CHAPTER TWO

Statutory role and organisation of Reserve Bank of India towards agricultural finance

(1) Statutory provisions in the Act

Dispensation of agricultural credit has always been one of the important part of economic activities of central banks throughout the world. The association of the central bank of the country with this activity, however, has not been looked upon as essential in all the countries. In many countries although the agriculture is the corner stone of their economy, the provision of agricultural finance by the central banking institution has not been included in the gamut of their lending activities. In India, apart from its agricultural economy there is a diversification in social, political, economical and geographical factors which has resulted into uneven and lopsided progress. Due to persistent neglect of these activities for long, no centralised agency could be developed in the past to take care of this activity.

Guided by the above (gap), the framers of the Reserve Bank of India Act 1934 laid special emphasis on the provision of agricultural credit. They made the Bank directly responsible for conducting and guiding such activities. In many countries specialised institutions have been set up to look after this facet of activity and the Central Bank was only left to deal with the problem in a general way. The Reserve Bank of India Act, apart from extending expert advice to central and state Governments also provided for financial powers to meet variety of purposes and needs. It contemplated an establishment of a
department consisting of experts competent to deal with problems arising out of such a venture. The Act was amended from time to time to provide for new institutions, sources of funds and agencies on the basis of the experience gained and need for such changes felt. Thus, the Bank had a direct role to play rather than indirect. In a strict sense we cannot say that Reserve Bank is directly dealing or providing finance for agriculture as the funds are channelised through a number of institutions before they reach to the ultimate borrower.

However, the Act is a combination of financial and executive powers enabling the Bank for a better and co-ordinated action in the direction of agricultural finance. Of late, the provisions were enlarged to cover up many more activities. The Bank, in fact, utilised these provisions to the fullest benefit of the country and economy in general and agriculture in particular.

(ii) Agricultural Credit Department

The glowing manifestation of the consciousness of the framers of the Reserve Bank of India Act was the provision of the Agricultural Credit Department and various financial provisions enabling the Bank to participate in the field of agricultural credit. While formulation of policies in this regard is generally a responsibility of many and most of the Central Banks of countries, the setting up of a department to execute the policies was one step which was uncommon if not rare. Similar efforts were made by Argentina National Bank, the Bank of Brazil, the National Bank of Costa Rica, the National Bank of Iceland and the Common-Wealth Bank of Australia.
Although the objects of this department are given in the Act itself, these objects in the words of Shri M.L. Darling as quoted by Dr. K.K. Sharma are as under:

"Firstly, it must be in a position to advise the Bank in regard to its financing of co-operative movement, especially in the field of land mortgage banking and for this purpose it must be expert in co-operative finance and familiar with the working of the movement throughout India. And since co-operation is world movement, it will be well advised to gain some knowledge of the movement in countries whose conditions at all resemble those in India.

Secondly, it must get into touch with all commercial banks in any way financing agriculture and examine whether their operations can be co-ordinated to the advantage of the agriculturists.

Thirdly, it must explore the whole field of indigenous banking and obtain the information that the Bank will require for its report under section 55(1)(a).

Finally, it must make a systematic study of the whole field of agricultural credit in India in order to be able to advise the bank as to what action it should take in regard to section 55(1)(b)."

In substance, the above objects were truly reflected in section 54 of the Act as under:

"(a) to maintain an expert staff to study all questions of agricultural credit and be available for consultation by the Central Government, State Government, State co-operative banks and other banking organizations.

(b) to co-ordinate the operations of the Bank in connexion with agricultural credit and its relations with State co-operative banks and any other banks or organisations engaged in the business of agricultural credit."

Thus, the Act was not explicit in defining the objects of the department as Mr. Darling but it did emphasize the need for correct decisions by Governments and institutions as also the need for co-ordination between various agencies. The obvious limitations of scope did not deter the Bank in forging ahead its
activities as and when the circumstances warranted. The Bank went all out to organise the institutions to ensure organised and orderly finance for agriculture. The multi-pronged attack made by the department in removing major hurdles from the path of progress helped the co-operative movement to grow to the present size. In other words, the Department was the harbinger of co-operative movement. Subsequent paragraphs are aimed to evaluate the working of the department in details:

(iii) Operational role of the Department in co-ordination of money-lenders and indigenous bankers with institutional agencies

One of the primary duties of the Bank as per section 54 of the Act was to co-ordinate the activities of all such organisations/units which were engaged in the business of agricultural credit. The same feature was also emphasized by Mr. Darling in the objects envisaged by him. One of the references of the preliminary report was the extension of the provisions of the Act relating to scheduled banks to indigenous bankers.

The Bank in its preliminary report did not submit any concrete proposal on money-lenders or indigenous bankers. Despite having decided the co-operatives as datum for agricultural finance, the role of money-lenders or indigenous bankers remained dominant. They were the central hub around which the agricultural credit clustered. The Banking Commission 1972 summed up the situation as

"at around the time the Reserve Bank was established the unorganised money market was the most important money market accounting for, according to one estimate, as much as 90 per cent of the transactions." 1

The All India Rural Credit Survey Report also confirmed the situation as back as 1954 when it estimated the share of the unorganised sector in agricultural credit at 91.7% of the total of which the money-lender's contribution was 69.7%.

Therefore, it was natural that Reserve Bank had to do something in this direction. Either the institution of the money-lenders had to be completely eliminated or it had to be institutionalised.

Divergent opinions have been frequently aired by scores of persons about the usefulness of the money-lenders. May be they are also biased but the objectivity with which such suggestions are made cannot be ignored. Mr. W. C. Murrey pointed out that although co-operatives have been chosen as the only solution, there can be some modifications so that private bankers and money-lenders may be used in some manner. The All India Rural Credit Survey acknowledged this fact when they observed that the money-lenders are still at the heart of credit problem. They, however, felt that to incorporate the indigenous bankers and money-lenders into the plan would be to lose a major objective which is a 'rural minded credit system'. Mr. Murrey, however, went on to emphasize that some of the money-lenders and bankers who would subscribe to the 'rural minded credit system' and fit into both the technical and social requirements of the organisation may be taken into the scheme. This would help in providing stability because of their influence which would prevent unwise

1. All India Rural Credit Survey - Summary p.5
2. Indian Journal of Agricultural Economist - October-December 1956
lending spree.¹

The above view while acknowledged the utility of co-operatives as a solution, does not wish to abandon a readily available channel i.e. money-lenders. Even a more stronger view was expressed by Mr. F.T. Ellsworth as under:

"As the core of its solution the Report (Rural Credit Survey) proposes rehabilitation of a system which has failed co-operative credit. One unavoidable reaction is: why use what has been proved to be weak on the basis for a reformed system of credit? Why not take what is both indigenous to India (in contrast to various remedies which were rejected) and strong enough to begin with the village money-lender and incorporate him into a framework which checks his selfish impulses and harnesses his energy and knowledge for socially desirable purposes."²

(iv) Efforts to link money-lender

The history of money-lenders and indigenous bankers in the last 100 years is punctuated by many attempts to regulate their working. A large number of legislative attempts made in the past proved to be abortive and the enforcement of laws in due course became difficult. A number of debt relief legislations were passed in order to prevent the exploitation of the cultivators by restricting the sale of land but due to certain exemptions in the Act these farmers were mercilessly exploited by a new class of usurious money-lenders representing well-to-do Zamindars. In 1936, fresh attempts were made to enact legislative measures not with the intention of extermination of these agencies but with a view to introduce an element of discipline which mainly related to maintenance of books, submission of periodical statements, issue of receipts, and regulation of interest rates etc. The above objective could not be achieved mainly due to inherent

¹ Indian Journal of Agricultural Economists October-December 1956
² American Economic Review December 1955 pp. 372-376
weaknesses in the laws:

a) Hoodwinking the legal provisions by taking advantage of certain exemptions granted in law to certain loans.

b) Application of dubious methods such as maintenance of duplicate books, advance recovery of interest, conditional sale proceeds etc.

The enforcement staff i.e. the co-operative staff of the State Government was over-burdened with other duties and therefore, had hardly any time to effectively administer the money-lender's legislations. If the Government is serious to implement such acts, it would be desirable that some changes are made as indicated below:

a) An All India legislation should be passed so as to bring in uniformity which is mostly at variance in all the States.

b) Either the Co-operation Department should be enabled to find time for effective administration or a separate wing may be provided in the department with the exclusive responsibility to ensure this.

c) The Act should recognise the realities particularly relating to the interest rate structure. The ceilings placed on interest should be in conformity with the prevailing rates so as to provide incentive to money-lenders themselves to abide by the legislation.

The Reserve Bank of India issued a circular No. ACD/1/19-38 dated 3 January 1938 with a view to make provision of marketing finance to cultivators at low rates through money-lenders. The pattern of arrangement offered was on the lines of those offers, made to indigenous bankers by the Bank in 1937.
The scheduled banks were asked to agree to work as a medium between the Bank and the money-lender. The idea was that wherever the banking was not sufficiently developed, the scheduled banks may provide larger finances for marketing of crops through money-lenders who in turn may draw bills in a manner that they could be discounted with the scheduled banks and rediscounted with the Bank. As a measure of inducement, the Bank agreed to discount/rediscount such bills at special rates. The scheduled banks and the money-lenders were not to have a margin of more than 2% each over and above the Bank's discount rate. Thus, the responsibility concerning money-lender's creditworthiness, operations of business on proper and sound lines, proper maintenance of books, etc. were largely left to the participating scheduled banks.

The scheme did not evoke any encouraging interest in the money-lenders, cultivators and scheduled banks for variety of reasons. The scheme provided for an indirect link of money-lenders with the Bank. It cast heavy responsibilities on the scheduled banks regarding the creditworthiness and other financial disciplines of lending. The money-lenders were, apart from the legislative changes, suffering from the inherent apprehensions in dealing with the scheduled banks. The cultivators were not borrowers in any systematic sense. They borrowed for irregular purposes i.e. non-productive purposes also and in the form of a running account. Further they were more in need of production finance rather than marketing finance.

Thus, the efforts of the Bank did not fructify in the desired form. The linking of money-lenders with an organised
credit market was not found feasible by the Bank and as a way out to eliminate these agencies in certain degrees, the Bank made more vigorous efforts in improving other agencies i.e. co-operative institutions. The extension of scheduled commercial banks, lead bank schemes, encouragement to central co-operative banks to open more branches in rural areas were all part of the efforts made to bridge the credit gap. The same view was expressed by the Agricultural Sub-Finance Committee 1945 when it proposed that money-lenders need not be absorbed by the Reserve Bank. Rather they should be a ubiquitous competitor to the money-lenders in existence. This would not only result into eradication of undesirable practices from the money-lenders business but will be able to result into cheap and quantitatively large volume of credit.

(v) Efforts to link indigenous bankers

The institution of indigenous bankers had still deeper roots into the economic backgrounds of the country. This institution was organised and even enjoyed the confidence of the borrowers on the one hand and scheduled banks on the other. Dr. K.K. Sharma quoting the extracts of the preliminary report submitted by the Bank to Government maintained:

"the indigenous banker depended upon his resources supplemented by those borrowed from his relations and also on the credit which he could obtain from the joint stock banks without submitting to any formal restrictions." 1

1. Reserve Bank of India and Rural Credit By Dr. K.K. Sharma p.168
The efforts made by the Bank, therefore, rightly were in the direction of linking them with the organised money market rather than extinguishing them. As the workable solution, the Bank offered a scheme in May 1937 under which the scheduled banks were to play a leading role. Indigenous bankers were allowed to finance the bonafide trade bills endorsed in favour of the scheduled banks on latter's rediscounting of documents. The Bank was agreeable to provide finance under section 17(2)(a), (b) and (c) and 4(c) and 4(d) of the Reserve Bank of India Act 1934. Here again, the assessment of creditworthiness was the responsibility of the scheduled bank. The interest rates were required to be kept low.

In August 1937, the Bank made concrete proposals. It stipulated following conditions:

a) Confinement of their business as per Companies Act i.e. discontinuation of speculation business.

b) Maintenance of the proper books.

c) Inspection by Bank.

d) Submission of periodical statements.

e) Bank to have the right to regulate business on banking lines.

f) Minimum capital requirement of 2 lakhs.

g) Requirement of the maintenance of compulsory deposits with the Bank if the total demand and time liabilities exceed five times of capital in business.

h) The scheme was to operate for five years.

On the above conditions, the Bank was agreeable to extend rediscounting facilities and the remittance facilities to indigenous bankers. The scheme again bogged down in the tides.
of indigenous banker's sense of prestige and conventional orthodoxical approach of the Bank. While the indigenous bankers wanted a gradual change in their manner of working, pattern of business and facilities offered, the Reserve Bank wanted the compliance of the requirements in the strict sense.

One of the reasons for this cold shoulder treatment by the indigenous bankers to the Bank's attempts was that they were getting ample financial help and assistance from the scheduled banks i.e. organised money market and, therefore, found the proposed change as inconvenient and risky.

In 1941, the Bank renewed efforts with some conceding undertones. It agreed to renew the proposal if sufficient numbers of members were agreeable to discontinuation of trading or non-banking business. It also agreed to find a via media to include such members who were prepared to separate their banking business from non-banking business at least within a definite period of time. While the association of indigenous bankers asked for a period of five years, it was not considered suitable by the Bank. Further, in the absence of minimum numbers of bankers willing to participate in the scheme, the scheme again was left in the cold storage. In 1948 also, almost for the same reasons, the Bank declined to consider the move. The Bank's approach has been very aptly expressed by the Study Group of Banking Commission (1972) as under:

"In view of the legal and practical difficulties experienced by the Reserve Bank of India, the official thinking on the question veered round to the approach that strengthening the co-operative movement and institutional spread of banking through branch expansion of commercial banks would be the most potent instruments for narrowing down the area of operation of
indigenous financial agencies." 1

(vi) Future of money-lenders and indigenous bankers

The Bank's efforts in linking these sectors with the organised money market have failed, but that does not mean uselessness of these agencies in the field of agricultural credit. In 1955, Dr. G.D. Agrawal conducted a survey in some districts (Moradabad and Bijnore) of U.P. and concluded that the private sources provided 69.8% of the total debts. The relative percentage came down to 51.3 in the villages served by credit co-operatives and rose to 94.5 in the villages having no co-operatives. Dr. B.K. Madan in his article 'Private finance in agriculture' suggested that the need is to have an approach to deal with money-lenders with proper care. They must not be eliminated. Their elimination may affect rural credit. Dr. M. Srinivasan in his article 'Role of private agencies in agriculture - Rise and fall' explained his opinion about money-lenders as under:

"the money-lenders have succoured the peasant from many an ill-winds for generations"

He also deplored the suggestion of the Central Banking Enquiry Committee that money-lender should either form a society of their own or should provide finance to the primary society. In his view "the traditional enemies should not be allowed to share the same bed or to drink from the same stream of rural credit". To him "whether a tear need be shed to the atrophy of an ancient and familiar institution is open to question bearing

2. Indian Journal of Agricultural Finance - March 1955
3. Indian Journal of Agricultural Finance - March 1955
in the mal-practices and rapacity of many of the members of this body" Dr. S.B. Mahabal while writing on 'Institutionalising the money-lender' opined:

"conditions should be created where honest and fair money-lenders may have full scope to operate and at the same time dishonest, rapacious business of money-lender should become extremely difficult and unremunerative if not impossible." 2

If these opinions are any guide to us, we reach to a conclusion that in India the problem of rural credit is the problem of dependence of cultivators on private agencies. However, some other important developments have since effaced the importance of money-lenders and indigenous bankers to a great extent. With the development of co-operatives, establishment of State Bank of India and new Bill Market Scheme introduced in 1952, the indigenous bankers and money-lenders have ceased to occupy the important aspects of Bank's policy objectives now. As the economic development gathers pace, their importance is bound to diminish further and this surely is a welcome trend. Considering from the point of view of better utilisation of an available agency and harnessing their abilities for filling in the gap between demand and supply of credit, this agency can bridge the gaps, which are being identified day by day. In 1970, in order to meet the growing demands, the Commercial banks were brought in (agricultural credit) on provisional basis but were allowed to remain on long term basis. This leads us to the conclusion that organised sector has not been able to meet all the credit requirements of the cultivators and thus, leaves a place for

1. Indian Journal of Agricultural Finance - March 1955
2. Indian Journal of Agricultural Finance - March 1955
money-lenders and indigenous bankers. May be, the place is temporary in character and get filled in due course by other institutions. An approach of conciliation on the part of the Bank and the agencies is the pre-requisite for the success of linking efforts. As the central warehousing corporation, state warehousing corporations and organisation of regulated mandis have come into existence, the indigenous bankers can play an important role in meeting the requirements of marketing finance against warehousing receipts. Such advances may be in turn discounted by commercial banks or even Reserve Bank. The indigenous banker or selected money-lenders can be even recognised for such advances by the Reserve Bank and their signature may be accepted as second good signature besides the scheduled bank. Almost similar recommendations were made by the Committee on the Private Finance 1954. It recommended that steps should be taken to encourage rediscounting by Reserve Bank of usance bills of the indigenous bankers through scheduled banks. The direct control and supervision by the Bank on the activities of a large number of money-lenders and indigenous bankers is not feasible, hence some outside control may be introduced. The Banking Commission (1972) also observed that direct link is neither necessary nor practicable. An indirect influence over them through the medium of commercial banks could be exercised by the Reserve Bank by laying down guidelines for their dealing with indigenous bankers, thereby indicating the type of bundles eligible for discounting, quantum of funds/limits to be sanctioned etc. The books of the selected

and approved bankers may be got audited by chartered accountants approved under the Act and their report may be accepted as a basis for the financial soundness of these agencies besides some regular stipulations regarding submission of returns.

For the present, the Banking Regulation Act is not made applicable to them but in the near future when these bankers reach to an organised form, they may be covered under the Act on a clear-cut basis say by stipulating certain minimum share capital of 0.50 lakh, outside regular audit by approved agencies, submission of returns, financing of the specified segments of society based on some informal directions from the Bank and maintenance of certain minimum deposits with specified agencies to ensure public faith etc. In exchange to these restrictions and discipline, they may be allowed to enjoy the facilities of discounting of bills with the commercial banks who in turn may get rediscounting facilities from Reserve Bank and also free remittance facilities. Even some sort of concession can also be extended to them provided they pass on the benefit to the ultimate borrowers as in case of co-operative seasonal agricultural operations. Perhaps, with this view, the Banking Commission 1972 suggested that the money-lending should be brought within Union list of constitution. Till this is done, a model legislation should be drafted for adoption by all states to control the activities of this class of indigenous bankers.

(vii) Efforts in reorganisation of co-operative movement

Co-operative movement although in existence since 1904

I. Report on Currency and Finance 1971-72 p.194
progressed mainly after World War but its progress was abruptly halted by the deep seated depression in 1930. The inherent weaknesses - financial and organisational - came out glaringly. The lop-sided progress of the movement was easily discernible. The movement was organisationally so weak that in certain areas the proper intermediate institutions were not in existence or even if they were in existence they were limping along. The Agricultural Credit Department, therefore, foresaw the situation and made the mention of the situation in its preliminary report of 1936 and statutory report of 1937 to the Government of India.

Having identified the appropriate media for provision of agricultural finance and essentiality of filling the credit gap created by the enactment of debt legislations, it hastened its efforts in the direction of organisational improvements. These efforts, before the country's independence, were negligible due to the country being covered by princely states which were outside the purview of the Bank. However, the Bank could make effective and concrete efforts in this direction after independence. The Bank took keen interest in ensuring that the co-operative banks equip themselves for the expanding responsibilities. Further it also ensured that their structural weaknesses and operational inadequacies did not hinder their growth and did not come in between their efforts to make fuller use of the facilities available from the Bank. Although the constitution and management of co-operative institutions are governed by the State Governments, the Bank did not lag behind in studying the needs and in taking corresponding action in acquainting the
State Governments about its findings. The recommendations made by the Bank were based on the field studies undertaken by its officers, which went a long way in effecting necessary changes. From 1940-41, the Bank brought out the 'Review of co-operative movement in India' and 'Statistical statements relating to the co-operative movement'. Besides, the Bank had been extending its hands in bringing about the necessary reorganisation with the collective efforts of central and state Governments, other banks, institutions and National Co-operative Development Corporation etc. It also associated itself with various conferences held and committees constituted by central and state Governments.

As a result of these efforts in the direction of revitalisation and reorganisation of the various units on the principle of three tier system, the number of the primary societies decreased from 2.12 lakhs as on 1 July 1961 to 1.97 lakhs as on 30 June 1966 and to 1.61 lakhs as on 30 June 1971. As on 30 June 1972 this had further come down to 1.57 lakhs. During Fourth Five Year Plan the number was to come down to 1.20 lakhs only. The weeding out of the uneconomic units at the base level helped generate more confidence, greater efficiency and viable structure.

Similarly, the central co-operative banks were also reorganised, amalgamated and formed on viable basis on the principle of 'one district one bank'. With the result, the number of the banks which was 380 as on 30 June 1961 came down to 348 as on 30 June 1966 and 341 as on 30 June 1972.

The number of the state co-operative banks, however,
increased as there were no such banks at many places. The total number of apex banks which was 19 earlier rose to 22 as on 30 June 1966 and 26 as on 30 June 1972.

Identical efforts were made by the Bank in ensuring the constitution of the Land Development Banks on two tier principles. In the past, the work relating to long term credit was dealt with by the central co-operative banks at the district level. Now there are apex land development banks at the State level and primary land development banks at the base level. As on 30 June 1972, the total number of the apex land development banks was 19 and primary banks was 869. Besides, there were 542 offices of the central land development banks excluding head offices.

As indicated above, the Bank's approach was to develop a three tier structure of the movement which was later on concretised by the Rural Credit Survey Committee: while there had not been any difference of opinion about the desirability of having a primary agricultural credit societies at the base level, there had been various schools of thoughts about the intermediary institutions. At the base level there are three types of societies namely large sized societies, service co-operative societies and sadhan sahkari societies. It is interesting to note that in the first year of the II Plan i.e. 1956-57 the organisation of the large sized societies was promoted on the recommendations of the Rural Credit Survey Committee. A target for organisation of 10400 such societies by 1966-67 was fixed during the plan. But such organisation was in some cases on unlimited liability basis as against the recommendations of the Committee on the limited.
liability basis. In November 1958, the National Development Council resolved to organise societies on village basis. A Working Group was also appointed to consider administrative and organisational arrangements. On the recommendations of the Working Group, the Government formulated a policy in May 1959 reiterating the recommendations of the National Co-operative Development Council and accordingly further organisation of the large sized societies was stopped. However, the existing societies were to be retained and all facilities extended to them.

Thus, the controversy was not so much about the utility of the society at the base level as it was about the size and jurisdiction of the society, which again underwent changes when the concept of integrated agricultural credit service scheme was mooted by the National Commission on agriculture and the suggestion for the establishment of Farmer's Service Societies was made. These developments make it clear that three tier structure emerged out of practical necessity and experience. The Committee on Co-operative Credit (1960) and Rural Credit Review Committee (1969) also favoured this structure as the most appropriate and potent structure for rural credit.

The controversy which has developed now regarding the suitable and desirable form of structure has taken following two shapes:

a) To eliminate the middle tier i.e. the central co-operative bank which was proposed to be replaced by the branches of the state co-operative banks at suitable centres.

1. Rural Credit Follow-up Survey - Second - 1957-58 pp. 121-122
2. Third Rural Credit Follow-up Survey - 1958-59 pp. 85-98
b) To eliminate the first tier i.e. state co-operative bank and to provide direct dealings between central co-operative banks and the Reserve Bank.

The genesis of such demands was mostly to make available cheap credit to the ultimate borrowers. Despite the concessional finance by the Bank, the ultimate borrower, even today, does not get funds for less than 12-15%. In this connection, it will be significant to note that the central co-operative banks are situated at the district headquarters and are in a better position to forge strong and viable links with the apex bank on the one hand and primary societies on the other hand. It was also in a better position to mobilise more resources, exercise more effective supervision, restore stronger faith in the movement besides the basic core of the movement i.e. local leadership and knowledge. While most of the banks could be said to be functioning satisfactorily, there may be a few banks which have some problems requiring closer look for remedial measures. It was, therefore, not considered necessary to eliminate them. No doubt in such cases, there was a wide gap between the needs and availability of credit but instead of the complete effacement of the institution, the Bank and the Government came out with the scheme of financing of primary societies by commercial banks. The object was to give adequate time to the weak banks to rehabilitate themselves with concerted efforts to get back on to their own legs. The genesis, operations and future of the scheme has been dealt with in greater details under chapter seven.

Exponents of the second theory feel that the apex bank itself can be conveniently eliminated and the Reserve Bank could
directly deal with central co-operative banks. They did not take into account the following factors:

a) The apex bank works in the role of a balancing factor inasmuch as funds required or not required by the central co-operative banks could be obtained/passed on to it without any difficulty.

b) The apex bank plays the role of a controlling agency so as to guide and direct the movement in the State in a uniform manner and in a manner more conducive to an orderly growth.

c) The regional imbalances in the economic development of the State could be more balanced by middling the resources from the one hand to other without any problem, with greater ease and mutual benefits.

d) The Reserve Bank of India Act does not provide for dealing with any other institution other than the state co-operative banks. The channels to deal with agricultural credit should be as limited as possible at the top. The dealings with 26 state co-operative banks as against 341 district co-operative banks in the country appeared more desirable.

e) As it is, the provisions of the Reserve Bank of India Act require two good signatures. In case, the central co-operative bank's position is not financially sound and the State Government's guarantee is asked, in the absence of the state co-operative banks the problem of good signatures will have to be faced more acutely. Dispensing with two good signatures would be cutting at the very roots of the discipline contemplated by the framers of the Act.
f) As financing of agriculture in India is still a risky venture, the removal of this tier would also remove the strongest 'shock absorber' from the whole structure.

The present structure has withstood the test of time and proved its utility. Barring few exceptions when a particular tier of the structure had been more in the nature of impediment than help, the three tier structure served the movement on more healthy lines than possible.

A balanced and rational approach to the problem would be to eradicate the basic problems, inadequacies and unevenness in the growth which can be more effectively done by adopting following line of action:

a) To intensify the process of amalgamation and liquidation so as to form viable units at all levels. This could be achieved by even organising new societies/institutions on viable lines if the old ones are beyond repair or redemption.

b) To take concerted action in the recovery of overdues. The ghost theory of non-repayment or absence of need to repay the co-operative dues should be dispelled, if need be, by legal measures. This can be easily done by invoking the State Acts for speedy arbitrations and execution of petitions.

c) To ensure effective linking with marketing, if necessary, the repayment of loans should be insisted in kind on compulsory basis. Further, the undertakings given by the members to sell their produce through marketing societies should be enforced more rigidly, however, only after ensuring availability of marketing societies.

d) At the central bank level, the rehabilitation programmes
should be chalked out. If necessary, these banks can be 'hospitalised' for temporary periods, during which time intensive care, help, assistance, direction and guidance be extended to them so as to enable them to reoccupy the place of the 'balancing factor'.

(e) The machinery for the supervision of the end use of the credit should be developed, trained and made effectively rural minded and oriented to exhort cultivators for timely repayments of loans.

(f) The margins at various levels over and above the Bank's Advance Rate should be fixed in a manner that the total increase from the point of view of the ultimate borrower should not be more than 4-5% above the Bank's Advance Rate. The state co-operative banks and central co-operative banks should not be allowed to have more than \(\frac{1}{2}\) to \(\frac{1}{3}\) and 1-2% margins respectively. At the base level the societies should be encouraged to diversify their activities to make themselves viable. It is with these views partially that more emphasis is being placed on the organisation of the Farmers' Service Societies which will provide integrated credit services and may have a loan business of Rs one million and may be able to employ 6-7 paid servants.

The steps are already afoot to tone up the credit institutions in terms of financial strength, managerial competence, operational efficiency and healthy institutions which will all go a long way to help these institutions to get their roots firmly into the ground.

Besides, the structural changes, the Bank emphasized the need to reorganise the policies and procedures also. The system of financing was changed to suit these requirements. In place of...
traditional system of lending, crop loan system was introduced. The disbursements were insisted in kind as far as possible. Credit was linked with marketing operations. Norms of securities were amended for various classes of cultivators. Above all, efforts were made by the Bank to provide technical and procedural training to the co-operative personnel. The senior most officials including the Deputy Governor held discussions with various State Governments, reviewed the progress and explored remedies.

The Agricultural Credit Department ensured that institutions dealing with short, medium and long term loans were created. The viable units were constituted by forcing the policy of amalgamation. The Bank not only enabled the institutions to grow but it also created conditions conducive to their development by amending Act, relaxing conditions for providing finance and broad basing its policies. Co-operatives were directed to conduct their business like commercial banks on business principles. The Department issued a circular No. ACD/528/77-39 dated 12.9.1939 which indicated the lines on which the movement was to be organised.

On the recommendations of the Informal Conference on Rural Finance held in February 1951, the Bank made series of procedural changes having far reaching effects such as allowing each loan to run for a period of 12 months, extension of the period of the loans for seasonal agricultural operations for a period of 15 months, inclusion of the mixed farming and processing of crops within the scope of purposes of the loans,

1. Reserve Bank of India and Rural Credit - Dr. K.K. Sharma p.136
eligibility of the C class banks to get finance from the Bank on
the recommendations of the Registrar, sanction of the credit
limits for banks instead of loans etc.

(viii) Voluntary inspection scheme
for co-operative structure

The above steps, liberal as they were also prompted the
Informal Conference to suggest that the Reserve Bank should
conduct inspections of co-operative banks. The guidance which will
be available to them consequent upon such inspections will help
their growth in many ways. It, therefore, suggested the Agricultural Credit Department to institute a system of voluntary inspec-
tions of the banks. As there has not been any statutory provision
in the Act enabling the Bank to inspect the co-operative banks,
under the scheme, the Bank inspected the banks either under a
clause incorporated in the loan limits sanctioned to them and
enabling the Bank to inspect the banks as a matter of right, as
lender or on a wholly voluntary basis. The officers of the
Department were specially trained to take up such inspections.
This changed the Department's thinking to a very great extent. It
not only brought the Department and the co-operative banks
closer to each other but also bestowed more onerous responsibili-
ties on the Department.

The basic object of the inspections was not so much due
to its being the Central Banking Institution of the country but
was to study certain aspects ranging from the assessment of
economic conditions prevailing in the district or area, financial
position of the concerned bank, role played by the institution
in agricultural credit, its inadequacies, short-comings or
weaknesses in the organisational structure and other financial aspects. The scheme of voluntary inspections continued till the Bank got statutory powers in 1966 to inspect banks irrespective of the fact whether the concerned bank had borrowed from the Bank or it had given any permission for such inspections.

The scheme worked well and helped the inspector and inspected both to gain invaluable experience and a well co-ordinated line of action on the agricultural front. The problems facing the banks could not only be examined from the angles of the Bank but also the concerned banks. These banks in turn also had the benefit of multiple experience of the expert staff of the Department and could learn to adopt new techniques and systems which were found to be suitable and workable elsewhere.