CHAPTER FIVE

Reorganisation of agricultural credit policy since 1955

(1) Rural Credit Survey Committee

The Rural Credit Survey, which was conducted on the recommendations of the Informal Conference held in 1951, was the first ever effort made in the direction of assessing in details the extent of problem through institutional form of credit for agricultural activities. The earlier efforts into the problem covered specific objectives for which such committees/commissions were constituted. Despite the fact that co-operatives have been accepted as the main instrument for dispensation of agricultural credit, the performance of the movement in the first 50 years in the country came as an utter disappointment as was revealed by the survey.

Table No.8

<table>
<thead>
<tr>
<th>Credit Agency</th>
<th>Proportion of borrowings from each agency to the total borrowings of cultivators</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td></td>
<td>3.3</td>
</tr>
<tr>
<td>Co-operatives</td>
<td></td>
<td>3.1</td>
</tr>
<tr>
<td>Relatives</td>
<td></td>
<td>14.2</td>
</tr>
<tr>
<td>Landlords</td>
<td></td>
<td>1.5</td>
</tr>
<tr>
<td>Agricultural Money-lenders</td>
<td></td>
<td>24.9</td>
</tr>
<tr>
<td>Professional Money-lenders</td>
<td></td>
<td>44.8</td>
</tr>
<tr>
<td>Traders &amp; Commission Agents</td>
<td></td>
<td>5.5</td>
</tr>
<tr>
<td>Commercial Banks</td>
<td></td>
<td>0.9</td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td>1.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source - Report of Rural Credit Survey - Vol. II
The General report - 1954 p.167

The performance was expressed by the Survey Report as:

"What strikes the eye at once is the startling inadequacy of co-operative credit in this picture. In quantitative terms, it is little more than 3% of the total borrowing of the cultivator. Nor is that all. For what reaches the medium and small cultivator from the co-operative
institution is a mere fraction of the little that co-operative provide." 1

The co-operatives in the country were in disarray despite 30 years of existence till 1951-52. Either there were more co-operative institutions than necessary or there was a complete absence of such institutions in some other parts. Till 1951-52, there were 16 State co-operative banks. New state co-operative banks were later on organised in Himachal Pradesh, Madhya Bharat, Rajasthan, Pepsu and Travancore Kochin. Similarly there were 509 central co-operative banks in the country and in most of the districts there were more than one central co-operative bank. The instances were:

<table>
<thead>
<tr>
<th>State</th>
<th>No. of central co-operative banks &amp; Banking Unions</th>
<th>Number of districts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hyderabad</td>
<td>45</td>
<td>16</td>
</tr>
<tr>
<td>Bihar</td>
<td>53</td>
<td>18</td>
</tr>
<tr>
<td>Punjab</td>
<td>65</td>
<td>13</td>
</tr>
<tr>
<td>M.P.</td>
<td>41</td>
<td>22</td>
</tr>
<tr>
<td>Orissa</td>
<td>23</td>
<td>13</td>
</tr>
<tr>
<td>West Bengal</td>
<td>40</td>
<td>15</td>
</tr>
</tbody>
</table>

There were 1,07,925 primary agricultural credit societies, but from the audit classification point of view the position was as under:

<table>
<thead>
<tr>
<th>Class</th>
<th>Percentage to total number of societies for which audit classification is available</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>3.5</td>
</tr>
<tr>
<td>B</td>
<td>16.4</td>
</tr>
<tr>
<td>C</td>
<td>59.5</td>
</tr>
<tr>
<td>D</td>
<td>17.0</td>
</tr>
<tr>
<td>E</td>
<td>3.6</td>
</tr>
</tbody>
</table>

1. Rural Credit Survey - General Report - Summary - August 1960 p.5
2. Rural Credit Survey - General Report - 1956 p.213
While the majority of societies were 'C' class societies, how can we expect a better performance from them? The Royal Commission on Agriculture in India 1928, Indian Central Banking Enquiry Committee 1931, Agricultural Finance Sub-Committee 1945 and Rural Banking Enquiry Committee 1950, all have noted this fact in succession to each other that co-operatives have failed. While the development was uneven and scarce, the Reserve Bank credit for short term requirements rose from ₹ 0.50 lakh in 1946-47 to ₹ 315.00 lakhs in 1950-51. As there was no detailed data by purpose, by agency, for areas the Rural Credit Survey Committee was asked to undertake a detailed survey so as to formulate a cogent and workable plan of action to assist agriculture on organised basis. The committee made detailed recommendations. An integrated scheme of rural credit based on fundamental principles of state participation at different levels, full co-ordination between credit and other economic activities and administration through trained and efficient personnel responsive to the needs of the rural population was suggested by it.

Following weaknesses were identified by it in the co-operative credit structure:

a) Inadequate and weak capital base
b) Inadequate availability of credit for production
c) Inadequate co-ordination in the various activities like credit, marketing and processing
d) Inefficient management and inadequacies of training facilities

(ii) Recommendations

The committee, therefore, suggested for creation of new resources, new institutions and new approach for effective
dispensation of credit. Action on following specific points was suggested:

(i) State partnership

To root out the inability and limited activities of the co-operatives, state partnership at all levels was suggested. The twin objectives were states involvement and association with the movement and consequential financial strength to the co-operatives. Creation of special fund for the purpose of issuing loans to State Government's was also recommended by it.

(ii) Creation of National Agricultural Credit (Long term operation) Fund

For the multipurpose objects of issuing loans to State Government for share capital participation, medium term loans for agriculture, long term loans to land development banks, support to debentures (and loans to Agricultural Refinance Corporation added subsequently) the fund was to be created out of profits by the Bank with adhoc initial contribution and adequate annual contributions.

(iii) Creation of National Agricultural Credit (Stabilisation) Fund

Recognising the need to provide a contingency when the borrowing co-operative institution may fail to meet their obligation in time due to natural calamities like flood, famines, pests, hails etc., this fund was not only to be created at the Bank level but also at various co-operative banks' level so as to help stabilise the structure in case of crisis.

(iv) Establishment of State Bank of India

As a prelude to greater role in the field of agricultural finance by organised sector, the committee recommended for
establishment of State Bank of India by statutory amalgamation of Imperial Bank of India and ten state associated banks, so that the banking facilities may be extended at a faster pace. The Government of India and the Bank were to hold 52% of the share capital.

(v) Creation of Integration and Development Fund at the State Bank of India level

Anticipating the losses arising out of unremunerative branches opened by the State Bank, a fund was suggested to be created out of dividends earned by the Bank and the Government of India on their share holdings in State Bank of India besides an initial contribution of Rs. 50 lakhs.

(vi) Creation of National and State Agricultural Credit (Relief and Guarantee) Fund

The Government of India and the State Governments were required to create above fund to enable them to extend necessary relief to banks in writing off the irrecoverable dues arising due to famine etc., or to meet the liabilities arising out of guarantees extended by the Government. The fund was to be created from the budgetary provisions and also partially from the dividends earned by the State Governments on the share capital contributed by them in co-operative institutions.

(vii) Establishment of National Co-operative Development and Warehousing Board and All India Warehousing Corporation

The above Board was to be established for promoting planned development of co-operative processing and marketing of agricultural produce and also warehousing of such commodities. Similarly the central and state warehousing corporations were to construct warehouses in different parts of the country to provide
modern storage facilities.

Two more funds i.e. National Co-operative Development Fund and National Warehousing Development Fund were to be created.

(viii) Sanction of medium term loans for agricultural purposes

The Bank was to be enabled to sanction medium term loans for agricultural purposes for a period ranging between 15 months to 5 years to Co-operative banks. The present restrictions relating to overall limit of Rs 5.00 crores and the owned funds of the state co-operative banks should be removed.

(ix) Reorganisation of Agricultural Credit Department of the Bank

The Agricultural Credit Department (ACD) was to be reorganised and strengthened adequately for the purpose of discharging the additional responsibilities placed on the Bank in the field of agricultural credit.

(x) Standing Advisory Committee

The Standing Advisory Committee of the Bank should be continued as a smaller expert body. At the same time there should be an Advisory Council which is representative of the appropriate interests on a nationwide basis.

(xi) Training

The central committee for training should be placed in possession of larger funds by the Government of India and the Bank in order that it may further enlarge the scope and expand the coverage of its training facilities.

(xii) Supervision of societies

Supervision over the primary societies should be a function of the apex and central co-operative banks. Audit with
general administration should continue to be the responsibility of the State Government.

(xiii) Reorganisation of co-operative credit institutions

The State Governments were required to formulate plans to reorganise the co-operative credit structure for different lines of credit. Each State was required to have a State co-operative bank and a Central Land Development Bank. At the district level a central co-operative bank was felt necessary. Initially the long term credit was also to be routed through it but later on the districts were to have a separate unit for the purpose. At the base level, primary societies were to be created preferably large sized societies.

(xiv) Development of marketing and processing structure

Besides the agricultural credit, development of marketing and processing units was considered essential to provide a channel for disposal of produce, recovery of co-operative dues and availability of better prices to cultivators.

(xv) Floatation of rural debentures

To mop up rural savings the committee suggested for floatation of rural debentures by land development banks.

Besides the above recommendations, the committee made detailed recommendations on other aspects of co-operative activity, its structure, personnel, marketing and processing societies etc. These recommendations dealt with the constitution, working and new directions of these institutions. In the field of short term credit, the committee suggested for sanction of loan on the basis of crops requirements and not on the basis of security available. The recovery was to be effected through marketing societies out of sale proceeds of crops. Loans were to
be disbursed in kind to the maximum extent possible.

(iii) Implementation of recommendations and success achieved

The findings of the survey for the first time made a comprehensive exploration of the present situation and also made recommendations to give future directions. The Bank agreed with most of the recommendations and took effective steps even to amend the Act, wherever necessary. These steps were:

(a) The Reserve Bank of India Act 1934 was amended in 1955 to create two funds i.e. National Agricultural Credit (Long Term Operation) Fund and (Stabilisation) Fund. The Long term operation fund was to provide loans to State Government for share capital contribution, medium-term loans for agricultural purposes to subscribe debentures and to make loans to land development banks. Similarly the Stabilisation Fund was to provide conversion facilities to co-operative banks in case of natural calamities. The Bank agreed to provide the initial grant of ₹10.00 crores and ₹1.00 crore to these funds with minimum annual contributions of ₹5.00 crores and ₹1.00 crore each respectively. The manner of constitution, utilisation etc. has been discussed in details in chapter six.

(b) The Reserve Bank of India Act 1934 was amended in 1955 to enable the Bank to hold shares in the proposed State Bank of India. Simultaneously the State Bank of India was created by taking over the Imperial Bank of India. Later on 8 state partnered banks were converted into subsidiary banks of State Bank of India in 1959.

(c) The Bank made liberal loans to State Governments to enable them to participate in the share capital of co-operative
institutions. The norms governing such loans were liberalised from time to time with a view to provide more loans. The total loans outstanding against State Governments till 1973-74 were Rs 69.00 crores, which formed 16% in state co-operative banks, 48% in central co-operative banks, 22% in primary agricultural credit societies and 14% in central land development banks of their paid-up share capital as on 30.6.72.

The details of such contributions, trends, its impact and other incidental developments have been discussed in chapter six.

(D) The National Co-operative Development and Warehousing Board was created by the Government under the Agricultural Produce (Development and Warehousing) Corporation Act 1956. Later on the National Co-operative Development Corporation and central warehousing corporation were separated from the original Board. The central warehousing corporation was established in March 1957 with a share capital of Rs 10.00 crores.

(E) The Reserve Bank of India Act 1934 was amended to remove the restrictions placed on the provision of medium term loans. A new section 17(4AA) was incorporated so as to enable the Bank to sanction loans upto 5 years by resorting to the Long Term Operation Fund created by it. This action resulted into an increase of medium term loans from Rs 0.51 crores in 1965-66 to Rs 22.91 crores in 1971-72 and Rs 17.00 crores in 1972-74.

(F) The Agricultural Credit Department of the Bank was reorganised and expanded to have an office in each state so as to effectively coordinate, control and direct the movement.

(G) The Standing Advisory Committee originally constituted on the recommendations of the Informal Conference was reconstituted.
in 1956 as a compact body of experts on the recommendations of
the survey.

(H) The Bank took upon itself to assess the extent of
reorganisation of co-operative institutions in various states.
Its officers undertook detailed and extensive tours to identify
the weaknesses in the structure and remedies were suggested to
the State Governments concerned.

(I) The recommendation relating to formation of primary agri-
cultural credit societies on the basis of a cluster of villages
was accepted and put into operation during Second Plan. The
Government proposed to establish 10,400 societies during this
period. About 7000 such societies were established actually before
the policy was reversed in 1958-59.

Although the recommendations were found to have far-
reaching conclusions and placed the agricultural credit on sound
institutional base, these recommendations were, in fact, more in
the nature of rudimentary solutions than developmental in effect.
The loaning policies of the institutions were not so much a
subject as it was about the development of the infra-structure.
It recommended for creation of all types of institutions. It
took into consideration the capital problems but their credit
policies, directions and channels of such credit were not
determined by it so clearly. It made a passing reference to
introduction of crop loan system in the country for production
loans but the details thereof were not spelled out by it.
Consequently the loans were not so much related to landholdings,
land under cultivation, scales of finance and similar factors as
to security. In 1965, the crop loan system was considered by
the State Ministers for Co-operation who also considered the 
Reports submitted by three committees viz. the Mirdha Committee, 
the Committee on Fertilisers and the Committee of Direction on 
Co-operative Farming and generally endorsed their recommendations. 
The conference recommended to introduce crop loan system uniformly 
throughout the country from Kharif season 1966.

Prior to this, the Registrars of Co-operative Societies 
considered the question in October 1965 and observed as under:

"With a view to provide adequate support to the programmes 
for intensive agricultural production, credit should be 
made production-oriented and crop loan system should be 
uniformly implemented from Kharif 1966-67 wherever Kharif 
was the principal crop and from Rabi in other areas."

"Field workers' conferences should be held within next 
two months for fixing scales of finance for different 
crops and for orienting the field staff in the programme."

The Rural Credit Review Committee also summed up the 
implementation of the system in the following words:

"Following the discussions of programme at the state 
level conferences between 1964-66 which helped to get 
crop loan system more widely understood and accepted, as 
well as spelt out in relation to local conditions, steps 
are gradually being taken to implement the scheme."

The recommendations of the committee relating to creation 
of National Agricultural Credit (Relief and Guarantee) Fund by 
the Government of India to obviate the impact of crop failure 
was not accepted by Government of India on the plea that its 
help and assistance can always be made available to co-operative 
movement in case of contingency. However, the State Governments 
created the fund as contemplated.

2. Annual Conference of the Registrars of Co-operative Societies 
   held in October 1965 - Printed in 1966 p.3
3. Rural Credit Review Committee Report 1969 p.33
Thus, we find that the recommendations were, by and large, accepted and implemented. The organised efforts by the Bank, Central and State Governments provided a stepping stone for the future development of the policies and systems in the field of agricultural credit. It may not be incorrect if we observe that the survey firmly laid out the foundations for an institutional system of agricultural credit. However, the Rural Credit Review Committee at one place even felt that the efforts in the implementation were not backed by will when it observed:

"...delay and lack of effective action in such matters in the earlier stages did mean that some of the dynamism contemplated in Rural Credit Survey's recommendations was lost in half hearted efforts and lack of comprehension." 1

(iv) Later developments - Rural Credit follow-up surveys

As a corollary to these extensive efforts in the direction of agricultural credit through All India Rural Credit Survey, it was felt necessary to have on record the changes that took place from time to time after the introduction of the scheme of Integrated credit suggested by the survey. The survey itself had emphasized the need to have such a constant and regular review of the main features of credit situation.

For the above purpose, the Bank selected some areas which were partly covered by the Rural Credit Survey and assessed the demand side of the credit including outstanding debts and borrowings and also the performance of the supply side or cooperative institutions. The results though not strictly

1.Rural Credit Review Committee Report 1969 - p.39
comparable gave some valuable information to the Bank regarding the subsequent changes in the financial scene of agriculture. The first follow up survey was conducted in 1956-57 (May 1956 to April 1957). The general observations threw light on some interesting features:

a) The general level of credit activity appeared to be closely related to the state of development of agricultural credit.

b) The bulk of advances made were for a duration of one year while the medium term advances did not exceed 25% of the total.

c) The major part of advances was for family expenditure.

d) The rate of interest depended on the stage of monetised economy.

e) While short term loans were repaid quickly and promptly the bulk of outstandings represented medium and long term loans.

f) Purchase of live stock was fairly a widespread purpose in the capital expenditure.

g) The proportion of indebted families and the debt per indebted family was at lower level as compared to 1951-52.

h) In the matter of credit agencies, the private agencies were predominant but the co-operatives also played an important role. The loans from Government were also higher than earlier.

i) The Integrated scheme was generally accepted and implemented but in many cases they were introduced in part of the districts only.

The above follow up survey did not indicate any significant change on the scene. It merely indicated that
co-operatives were making headway but with a snail's speed. The second follow up survey covered May 1957 to April 1958. The observations were almost similar to that of the first survey but they struck a hopeful note in certain directions. The salient features observed were:

i) The role of Government in the supply of direct credit was not important. Co-operatives accounted for a considerable portion of borrowings.

ii) A major part of co-operative advances went to the large cultivators.

iii) The size of cultivating holdings did not show any significant changes.

iv) The repayments during 1957-58 were higher than 1951-52 in absolute terms and in relation to total debts leading to lower outstanding debts in 1957-58.

v) Capital expenditure in agriculture showed a decline.

vi) The development of co-operatives was most uneven but the efforts in reorganisation varied from place to place.

vii) The practices and procedures recommended by Rural Credit Survey Committee and crop loan evaluation committee were not generally built into a structure, organisation and working of co-operatives.

viii) The quantum of loan and disbursement of loans was not related to the credit needs for current cultivation but were related to land revenue or owned property.

ix) The primary credit societies remained weak and central co-operative banks handicapped.
The third follow-up survey covered July 1958 to June 1959. The findings of this survey revealed following important features:

I. Most of the loans were issued against personal surety.

II. The level of debt of big cultivators was much more high as compared to others.

III. The medium term loans for the period of 3 years or less constituted about 70% of such loans.

IV. The borrowings from Government constituted between 2 to 5% while the co-operatives accounted for a very small proportion of borrowings.

V. Due to conservative policies, the landless tenants received no loans.

VI. Mostly the loans were neither provided in instalments nor in kind.

VII. The linking of credit with marketing was not significant because either the arrangements had not been made or they were not effective.

VIII. The supervision and audit was not effective and required reorientation.

Thus, the basic ingredient features of the integrated credit scheme remained absent even till 1959. The similar observations were made in the fourth follow-up survey, which covered the period from July 1959 to July 1960. The observations were as under:

(a) The debts continued to be issued against the personal surety.

(b) The family expenses dominated the debts according to the purpose.
(C) The performance of the co-operatives was better than Government. However, the bulk of total requirements was met by the money-lenders.

(D) The policy relating to organisation of large sized societies was modified in 1959. Emphasis was put on the organisation of service co-operatives.

(E) The pattern of co-operative development was different and uneven.

(F) In most of the states the procedure envisaged by crop loan evaluation committee was not adopted.

(C) Critical assessment of the progress made

As explained earlier the object of these surveys was to assess the extent of progress achieved. For this purpose, some of the districts already covered under Rural Credit Survey were included in the follow up surveys along with some new districts. However, it was found that the conclusions reached by the successive surveys revealed the same stunted growth in the progress. The tenant cultivators continued to get no loans. The private agencies continued to dominate the scene. The integrated credit scheme, although accepted, was not fully implemented. The crop loan system was not uniformly introduced. Major part of the finances went to large cultivators. The development in the co-operatives was uneven. The follow-up surveys also revealed the reversal of the policy of formation of large sized societies. At this stage the observations of the Rural Credit Survey Committee on large sized societies are of relevance so as to clearly follow the import of the changes:
"The primary agricultural credit societies should hereafter be established or wherever necessary existing ones organised so as to cover according to local condition groups of villages with a reasonably large membership and a reasonably adequate share capital ................. A phased programme of reorganisation, confined to contiguous societies which would gain by amalgamation would, therefore, be appropriate. In regard, however, to fresh registrations of primary agricultural credit societies, the model adopted in regard to size etc. should by preference and to the maximum extent possible, be the large sized societies here recommended." 1

The Rural Credit Survey Committee had thus, clearly stated that in order to have viable societies, the small societies may be amalgamated and merged. If new societies have to be organised, they may have a larger coverage. Keeping and accepting this view, it was decided to have 10,000 large sized societies during II Ind Plan. About 7,000 such societies were formed in the first three years. As at the end of 1956-59 there were 8,213 large sized societies with a membership of 27.68 lakhs and loan operations of Rs 49.88 crores. The Government capital contribution amounted to Rs 4.28 crores in 5011 such societies. In 1957-58, some slight shift was noticed and the organisation of small sized societies was permitted alongside that of large sized societies. In November 1958, the National Development council resolved that for the development of co-operatives as peoples movement, it was essential to organise co-operatives on the basis of village community as a primary unit and the responsibility and initiative for social and economic development at the village level should be placed fully on the village panchayat or village co-operatives.

Largely on the basis of the recommendations of the working group on co-operative policy, the Government drew up a broad outline of the co-operative policy which was circulated to State Governments in May 1959 reiterating the National Development Council’s recommendations. Consequently, further organisation of large-sized societies was stopped. Thus, the policy and recommendations laid down by Rural Credit Survey was accepted and revised. Subsequent follow-up surveys, however, revealed the fact that organisation of small sized societies was also not preceded by well planned efforts.

This was not the end of thinking on the subject. The committee on co-operative credit 1960 again restored the basic objective of the organisation of large sized societies in a roundabout manner when it observed:

"One of the main aims of future endeavour should be the promotion of viable units of co-operative service and business." 1

The Rural Credit Review Committee further observed as under:

"an agricultural credit society may be permitted to cover a population of more than 3000 and in fact no limit be set in this regard........consistently with the policy already agreed upon in regard to the promotion of viable units at primary level each society should be expected not only to provide larger credit and distribution facilities but also to mobilise deposits and diversify services." 2

In a way, the concept of multipurpose societies which contemplated the provision of credit to its members, promote savings, supply agricultural requisites and arrange marketing of

1. The Report of committee on Co-operative Credit - 1960 - p.73
2. The Report of Rural Credit Review Committee 1969 p.979-980
their agricultural produce was suggested. The Study Team on Agricultural Credit (under the chairmanship of Shri T.A. Pai) constituted by the National Commission on Agricultural Credit again reviewed the position. It opined that the multipurpose societies failed in its objectives because too much emphasis was laid on credit aspects and also due to the total neglect of other service functions. Moreover the multipurpose societies were not backed by adequate technical, extension and other supporting services. It, therefore, recommended for an Integrated Agricultural Credit Service which would be capable of providing credit along with organisation of facilities for its conversion into inputs and services required by farmers to use the credit effectively. The service was not only to cover the complete range of farm produce up to marketing stage but also the ancillary farm occupations like rural artisanship and craftsmanship. Hence the Commission recommended for the establishment of 'Farmers Service Societies' at the primary level i.e. Tehsil/block level or any other viable unit of convenient size with branches. At the district level a union of such societies was to be the leader in the matter of organisation of integrated agricultural credit service.

Obviously the circle was completed. Perhaps with a similar perspective in view the Rural Credit Review Committee had observed:

"We would state here unambiguously that this step (reversion to service co-operative societies on village basis) resulted in an extremely unfortunate setback to the progress which was being made at the primary level of co-operative credit"

I. The Report of Rural Credit Review Committee 1969 - p.30
Besides the above changes the follow up survey revealed a redeeming feature that co-operatives were gaining ground by and by as a institutional source in the provision of credit for agriculture. The movement is being piloted on sound footings and volume of credit in absolute terms and in relation to requirements increased.

(vi) Rural Credit Review Committee—

Recommendations

After the Rural Credit Survey, no other comprehensive survey was made. In between a number of Committees/Groups/Teams etc., considered other aspects of the movement, three five year plans were also implemented. As a result, the country and the agriculture made long strides but the co-operatives moved with a limp. The progress remained uneven. The Bank, therefore, appointed the Rural Credit Review Committee in July 1966 to re-assess and recommend on the situation. The committee submitted its report in 1969 covering progress made in the supply of rural credit, supply of credit for fertilisers, working of crop loan system, impact of rural branches of State Bank of India, proposals made by the Informal Group on Institutional Arrangements for Agricultural Credit and problems of coordination amongst various agencies.

The main recommendations were as under:

a) The Bank may provide refinance facilities to scheduled banks for seasonal agricultural operations and marketing of crops.

b) The Banking Regulation Act may be extended to some selected primary agricultural credit societies, which accepted deposits from public and have paid up capital and reserves over Rs 2 lakhs and deposits of not less than Rs 5 lakhs.
c) The Bank may provide share capital loans to state governments to contribute in the share capital of primary land development banks.

d) Medium term loan limits may be sanctioned for a period of 2 years at a time.

e) Some period may be treated as shut period in order to maintain seasonality.

f) The State Government's guarantee for medium-term limits may not be insisted. The Act may be amended.

g) The concessional finance may be allowed for the purchase of milk cattle.

h) A Rural Electrification Corporation may be established to encourage electrification in rural areas.

i) Special agencies like small farmers development agency and marginal farmers and agricultural labourers agencies may be established.

j) The Agricultural Credit Board may be constituted with a legal status.

k) The role of Agricultural Refinance Corporation may be extended in helping the formulation of economically viable and technically feasible schemes.

l) Ordinary debenture programme may be linked with rural debenture programme.

m) The Bank may appoint observers to the Board meetings of the state co-operative banks.

n) The instalments of long term loans may be extended in the restricted context.
o) In order to encourage banks to have more reliance on their own resources, the Bank may fix targets for deposits mobilisation and reduce the concession to \( \frac{1}{4} \) below the Bank Rate. If the bank achieves deposit targets, a further concession of \( 1\% \) may be given but in case of default, if the default is less than 50% of target, the bank should charge \( \frac{1}{4} \) above the concessional rate and if the default is more than 50% the rate to be charged should be \( 1\% \) above the concessional rate.

p) Refinance facilities for animal husbandry activities irrespective of the fact whether they have been taken up besides agriculture. Similarly fisheries may also be provided refinance.

In addition to the above recommendations, the Committee suggested exhaustive changes in the procedures followed and also about the co-operative structure. The significant suggestions were relating to the plight of small cultivators, rationality in obtaining Government guarantee, better, effective and extensive provision of credit for assisting agriculture. The co-operative bank's reduced dependence on Reserve Bank for funds and statutory status of policy making body in the Bank were some other recommendations which gave new thinking to the agricultural credit and healthy directions.

(vii) Implementation of recommendations

While most of the recommendations have already been given shape by the Bank and the Government, only a few remained to be implemented, which included sanction of medium term loan limits for 2 years, extension of long term loan instalments, extension of Banking Regulation Act to some selected primary agricultural credit societies etc.

An important recommendation regarding reduction in the
concession in the rate of interest and its linking with the efforts of the bank in mobilisation of deposits was accepted by the Bank but was referred to a study group in September 1970 for suggesting practical changes for easy applicability. Shri Mangesh R. Patel was the chairman of the Group. The suggestion made by the committee was

a) The concessional rate may be fixed at \( \frac{1}{2} \% \) below the Bank Rate and central co-operative banks may be allowed the rebate of \( 1\frac{1}{2} \% \) on the

A) borrowings up to the basic level
B) and the additional borrowing up to twice the increase in the central bank's involvement out of its own resources in agricultural loans

b) The highest level of borrowings from Reserve Bank for seasonal agricultural operations reached during the preceding 3 years may be fixed as base level.

Where the banks have not availed of the maximum loan from the Bank and consequently the base level works out unduly low, the entitlement may be fixed at a higher level than twice the increase in self involvement of the case. The Groups also recommended that central co-operative banks enjoying credit limits from the Bank below Rs 50 lakhs during any of the preceding 3 years and also those which have attained a loan business of Rs 1.00 crore should be exempted from the purview of the proposed scheme. Such banks would continue to get these loans at \( \frac{1}{2} \% \) below the Bank Rate. The recommendations were accepted and implemented from 1973-74. As a measure of facility to small cultivators, the Bank allowed full concessional finance at the rate of \( 2\% \) below Bank Rate to banks for their additional involvement in advances to small cultivators. It is too early to say anything
conclusively but it has forced many banks to become operationally efficient to claim the rebate.

Another decision affecting dispensation of credit relates to seasonality in the drawings and repayments. The committee had also recommended for observance of short period during which no drawings were to be permitted. The Agricultural Credit Board in its first meeting dated 3.8.1970 decided:

"Agricultural Credit Department may fix an appropriate level of outstanding for each co-operative bank and require it to bring down the outstanding to that level during one month from the period 1 July to 30 June. The ultimate object is to introduce a moratorium on drawings on credit limits from the Reserve Bank on the lines recommended by the Committee." 1

Here it may be worth noting that the borrowings by the co-operative banks from the Bank cannot be brought to a level fixed by the Bank for a number of reasons. Similarly the reduction in the outstanding may be achieved but it may not be real and may have its base in make-believe.

The determination of the base level for all the central co-operative banks is the problem which would be most difficult for the Bank to determine. The Rural Credit Review Committee had indicated that this may be done keeping in view the seasonality of crop conditions, credit practices and without rigidity or dislocation of the operations on the credit limit. In practice, the translation of these sentiments posed a difficult problem. The outstanding may be reduced by resorting to recoveries from other lines of credit, by recoveries from other businesses or by utilising surplus resources of the bank. Similarly the banks may

1. Proceedings of the First meeting of the Agricultural Credit Board 1971 - p.69
find it difficult to comply with the stipulation due to non-
recovery of dues from affiliated societies, due to natural cala-
mities and other reasons. Therefore, while the Review Committee's
sentiments in this direction are welcome, they require emphasis
in some other direction.

It is, therefore, suggested that the Bank may fix the base
level taking into account the performance, operations on the
limits and corresponding outstandings against the societies/
members. As the Reserve Bank finances are supplementary in
character, the outstandings against societies and members would
be higher than the borrowings from the Bank. Any variation in
this situation would mean that the borrowings have been not
utilised for making loans to societies or reimbursement had been
obtained by resorting to fictitious means, or the recoveries had
been diverted to other channels. Presuming that the outstandings
at society/member level are higher than the Bank, the recoveries
effected by the co-operative banks from societies should be
insisted to be passed on to the Bank. The movement in the outst-
andings at the Bank level should reflect the similar movement at
society/member level. Once this trend is established, the changes
for book adjustments would be automatically ruled out. The Bank
may fix the targets through the central co-operative banks for
bringing down the outstandings of the member societies to a
particular level in order to activate the recovery campaigns. The
Regional Office of the Bank and the Apex Bank may ensure that
all recoveries effected by societies are passed on to the higher-
financing agency during the harvesting period. This can also be
linked with the bank's performance in mobilisation of deposits and availability of rebate on its borrowings.

(viii) Banking Commission - its recommendations

In February 1969, the Government of India appointed a Banking Commission under the chairmanship of Shri R.G. Saraiya mainly with a view to suggest remedies in existing structure of commercial banking, their geographical coverage, improve their operations and methods, review the working of co-operative banks, coordination between co-operatives and commercial banks, review the indigenous banking agencies and existing legal enactments relating to commercial and co-operative banks etc. The terms of reference, thus, did not have any item having direct bearing on agricultural credit but it did cover some aspects like co-ordination of co-operative and commercial banks and the review of indigenous banking agencies etc. Its views have, therefore, been incorporated at relevant places by us.

Discussing the problem of coordination between co-operative and commercial banks, the commission recommended:

a) The structure of the banking institutions in rural sector should be improved by strengthening the primary credit societies in such a way that they can provide adequate credit and develop the banking habit in this sector by providing a wide range of banking services and certain closely allied non-banking services. For this purpose they have to become Rural Banks.

b) Such Rural banks in the co-operative sector known as Rural Co-operative Banks would obviate the need for opening branches by state co-operative banks/central co-operative banks
merely for providing banking facilities to rural areas and the latter can concentrate on meeting the needs of other co-operative-organized productive and distributive activities. Since, however, in many states, both the district and state co-operative banks need to strengthen themselves, commercial banks may have to provide such assistance.

c) In the area of weak co-operative banks the primary agricultural credit societies may be asked to work as rural banks as a subsidiary of the commercial bank or the commercial bank may set up their own subsidiaries known as Rural Subsidiary Banks. Such banks would have the co-operative features as local participation, flexibility as regards to increase in share capital, selling of shares to local people and technical and financial support from its parent bank also.

d) The new Rural Banks created by conversion of primary agricultural credit society may have a new class of members as 'Associate Members', who may have banking facilities without voting power. These members may have to pay a little higher rate of interest and may enjoy a restricted volume of credit.

e) In order to encourage and to make the Rural Banks viable, the commission suggested:

i) No ceiling on the maximum borrowing power.
ii) Ceiling on the rate of dividend distribution thereby increasing share capital.
iii) The resources of National Agricultural Credit (Long Term Operation) Fund to be made available to sponsoring bank to contribute share capital.
iv) Higher rate of interest on deposits as compared to parent bank may be allowed.
v) Cost free remittance facilities and training facility for its personnel.
vi) Deposit insurance and credit guarantee cover may be extended to them.
vii) Reserve Bank of India to coordinate the activities and
f) In the area of weak central co-operative banks the structure may be organised by having the branches of state co-operative banks only. The central co-operative banks which are relatively stronger may be allowed to continue independently and should be allowed to be included in the list of scheduled banks.

The task of proper utilisation of resources of co-operative and commercial banks for meeting agricultural credit may be ensured by Agricultural Credit Department of Reserve Bank of India.

g) The co-operative banks can look after short term needs and the commercial banks may confine their activities to the development needs by entering into special arrangement with co-operatives.

h) A regular coordination machinery at the district level in all states should be set up.

(ix) Analysis of recommendations

The above recommendations have a new thinking but some of them have also been made in the past by other committees. The Rural Credit Review Committee also had made a recommendation that in the area of a weak central co-operative bank, the Apex Bank may be allowed to open its branches and finance the creditworthy societies till the banks are reorganised. This was accepted by the Bank as a transitional measure.

Similarly the Review Committee had also recommended extension of Banking Regulation Act to some selected agricultural credit societies with a stipulated share capital and deposits.

Thus we find that while Review Committee had suggested for direct financing by apex bank on transitional basis in the area of weak banks the commission visualised such a shift on
permanent basis. The approach of the Review Committee appears to be more in the interest of co-operative movement and should be continued.

On the question of extension of Banking Regulation Act on certain primary societies it may be pointed out that despite the administrative inconvenience involved, the Bank may consider the Commission's recommendation with suitable modifications. An integrated service approach to farmers would become a reality only if they have and show more faith in Rural banks and the rural banks also have more competence and adequate staff. The experiments with Farmers Service Societies may be, therefore, watched with interest for sometime before the modification in this direction can be thought of.