CHAPTER ONE

Introduction: Importance of an 'orderly finance' in agriculture and Reserve Bank of India's policy adopted till 1955 in this regard

(i) Importance of agriculture in Indian economy

A study of Indian economy would be incomplete without a study of Indian agriculture in its entirety. Agricultural activity had been the pivotal point in the economic planning of a country. As an early and quick development of economy is chiefly dependent on the extent of agricultural activity with a growing awareness for development and progress, the emphasis on an all round development of agriculture as a full time vocation is all the more necessary. Since independence, needs for improvements in the land tenure system, formulation of debt relief legislation, inventions of the latest and improved techniques of cultivation, provision of adequate, full and timely finance, organisation of marketing and warehousing complex for the judicious disposal of produce has engaged the attention of those who mattered in guiding the destiny of our nation. India is a land of villages inasmuch as 80% of her population lives in more than 5 lakh villages as compared to 33% in U.S.A. and Germany, 10% in U.K. 32% in Sweden and 63% in Japan. Further, about 70% of the population in India is dependent on agriculture and allied activities which again accounts for about 51.1% of country's national income.

In the context of the menacing population explosion in the country, the agriculture has assumed still more wider and serious dimensions. The findings of the censuses carried out
from time to time revealed that India alienates itself from rural population day in and day out, which is in fact its mainstay, bulk of man power and base for sound agriculture. A deeper and conscious probing of the problems connected with agriculture is, therefore, the basic need. Indian agriculture suffers from peculiar maladies such as small holdings, complicated land tenure systems, limited and uncertain natural resources, stagnant economy, lop sided developments etc. These problems perhaps were the guiding forces which provoked the Government, non-officials, social workers, economists and the common man to accept agriculture as a growing challenge to the Indian economic life.

(ii) Financial requirements of agriculture in relation to purpose, tenure and security

Unlike any other industry, agriculture is not an exception to the general rule. Its progress is also equally dependent on factors such as need to run it on systematic lines, feeding it with timely and required doses of men, material and capital. Although the man-power in India is in abundance, the problem of improved techniques, inadequacies of financial help and the need to put the industry on an efficient and sound pedestal had always been keenly felt. Provision of timely finance suiting to the requirements has been the main impediment besides the inadequacies of such resources.

In common parlance agricultural activities require financial help based on the following parameters:

(a) Variety of purposes e.g. preparation of land, purchase of seeds, availability of irrigation, use of mechanical implements, storage and disposal of produce.
(b) Variety of periodicity e.g. short term loans for the running expenses, medium term loans for replacement of wasting assets and long term loans for permanent developments and technical improvements.

(c) Variety of securities e.g. personal surety, mortgage of land, creation of charge on land etc.

A more detailed analysis of the scope of these parameters was given by Mr. H. Belshaw as under:

A) According to purpose

1) Settlement and development credit

This helps the farmer to purchase land and effect improvements. The development credit is required to develop land and effect improvements e.g. drainage, clearings, building of barns etc.

II) Production and equipment credit

This helps the cultivator to get implements, live stocks, and such running expenses as are involved in payment of wages, purchase of fertilisers, seeds etc. In general, it is used for the provision of the agents which are less permanent than land.

III) Marketing credit

It includes credit to finance the cultivator during the period of transit or storage of crops while they are awaiting sale.

B) According to the length of loan

1) Long term credit

This is normally required for a period of from say 3 to 30 years and is required for the purpose of land and standing improvements and also for the provision of more expensive durable improvements.

II) Intermediate credit

This is required normally from 6 months to 3-4 years.

I. The Provision of Credit with special reference to agriculture
1931 pp. 73-76
years and is utilised for the purchase of stocks, machinery and less permanent and extensive improvements and for the production of crops in which the economic lag is great.

iii) Short term credit

It is required for a period of few months and is obtained for the labour, requisites and other running expenses and to market crops.

C) According to the nature of security

i) Farm mortgage credit

This is secured by the means of mortgage of land.

ii) Chattel and collateral credit

In case of chattel, the mortgage is against chattel, e.g. equipment, live stocks, farm products and warehouse receipts while in case of collaterals, the security is in the form of title to the ownership of shares, bonds, insurance policies etc.

iii) Personal credit

This is secured against personal notes and is not backed by a lien or any other property. Such notes may or may not be endorsed or guaranteed by some one else. The security may be individual and collective.

The above forms of classifications of credit may look as if they represent a water-tight compartment or they could be chosen subject to expediency. But no system of agricultural credit can be perfect unless a combination of all the three is harmoniously blended to suit the requirements. They are closely inter-related to each other. The periodicity of loan or tenure of loan is in direct relationship with the purpose of the loan for which it is borrowed. The purpose can alone stipulate the ideal periodicity or tenure. Similarly the security of the loan is related to the purpose of the loan and also the tenure. Besides, the individual faith in the integrity of the cultivator,
the long term loans for permanent purpose will require more tangible security. However, this may not hold true if the character of the borrower is in doubt or the nature of the cultivation is risky. In such a case, even a short term loan for production purpose may require safer form of security.

A balanced system of agricultural finance based on the above three cardinal principles of purpose, tenure and security is the pre-requisite for the real and tangible agricultural progress. It will not only help the cultivator in enabling him to repay his obligations out of the sale proceeds of the produce but also help in formulating a good banking base. In the long run, this may make the cultivator a self reliant farmer.

(iii) Need and criterion for an 'orderly 
finance' for sound agriculture

The considerations explained above were perhaps the genesis for Mr. M. Louis Tardy who prescribed the following criterion for an orderly system of finance:

A) It (The tenure of credit) should be granted for a sufficiently long periods commensurate with the length of the operation which it is designed to facilitate;

B) It should be granted at a low rate of interest.

C) It should be adequately secured, in order, more particularly, to avoid any abuse of credit facilities, but the security should not be necessarily material: it should, if necessary, be in the form of personal credit secured mainly by the borrower's moral standing and farming abilities.

D) It should be adopted to the average yield and capacity for repayment of the farms, particularly during periods of
economic depressions.

E) It should be placed in the hands of the institutions the
directors of which have received special training and had
actual banking experience.

The present problem of disordered agricultural finance was
very aptly expressed by the Rural Credit Survey Committee as
under:

"Today the agricultural credit that is supplied falls
short of right quantity, is not of right type, does not
serve the right purpose and by the criterion of need
(not overlooking the criterion of creditworthiness) often
fails to go to the right people." 2

Perhaps in the same vein Sir Frederick Nicholson realised
that availability of credit alone will not solve the problem of
agricultural finance otherwise the central banking institution
of the country could have poured unlimited funds through various
agencies. All that is required is the credit in relation to
needs and in proper doses. That is why he observed:

"It is emphatically not the outpouring of cheap capital
that is required, not the mere grant of cheap and
facile credit to classes unprepared for the boon: what
is wanted is the promotion of facilities for savings,
the encouragement of banking deposits, the inoculation
of true objects, use and limits of credit." 3

(iv) Responsibility of the Central
Bank in agricultural finance

No Central Banking institution of any country can claim
to have discharged its obligations and statutory functions.

1. Report on system of agricultural credit and insurance, League
   of Nations 1936 pp 35 - as quoted in the general report -
   All-India Rural Credit Survey Committee, Abridged Edition
   1955 pp 57-58
2. Report of All India Rural Credit Survey Committee - The
3. Co-operative News Digest - June 1957 pp 80
consciously unless it has aligned its activities with masses. Central Bank of the country is truly the 'alma mater' of all the economic activities and agricultural activity is no exception to it. Although the issue of currency and regulation thereof is one of the important functions of a Central Bank but channelisation of credit flow in the priority sectors of the economy of the country is equally important. Despite the general belief in banking circles that day to day financing of agriculture should not be the legitimate function of a central bank; in a number of countries huge financial help to agriculture is being rendered by these institutions.

"In countries like Australia, Argentina and Brazil, special department of central banks have been set up to provide agricultural credit; while in case of other central banks special facilities are granted for financing agriculture by giving special terms regarding interest and period of time in rediscounting agricultural papers. The fact that the financial committee of League of Nations devoted its attention to an elaboration of the principles subject to which central banks should extend help in providing agricultural finance indicates the important part which such banks should play in providing agricultural finance."

Guided with the similar sentiments, the authors of Rural Credit Survey Committee Report observed:

".....we believe that, by suggested enlargement of the development functions, it (Reserve Bank of India) has already assumed, however much the Reserve Bank may be further departing from the orthodox pattern of central banking in other and differently situated countries, it will at the same time be approached nearer what the Central Bank of this country ought to be."

Another point of view raised by Dr. C.D. Datey on the role of the Reserve Bank in India and reasons for the same were:

1. Reserve Bank of India and Rural Credit by Dr. K.K. Sharma p.79
"In providing very extensive credit facilities, the Reserve Bank has departed from orthodox concepts of central banking functions and responsibilities. But the decision to do so has been taken consciously because as a central bank of a predominantly agricultural country, the Reserve Bank has certain responsibilities not only towards the development of appropriate credit institutions but also towards ensuring adequate funds at their disposal."

The concessions and facilities which can be afforded by a central bank towards agricultural finance may take various forms ranging from concession in discounting of agricultural bills, a lower rate of interest, rediscounting facilities for agricultural bills for longer durations than the commercial banks, direct financing of the agriculturists, contribution towards capital of special agricultural banks, investment of funds in bonds issued by agricultural institutions, temporary advances to the allied institutions, grant of overdraft facilities etc. In some countries a substantial part of net profits are earmarked for the rural credit. These practices obviously indicate that the central banks all over the world were providing assistance and accommodation for financing and development of agriculture subject to necessity and expediency. It is in this context that we have to evaluate our requirements and facilities before rehabilitating agriculture on sound footing.

(v) Advisory status of the Reserve Bank in building a sound agricultural system

Analysing the role of Reserve Bank in the light of earlier observations we find that still a greater emphasis was given in the statutory legislation itself under which the Reserve Bank was itself established. The development of

1. Co-operative News Digest - September 1979 pp 137
agriculture by extending all possible help was the primary responsibility of the Bank. The assistance was not restricted to financial help but extended to technical help, guidance and direction. No doubt over a period of time, the role of the Reserve Bank underwent a complete change. The transformation of the role is more appropriately expressed by Shri B. Venkatappiah, a former deputy governor of the Bank as under:

"The framers of the Reserve Bank of India Act provided at the very inception of the bank that a special responsibility should vest in it for agricultural credit. It is true that at the start this meant the giving of advice on agricultural finance rather than agricultural finance itself. For this, however, the Reserve Bank could hardly be blamed........I think the most significant developments have been the Reserve Bank's own changed conception of its role, a change rendered meaningful by the developmental effort as a whole including the new emphasis on agricultural production and co-operative credit.........

Nevertheless, in the new interpretation of its role, it would be for Reserve Bank to take the initiative itself and by a combination of advice, incentive and assistance, pursue the borrowing institutions to put through an agreed scheme of reorganisation." 1

Section 55(1) of the Reserve Bank of India Act (since deleted) provided for submission of a report containing proposals for extension of provisions of the Act to other persons and firms other than scheduled banks and also for improving machinery for dealing with agricultural finance.

In the Statutory Report which the Bank submitted to the Government in 1937, it said:

"The co-operative associations have from time to time made various demands for the extensions of the provisions of the Act. It has been urged that the Reserve Bank should supply normal agricultural credit to co-operative banks. We have already explained that this is impossible.........It is unnecessary to repeat it again.

1 The role of Reserve Bank of India in the development of credit institutions - R.R. Kale memorial lecture 1960 p.4
the incompatibility of long term finance with the functions of Reserve Bank. Above all, it must be clearly understood that all that the Reserve Bank can do is to help the provincial co-operative bank to tide over a temporary shortage of funds and as the funds advanced must be repaid within the time allowed by the Act, the co-operative banks cannot make use of them for the purpose of continuing finance. These conditions may seem stringent but as we have already pointed out, the Reserve Bank has to work within the limitations imposed on it by the essential conditions of sound central banking and expressed in its constitution."

Obviously, in the initial stages, the role was advisory in character. Again under section 54 of the Act the Bank was to have an Agricultural Credit Department which was to maintain an expert staff available for consultation to State or Central Governments, State co-operative banks etc. It was also required to coordinate the operations of the Bank with agricultural credit and its relations with State co-operative banks and other organisations engaged in the business of agricultural credit.

Once again the glaring conclusion was not that of direct participation but that of a big brother overlooking the activities, supervising, guiding and advising on various problems connected with such an activity. Shri C.D. Deshmukh, former Governor of the Bank also concurred with the feelings earlier expressed by Shri Venkatappiah in the following words:

"The technical experts in co-operation available to Governments in India, whose experience lies particularly in the executive field, are apt to be impatient of the advice or guidance of a central advisory organisation. To these reasons must be ascribed the failure of many provincial Governments to take advantage of the rich store of expert knowledge of co-operation acquired

by the agricultural credit department of the Reserve Bank of India a knowledge which it is only too anxious to share with any one interested."

Thus, the Bank continued to exercise its advisory role till almost the independence of the country. The turning point in its role emerged soon after the freedom of the country. A number of committees made far-reaching recommendations, which ultimately changed the complete complexion of its activities. As is well known, no planning can be thought of, least to say of its success, without any solid premises, facts and grounds. Despite the country being predominantly an agricultural in character, there were hardly any organised and authentic information and statistics on agriculture which could have been utilised by the Bank as a basis to plunge full-fledgedly in this field. The range of reasons for this state of affairs comprised of dominance of money-lenders, indigenous bankers in the field of agricultural finance, dilapidated organisational structure of co-operatives, numerous princely States, absence of any legislation worth relief etc. In the circumstances, the only active role that Reserve Bank of India could have played to start with was:

a) to collect complete information on various agencies involved or participating

b) to establish a rapport between the agencies and cultivators
c) to make adequate contacts with the co-operative departments of various States.
d) to get suitable legislative statutes passed, and finally
e) to tender expert advice to Government and other banking agencies.

(vi) Formulation of rural credit policies on institutional basis

The best medium of dispensation of credit for agriculture has long been accepted as co-operatives. The Royal Commission on Agriculture in India observed in its report that if co-operation is lost, the best hope of India would be lost. Prof. D.R. Gadgil also observed that

"the spread of co-operation would provide the best and most lasting solution for the problem of agricultural credit in particular and those of rural economy in general."

Similarly, it was for nothing that Sir Frederick Nicholson on the basis of whose report on European co-operatives, the co-operative movement in India was introduced, stated that if co-operation is to succeed in India a Raiffeisen should be found in each village. Obviously enough, the existing agencies like agriculturists, money-lenders, traders, landlords, did not belong to the Raiffeisen class. Therefore, the initial efforts of the Bank were in the direction of reorganisation of the co-operative movement. In order to translate the development of rural credit into a reality and also to formulate a uniform structure in the country, the officers of the Bank undertook extensive tours in the various States, identified the local problems and recommended changes commensurate with requirements. New institutions necessary for the creation of the desired structure were established. The basic structure gradually took the shape: a State co-operative bank and a central land

development bank for each State; a network of central co-operative banks on the scale of one bank for one administrative district; and at the primary level a co-operative marketing society at each market centre, a primary land development bank generally for one taluka and a primary credit society for a village or convenient group of villages.

While we contemplated the role of the Bank that of an advisor does not mean that the Bank was not anxious to make agricultural advances. The finances could be, by and large, channelled only through State and Central co-operative banks which could not borrow substantially due to their own inherent weaknesses. In 1946-6, the total amount drawn by the co-operatives from Reserve Bank was only Rs.1.25 lakhs. The Bank was, therefore, conscious of the difficulties and was making efforts to remove snags. In January 1942, the Bank formulated a scheme to provide loans for marketing of crops at 1% below the Bank Rate which was subsequently raised to 1½% and finally to 2% below the Bank Rate. This concession was later on extended from marketing of crops to seasonal agricultural operations in 1944. These steps helped and encouraged co-operative banks in availing of more finances as is obvious from the following figures:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount drawn (in lakhs)</th>
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<tbody>
<tr>
<td>1945-6</td>
<td>1.25</td>
</tr>
<tr>
<td>1946-7</td>
<td>1.50</td>
</tr>
<tr>
<td>1947-8</td>
<td>16.80</td>
</tr>
<tr>
<td>1948-9</td>
<td>102.66</td>
</tr>
<tr>
<td>1949-50</td>
<td>270.72</td>
</tr>
<tr>
<td>1950-51</td>
<td>537.80</td>
</tr>
</tbody>
</table>

Source: Role of Reserve Bank of India in Rural Credit - September 1964 - pp. 80
Thus, the draws exceeded 430 times in 1950-51 as compared to the draws made in 1945-6. Of course the concession in the lending rate was not the only reason for this substantial increase. There were other host of changes made in the procedure by the Bank which are enumerated elsewhere later on.

(vii) Recommendations of the Agricultural Finance Sub - Committee 1945

In September 1944, the Government appointed the above committee under the chairmanship of Dr. D.R. Gadgil to report ways in which the indebtedness could be reduced and the manner in which short term and long term loans could be provided under efficient control for agricultural and animal husbandary operations. The bulk of its recommendations, therefore, related to adjustments, reduction and compounding of old debts. The recommendations having bearing on agricultural financing were as under:

(i) As an alternate agency for the credit, it suggested for establishment of autonomous public corporations in the States where co-operative banking was weak and unable to discharge its functions.

(ii) Financing was to be done by the co-operatives after ascertaining creditworthiness based on repaying capacity.

(iii) Closer links of credit societies with marketing societies.

(iv) Maximum loaning to be done in kind and strict supervision to be exercised over the operations of the societies and members.

(v) Introduction of cattle insurance. State to provide an efficient system of veterinary assistance for the purpose.

(vi) Establishment of the licenced warehouses and making of
their receipts negotiable instruments.
(vii) Establishment of two separate agencies for normal credit activities and for relief and rehabilitation activities.
(viii) The Reserve Bank to constitute a Standing Committee in the Agricultural Credit Department to work as general clearing house of information and to provide continuous review of situation.

Thus, apart from the suggestions for containing the indebtedness, the committee recommended for a new structure such as Agricultural Credit Corporation, warehouses, agencies for relief and rehabilitation etc. No concrete steps were taken by the Government and Bank on these recommendations presumably due to political turmoil brewing in the country. The committee's main recommendation relating to the establishment of Agricultural Credit Corporation was hotly debated by various committees at a later date.

(viii) Recommendations of the Co-operative Planning Committee

Consequent upon the decision of 14th Registrars' Conference held in 1944, the above Committee was appointed under the chairmanship of Shri R.G. Saraiya. The Committee greatly appreciated the findings of Shri Gadgil and agreed with the recommendations relating to the establishment of warehouses, need to have a relief and rehabilitation programme in the chronic and deficit economy, regulation of money-lenders and also the role of co-operative societies in the dispensation of credit. But the Committee failed to appreciate the need to establish Agricultural Credit Corporation. It argued against it
on the following grounds:—

a) Preparation of schemes and enforcement of legislation will involve a lot of time.

b) The existing institutions e.g. State and Central co-operative banks could be reconstituted for shouldering the additional burden.

c) The proposed corporation also would have to work through co-operative banks. Therefore, the State co-operative banks were considered better suited for the purpose.

d) In the absence of any provision for the representation of cultivators in the proposed corporation the money-lenders were likely to dominate it.

Similarly the Nanavati Committee of 1947 also did not favour the idea of Agricultural Credit Corporations on the following grounds:

a) The movement is sufficiently in an advanced stage and separate institution for the provision of short term and long term finance have been developed on sound lines.

b) The movement has gained momentum for expansion.

c) As nominal members can be admitted for financing (in Bombay), the objective of floating Agricultural Credit Corporation is lost.

d) With the dissociation of non-officials attached with the movement the funds made available by them would fritter away.

e) The proposed Corporation may compete with the existing institutions.

f) Sarvashri Badgil and Saraiya themselves did not think it
necessary to establish the Corporation essential where the movement was already developed.

Almost for the same reasons the All India Rural Credit Survey Report also rejected the above suggestion in 1954.

The Saraiya Committee made some more recommendations besides the need for restructuring the societies at the base level, which were:

a) Linking of credit with marketing with a binding on the cultivators to sell his produce through co-operative marketing societies.

b) Reorganisation of the provincial co-operative banks on the lines of Agricultural Credit Corporations.

c) State participation in:

i) Share capital structure of co-operative societies and institutions

ii) Provision of subsidies in reducing the lending rates pegged to 6½% and 4% for short and medium and long term loans

d) Introduction of cattle insurance provided the infrastructure is first created and adequate information collected.

e) The period of short term loans may be extended to 12 months by amending Reserve Bank of India Act 1934 as section 17(2)(b) provided the period for 9 months and section 17(4)(c) provided for 90 days only.

f) The scope of the definition of crop may be extended to include subsidiary activities and processing activities also.

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1. Report of Agricultural Credit Organisation Committee 1947 - Chapter III.
(ix) Recommendations of the Rural Banking Enquiry Committee 1949

The Government appointed the above Committee in 1949 under the chairmanship of Sir Purshottam Dass Thakurdass with the object to identify the banking potential in rural areas and the manner in which it can be extended.

The Committee reached to the conclusion that no single institution will be able to meet the requirements of banking in a country of India's dimensions. Hence a co-ordination has to be ensured under the guidance of Reserve Bank, Central and State Governments. It suggested for an integration and consolidation of units rather than elimination. The main recommendations were:

a) Development of institutions on the multipurpose basis, adequately supervised and subsidised by the Government.

b) Guidance and assistance by Reserve Bank to the Central and primary land mortgage banks.

c) Commercial banks should be allowed to play the role of providing finance against produce, for purchase of costly equipments etc.

d) No need to establish any new organisation requiring large capital and personnel.

e) Special measures for improvement of co-operative societies but no provision for interest free loans or subsidies.

f) Extension of the free remittance facilities to co-operative banks also.

g) Establishment of the Warehousing Development Boards.

h) The period of agricultural loans to be extended from 9 months to 12 months.
1) Expansion of the Reserve Bank itself at the State level.

j) Extension of the activities of the Imperial Bank of India.

(x) Recommendations of the Informal Conference of 1951

The Conference made far-reaching recommendations in the light of earlier recommendations of various committees as under:

a) Stoppage of repayment of loans by a fixed date i.e. 30 September and allowing each loan to run for a full period of 12 months.

b) Production of gur, milk and wool to be included in the seasonal agricultural purposes and marketing of crops. Milling of rice and preparation of gur to be included in marketing finance.

c) Sanction of limits to 'C' class institutions provided they are financially sound or recommended by the Registrar.

d) Credit limits to be fixed on more rational basis.

e) Sanction of medium term loans to banks and the need for earmarking of funds for the purpose.

f) In order to forge a closer co-ordination between activities of the co-operative institutions on the one hand and policies and the operations of the Reserve Bank on the other, a Standing advisory Committee be appointed.

g) Need to conduct an All India Rural Credit Survey for collection of information on rural credit and to ascertain the extent to which it requires support.

h) Amendments to the Reserve Bank of India Act 1934 to provide for more finance to the State co-operative banks.

The recommendations made by a number of committees confirmed the belief which was later on so emphatically
expressed by Shri B. Venkatappiah in 1960 that:

"There is no routine way of administering and implementing the rural credit scheme, particularly on the part of the central bank whose role is indeed crucial in a programme........the approach cannot be dogmatic, rigid or isolated. It has to be flexible, enlightened and integrated." 1

The Bank truly took certain steps keeping in view the recommendations and the experience it gained. These steps were mainly:

a) In 1951, the Act was amended to recognise state co-operative banks as one of the two good signatures under section 17(2)(a).

b) In 1951, a Standing Advisory Committee on Agricultural Credit was constituted in Reserve Bank to co-ordinate the activities of the co-operatives and for formulation of policies.

c) In 1953, a new section 17(4A) was added to provide medium term loans for agricultural purposes provided such loans were guaranteed by State Governments and did not exceed the owned funds of the bank and also Rs 5 crores in aggregate.

This section was, however, substituted by a new clause in 1955 and was renumbered as 17(4AA) in 1960.

d) In 1951, section 17(2)(b) was amended to extend the period of loan from 9 months to 18 months.

e) The explanation to section 17(2)(b) was omitted so as to include the mixed farming activities and processing of crops.

f) The loan policy was amended to provide the repayment of loans or drawings after 12 months instead of repayment on a fixed

g) The credit limits were related to the outstandings in place of borrowings.

h) The debenture support programme was extended to 20% in 1950 from 10% which was originally started in 1948. However, in 1953 this was further raised to 40%.

i) The concessional Bank Rate which was 1% in 1942 was raised to 1½% and to 2% in November 1951 for seasonal agricultural operations and marketing of crops.

j) The cheap remittance facilities were extended to the co-operative banks as recommended by the Rural Banking Enquiry Committee and schedule of the charges was slashed to half of the existing rates.

k) The erstwhile Imperial Bank of India under took an expansion programme before 1953.

l) The Reserve Bank itself expanded to cover B class States.

m) It initiated an All India Rural Credit Survey for collection of facts and formulation of long term policies for agricultural finance.

n) The Bank insisted for share capital contributions by the State Government in the share capital of apex banks. Till 1954, the total contribution was Rs 73.29 lakhs.

Significantly, it may be observed that despite so many suggestions and committees in the past the concrete action for their implementation was taken after 1951. Thus, in the advisory role of the Bank since its inception, this period can be recalled as the turning point. The Bank transgressed itself
to an active role in the developmental arena of agricultural finance. The course of events changed much quicker thereafter particularly after the All India Rural Credit Survey 1954. It provided comprehensive data relating to the movement. Till then, the basis for changes was restricted to certain specific and local situations only.

The startling facts which came to light revealed that co-operatives and Government provided only 3% each of the total requirements while commercial banks met only 0.9% of such requirements. In other words, the assistance provided by the organised sector in the field of agricultural finance was dismal. The Committee of Direction, All India Rural Credit Survey 1954, therefore, made far-reaching recommendations to create a new order:

a) An integrated scheme of rural credit was suggested which contemplated provision of full finance for agriculture through an institutional system of State-partnered co-operatives, development of ancillary activities such as marketing, processing and distribution of farmer's requirements, promotion of storage and warehousing of agricultural commodities, provision of trained personnel.

b) Establishment of National Agricultural Credit (Long Term Operation) Fund and Stabilisation Fund for specific purposes of issuing loans for medium term purposes and conversion purposes in case of natural calamity.

c) Conversion of Imperial Bank of India into State Bank of India and extension of its branches into rural areas.
d) Establishment of National Co-operative Development and Warehousing Board and all India Warehousing Corporation. Similarly at the State level establishment of State Warehousing Companies.

e) Each State to have separate Central Land Development Banks.
f) Each State to have a State co-operative bank and a Central co-operative bank for each district.

g) For advising the Bank from time to time on various policy matters there should be two organisations, one wider than the existing Standing Advisory Committee on Agricultural credit and constituted on a more representative basis and the other smaller than the existing organisation and designed to be specialised and expert rather than representative. The first would review policies at not too frequent interval while the second for supervising their fulfilment and offering detailed advice at more frequent interval.

Thus, the Committee of Direction made detailed recommendations on all the aspects of the problem. The Bank also accepted most of these suggestions and took effective steps to put them into operation. The suggestions made by the Survey Committee, its follow up by the Bank and the critical analysis of the observations etc. have been dealt with in details in the subsequent chapters. But for the steps enumerated in earlier pages, the role of Reserve Bank would have remained static and advisory in character. The Banking Commission also recognised this view in the following words:
"The recommendations of the Survey set the pace for a rapid expansion of co-operative credit and Reserve Bank came to assume considerable responsibilities for the development of co-operative banking and agricultural credit." 1