pensioners, widows pleaders who usually land, money to those whom they know fairly on good security of land and ornaments.

The great importance of private credit agencies can not be over emphasised. The data collected by all India Rural credit survey committee are opended of various agencies supplying credit.

(i) Institutional Agencies  
7.3%

(ii) Private Agencies  
92.7%

It is evident from the above figures that about to be dependent on private agencies, out of which about 25% is taken from private and 45% from professional money lenders.
Rural Credit Survey Committee gave the following report in support of the money lenders.

"The money lender services are many, but it must be admitted that he exacts a high price in return. Yet his charge are not entirely disproportionate to the trouble and the risk of his business and the unpopularity of his calling."

Among private agencies the most dangerous creditor is landlord, who in the end under any circumstances try to acquire the land as emphasised by U.P. Banking Enquiry Committee in the following words:

"The most dangerous creditor from whom a tenant can borrow his own landlord since the later there by acquire a double hold over the farmer. If a tenant pays his rent, but not the interest on his debt, a landlord can suit him in civil court. If a tenant pays the interest on debt, but not his rent, the landlord can, if chooses, credit all payments to the debt and so keep the tenant in areas with his rent, which puts the later's crop in his power by distraint and given him the right to eject him if pleases. Again there is evidence before us showing that occupancy tenant have occasionally been compelled to surrender their rights in liquidation of a debt to their landlords.

The definition of a money lender is that he is often that are thirsty person amongst generally thriftless people, and that his methods of business, though thought demoralised by the people who are free from him, suit the happy-go-lucky-way of the peasants. He can be contacted at any time even at late hours in night, dispenses with trouble some malpractices and ask in convenient questions regarding purpose. etc. advances promptly and if the interest
is paid regularly, does not press for the repayment of the principal. He keeps in close touch with his clients and in any village shares their occasions of weal and woe. It is only due to close touch with those around him, that he is able without serious risks to finance to know those who would otherwise get no loan at all. Apart from his supply of finance to his neighbours he also keeps a small shop to supply the present needs of farmers and prepared to market their produce. He offers same rate in the village itself which is in the market. He makes his margin by way of excess weightment and after that admixture with dust and other poor grains.

After studying the definition and functions no one can doubt that he is still a necessity in our villages. He makes his arrangement in such a way that marketing of produce passes through him. "It is his capital. Constantly revolving in its own circle which brings crop after crop to the thresingfloor". It is complicating feature of present arises that his bags are empty and his doors closed, where the services of money-lenders are many. It must also be admitted that he extracts a high price in return.
The objects of loans are not scrutinised under this system. Productive and unproductive loans are distinguished, principal is deliberately allowed to remain unpaid for years. The charges of interest are so high that they inevitably accumulate and compound interest wells the account after preposterous figures.

Worst of all seasons of prosperity, money, more money and still more money is pressed upon the peasant until he becomes bound hand and foot to his creditor. The method adopted for financing by moneylender is such that once a person gets into debt, it is very difficult to get rid off, with the result that cultivators have sunk deeper and deeper into the debt. In such circumstances, it is of no use to think for financing in the time of harvest when again they require money to meet their immediate and recurring expenses.

U.P. BANKING ENQUIRY COMMITTEE REPORT

"He charges a rate of interest which is always high and after extortination compounds it"
at frequent intervals. It is to him that the needy peasants turn for help in every trouble. It is he who finances the marriage, suits and law suits.

Professor Strickland also writes in his one book about the misdeeds of these money lenders in the following words:

"The Chief evil in a money lender's credit is not the high rate of interest of the falsification of the book but the fact that he grants loans for unproductive purposes and does not insists on the prompt payment on a good harvest. He ambition naturally is to see his money well invested and to live over the interest.

In addition to these defects the money lenders are taking the advantages of the illiteracy and ignorance of the farmers, resort to certain objectionable practices. The most practices adopted by the money lenders are enumerated as bellow:
1. At the time of advancing the money, the money lenders deduct the interest for the full year out of the principal. He makes borrowers signature on a bond to the effect that the full amount has been received. Since no receipt for interest deducted out of the principal is granted, moneylender may demand interest again on due date.

2. Many moneylenders get the thumb impression or signature of the borrower on the blank paper before lending the money and later on enter more than the actual amount if he is not regular in payment of his interest or do not pay the principal or interest or both.

3. It is a common practice of all the moneylenders to manipulate the figures in their registers in such a way as to show larger sums than is actually lent.

4. As very few money-lenders pass receipt wrong entries are made in the registers to the advantage of debtor. Often the money
lenders do not take trouble to enter the receipt of installment of interest in the accounts books.

5. Debtors have to pay something to the moneylender as a present called "Girah Khulai" (Purse-opening) before my business is transacted. Besides this, other incidental charges like gaddi Karcha, Salami, Katanti between etc., are also deducted out of the principal by the moneylender.

6. Money lender makes out of conditional sale deeds where he is authorised to purchase the produce of cultivator which is a sort of security against the possible evasion of payment.

Despite of these defects and mal-practices of money lenders it seems inevitable that the private money lender will continue to be the main agency to supply credit requirements particularly short term and immediate for he is a "dangerous necessity and his trade must be controlled and properly regulated."
SUGGESTIONS FOR IMPROVEMENTS

"With a view to safeguard the interest of both borrowers and the lenders which would ensure the maintenance of fair and equitable relations between them and which would not increase only the supply of credit available for the unproductive purpose, it is necessary that following step should be taken up:-

1. The business if moneylenders should be licenced, the rate of interest should be limited and unserious practices should be stopped. The question of licencing and control of money lenders have already been examined by Provincial Banking Enquiry Committees was of the opinion that "a real and lasting solution can only be found by the spread of education, the extension of co-operatives and joint banking and by the training of borrower in the habits of thrift and saving." The licence of money lenders should be granted only when they agree to furnished the following conditions:-
(A) They should not charge above the prescribed maximum rate of interest, the practice of compound interest be totally abolished.

2. They should maintain accounts in a standard form and allow these accounts to be audited and checked by the Government Auditors once or twice a year.

3. They should issue receipts of all receipts made by their borrowers.

4. The account of each individual should be kept separately and a copy of it should be furnished to the borrower in every six months.

(B) The reciprocal obligations of borrowers and lenders should be settled and regulated by law in such matters like the interest chargeable on different types of transactions, maintenance of proper account and the periodical settlement of account.

(C) There should be adequate personal and proper management for controlling licencing system and reviewing the effect of regulation in order to maintain continuous improvement in rural facilities.
(D) There should be a clear demarcation between productive and unproductive loans. The liberty of cultivators to borrow and granting loans from licence moneylenders should be curtailed for productive purposes. A small percentage, may, however, be allowed for unproductive loans. There should be control of crops and compulsory marketing through societies to recover the loans promptly and at the same time save the cultivator from his improvidence.

With the advent of system of licencing of money lenders steps should also be taken to improve their relations with the scheduled banks to the banking structure of the country. Agricultural finance sub committee also gave the same suggestions. Following are some of the main suggestion of the Committee:

i. Compulsory registration of money lenders.

ii. They must have proper accounts of loans and books.

iii. They should give full and true particulars about the duration of loans given.

iv. They should give receipts of payment of loans and interest.

v. Fixation of maximum rate of interest and the "The rule of dam-dupat" should be used.
vi. Control of illegal charges.

vii. Proper investigation and inspection of account and work by Govt. Officers without any prejudice.

But in fact it is very difficult to operate all these suggestions because they are participating every good role in financing of agricultural needs.

**CO-OPERATIVE CREDIT INSTITUTION**

The supply of credit by Co-operative Societies is only the solution of the problem. Co-operative alone can take up the stupendous task of meeting the agricultural credit requirements of the cultivators of this state. Although the lendings made by Co-operative have should in last 3 years yet the success achieved is not satisfactory. It supplied Rs. 110 million in cash and Rs. 40 millions in kind. There is need to strengthen the Co-operative structure at various levels particularly the central banks both though state participation and contribution from the societies so that they may attract greater finance from the Reserve Bank of India and to distribute in rural areas. During 1958/59 the state participation in the sources of large
sized societies, Central Bank and the U.P. Co-operative Bank was to the tune of Rs 7.3 millions. This has speeded the pace of capital formation in the Banks and could gain confidence in the public with the result of the state participation, the borrowing capacity of Central Banks has also increased. Govt. has sanctioned a further contribution of Rs 3.06 million in the shape of shares of 306 large-sized societies. These societies in turn-invest the amount in the shares of Central Banks.

In order to push-up loaning, the basis of fixation of credit limit was liberalised and limit for getting short and medium term loans was also raised. About 64,000 villages in the state have been covered by co-operative credit societies so far. All the villages of state will be covered by the Co-operatives by the end of Seventh Five Year Plan. This will provide necessary medium for extending credit facilities.

1. PRIMARY AGRICULTURAL CREDIT SOCIETIES.

The primary societies are agencies at the base in the credit structure on co-operative basis. The cultivator can meet his requirement of finance and other agricultural goods through his village society. These societies as have been organised on the basis of gramsabha as their area of operation as multi-purpose societies. Besides providing loan to its members, the society will also stock agricultural requisites such as seeds, fertilizers etc. for the use of cultivators
and can also arrange for the sale of their product.
At present the village societies are distributing loans to their members, at 84%. The total numbers of agricultural societies as on 30th June, 1958 was 44,102. The membership was 1,862 millions and paid-up, share capital was Rs. 42,548 millions. During 1957/58 these societies borrowed Rs. 52 millions from Central Bank as against Rs. 44.9 millions in 1958/59. Day by day these societies are progressing in number and work also. There are some causes responsible for their slow growth.

2. LARGE SIZED SOCIETIES

These societies are working in our state for last 5 years only. Within a short time, these societies became popular with the cultivators and have achieved much success. The demand for credit and also the average loaning for members increased and the over dues decreased considerably. The system of cash credit proved quite in order. Members appreciated the availability of timely loans through this system. Another advantage which accrued as a result of formation of large sized.
Societies is that of creation of our agricultural loans. The credit need of the members have begun to be reckoned in terms of their estimated cost of cultivation. There has been a definite shifting of emphasis from haysiyat of the value of crop grown by the member.

Covering the area of 18,746 village on 30th June, 1958 the member of large sized credit societies was 683 with a total membership of 5,72,304. The paid-up share capital of these societies was to the tune of Rs. 15563 millions. An amount of Rs. 4,575 million was advanced as crop loans from the Central Bank at the rate 5½%. During 1957/58 State Government contributed Rs. 3 millions towards the shares of 300 large sized societies. There has been direct participation by the state in their societies. For the construction of 200 godowns in large sized societies, the State Government has sanctioned a sum of Rs. 2 million besides subsidising the cost of their managerial staff. The progress achieved has no doubt proved useful yet taking into consideration of area of operation and need of finance it is negligible. It is hoped that they will soon function as miniature banks managed by village people for their own benefit.
3. DISTRICTS CO-OPERATIVE BANKS

The district and Central Banks play a very vital role in our providing credit for the seasonal agricultural operations and marketing of crops. Due to the expansion of market at the primary level, their responsibility to provide necessary finance has increased considerably. It has roughly been estimated that they will have to provide finance to meet seasonal as well as marketing finance requirements to the tune of Rs. 1,000 millions during the course of next few years. Although their share capital and lending has doubled during the course of 4 years yet still there is a large gap to be filled up. For the formation of capital it was decided that the primary societies should invest their entire share capital in shares of Central Banks. State Government has also contributed Rs. 3.8 million in the shape of shares of 39 Central Banks. The State contributed to 3 million was made available in the shares of 300 large sized societies in the shares of Central Banks. The paid up share capital of central bank as on 30th June, 1958 was Rs. 25,842 millions as against Rs. 14,609 millions in the years 1960.
The Central Banks usually loans to the Societies to the extent of 8 times of paid up value of shares held by them, whereas they get loan from Reserve Bank of India and U.P. Co-operative Bank to the extent of 2 or 3 times only, according to their audit classification and financial position. This leaves a gap of 4 to 5 times which has to be filled in by local deposits. Owing to tight money market and been competition from joint stock Banks and Govt. the prospect for raising sufficient local deposits are declining.

With a view to make Central Banks financially strong the Govt. has been pleased to accede to the request of Central Banks and thus have allowed local bodies, Panchayats and other State aided institutions to keep their funds with them. Deposits held by Central Banks of 30th June, 1958 were to the tune of Rs. 45.3 millions. All the Central Banks accept current saving, fixed deposits and the rates of interest allowed on various deposits are quite attractive. In 1960 the total number of Central Co-operative Banks were 58 functioning in 46 districts. In the remaining districts the branches of U.P. Co-operative Banks are functioning as Central financing
agencies. It is persistent demand from Central Banks that the Reserve Bank of India should liberalise its basis of fixing credit limits. If Central Banks are able to get loans to the extent of 5 to 6 times of their paid-up share capital and the reserves from the Reserve Banks of India, it will be possible for them to meet the credit needs of the Societies.

The system of submitting a list of co-societies to be financed at the time of submitting a list of societies has been removed. The owned and working capital of Central Banks as on 30th June, 1958 was Rs. 31.9 millions of Rupees and Rs. 109.91 millions respectively. During 1957/58 they lent Rs. 103.10 millions to their members.

The progress in respect of membership is also very good. These Banks are very useful for agricultural finance.

4. **U.P. CO-OPERATIVE BANK**

It is an apex institution of Co-operative Credit Societies in the State. In the final analysis the responsibility for financing the movement rests with the apex institution. Thus, the prime requisite for the success of Co-operative movement in the state
in the existence of a very strong and sound apex Bank. Although the Bank has made a great progress during the last two years, yet a greater task of meeting agricultural requirements of the State waits its services.

Loans, overdrafts and cash credit to various co-operative institutions at the end of year 1957/58 were to the tune of Rs. 47 millions as compared to Rs. 28.8 million at the beginning of the year. The Bank advances of Rs. 1 401 millions to Central Banks and Rs. 5.37 millions to other during 1957/58 and earned a profit of Rs. 1 075 millions as against Rs. 536 thousand in 1960. On 31st December, 1958, the paid up share capital of the Bank was Rs. 12,711 millions as against Rs. 10,802 millions as against Rs. 10,692 millions on the 30th June 1958. The Bank borrowed Rs. 26,392 millions in the year 1957/58.

The Govt. contributed to the share of Bank a sum of Rs. 6.5 millions. This was in addition to purchase of fully paid up shares of Rs. 0.5 millions in the past. The deposits held by the Bank amounted to Rs. 0.71 millions as on 31st December 1958. The Bank has its branches at Kasimpur, Agra, Pilibhit, Faizabad, Barabanki, Almora, Rampur Bareilly, Gonda and Varanasi, the progress of which is appended below:


<table>
<thead>
<tr>
<th>YEARS</th>
<th>SHARE CAPITAL</th>
<th>DEPOSITS</th>
<th>WORKING CAPITAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1949-50</td>
<td>1.11</td>
<td>0.18</td>
<td>3.50</td>
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<td>1951-52</td>
<td>1.48</td>
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<td>14.89</td>
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<td>1966-67</td>
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They are really in a state of suspended animation.
The problem now is to unfreeze the movement and to reopen the streams of credit wisely and consequently the societies must be radically be re-organised by making changes in:

(a) Area of operation
(b) Function and
(c) The nature of over liability over primary rural credit societies. There should be:

(a) A reorganisation of the village credit societies on the basis of one society for a group of neighbouring villages within a radius of 3 to 5 miles.
(b) The gradual evolution to the rural credit societies into multipurpose societies.
(c) The substitution of unlimited by limited liability.
(d) The employment of the paid clerical staff;
(e) Fixation of borrowing limit for each member and for each society so that so detailed enquiries or ordinary necessary at the time of advancing loans.

**Role of Agricultural Refinance Corporation**

There are two refinancing agencies viz., the Reserve Bank of India and the Agricultural Refinance and Development Corporation. RBI, which is the Central Bank of India, provides the refinance facilities through its Agricultural credit department to state cooperative banks both for short and medium term credits.
The ARDC is the statutory body providing refinance facilities by way of long term developmental loans in compact areas for project development mainly to State Cooperative Land Development Banks and Commercial Banks.

A brief note on the two refinancing agencies (RBI) and (ARDC) may be in order.

RESERVE BANK OF INDIA

The RBI was established on April 1, 1935 under the Reserve Bank Act of 1934. It started functioning as a Central Bank of India from 1944. With a view to enable the bank to fulfil its important role in sphere of agricultural finance, its Agricultural Credit Department was established under section 54 of RBI Act. Following the recommendations of the "All India Rural Credit Survey Committee that " the Agricultural Credit Department of RBI will have to be expanded and reorganised, the RBI Act was amended in 1955.

The Agricultural Credit Department of the RBI performs the following functions:—

(i) Appointing the experts to study the problems of agricultural credit.

(ii) Providing the facility of consultation about the agricultural credit to the Central Government, State Government, Cooperative institutions and other banking institutions,
(iii) Providing financing facilities for agricultural purposes through state cooperative banks,
(iv) Coordinating the operations of the banks in connection with agricultural credit and its relations with state cooperative banks and other banks and organisations engaged in the business of agricultural credit.

Agricultural Refinance and Development Corporation

The Agricultural Refinance Corporation was established in 1963 with an authorised capital of ₹ 25 crores which is contributed by the RBI, LDBs, State Cooperative Banks, Life Insurance Corporation and Commercial Banks. Its object is to provide necessary financial aid to the existing institutions at low rates of interest. Its regional offices are at Ahmedabad, Bangalore, Bhopal, Bhubaneswar, Calcutta, Chandigarh, Gauhati, Hyderabad, Jaipur, Lucknow, Madras, New Delhi, Patna and Trivendram. It functions under the guardianship and full control of the RBI. On 15th November, 1975 it was renamed as Agricultural Refinance and Development Corporation of India. The Government guarantees to repay the principal and dividend @ 4.25 percent. The corporation has obtained from the Central Government and interest free loan of ₹ 15 crores repayable after 5 years in 15 annual instalments.
The national bank for agriculture and rural development (National Bank) was set up on 12 July 1982 under an act of the parliament. It has been established by merging the Agriculture Credit Department and Rural Planning and Credit Cell of Reserve Bank of India (RBI) and the entire undertaking of Agriculture Refinance and Development Corporation.

National Bank an apex Development in the country for supporting and promoting agriculture and rural development. It provides through financial and banking system, several lines of production and investment credit to agriculture, small-scale industries, cottage and village to agriculture, handicrafts and other allied economic activities. National directs the policy, planning and operational aspects in the field of credit for agriculture and integrated development.

FUNCTION

A. Credit dispensation
B. Developmental and
C. Regulatory
GOVERNMENT

Government also provides financial assistance by granting loans to cultivators under
(i) Improvement loans Act of 1883 and
(ii) Agriculturists Loans Act of 1884.
Such loan are known "Taccavi Loans". The advantages of Taccavi Loans lies in their long term and low rate of interest. The total amount lend under both these Acts is extremely insignificant being 35 to 60 lacs in the whole country, which is a short of drop in the ocean. These loan play a very small part in the agricultural financing. Govt. does not provide any credit for finance for marketing purposes. The taccavi loans are only 30% of the total supply of rural finance.

Besides Taccavi Loans, Govt. should advance to the cultivators through patwaris and lekhpals for financing at the time of sale of produce. They should be financed to that they may keep the produce till these are favourable rates in the market. More development of irrigational facilities and increasing produce the standard a living of the cultivators can not rise. It is the last process of cultivation marketing which can help in making the way of solution of not only Uttar Pradesh but also of India as whole.
The Agricultural credit department of the Reserve Bank of India was created in April 1955, simultaneously with its Banking department. At its head is the Officer Incharge who is associated in its research activities by a Director of Research. For purposes of internal administration, the department is divided into three sections namely: The Agricultural Credit, The Banking, and The Statistical and Research Section. The activities of the Agricultural Credit Sections are threefold.

Firstly, it studies all the problems relating to co-operation and to legislation for the relief of rural indebtedness.

Secondly, the section keeps in close touch with the co-operative movement and its officers avail themselves from time to time of opportunities for studying the sorts of the special features of the movement in the various parts of India. The result of such studies are published in the form of bulletins.
Thirdly, the section advises the central and Provincial Governments. Co-operative Banks and any other Banking organisation which may happen to consult it on problems connected with agricultural credit.

The department has been giving general guidance to the Central hand mortgage Banks and the provincial Co-operative Banks by issuing circulars to bring their working more and more conformity with business and sound banking principles. It advised central Land Mortgage Banks regarding constitution of Sinking Fund Method Policy and time of raising debentures and on such other general matters as margin between borrowing and lending rates uniformity of working practices etc. Some of the important circulars issued in 1958-59 related to:

1. Rules under the Warehouses Act;
2. Co-operative movement and rural savings;
3. Audit classification of co-operative societies;
4. Periodical enquiry into the economic conditions of the members of a rural co-operative society as a test of the success of the Rural Credit Movement and
5. Maintenance of Fluid Resources by co-operative Banks.

The Chief Officer of the department tours frequently advises co-operative Banks on the spot and communicates necessary of the observations to the Registrars. The officers of the department attend the national and international conferences relating to the co-operation, statistics, agricultural economics, etc. and are
after associated with committee dealing with such subjects.

A monthly bulletin was started in January, 1947; it contains a useful survey of monthly situation in currency and finance papers embodying researches under taken by the research staff and statistics concerning Bank rates, postal deposits prices electricity etc. The department decided to publish an annual review of the co-operative movement and the first review for 1939-40 was published in 1941. The second review for 1939-48 however, was published after 7 years in 1948. The review for 1946-48 published in 1950 and for 1951-52 and 1952-53 was published in a statement relation to Banks and Co-operative in India are issued as annual publications. The division of agricultural in indebtedness into talikas of Bombay province in 1948. It was based on the data available the applications of agriculturists debtors and their creditors to the debt adjustment boards. A survey of rural indebtedness in the Murad Taluka of Thana district was carried out in 1948-49 on the basis of the applications for adjustment of debts the Bombay Agricultural Debtors Relief Act. Besides, a field investigation of the payment of the scaled loan was also made in few selected village. In response to a request from the Govt. of India the bank submitted in '1948 draft Bill for the establishment
of an Agricultural Finance Corporation. In 1948 the Bank placed at the disposal of the Indian society of Agricultural Economics a grant of Rs. 10,000 for editing "Readings in Agricultural Economics". The grant was renewed for one more year, if the progress of the work found satisfactory. Factual survey of grow more food measures was completed into two talikas of Bombay State in 1950 and then published the all India Rural Credit Survey Report (1951-52) in the year 1954. The high standard of financial rectitude set up by the Reserve Bank for bringing the working of the Co-operatives in line with Commercial Banks, has effected considerably their co-operative character. It has restricted the scope of their services to only well to do farmers and has helped in bringing down the cost of co-operative loans to Agriculturists. Although the slogan of co-operation for the poor weak and helpless is yet current in actual practice co-operation credit is made available to farmers, considered credit worthy on the basis of assets. The insistence of minimum deposit with the Reserve Bank by provincial Co-operative Banks. Although not provided for in the Reserve Bank of India Act and the withdrawal of remittance of facilities have raised working cost of the provincial co-operative Banks. The instance on sound banking methods ignoring the special needs of agricultural credit has been last to a paradox on the one hand the co-operative complain of surplus funds and are
investing them in non-agricultural fields, so on the other hand Indian agriculture is suffering actually from shortage of capital.

The present practices of co-operative financing agriculture strictly in accordance with the credit worthiness of farmers, makes the necessary finance much beyond the reach of the general run of farmers. In other countries special agricultural credit institutions are playing a very important role in making low income of farmers credit worthy through judicious Credit facilities, where as in India, the present policy of financing only credit worthy farmers in tant amount to putting the cart before the horse. The Reserve Bank while advocating the policy of confining the co-operative loan to only credit worthy farmers, should have stressed the need of an alternative organisation for credit to the remaining agriculturists. But it do not so and there by failed in it's duty enjoyed on it under section 55(11) of the Reserve Bank of India Act, which required to submit proposals for improvement of the machinery for dealing with agricultural finance. As already the bank has filled an extremely cautious policy and facilities for long in extending rediscounting facilities to provincial co-operative Banks and in supporting debentures issued by Central Bank of Land Mortgage. Normal Credit Agency has been developed. The state of affairs as regards provision as agricultural
finance through an organised institutional source remains un-changed since the publication of the statutory report, although 20 valuable years have passed.

The agriculturists credit department has yet to develop into a first class research institution on agricultural credit scheme facing the country. Its role of clearing house for information according to sources of agricultural finances working on agriculture co-operatives and debt legislation etc. admit to such improvement. Neither the statistical statement relating to the co-operative movement nor the review of the co-operation throw much light on such important issue as the class of borrowers, the purpose of loans, duration of loans course of repayment etc. The procedure of presenting facts in the administrative reports of the provincial cooperative and other departments concerned with administration of agricultural loans, supply of state loans agriculturists etc. has not been standardised yet. Even the cooperative years in the various provinces are not uniform and thus their annual statistics relating to a cooperative societies are not strictly comparable.
A manual of useful data is published annually in the department report of the various departments of the provincial Govt. on matters like working of debt legislation, mortgage and sale of land etc. The agricultural credit department has not taken up yet systematic and regular review on an all India basis.

However, a continuous criticism of the Reserve Bank for its indifference to agricultural credit problems and of the lack of active assistance by it to co-operative movement increasing familiarity of the bank with the role of central Banks in other countries in the sphere of agricultural credit, improvement in the financial conditions of the cooperative and food crises facing the country appear to have effected a change in banks attitude towards agricultural credit needs in India. In the last 3 years the bank has sanctioned financial accommodation to the cooperative banks liberally.

A department for research and statistics was set under the agricultural credit department in 1946. Keener interest has been evinced then in the past in organising original studies and conducting investigations in association with private and official bodies engaged in such work. The number of publications pertaining to the co-operative movement in general and agricultural credit in particular in the last two years has been much larger than ever before credit is also due
also due to the bank for bringing down the bank rate from 6 to 7% before it's creation to 3% and maintaining it at the level to the present day and for eliminating to the season fluctuations in money rates. Very recently the bank has conducted a rural credit survey on an all India basis and published its report in the year 1954.

RECOMMENDATIONS OF THE RURAL CREDIT SURVEY COMMITTEE

The committee recommended that Reserve Bank should collaborate with the State Govts. in drawing up plans for the co-ordination and re-organisation of co-operative institutions on the recommended lines. The share capital of state co-operative Bank would be expanded on the basis of 51% of share being held by the state. Similar partnership through the apex institutions is provided for in the Central Banks and even large size primary societies.

(a) The Committee recommends that the Reserve Bank should be empowered to make long term loans to the state Government on suitable terms to re-distribute it to co-operative primary Credit Societies for their members. For this purpose Reserve Bank should establish a National Agricultural Credit (long term operation) Fund to which the bank should make an initial allocation of Rs. 50 millions.
(b) The committee has recommended for setting up another fund known as the National Agricultural Credit establishment of fund to establish the co-operative system by ignoring out fluctuations in its fortunes arising from farmers temporary in ability to repay the loans taken by them. The balance standing to the credit of this fund will be utilised exclusively for making medium-term loans and advances to state Co-operative Banks to enable them to convert short term credit into medium term credit whenever necessary.

(c) One thing stated in the report was that the Reserve Bank should continue to give short term accommodation on the guarantee of state Govt. through state co-operative Banks. It should also give medium loans of periods ranging from 5 months to 5 years to state co-operative Banks and Societies. The present overall limit of Rs. 50 millions should be removed as well as the existing restriction relatable to the owned funds of state co-operative Banks.

One the lines of chief features of the credit requirement, the integrated scheme of organising rural credit proposed by the Rural Credit survey Committee was followed, which is based on three fundamental principles of:
(i) State partnership at different levels;
(ii) Full Co-ordination between credit and other economic activities like marketing, processing etc.; and
(iii) Administration through fully trained and efficient personal, responsive to the needs of the rural people.

The silent feature of the policy are:

1. CREDIT

State Partnership including financial partnership in co-operative rural credit in order that such credit may not only be expended and strengthened for the purpose of production for the positive advantage of the rural producer.

2. PROFESSION, MARKETING, WAREHOUSING ETC.

State partnership including financial assistance for the benefit of the rural producer in a programme for the organisation of processing and marketing on a co-operative basis and for the development of storage and warehousing facilities. The proposals in this connection include creation of the National Co-operative Development Fund to be maintained and organised by the National Co-operative Development fund warehousing Board.
On the above recommendations the committee for all India warehousing co-operation has been established and State Warehousing Co-operation of the Govt. to this direction.

3. OTHER ECONOMIC ACTIVITIES

State partnership in a programme for the organisation of the co-operative basis of such other economic activities of the village farming, provision of seed and manure, transport, dairing live stock breeding and cottage industries.

FUTURE ROLE OF RESERVE BANK OF INDIA

The Bank was nationalised on January 1949. It is no more shareholder's Bank. Although it is the time to forecast the change in its working policy, it cannot certainly be expected that the Bank would pay greater attention to its statutory obligation, the re-organisation towards its state agricultural credit with the freedom of the country and setting up of the National Planning Commission, necessary environment has been created for a bold step in the direct development of Institutional credit. The following suggestions are therefore, made against this back ground.