CHAPTER THIRTEEN

Conclusions and suggestions

The problem of rural credit in India was supposed to be the problem of dependence of cultivators on private lending agencies. The initial developments in the form of Debt Relief Legislations, development of co-operatives and provision of credit on institutional basis were all made with the above view in sight. The Reserve Bank, being the custodian of monetary management, was also, therefore, charged with the responsibility of providing credit on the one hand and to extend advice on matter relating to agricultural credit and to coordinate the activities of all the agencies in the field on the other.

Although efforts in the direction of institutionalisation of agricultural credit were made in the past, the conclusions arrived at by the Rural Credit Survey Committee in 1954 revealed that the private agencies still had predominant place in the field and co-operatives, Government and commercial banks together did not provide more than 7-8% of the total.

Appropriately the Bank's efforts in the beginning of its existence were aimed at linking of unorganised sector of money-lenders and indigenous bankers with the organised sector like banks, institutions etc. However, the Bank failed to persuade them to join the main stream due to rigidity in approach on both sides. Finally, the development of co-operatives as an alternative to them was decided by the Bank which gave positive results. Now the importance and significance of money-lenders and indigenous bankers have been greatly effaced.

The Rural Credit Survey may be regarded the hall-mark
and the main turning point in the Bank's attitude towards agricultural credit. A number of new institutions conducive to the development of banking in general and extension of the agricultural credit activities in rural areas in particular were set up. An integrated approach for the provision of various facilities relating to cultivator’s activities since harvesting to disposal of produce was adopted. New funds and resources were created to help him operationally and financially. Effective principle of Government partnership at all levels was introduced for quick development and Government guarantee was suggested for better financial assistance to even weak units. The credit policy relating to short, medium and long term requirements were formulated on new grounds. Crop loan system was introduced for meeting production credit requirements while resources and institutions were created to meet investment and development needs. Co-operatives were given directions to become a self-reliant movement. The advances against agricultural produce were brought under selective credit control. The credit availability from the Bank was linked to the Bank's own efforts to mobilise resources. In other words, the Bank modified, manoeuvred and directed its credit policy subject to expediency and needs of agricultural sector.

We have examined the evolution of policies, their genesis, utility and shortcomings in the earlier chapters. The role of the central banking institution in India and in some other countries was also examined. Although we have made suggestions on various issues in the earlier chapters at appropriate places, we make here some observations whose practical utility would be
of immense benefit to the agricultural needs of the country.

Integration of indigenous bankers with organised money markets

The Bank should take concrete steps to integrate money-lenders and indigenous bankers with the main stream of organised money market. An All India legislation should be enacted to eliminate variations in the State enactments. A separate wing in the Co-operative Department should be created to enforce the new law with exclusive responsibility. The act may recognise the actual realities relating to prevailing interest rate structure in the society. An approach of conciliation-divesting the attitude of force - may be adopted by the Bank and indigenous agencies.

The Banking Regulation Act 1949 may be extended selectively to such agencies with clear-cut understanding. The norms relating to minimum capital, regular audit by outside approved agencies, submission of returns, financing of specified segments of society, maintenance of minimum deposits with the Reserve Bank etc. may be stipulated. They may be allowed to have free remittance facilities. They may be recognised as the lending agencies against bills and warehousing receipts etc. which in turn could be discounted by scheduled commercial banks or Reserve Bank itself. In a selective manner, even the Bank may recognise their signatures as second good signature under the Act. The concessional facilities may also be extended to them provided the benefit is passed on to the cultivators. True, such a development with mutual trust and understanding would help the Bank in developing an institution which is indigenous to India and strong enough to begin with village money-lender who can be incorporated into a
framework that would check his selfish impulses and harness his energy and knowledge for socially desirable purposes.

Reorganisation of present three tier co-operative structure

Consequent upon the suggestion and recommendations of many committees in the past, the Bank developed the three tier structure for the provision of short and medium term credit requirements. Subsequent to the Rural Credit Survey Committee, the Bank took special interest to reorganise the structure so as to sustain the agricultural credit programmes on orderly basis. However, the three tier structure which provided strong base for credit needs, local leadership and knowledge also added to the cost of credit.

The suggestion for deletion of the middle tier i.e. central co-operative banks was mooted but it is felt that central co-operative banks situated at the district headquarters are not only in a position to forge strong and viable links with higher financing agencies but are also in a position to mobilise more resources, exercise better supervision over societies and restore public faith in the movement. The need is, therefore, not for elimination of the tier itself but for taking remedial measures to wipe out the factors inhibiting its proper growth. The Bank may, therefore, persuade the co-operation Department of States to initiate and intensify the process of amalgamation and liquidation of inefficient units and if the need be, to organise new units. The overdues may be recovered by invoking the coercive provisions of law. The popular belief relating to non-payment of

co-operative dues has to be dispelled. The weak central co-operative banks will have to be hospitalised temporarily and the verification of the end-use of credit and motivation for timely repayment ensured. With the fixation of suitable margins at different levels and efficient working of the co-operative banks, the supervised cheap credit would become a reality.

**Government guarantee and medium term loans**

For sanction of all types of medium term loans the Bank insisted for the availability of Government guarantee as precondition. The insistence on Government guarantee in the initial stages perhaps with a view to have a financial undertaking and organisational binding was alright. But now with the development of the co-operative movement, institutions, their familiarisation with procedures and formalities there seems to be no justification for the continuance of the need for Government guarantee either for normal medium term loans or for conversion loans.

The Rural Credit Review Committee had pinpointed the laxity on the part of the State Governments in extending guarantees, delay in execution of these guarantees and Bank’s dogmatic insistence on guarantees as the main reasons for non-utilisation of medium term limits. Besides, the Bank's approach in asking for guarantees in respect of such banks who are enjoying short term limits from the Bank without any guarantee seem negative. The medium term loans are expected to regenerate their own repaying capacity and in a large number of cases the loans are for productive purposes and are duly supported by tangible securities at the member level. It is, therefore, suggested that
the Bank may not insist for Government guarantee for all the medium term loans. The Bank may ask for such a guarantee on selective basis depending upon the merits of the case. In such cases also, it would be useful if the Bank insist for a consolidated continuing guarantee covering all the weak banks. This would obviate the yearly ritual on the one hand and would encourage the state governments to have a long term view of policies relating to medium term loans. In case of medium term conversion loans also the Bank should ask for guarantees only in the cases where the short term limit has been sanctioned by the Bank on Government guarantee as conversion would change the nature of such loans.

Warehouses and loans against warehousing receipts

The Rural Credit Survey recommended for creation of statutory bodies at the centre and state level to take care of warehousing requirements. The progress of the warehouses constructed by the central and state warehousing corporations was 146 and 818 warehouses till 1973-74 having storage capacity of 16 millions and 17 millions tonnes respectively. In view of the procurement operations, state trading in foodgrains, fertiliser and distribution programmes, the need for higher storage capacity would be felt. It is, therefore, suggested that the State Governments should come forward with budgetary provisions for the enlarged storage programmes by the state warehousing corporation on the lines of central sector scheme of the central government. The state co-operative banks and the scheduled commercial banks should be encouraged to finance more
construction activities in view of refinance facilities available from Agricultural Refinance Corporation.

Further it is also suggested that the warehousing corporations may float Bonds and Debentures to mobilise more resources to sustain extension programmes. The Reserve Bank could also help the corporations under section 17(4C) of the Reserve Bank of India Act. If the demands for funds are large, the Bank may consider even extending credit on concessional rates of interest for some time.

As for the loans against the warehousing receipts are concerned, the progress had been disappointing for variety of reasons ranging from general apathy of the commercial banks to the impact of the selective credit control and higher margins requirements to negotiability of warehousing receipts. In this connection, it is suggested that the Reserve Bank might persuade the State Bank and other commercial banks to keep low margins on loans against warehousing receipts (in case of goods not covered by the selective credit control). The warehousing receipts may be got issued in suitable lots so as to enable the cultivators to obtain loans from alternative sources. The legal factors impairing the negotiability of warehousing receipts may be removed. The discretionary powers of the branch managers to sanction loans against warehousing receipts may be enhanced. More loans against warehousing receipts may be encouraged by the commercial banks. Alternatively, in place of regular assignment of documents of title etc., for the advances under section 17(4)(d) of Reserve Bank of India Act, the Bank may accept a certificate from the borrowing banks that the advances are covered by the documents of title. This would encourage the commercial banks to sanction...
more advances and would also overcome the cumbersome procedure of assignments and inherent hitch of cultivators in obtaining finance against warehousing receipts.

As a measure of further support, the Bank may not sanction limits for marketing of crops in such areas which are covered by warehousing corporations so that the farmers have to resort to advances against warehousing receipts only. In other areas, the Bank may allow the refinance against the stocks themselves rather than the documents of title to goods under section 17(4)(d)

Government share capital contributions in co-operative institutions

The concept of share capital contribution in co-operative institutions at all levels was introduced with a view to create a stronger base, increase their borrowing powers and to have state involvement. Initially these objects may have had some relevance but in the subsequent years it was observed that the Government contributions did not increase any borrowing power in the effective sense. The actual borrowings of the co-operative institutions were far less than the eligibility calculable on their own fund excluding Government contributions. The State involvement in terms of money does not have much of the relevance due to the fact that Reserve Bank has started taking a very active role and therefore, the Government has to participate in the development of the movement even without share participation.

A study of the overdues at the State co-operative bank and central co-operative bank level revealed that the overdues were progressing at a much faster rate. The Government capital
contributions merely served the purpose of a cushion to absorb overdues, which was not the object of such contributions. This tendency has to be curbed as it was injurious to the interests of the co-operative movement itself. It, in a way, did not encourage the banks in taking effective action in recovery of overdues. It is, therefore, suggested that the contributions at the State co-operative bank level may be discontinued. The State Co-operative banks may be forced to find their own resources to absorb overdues or gear up their recovery machinery. This action would also reduce the existing strain on the National Agricultural (Long Term Operation) Fund.

As regards the rates of interest chargeable from the State Government on the loans issued to them for share capital contribution, it was explained in chapter six that the State Governments were still paying the interest on the basis of the schedule fixed up in 1955-56 which is too cheap looking to the present money market. It is, therefore, suggested that the rates of interest may be increased sizably maintaining a margin of 2-3% below the Bank Rate.

Co-operative institutions and Selective Credit Control

The selective credit control measures were extended by the Bank to the co-operatives from 1967 with a view to control the advances against certain commodities which showed rising trends in prices. The control measures did bring the price level

1. It is gratifying to note that the Bank has recently increased the lending rates on the advances to the State Governments to 6% as against the present Bank Rate of 3%. The yearwise interest structure has also been scrapped.
down by bringing down the advances against such commodities. However, it may be observed that the co-operatives have a different structure. They have their own limitations regarding their dealings, borrowings etc., as compared to either commercial banks or the big business houses. The co-operatives are unable to borrow from outside institutions except those in co-operative fold. They provide margins mostly with the help of the State Government or the National Co-operative Development Corporation. The co-operative banks themselves have to nurse the needs of co-operative marketing and processing societies. Hence if the same co-operative banks have to take action against these institutions owing to the imposition of the selective credit control, how these institutions would find resources for the repayment of the advances taken?

It is, therefore, suggested that taking into account the peculiarities of co-operative banks and institutions the Bank may not impose the control measures with the same rigidity that of commercial banks. Further the credit control measures may be imposed on the institutions enjoying the end-use of credit viz., processing units like rice mills, cotton mills, sugar mills etc. The inventories of these institutions are controlled by other statutory bodies like Textile Commissioner for cotton mills etc. In place of controlling the middle level institutions like co-operative banks and marketing societies it would be better if the demand for these goods are controlled. The volume of credit would automatically be controlled if the above suggestion is put to use. The co-operative banks and co-operative marketing societies may therefore, be exempted from the control measures.
Crop Loan System for production loans

The dispensation of credit for production loans is the main plank of co-operative credit policy of the Bank. Since 1966-67, the production loans are being issued on the basis of the crop loan system i.e. issue of loans subject to the crop requirements. If the crop loan system is not properly implemented, the credit resources would not result into desired fruits. The arbitrary reduction in the scales of finance originally fixed up by the technical group, inflated acreages, delay in preparation of credit limits, non-availability of inputs, inadequate supervision and absence of linking of credit with marketing have been some of the factors which defeated the purpose of the crop loan system.

It is, therefore, suggested that the authentic land records may be obtained after completion of land surveys and mutation of land. Pass books indicating rights in land may be issued to cultivators and no transfers, purchases or sales may be allowed without proper entries in the pass books. The credit limit statements may not be revised unless changes in holdings, cropping pattern, scales of finance etc. occur. Similarly composite plans to create infra-structure for distribution of inputs, movement of inputs in time and facility for storage in certain monsoon prone areas etc., may be taken up. For the verification of the inputs, utilisation of resources and timely recoveries of dues besides the supervision, the Farmers' Sub-Committees may be constituted. Improvement in the market conditions and enforcement of the cultivator's undertaking to sell the produce through the marketing societies may be followed.
Concessional finance and Reserve Bank of India

The Bank provided financial accommodation for agricultural needs at concessional rates since 1942. Although the Bank Rate has since been revised time and again till 1974, the rate of concession continues to be pegged at 2½% below the Bank Rate. As the object of concession was to reduce the incidence of margins on the one hand and provision of the cheap credit on the other, now the time has come to re-think either for the complete withdrawal or readjustments of the concession. In order to provide cheap credit to small cultivators, it is suggested that the rates of interest may be linked to the land holdings. Cultivators holding land up to certain specified level may be made eligible for concessional finance and others may be made to pay higher rates depending upon their land holdings. The increased rates of interest on normal cultivators may be utilised to meet the subsidy allowed to small cultivators. The wilful defaulters may be forced to pay exorbitant penal interest which may be linked with the period of default. Further the co-operative dues may be recovered as arrears of land revenue. The Act and Rules may be amended to provide for such recoveries. The land of the defaulters may be confiscated and distributed among the landless cultivators. In other words, all round efforts would have to be made to plug the possible loopholes in the crop loan system so as to make it a success.

Provision of medium term conversion loans

Short term loans are allowed to be converted by the Bank
into medium term loans provided due to natural calamity the crops have been damaged and co-operative banks have failed to meet their obligations in time. The declaration of annawari by the Government and the suspension of the land revenue are generally accepted as the test of such damages. The State Governments are usually hesitant in declaring annawari and such declarations are delayed due to delay in assessment. It is, therefore, suggested that the Bank may constitute a small district committee for quick assessment of the damage which may finally be approved by the State Level Committee. The object is to expedite the process and also to have a first-hand information. Further, it is also suggested that the stabilisation fund may not be made available to all the cultivators. While normal cultivators may find their own resources to meet such difficulties, the fund may be made available to the small cultivators only. The Act may be amended to include the losses due to political reasons. In case of default in the repayment of instalment of medium term loans, the purpose for which the original medium term loans were issued may be ascertained so as to decide the eligibility. If the loss is due to an unexpected calamity, the instalment of the medium term loan may be allowed to be converted out of the stabilisation funds available at the level of co-operative institutions but after obtaining the Registrar's permission.

Debenture floatation programme of Land Development Banks and Reserve Bank of India

The requirements for long term developmental needs of agriculture are so large and enormous that they require equally huge resources. The Land Development Banks are providing such
finances after mobilising resources from Agricultural Refinance Corporation, World Bank, International Development Agency, floatation of debentures, collection of deposits etc. As the floatation of debentures are the main sources of finance by the land development banks, the Bank associated itself with such floatation programmes since 1949. The Bank also convenes informal meetings of the institutional investors in the beginning of the year to ascertain the possible support so that the land development banks could formulate their debenture programmes in the light of the committed support.

In order to simplify the process of floatation of debentures, to obviate the need for interim finance and to provide cheap credit to land development banks, it is suggested that the land development banks may be allowed to float debentures without prior collection of mortgages. Collection of mortgages is a separate aspect unconnected with floatation of debentures. The State Bank of India, State Government etc., who provide committed support to the land development banks may be persuaded by the Bank to provide funds so earmarked to the land development banks on nominal rates of interest which may be equivalent to the rate of dividend on the debentures. This amount may, however, be adjusted on allotment of debentures to them. As the debentures are guaranteed by the Government for the payment of principal and interest, the Bank on behalf of the Government may ensure that after the floatation of debentures, no loans are issued without proper collection of mortgage so as to ensure the safety of funds.

To conclude, the Reserve Bank have been instrumental in revolutionising the agricultural production programmes by
ensuring and extending full finance. It divorced its traditional role of central banking institution to adopt to the new requirements. While guiding the destiny of agricultural credit, the Bank adopted flexible approach in its dealings. It formulated new policies to put the system of agricultural credit on more sound and systematic footings. It agreed to go hand in glove with the co-operative institutions with the sense of understanding despite their weak structure and inefficient operations. In a way, the Bank is the chief architect of the present co-operative movement.

The phenomenal progress made by co-operatives after 1955 has left people gaping. The co-operatives which provided just 3% of the total requirements in 1951-52 with its existence over 50 years in the country were expected to provide about 40% of such credit requirement by the end of Fifth Plan.

The suggestions made in the earlier chapters on different aspects of the agricultural credit would go a long way to improve the performance of co-operatives on the one hand and implementation of the agricultural credit policies of the Bank on the other. Truely, the role of Reserve Bank of India is correctly reflected in the observation made by the Rural Credit Survey Committee:

".......we believe that by suggested enlargement of deve-lopment functions it has already assumed, however, much the Reserve Bank may be departing from the orthodox pattern of central banking in other and differently situated countries, it will at the same time be approaching nearer what the central bank of this country ought to be."

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