CHAPTER NINE
Reserve Bank of India's policy to rationalise co-operative credit movement

(1) Causes of special interest in Bank's policy

No planned development is possible unless it is duly supported by a systematic action based on facts and correct data. A delicate blending of the infra-structure, policies and execution thereof may only result into a systematic effort. India, which is the largest agricultural country, lacked any planned effort in the direction of agricultural credit. Strange it may look that for centuries the agriculture in India depended on individual and indigenous sources for credit. The institutional agencies made their appearance in the beginning of this century but could not make any dent on the present structure. The early experiments were far and wide their marks and, therefore, the structure which was created was loosely knit. The committees and commissions which went into the question of agricultural credit had specific ends in view and their efforts were mainly directed towards these questions only. The Reserve Bank of India itself came into existence in 1934. The framers of the Act were although conscious of the responsibility which the Bank was to shoulder, did not visualised more than an advisory role in character or that of a big brother onlooking the credit system. Conceding that the basic function of the central bank of a country is to formulate fiscal and monetary policies/controls, it is not uncommon to find these banks taking an active lead in the field of agricultural credit. The Reserve Bank also realised this fact and need after the country threw away the
bonds of slavery and the Bank was nationalised. The achievement of independence in 1947 released unparalleled forces of social awakening and economic progress in the country and in the search for ways and means for the social and economic betterment of the people, a fuller realisation of the necessity and the potentiality of co-operation came to the nation. Coupled with these developments, the country launched a massive development programme of planning. This finally forced the Bank to come out of its conservative shackles of thinking and emerge as a central bank yoking its efforts with the building up of an advanced, free and strong nation. The spurt in the activities was more visible in 1951-52 when the first five year plan was declared with agriculture as a top priority. The Reserve Bank had to, therefore, play an important role. The evolutionary role in its active participation and the gradual shaping of its policies commensurate with requirements have been discussed in the earlier chapters. It would be enough here to say that emphasis was more clearly laid on certain priorities and the efforts were directed to systematic actions. The Bank had to match the expectations of masses and nation. It is, therefore, always a matter of particular interest for any serious thinker to have a close and critical look at the policies of an institution which is at the helm of affairs and is statutorily charged with the responsibility of taking steps conducive to the agricultural developments.

(ii) Institutional system

_ an imperative_

It has been already explained earlier also that co-operatives were chosen as the main instrument for dispensation
... of credit. The exploitation by money-lenders and indigenous bankers made the planners realise that the alternative had to be based on an institution system. Perhaps with this view in mind, Sir Frederick Nicholson recommended for organisation of co-operatives. The subject of structure of co-operative credit had been constantly reviewed by the committees and commissions since then but it had been the unanimous feelings that co-operatives are the best institutional form for this type of credit. Sir Nicholson himself observed:

"If co-operatives have to succeed in India, a raiffeisen should be found in each village."

Obviously, the co-operative form was preferred over other forms of agencies. The Royal Commission of Agriculture in India also made its views clear when it observed that if co-operatives were lost, the best hope of India would be lost. The statutory report of the Bank in 1937 itself noted this fact in the following words:

"An agency which satisfied the requisite condition for agricultural finance is the co-operative society and it has been so recognised in almost all agricultural countries." 1

Agricultural Finance Sub-Committee in 1945 observed that the spread of co-operatives would provide the best and the most lasting solution for the problems of agricultural credit in particular and those of rural economy in general. The Rural Credit Survey Committee 1954 reached to the conclusion that co-operatives have failed but they must succeed. The Informal Group on Institutional Arrangements for Agricultural Credit 1964

reached to the conclusion:

"For achieving this objective the co-operative credit has been considered as the most suitable institutional agency for providing agricultural credit in the condition of Indian villages." 1

These sentiments established the fact that there is no effective substitute to an institutional form of agency which alone can dispassionately and in the best interest of cultivators and economy dispense credit for agricultural purposes. The experiment conducted in the country - when the custodian of the monetary policy itself involved in the formulation of policies, pursuasion, execution and follow up action of schemes connected with agricultural credit - has proved that the policies on institutional basis fulfilled the aspirations of the people. The policies in this regard are now even being copied by other countries like Phillipines, Ceylon, Republic of Korea etc.

(iii) Financial provisions to meet the demands of such agencies

* The Reserve Bank of India Act 1934 provided a number of provisions under which financial assistance to co-operatives for agricultural purposes could be made. The assistance could be in the form of loans, rediscounts, refinance and reimbursement etc. The assistance also had the capability to meet various types of requirements such as short term, medium term and long term requirements. Not only this; the Act also provided for credit for ancillary activities. Much water has flown under the Ganges since 1934. The Act has been amended on number of occasions in order to meet the hardships to cultivators and financial

institutions, to take care of the requirements of the institutions which came into existence due to Bank's efforts and to enlarge the Bank's developmental activities.

The pointwise details of various types of facilities have been discussed in chapter three. It may, however, be stated that the spectrum of financial assistance has even been extended to meet distress situations like famines, calamities, hail storms etc. The funds in all the cases are funnelled through the apex institutions. Apart from the short, medium and long term credit requirements, the Bank provided loans for share capital contribution to State Governments, invested in the bonds and debentures floated by the land development banks and also provided development finance to the institutions like State Bank of India, Agricultural Refinance Corporation, Rural Electrification Corporation etc.

(iv) **Their limitations**

Despite these provisions some sort of restraints and constraints in this regards are inevitable; certain amount of discipline has to be observed. The beneficiary institutions have to respond with responsibility. The financial assistance will have to show better results and above all the efforts should finally fructify in self-generation of resources. The co-operative credit (short term) which was to the order of ₹ 5.37 crores in 1950-51 reached to a record level of ₹ 648.56 crores in 1973-74. The voluminous increase not only created development but also contributed to imbalance in the money supply and monetary policies. Although development was anticipated in the direction of self reliance but the co-operatives depended significantly on
the bank for financial assistance. This unhealthy trend is required to be discouraged and the institutions are required to realise their own responsibilities in their efforts to consolidate the existing position.

(v) Procedural changes and liberalisation of the conditions for short and medium term loan policies

With the above views in sight, the Bank had to make frequent changes in its policies and procedures in order to curb the unhealthy trend of dependence on the Bank for financial requirements and extension of the help to genuine needs. These changes in a nutshell can be summarised as under:

a) The period of loans for seasonal agricultural operations was extended from 9 months to 15 months.

b) The loans which were earlier required to be repaid on a particular date were allowed to run for a period of 12 months and each drawal was treated as a separate loan.

c) The system of sanctioning composite limits for seasonal agricultural credit operations and marketing of crops was changed and separate limits were now introduced for these purposes independent of each other.

d) The limits for Kharif and Rabi are now sanctioned separately. The limits for kharif stand freezed after the rabi period sets in for ensuring seasonality.

e) The limits for small cultivators are not sanctioned separately but the banks were required to ensure that 20% of their borrowings should be utilised for making advances to small cultivators.

f) In order to encourage the banks to avail of funds from SFDA/HFAL agencies, the borrowings from them were excluded from the liabilities for the purposes of section 13 and 24 of the Banking Regulation Act.

g) The concessional rate of interest which was 2½ below the Bank Rate till now was reduced to 1½ below the Bank Rate so as to encourage banks to mobilise resources and claim the rebate admissible to them on such efforts.

h) The short term loans were related to crops proposed to be raised and medium term loans were related to the repaying capacity rather than security.

i) Number of new purposes were added to the list of approved purposes for medium term loans.

j) In case of certain calamities, the provision to convert short term loans into medium term loans was made.

k) The conversion of loans was allowed in anticipation of
completion of formalities.

1) The loans falling due for repayment were not treated as overdue for three months in anticipation of conversion of loans in case of natural calamities and completion of formalities.

m) The concessional finance available for fertiliser credit requirements was withdrawn gradually and the rate of interest was raised to 3% above the Bank Rate.

Thus, there had been numerous subtle changes in the policies and procedures mainly aiming at rationalising the agricultural credit structure. The funds for larger medium term purposes were made available. New resources were created. The long term credit structure was strengthened. Share capital loans on larger and liberal terms were allowed. The general trend on the basis of these changes revealed that the Bank remained on the lookout to find new programmes, projects and points for the furtherance of the cause of the agriculture in the country. The emphasis in the actions of the Bank was more on the rationality of the policies than introduction of half-hearted efforts in any direction.

(vi) Intensive Agricultural District Programme and co-operatives

In 1953, the Agricultural Production Team of Ford Foundation suggested for a scheme named as Intensive Agricultural District Programme with a view to increase the agricultural production in the country. The basis of the programme was the intensive use of human and material resources. The programme was introduced in certain selected districts of the country from 1960-61. The Intensive Agricultural District Programme (IADP) was to be introduced in the areas where there were sufficient irrigational facilities and minimum of natural hazards. It was simultaneously required to provide all the essential elements
needed for increasing production including credit to all the participating cultivators for rapid expansion within a short period. The programme was also to demonstrate the most effective ways of increasing production by the application of the scientific knowhow and set a pattern for extending such a programme to other similar areas having an assured water supply and where conditions are favourable for intensifying efforts. The programme is also popularly known as 'Package Programme'. It was to provide simultaneously the following requisites:

A) Adequate and timely supplies of production requisites such as fertilisers, implements, pesticides etc. through the co-operatives.
B) Adequate and timely supply of credit to enable the farmer to purchase full supplies available.
C) Marketing arrangements and other services through co-operatives so that the farmer gets full value for all their surplus produce enabling them to repay the production loans taken through co-operatives.
D) Intensive education of the farmers in better farming techniques through such media as scientific demonstrations.
E) The strengthening of the transport arrangements to ensure mobility of staff and supplies.
F) Increasing the number of godowns from one to ten per block on an average to provide supplies and marketing facilities within bullock-carts distance.

The Bank agreed to provide special credit limits to the central co-operative banks for providing finance to package programme. Since then a number of changes have taken place. Now almost the entire country has been covered by High Yielding Varieties Programme (HYVP). The programme is based on the extensive utilisation of inputs like chemical fertilisers etc. so that the growth rate of the production may be doubled. As the use of fertilisers, insecticides etc. are dependent on the availability of irrigational resources, the minor irrigation projects like sinking of wells, installation of pumps and oil...
engines were also, therefore, taken up in right earnest by central co-operative banks and land development banks.

In 1972-73, a new programme 'Emergency Agricultural Production Programme' (EAPP) was initiated in 26 selected districts of 17 States in the wake of widespread drought in the country. It necessitated strong support by way of application of fertilisers, streamlined distribution of available supplies through better transport, regulated supplies of fertilisers for priority crops and areas specified by the State Governments. To promote the balanced use of fertilisers, an outlay of ₹2.2 crores was sanctioned by the Government for implementation of fertiliser promotion scheme in 1972-73 and 1973-74. As a balanced use of fertiliser is possible through soil testing, adequate arrangements were made in different States. For the purpose of issue of short term and medium term credit, the State and central co-operative banks would continue to provide lines of credit to societies.

(vii) Statutory inspection of apex and central co-operative banks

A reference to voluntary inspection of the co-operative banks had been made in chapter two. Since March 1966, with the extension of the provisions of the Banking Regulation Act 1949 to the co-operative banks, the Bank was empowered to inspect these banks statutorily under section 35 of the Act. The scope of these inspections cover almost all the aspects of the working of the banks. In addition to these aspects, the progress made by the movement in the district is also assessed. The role played by the banks in the provision of credit vis-a-vis expectations and the developmental efforts as the leader of the movement in the
district are examined. Its policies are examined and analysed in
the light of national policies and deficiencies and inadequacies
are pointed out in the inspection reports. A grass root plan of
action is evolved consequent upon the inspection which is capable
of translating the expectations. The organisational financial and
structural weaknesses are brought to surface and all concerned
advised to take steps for their rectification. While inspecting
state co-operative banks, some central co-operative banks are
visited similarly some societies are visited while inspecting
central co-operative banks. The object is to find out the end-use
of funds provided by one channel to another. The short comings
are discussed with the Board of Directors. Although the inspec-
tions were earlier conducted on yearly basis now they are being
conducted once in a 1½ year or so. The object is to have a
qualitative assessment on the one hand and create more responsi-

siveness on the part of banks inspected. In a way, it could also
reduce the work-load on the Bank itself.

It is therefore, suggested that besides the regular
inspections the Bank may cause its officers to make visits at
regular intervals to examine some important and vital aspects
only. This would enable the Bank to give concentrated thoughts to
the weaknesses in a particular portfolio or activity. The banks
would also be more responsive to the suggestions and the work
during the annual inspections would be simplified. This would
enable the visiting officer to devote more to the quality of the
inspections.

(viii) Co-operative training

Training has a very important role to play in a financial
institution. Agricultural credit is no exception to it. Rather it still requires a better equipped man. The provision of credit on the basis of production outlays, disbursement of a portion of the loan in kind, observance of seasonality in borrowings and lendings, financial discipline etc. are the factors which will require a high order of training and competence in the personnel looking after co-operative credit. However, the reality in a co-operative institution is the other way round. Co-operatives do not attract people of worth and competence; they are unable to offer good openings to a person in terms of status and emoluments. With the democratic set up of the management, there is sometimes no freedom to the managers even in day to day actions. All these factors amply get reflected in the uneven growth of co-operatives, lopsided developments, inefficient structure, high incidence of overdues and absence of viability in most of the units.

The question of the co-operative training had been the focal point for consideration of many of the committees. "To mention only those of an all India nature, the Maclagan Committee on co-operation in 1915, the Royal Commission on Agriculture in 1928, the Co-operative Planning Committee in 1945, all underlined amongst other things, the importance of co-operative education and training. . . . . . . Though some progress was, thus, made in building up training and education facilities in the country, the Co-operative Planning Committee found the progress unsatisfactory."

The Reserve Bank again came up to the expectations and
took up the initiative in this field. In 1953, a Central Committee for Training was constituted to look after this aspect of the problem and a series of training colleges were set up, mainly imparting training to senior officers. These colleges were run by the Committee. The State Government also opened scores of colleges which were run through the State Co-operative Unions. These centres provided training to Junior executives/staff. Till 1962, the present arrangements continued. In 1962, the Study Group appointed by the Government recommended transfer of the work of the Central Committee for Co-operative Training to the National Board for Co-operative Training and transfer of the training arrangements to State Co-operative Unions/State Governments. It also recommended separate training courses for co-operative personnel and the departmental officials.

The conference of State Ministers for Co-operation also deliberated on the same lines and reached to the conclusions i.e. creation of an organisation at national level to take over such centres which could not be transferred to the State co-operative unions and to transfer all other centres to State co-operative unions. At the centre, a special committee should be appointed by the National Co-operative Union of India to coordinate all these activities. Consequently, the administration of the training schemes for co-operative personnel was transferred with effect from 1.7.1962 from the Reserve Bank of India to the Committee for Co-operative Training set up by the National Co-operative Union of India. The Reserve Bank of India is, however, represented on that Committee.
Management at Poona for the training of the senior officers. The Intermediate and Junior training centres for affording training to intermediate and junior level personnel. With the extension of the Banking Regulation Act, the nature of the courses and the pattern of training underwent changes. The Bank provided free tuition fees and lodging arrangements to the trainees. It also persuaded the smaller banks to depute its staff by rotation.

Despite these combined efforts on the part of Reserve Bank, National and State Co-operative Unions, Central and State Governments, the need for trained personnel could not be met in full. With the increased role of the co-operatives in production credit, processing units, custom services, procurement, distribution and marketing activities, the need for trained personnel would increase manifold. The volume of co-operative credit has increased to such a phenomenal level that inefficiency at any level would jeopardise the safety of the funds and consequent mis-utilisation by unscrupulous elements.

The viability of co-operative institutions now need more specialised and trained staff. As per the revised norms, a primary society is treated viable if they have a loan business of Rs 2 lakhs. To bring all primary societies to this level, persons with enthusiasm, ability and competence would be required. Now that the National Commission on Agricultural Credit has suggested for the formation of Farmer's service societies, the activities expected of such societies would be possible only if they are managed by competent persons.

It is generally observed that despite the training facilities created in the country and extension of facilities
In terms of term fees and lodging arrangements etc., bulk of staff remained untrained. They do not depute staff for suitable training. Many of the co-operative institutions find it difficult to depute its staff for training for two reasons:

(a) Non-availability of substitute for the person deputed for training
(b) Weak financial position of the institution itself.

It is, therefore, suggested that the National Committee for Co-operative Training in consultation with Reserve Bank may formulate certain postal courses for various categories of the staff. The theoretical part of the training may be fully covered in these courses. The candidates may be made to read extensively. The successful candidates may be asked to report for practical training at appropriate training centre. The practical training may be then arranged under the expert guidance of the instructors in the institutes of repute. This would not only obviate the need for long absence of personnel but would also cut down the need for large staff. The postal courses may be devised with the help of the Agricultural Credit Department of Reserve Bank of India and other specialised institutes. The evaluation of the answer books may be appropriately got done through them. The initial difficulties are not unsurmountable and can be taken care of by the concerted efforts of all concerned.

It is also suggested that more refresher courses of short durations may be arranged in place of long drawn courses. As the co-operative bank staff is usually local, they find it more difficult to be away for long. This would also do away the problem of unwilling staff for training. The refresher courses would also keep the staff daily informed of the current
developments, experiments and innovations. Mutual exchange of information and experiences would enlarge their vision and outlook.

It is not uncommon to know that most of the banks in the co-operative sector are one man show. Hence, in the absence of properly trained staff, the chances of the bank's affairs getting lost with the absence of the person would not be rare. More training courses, therefore, should be arranged and the full cost thereof may be borne by the Apex level units, State Governments, Reserve Bank and Government of India jointly.

Last but not the least, there is ample scope for the training of the members of the Managing Committees of the co-operative institutions. These members not only formulate the policies but at times also interfere in the day to day affairs of the bank. It is, therefore, considered necessary to impart some training to them. Similar programmes had been initiated by the Federal Intermediate Credit banks in U.S.A. also. The details of such programmes and their utility has been discussed in chapter four. Keeping in view the objectives of these programmes, we had also suggested the introduction of the same in India. In this connection a reference may also be invited to the Member Education Programme initiated by the National Co-operative Union of India in 1957-58 and revised in 1961 and 1963. At this stage it is the enlargement of this scheme which is suggested. The directors and members of managing committees of various types of co-operative institutions should be covered in such training programmes. The relative financial outlays may be met by the
Government of India, concerned co-operative banks, apex bank, National Co-operative Union of India and Reserve Bank. The training of such officials may be organised under the aegis of the Apex Bank being the leader of the co-operative movement in the State.