CHAPTER THREE

Credit policies of Reserve Bank of India
with reference to agriculture

The formulation of any policy is greatly dependent on the
framework within which an institution has to work. It will be
more true in case of credit policies as the institution would
have to commit itself to certain financial discipline and respons-
sibilities. While assessing the credit policies of the Reserve
Bank, it would be of utmost importance that we examine the
provisions of the Act in depth and see as to what extent the Bank
can assist or what will be its obligations and what constraints
hinder the smooth progress of the developments?

The Reserve Bank of India Act 1934 provided a series of
sections enabling the Bank to make available funds to a host of
institutions participating in the dispensation of agricultural
credit. Some of these provisions were in existence since the
inception of the Bank while others came in as a result of
periodic review of extension and enlargement of Bank's role in
the context of planning. Various committees and commissions made
pointed recommendations for the need of an increased quantum of
funds, establishment of new institutions, extension of scope and
also terms and conditions on which such loans should be made
available by the Bank. Thus, the problems were identified and
the role of the Bank stressed all along. A similar attempt is
now made with the objective of examining the existing provisions
vis-a-vis the present requirements.

The Bank is statutorily equipped to provide short, medium
and long term loans to satisfy the needs of agricultural sector.
Such loans may take many shapes:
(a) Loans and advances  
(b) Discounts and rediscounts  
(c) Refinance

The Government has accepted co-operatives as the main channel for providing agricultural finance long back. Similarly the apex bank is the institution recognised in the Act as intermediary between the Bank and other institutions. Section 17 of the Act provides all the financial powers to the Bank. Therefore, these provisions of the Act have been sub-grouped into sections dealing with the institutions they relate to:

I. State Co-operative Bank

The State co-operative bank, in the existing framework, is eligible to obtain assistance under the following provisions for agricultural purposes:

A) Short term finance for seasonal agricultural operations and marketing of crops

(a) Financial provisions

(1) Section 17(2)(b) of the Act provided that the Bank can purchase, sale or rediscount the bills of exchange or promissory notes issued for financing agricultural operations provided they bear two good signatures, of which one is that of the state co-operative bank. The maximum period available under the Act is 15 months.

Although the Bank is empowered to rediscount the bills arising out of the finances made available for agricultural operations, it is interesting to note that despite the provision being in existence since inception, it has not been operationally in use as no rediscounting is being done by the Bank. In the absence of the bill market, no rediscounting is possible. The Bank utilises this provision to provide loans for agricultural purposes by combining section 17(4)(c) of the Act with this
section. The rates of interest charged are also 2½ below the Bank Rate.

The period provided under this section is 15 months but in practice a period of 12 months is only allowed. The limits for marketing of crops, marketing of cotton and kapas or marketing of minor forest products etc. are also sanctioned under this section.

The definition of the seasonal agricultural operations was enlarged in 1953 to include mixed farming and also processing societies but later on reference to the explanation given to the above section itself was deleted in 1966. (ii)

Section 17(4)(a) of the Act provided for loans and advances against Government and trustee securities for a period not exceeding 90 days. However, the Bank allowed the limits under this section to such state co-operative banks for seasonal agricultural operations which were financing primary agricultural credit societies directly in the absence of central co-operative banks. The loans in such cases were ordinarily not recalled before the expiry of 12 months and were made at 2½ below the Bank Rate. 1

Initially, this section was resorted to by the Bank frequently as the intermediate tier - central co-operative banks in many cases was either too weak or was not in existence. Keeping in view its achievements in its efforts to reorganise the credit structure, now the need may not be so frequent. However, one thing is obvious that the section was being utilised by the bank for seasonal agricultural operations for periods much longer than provided for in the section.

(iii) Section 17(4)(c) provided for the sanction of loans to state co-operative banks on bills and promtses as are eligible for purchase or rediscount by the Bank

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or as are fully guaranteed by Government towards the payment of principal and interest. The period of such loans was also not to exceed 90 days.

The Bank utilised this section for sanctioning loans for seasonal agricultural operations as explained earlier by combining section 17(2)(b) which detailed the eligibility criterions for financing. In this case also the Bank does not recall the loan before 12 months. These advances are also made at a concessional rate of 2½ below the Bank Rate.

Thus, the Bank removes the deficiencies in one section by taking the benefit of the other section.

(iv) Section 17(4)(c) is still utilised by the Bank for making loans to the state co-operative banks for enabling them to give loans for distribution of chemical fertilisers. Although this purpose is not agricultural in the strict sense but it goes a long way to help agriculture. In this case, however, the loans are made either on Bank Rate or above Bank Rate but they are not recalled before 6 months.

In order to progressively reduce the bank’s dependence on the Bank in this regard, the interest on the limits had been raised from 1972. Prior to 1972, purchase and distribution of fertilisers was financed at Bank Rate by the Bank. However, from January 1972, the interest rate was raised 2½ above the Bank Rate with a view to aligning it with the lending rates of the commercial banks. It was further raised to 3½ above the Bank Rate from 1974.

(v) Section 17(4)(d) empowers the Bank to sanction loans to state co-operative banks against the security of documents to title of goods, which have been pledged to the banks for financing of the seasonal

agricultural operations and marketing of crops. The period in such cases is restricted to 90 days, but the concession of interest below 2% of the Bank Rate is extended to it.

Although the provisions in the Act existed since the inception of the Bank, the provision remained out of use in the absence of licensed warehouses in the country. This, however, has provoked a number of committees in the past to make positive recommendations to establish the licensed warehouses. The Central and State Warehousing Corporations came into existence on the recommendations of the Rural Credit Survey Committee.

The promissory notes admissible are required to be supported by documents of title to the goods having been transferred to the Bank. As this mode of financing is not popular for the obvious reasons i.e. slow growth of warehouses, cumbersome procedure of assignments, and the inherent hitch in cultivators in obtaining this type of credit. In view of the undertaking given by the central and state warehousing corporations to meet the losses arising out of the fraudulent warehousing receipts, it would be enough for the Bank to have a declaration from the borrowing banks that the goods are covered by documents of title arising out of the seasonal agricultural operations and marketing of crops. This would help significantly the state co-operative banks and the scheduled banks which may have to approach the Bank for such loans. Alternatively, the commercial banks holding the stocks in their own godowns may be allowed to reckon such stocks as valid securities under this section. It would also popularise the facility among the ultimate borrowers. It may be recalled that despite the Central and State warehousing corporations in
existence for quite some time, their extension in the country has not been very encouraging. As at the end of March 1974, the total number of godowns of central warehousing corporations was 146 with a total capacity of 1.60 million tonnes. The number of godowns of the state warehousing corporations at the end of March 1973 was 818 (including hired capacity and sub-warehouses) with a capacity of 1.70 million tonnes. The capacity in the year 1971-72 was 2.05 million tonnes but came down to 1.59 million tonnes in March 1973 due to short-fall in agricultural production.

In the country of our dimensions the total number of recognised warehouses at the end of March 1974 was 954 which in itself works as a constraint on the operation of section 17(4)(d). It is, therefore, suggested that in order to popularise this line of credit and eventual and gradual use of warehouses by the cultivators, the Bank may stop sanctioning credit limits for marketing of crops in such areas which are covered by such warehouses. So that the farmers may have to resort to advances supported by the warehousing receipts at these centres for their marketing credit needs. At other places as suggested earlier, the Bank may allow loans against the goods themselves rather than the documents of title. The responsibility to ensure that the advances are duly covered by stocks after providing for the usual margins etc. may be left to the scheduled or state co-operative banks. This may be, however, adopted as a transitory measure till the warehouses are constructed in such areas.

(b) Forms of facilities

Section 17(2)(b) dealt with rediscounts as far as
seasonal agricultural operations are concerned and section 17(4) dealt with loans and advances. As the rediscounting in the technical sense is not done by the Bank, we can conclude that in the field of agricultural finance only loans and advances are provided by it. These provisions enable the Bank to meet variety of demands and needs of the seasonal agricultural operations and marketing of crops.

The twin objectives of financing i.e. seasonal agricultural finance and marketing of crops are basically and clearly embodied in section 17(2)(b) of the Act which deals with purchase, sale and rediscounting facilities but in practice as far as agricultural sector is concerned, the above types of financing under this section are not made by the Bank. The financing as such is done under section 17(4)(a) and (4)(c) although the reference to financing of agriculture has not been made in these sections.

In other words, the operative section 17(4)(c) derives the framework of period and eligibility from other sections. The Bank may, therefore, amend the Act to provide for clear and distinctive features of agricultural finance in the operative section 17(4)(c) itself so as to remove this ambiguity.

Similarly, section 17(4)(a) provides for accommodation to state co-operative banks against Government and trustee securities but does not mention anything about agricultural operations and marketing of crops. The Bank, however, takes advantage of this section by granting credit limits to apex banks for the above purpose. These limits are sanctioned for...
such of the state co-operative banks which have to finance the primary societies directly. As the second good signature which is hitherto provided by the central co-operative banks is not available in such cases, section 17(2)(b) is not referred to by the Bank. The question of sanction of loans under this section for seasonal agricultural operations and marketing of crops, therefore, raises a question of the Bank’s propriety about its action. Hence an amendment appears to be necessary so as to make the section relevant in regard to its purpose.

(c) Periodicity

The period generally allowed by the Bank for agricultural operations is restricted to 12 months as the agricultural operations take more time as compared to commercial transactions. The peculiarity of period in the sections relevant to agricultural credit can be observed from the fact that under section 17(2)(b) the admissible period has been 15 months but in practice only 12 months period is allowed. In other words, the operative period is reduced although the permissible period in the Act is more. Under section 17(4)(a) and (4)(c), the permissible period is 90 days but the operative period for agricultural needs has been extended by the Bank to 12 months.

The provisions of law to this extent are distorted. Having identified a need for a period of 12 months for seasonal agricultural operations it would appear in the fitness of the things to amend section 17(4)(a) and (4)(c) to provide for a longer period in conformity with the provisions of section 17(2)(b).

Secondly, the Bank’s position in allowing loans for a
longer period under section 17(4)(a) and (4)(c) creates an imbalance when we find that the period of 90 days stipulated in the Act has been converted into 12 months in practice. This incongruity should be removed from the Act by amending it. Once the period of 15 months is provided, the loans for varying periodicity according to purpose can be allowed by the Bank within the accepted framework of the Act and this would also dispense with the need to renew the pronotes obtained for financing agriculture after 90 days.

(d) Lending Rate

The Bank provided accommodation for agricultural purposes at a concessional rate of 2½% below the Bank Rate. The objectives were to ensure that the ultimate borrower gets cheap credit and the cost of finance do not increase due to margins retained by the number of tiers in the system. The adoption of three tier structure results in retention of margins at all levels. In 1943, the Bank extended concession of 1¼% below the Bank Rate for marketing of crops only but in 1944, this was extended to cover seasonal agricultural operations also. In 1946, the rate of concession was raised to 1½% and after the revision of the Bank Rate from 3½% to 3¾% the concession was also revised to 2¾% below the Bank Rate in 1951.

In the present context, the significant progress made in the agricultural production need not be disputed. Despite agriculture's claiming a sizable amount of money it remains a priority sector. Now that the Bank Rate has been increased to 9% with effect from 23 July 1974, pegging the concession rate at 2½% below the Bank Rate cannot be regarded as realistic. If the
Government and the Bank seriously feel to make available cheap credit to the cultivators, suitable adjustments in the rate of concession vis-a-vis the Bank Rate will have to be made afresh. This concession may have to be jointly met by the Bank and the Government. If we think that the agriculture has reached at a break-even point, either the concession should be withdrawn completely or the concession should be extended in a realistic and ideal manner. Continuation of half-hearted actions in this regard cannot be regarded as conducive to the growth of economy in general and co-operative movement in particular.

The phenomenal increase in the agricultural credit with the gradual change in the Bank’s policy may be seen from the following table:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount drawn</th>
<th>Amount outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>537</td>
<td>339</td>
</tr>
<tr>
<td>1955-56</td>
<td>2300</td>
<td>1233</td>
</tr>
<tr>
<td>1960-61</td>
<td>13166</td>
<td>7914</td>
</tr>
<tr>
<td>1955-56</td>
<td>24937</td>
<td>14472</td>
</tr>
<tr>
<td>1966-67</td>
<td>30507</td>
<td>14314</td>
</tr>
<tr>
<td>1967-68</td>
<td>33679</td>
<td>15010</td>
</tr>
<tr>
<td>1958-59</td>
<td>40311</td>
<td>20886</td>
</tr>
<tr>
<td>1969-70</td>
<td>42377</td>
<td>23972</td>
</tr>
<tr>
<td>1970-71</td>
<td>42099</td>
<td>26882</td>
</tr>
<tr>
<td>1971-72</td>
<td>49546</td>
<td>25540</td>
</tr>
<tr>
<td>1972-73</td>
<td>64928@</td>
<td>24348@</td>
</tr>
<tr>
<td>1973-74</td>
<td>64853@</td>
<td>21838@</td>
</tr>
</tbody>
</table>

@: Inclusive of amount in respect of limit sanctioned at Bank Rate for monopoly procurement of cotton and kapas.
TABLE No. 2.

<table>
<thead>
<tr>
<th>Year</th>
<th>Amounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>3.39</td>
</tr>
<tr>
<td>1955-56</td>
<td>12.33</td>
</tr>
<tr>
<td>1960-61</td>
<td>23.00</td>
</tr>
<tr>
<td>1965-66</td>
<td>5.37</td>
</tr>
<tr>
<td>1966-67</td>
<td>79.14</td>
</tr>
<tr>
<td>1967-68</td>
<td>121.66</td>
</tr>
<tr>
<td>1968-69</td>
<td>144.72</td>
</tr>
<tr>
<td>1969-70</td>
<td>149.14</td>
</tr>
<tr>
<td>1970-71</td>
<td>159.16</td>
</tr>
<tr>
<td>1971-72</td>
<td>208.86</td>
</tr>
<tr>
<td>1972-73</td>
<td>239.72</td>
</tr>
<tr>
<td>1973-74</td>
<td>268.82</td>
</tr>
</tbody>
</table>
This obviously shows that the amounts drawn have gone up from ₹ 537 lakhs in 1950-51 to ₹ 44958 lakhs in 1973-74 i.e. nearly 120 times in about 23 years. The outstanding loans also went up from ₹ 339 lakhs in 1950-51 to ₹ 21998 lakhs in 1973-74 i.e. nearly 66 times during the same period. As the dimensions of the credit requirements for agriculture and the availability of resources have to match each other for the steady growth of the economy, the existing credit facilities fell short of requirements. Dr. C.D. Desai, while delivering a talk from Bombay AIR on 18.6.73 indicated the expectations from co-operatives as under:

"By the last year of the Fourth plan, the production credit had been estimated at ₹ 2000 crores of which co-operatives are expected to finance about ₹ 680 crores. As against the estimated requirements of ₹ 3000 crores by the end of Fifth plan the share of co-operatives are expected to be ₹ 1200 crores i.e. 40%. For investment credit, the Fourth plan period requirements were placed at ₹ 2000 crores of which co-operatives were expected to provide ₹ 250 crores by way of medium term credit and ₹ 1000 crores by way of long term credit. The Fifth plan targets in this behalf are ₹ 350 crores for medium term and ₹ 1500 crores for long term loans." 1

Keeping in view the requirements of planned economy, the performance of co-operatives cannot be regarded as satisfactory. If we propose to meet a larger share of needs, the existing constraints have to be removed.

B) Medium term loans for agricultural purposes

(i) Till 1953, there was no specific provision for sanction of medium term loans for agriculture in the Reserve Bank of India Act 1934. The Informal Conference (1951) recommended that the Bank should be enabled to sanction medium term loans for a period

exceeding 5 years. It also recommended for earmarking of the funds for the purpose. The Bank accepted the recommendations and requested the Government to make amendments in the Act. The Act was, therefore, amended in 1953 and a new section 17(4A) was added enabling the Bank to grant medium term loans to the state co-operative banks for periods not less than 15 months and not exceeding 5 years provided such loans were guaranteed by the State Government, did not exceed the owned funds of such banks and did not at any time exceed 5 crores in aggregate.

The above section was subsequently substituted in 1955 when the National Agricultural Credit (Long Term Operation Fund and National Agricultural Credit (Stabilisation) Fund were created on the recommendations of the Rural Credit Survey Committee to enable the Bank to sanction medium term advances and long term advances. Till then the medium term advances were granted out of general funds.

Although section 17(4AA) dealt with funds and empowered the Bank to grant loans but the purposes for which such loans were given were given in section 46A(2)(b). All medium term loans for agricultural purposes were required to be guaranteed by the Government towards the repayment of principal and interest. The purposes approved for such loans were decided by the Central Board of Directors of the Bank. Initially, the approved medium term purposes included reclamation of land, bunding, preparation of land for orchards, plantations, development of irrigation resources, implements, machinery, farm houses and cattle sheds.

etc. Later on, the medium term loans to cultivators to enable
them to hold shares in co-operative sugar mills and purchase of
milch cattle etc. were also approved.

These limits are now sanctioned in two parts i.e. one for
3 years and another for 5 years. In 1966, the Bank agreed to
sanction 25% of the limit for a period of 5 years.

The rate of interest chargeable on such loans prior to
November 1960 was 2% below the Bank Rate but thereafter the
concession was reduced to 1½% below the Bank Rate. The loans for
the holding shares in sugar mills, however, are made at Bank Rate.
The new provision i.e. the creation of fund has gone a long way
to meet the needs of the cultivators and help them in modernising
agriculture as is evident from the growing drawings and outstand-
ings given below:

Table No.3

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount drawn</th>
<th>Amount outstanding</th>
<th>Amount drawn</th>
<th>Amount outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955-56</td>
<td>41</td>
<td>51</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1960-61</td>
<td>466</td>
<td>763</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1965-66</td>
<td>706</td>
<td>1165</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1966-67</td>
<td>746</td>
<td>1221</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>1967-68</td>
<td>846</td>
<td>1194</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>1968-69</td>
<td>903</td>
<td>1301</td>
<td>4</td>
<td>13</td>
</tr>
<tr>
<td>1969-70</td>
<td>952</td>
<td>1410</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1970-71</td>
<td>1483</td>
<td>1948</td>
<td>37</td>
<td>43</td>
</tr>
<tr>
<td>1971-72</td>
<td>1415</td>
<td>2391</td>
<td>25</td>
<td>68</td>
</tr>
<tr>
<td>1972-73</td>
<td>832</td>
<td>2134</td>
<td>79</td>
<td>120</td>
</tr>
<tr>
<td>1973-74</td>
<td>602</td>
<td>1700</td>
<td>40</td>
<td>117</td>
</tr>
</tbody>
</table>


The total available resources in the fund as on 30 June
1974 were Rs 284 crores.
Table No. 3
(ii) Section 46B read with section 17(4AA) also provides for sanction of medium term loans to state co-operative banks for the fixed periods not exceeding 5 years to enable them to repay the dues arising under section 17(2) or (4) of the Act which in Bank's opinion, they are unable to pay due to draught, famine and other natural calamities. These loans are also required to be fully guaranteed by the Government.

The National Agricultural Credit (Stabilisation) Fund was created in 1956 on the recommendations of the Rural Credit Survey Committee to serve the above purpose. While the purpose is so generous, the constraints on operation of the fund were too many and also difficult.

"The assistance from the fund is intended to supplement the resources which the co-operative banks have themselves built up in this regard in the shape of agricultural credit stabilisation fund at the state and central co-operative bank level.

Medium term conversion loans from the fund are available only for areas where the crop yield is declared less than 50% of the normal and the annavari is less than 37 paisa on account of natural calamity. According to the rules governing the use of the stabilisation fund, a central co-operative bank can claim assistance from the fund maintained by the apex banks and Reserve Bank only to the extent of 85% of the short term agricultural loans, the repayments of which is affected by the failure of the crops, the balance of 15% being met out by their own stabilisation funds and/or other resources."1

The preponderant concept of Government guarantee in the sanction of medium term loans or conversion of short term loans into medium term loans cannot be recalled as conducive to the growth of the movement and also the institutions involved. The condition of the Government guarantee was perhaps stipulated

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with twin objectives in mind i.e. State Government's involvement in credit and the rationalised utilisation of facilities in a systematic and guarded manner. If the Bank stipulated this condition for safeguarding its own interest in the event of financial losses, the approach does not appear to be realistic.

The Act itself narrated the basic concept of Government guarantee as examined by us in section 17(4). Those banks which did not satisfy the conditions stipulated in section 17(2)(b) were required to be financed after obtaining Government guarantee.

Obviously, there is a rationale behind the condition but this does not hold good in case of medium term loans. On the one hand the medium term loans regenerate their own repaying capacity and on the other hand a better part of loans are being issued for identifiable purposes. The Bank demands Government guarantee irrespective of the fact whether it is for identifiable purpose or sound purpose regenerating extra benefits. This practice is, thus, an extreme manifestation of precaution. Apart from the other considerations, it is usually found that acceptance or execution of Government guarantee takes a long time to complete formalities involved. Besides, the State Governments have generally a conservative approach before accepting such contingent responsibilities. This presumption was duly confirmed by the observations made in the Rural Credit Review Committee Report as under:

"In the case of one State, the guarantee deed in respect of medium term credit limit for 1967-68 was received as at the end of May 1968 and in yet another, it was received as on 14 June 1968." 1

Hence it is felt that the Bank may ask for Government guarantee on selective basis while granting medium term loans in place of asking for the Government guarantee as a matter of practice.

From an identical angle if we examine the need for Government guarantee while sanctioning conversion facilities we find that the laudable objectives of granting conversion facilities are nullified to a great extent merely because the State Government has to extend guarantee before the facility is allowed to the hard-hit cultivators. The apple cart of the financial assistance of the Bank is lost in the jungles of procedural formalities which have to be completed before claiming the relief from the Bank. It is also possible that at the time of sanction of short term loans to a bank the Government guarantee may not have been insisted if the loan was granted under section 17(2)(b) read with section 17(4)(c). But in the event of natural calamity if banks fail to meet their obligations in time, it should not mean that their financial position has worsened. The Government may also not like to take additional responsibilities for which no provision has been made by it and it may find that such commitments may exercise undue pressures on its earlier commitments. If for such reasons, the Government does not come forward or delays the guarantee, despite having a good record of performance, the affected bank would get into a financial difficulty and the Bank would fail in its duty to help them in time despite being equipped to deal with such a contingency.
The Rural Credit Survey Committee at the time of making this recommendation did not foresee the need for such a Government guarantee. It insisted:

"The Reserve Bank may make this facility conditional on the state co-operative bank concerned maintaining a similar agricultural credit stabilisation fund, the same applying to central banks and where feasible the large sized societies. The Reserve Bank may also insist that the part of the overdue liability should be met from such stabilisation funds kept within the co-operative credit structure itself." 1

This obviously mean that an in-built system for distribution of liability was envisaged in the action plan formulated by the Rural Credit Survey Committee. The Fund was created perhaps with a view to set apart sums which may have to be utilised for certain contingencies. If the Bank is going to indemnify itself fully with a State Government guarantee, the need to follow the above procedure as outlined earlier or the need to create a stabilisation fund at various levels have been lost. The practice, thus, appears to be a distortion of Government participation so boldly recommended by the Rural Credit Survey in 1955. The participation for the purpose of strengthening the base for helping the institution and to nurse the movement are positive forms in character while the Government participation or so called involvement by asking for Government guarantee indiscriminately is negative.

It is understandable that where the Government has already agreed to accept the liability for finances made available to a co-operative bank under section 17(4)(c) of the Act, the

Government should be asked to accept future liability(170,107),(898,995) also which has been extended by grant of conversion facilities at a later date. As the nature of the loan undergoes a change, the Government may be asked to accept the liability but a blind and blanket requirement of Government guarantee as a matter of practice should not be encouraged.

Presuming the Government fails to extend the guarantee as contemplated by the Bank in the existing set up, the amount of the short term loan recoverable under section 17(2)(b) and for 17(4)(c) would remain in arrears and the Bank would have no option but to accept the situation and wait for the tide. Hence in the field of medium term loans sanctioned by the Bank, the stipulation of the Government guarantee as obligatory, would run more as a impediment rather than an instrument of development. By removing this condition partially, the Bank would be able to avoid the tardy and long procedure of getting the Government guarantee executed.

In case of the sanction of medium term loans for agricultural purposes, it is further suggested that the Bank should insist for a consolidated continuing guarantee from the State Government covering particularly all the weak banks, so that the yearly ritual of obtaining Government guarantee may be avoided and the Government may be enabled to formulate a long term policy of dispensation of medium term credit with greater ease and efficiency.

(C) Long term loans for agricultural purposes

Till the National Agricultural Credit (long term operation) Fund came into existence, the Bank was providing long term...
finance completely in an indirect manner by subscribing to the
debentures floated by the land mortgage (development) banks under
section 17(8) of the Act, which provided that the Bank may
purchase and sale Government securities and other securities
specified by the Central Government towards repayment of principal
and interest.

As the debentures are guaranteed by the concerned Government
towards repayment of principal and interest, they are eligible for purchase under this section. Thus, finances provided under
this section cannot be regarded as loans and advances. Such
purchases are Bank's investments and indirect assistance to the
land development banks.

The Bank started subscribing to the Land Development Banks'
debentures in 1948 upto 10% of any particular issue or the short
fall in public subscription whichever was lower. This contribution was raised to 20% of any particular issue in 1950. During the
planned period of first five year plan, a new scheme of a joint
contribution in conjunction with the Government of India was
adopted and the contribution was raised to 40% of any particular
issue. Twenty per cent share of such subscription was that of the
Bank and the balance of the 30% was that of the concerned State
Government for which it had to raise funds by way of loans from
Government of India. This scheme was however, continued during
first plan only.

(i) Section 17(4A) read with 46A(2)(a) provided for the
sanction of loans to the Land Development Banks for periods not
exceeding 20 years at Bank Rate. These loans are also required
to be guaranteed by the Government. Although the Land Development
Banks raised the resources by floating debentures but in case of need, the Bank had powers to meet their demands. This section is ordinarily not used for short-term advances except on one occasion when it was used to provide short-term loan. As on 30 June 1964 there were no outstanding under this section.

(iii) In terms of section 46(A)(2)(d) the Bank is empowered to purchase the debentures of Land Development Banks provided they are fully guaranteed by the concerned State Governments for repayment of interest and principal.

In other words, now the Bank has another provision enabling it to subscribe to the debentures besides section 17(3).

These provisions have enabled the Bank to extend increased support to the debenture flotation programmes of these banks as may be seen from the following details:

<table>
<thead>
<tr>
<th>Year</th>
<th>Rural debentures of LDBs (Section 17(4AA)read with section 46(A)(2)(d))</th>
<th>Ordinary debentures of LDBs</th>
<th>(in lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Purchases</td>
<td>Outstandings</td>
<td>Purchases</td>
</tr>
<tr>
<td>1960-61</td>
<td>-</td>
<td></td>
<td>12</td>
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<tr>
<td>1961-62</td>
<td>-</td>
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<td>1962-63</td>
<td>-</td>
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<td>1963-64</td>
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<td>1965-66</td>
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<td>1966-67</td>
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<td>1972-73</td>
<td>20</td>
<td>1128</td>
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1. Reserve Bank of India - Functions & Working p.127
The needs to modernise agriculture are so large that huge amount of financial resources will have to be found. The Bank provided a very small percentage of such assistance in the form of subscription to the debentures floated by the land development banks, which worked out to about 5% of the total loans outstanding for the year 1972-73. In the circumstances, the land development banks would do well to find resources fully from the markets so that the Bank may be able to utilise these scarce resources more fruitfully.

II. Financial accommodation for agricultural and allied purposes to other institutions

(1) State Government

In terms of section 17(4AA) read with section 46(A)(2)(a) of the Act, the Bank is empowered to make advances to the State Governments for enabling them to contribute to the share capital of the co-operative institutions for a period not exceeding 20 years. The loans are made on a interest structure based on the gradually inclined scale. No interest is charged for the first two years. Thereafter the rates increase from 2% to 3%. Generally these loans are made for a period not exceeding 12 years and in exceptional cases for 14 years. Thus, indirectly the Bank helps in augmenting the base structure of the co-operative societies as envisaged by the Rural Credit Survey. This has been discussed in greater details under chapter Eight.

(ii) Warehousing Corporations

Section 17(4C) of the Act enables the Bank to provide short term and medium term loans to the warehousing corporations established under Agricultural Produce (Development and warehouse
warehousing) Corporation Act 1956. While the short term loans are made against the Government securities, the medium term loans can be made against the Government securities or against bonds/debentures issued by corporation itself provided they are fully guaranteed by the Government and had a maturity not exceeding 18 months.

Further, the total aggregate loans were not to exceed ₹3 crores in case of central warehousing corporation and ₹0.50 crore in case of state warehousing corporation.

Realising that the warehousing is yet to make a dent in the agricultural sector, any quantitative restrictions in the volume of the finance made available will not be conducive and desirable to agricultural growth. The bank may consider extending this line of credit at concessional rate so as to encourage the warehousing corporations to avail of the facility and eventual extension of the warehousing facility.

(iii) Agricultural Refinance Corporation

Section 17(4B) of the Act empowers the Bank to make loans and advances to Agricultural Refinance Corporation for periods not exceeding 18 months against trustee securities.

As the corporation raises resources by flotation of debentures etc. the provision only serves a purpose of interim finance, if needed.

(iv) Other institutions

The bank is empowered to provide loans and advances under section 17(4BB) to any other institution notified by the Government for a period of 90 days for short term loans and maximum of 18 months against Government and trustee securities.
The trustee securities for medium term resources should mature in a period not exceeding 18 months. Such loans were also not to exceed 60% of the paid up capital of the borrowing institutions.

(v) **Central Land Development Banks**

The relative details relating to central land development banks have been discussed in Chapter Ten.

The details of various financial provisions embodied in the Act clearly indicate that the Bank is fully equipped with necessary powers and can effectively deal with the requirements arising out of developing agriculture. It is also in a position to provide full and timely financial help. The amendments suggested at appropriate places, if given effect to, would go a long way to help the borrowing financial institutions psychologically and will also encourage them to come to the Bank for all their needs. The Bank can also take necessary lead in the direction of the development and assist these institutions in taking up new challenges.