

REPORT
OF THE
COMMITTEE ON CO-OPERATIVE CREDIT

GOVERNMENT OF INDIA
MINISTRY OF COMMUNITY DEVELOPMENT AND CO-OPERATION
(DEPARTMENT OF CO-OPERATION)

NEW DELHI

MAY 1960

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CHAPTER I

INTRODUCTION

The co-operative movement in India originated in the desire to organize and develop a special institutional agency for the provision of credit for agriculture. Through nearly six decades the emphasis on credit has never ceased. Meeting in November 1958, the National Development Council suggested that suitable arrangements for more adequate agricultural credit through co-operative agency should be worked out in consultation with the Reserve Bank of India. The Working Group on Co-operative Policy appointed by the Government of India in November 1958 for considering the administrative and organizational arrangements for implementing the resolution of the National Development Council on co-operative policy, stated in its report that the problem of providing adequate credit was important and required careful and immediate consideration and suggested that it should be speedily examined by the Government of India, the State Governments, the Reserve Bank of India, and others concerned. It proposed that definite decisions should be taken so that adequate credit, so essential for any programme of increased agricultural production was made available through the co-operative agency. Later, the entire question of agricultural co-operative credit came up for consideration at a conference of the State Ministers in charge of Co-operation held at Mysore in July 1959. The conference recommended that an Expert Committee consisting of representatives of the Planning Commission, the Department of Co-operation, Agriculture and Community Development of the Government of India, the Reserve Bank of India, the State Bank of India, two or three representatives of the State Governments and two or three representatives of non-official co-operative opinion should go into the whole question and make concrete suggestions as to how to expand credit for agricultural production on a considerable scale.

Appointment of the Committee

2. In pursuance of this recommendation, the Government of India, Ministry of Community Development and Co-operation, in their Notification No. F-11-25/59-Coop. I dated 5 September 1959 appointed a Committee with the following members:

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| 1. Shri Vaikunth L. Mehta, Chairman, All-India Khadi & Village Industries Commission | Chairman |
| 2. Shri T.M. Narayanaswami Pillai, Vice-Chancellor, Annamalai University | Vice-Chairman |
| 3. Shri Tarapado Chaudhary, Chairman, West Bengal State Co-operative Bank | Member |
| 4. Shri K. Achuta Reddy, Representative of the All-India Co-operative Union | Member |

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| 5. Shri B. Venkatappiah, Deputy Governor,
Reserve Bank of India | Member |
| 6. Shri V.K. Rao, Joint Secretary, Planning
Commission | Member |
| 7. Shri B.P. Patel, Managing Director, State
Bank of India | Member |
| 8. Shri M.R. Bhide, Secretary, Department of
Co-operation | Member |
| 9. Shri Siddique Hasan, Member, Board of Re-
venue, Uttar Pradesh | Member |
| 10. Shri T. V. Reddi, Registrar of Co-operative
Societies, Mysore | Member |
| 11. Shri C. Narasimham, Additional Develop-
ment Commissioner, Andhra Pradesh | Member |
| 12. Shri K. Ramamurthy, Registrar of Co-opera-
tive Societies, Orissa* | Member |
| 13. Shri A. Palaniappa Mudaliar | Member-Secretary |

Terms of reference

3. We have been asked to examine and make definite recommendations on:

(i) (a) the existing standards for credit limits prescribed under the Co-operative Societies Act, rules or the by-laws of the societies in the different States and (b) their justification from the point of view of the principles of sound co-operative banking;

(ii) the loan policies and practices of co-operative credit institutions from the apex to the primary level;

(iii) the working in community development blocks and in other areas of (1) a few representative societies which have (a) suffered losses in successive years, (b) got heavy overdues outstanding for more than two years, (c) repeatedly defaulted to the central banks, or (d) gone into liquidation, as also (2) of a few good societies in different States from the point of view of the following criteria, among others, viz. (a) adequacy of credit, (b) coverage of families, (c) inclusion of the smaller farmers and tenants, (d) utilisation of loans for productive purposes, (e) recovery of loans, (f) repayment to the central financing agency, and (g) deposits and encouragement of thrift generally;

(iv) the measures necessary for increasing the borrowing power of primary credit societies to the extent necessary in this connection; and in the same context, the question of revising the existing standards for fixing credit limits and the conditions under which it should be effected with a view to providing more effective credit for agricultural production plans; and

(v) the desirability of share capital participation by the State

*Appointed subsequently in terms of Government Notification No. F. 11-25/59-Coop. I dated 22. 9. 1959.

in village societies and if the Committee is in favour of it, the terms and conditions subject to which such State participation should take place.

Plan of Work

I. Meetings held:

4. We had the advantage of the presence of Shri S.K. Dey, Minister for Community Development and Co-operation, at our inaugural meeting held on 16 September 1959. Thereafter, we held eight meetings, as indicated below, up to 12 May 1960 when we signed our report.

<i>Meeting</i>	<i>Date</i>	<i>Place</i>
First	16. 9.1959	Bombay
Second	16.10.1959	Bombay
Third	3.12.1959	Bombay
Fourth	11. 1.1960	Bombay
Fifth	19. 2.1960	Lucknow
Sixth	4. 4.1960	} Bombay
	to 8. 4.1960	
Seventh	19. 4.1960	} Poona
	to 22. 4.1960	
Eighth	29. 4.1960	} Bombay
	to 2. 5.1960	
Ninth	11. 5.1960	} Bombay
	to 12. 5.1960	

II. Questionnaires and circulars

5. For eliciting information on the subjects before us and for helping us in coming to certain conclusions about them we issued circular letters to:

- i) Registrars of Co-operative Societies,
- ii) State co-operative banks,
- iii) Central co-operative banks,
- iv) Development Commissioners,
- v) Prominent non-official co-operators,
- vi) State co-operative unions,
- vii) All-India Co-operative Union,
- viii) State Government, and
- ix) Members of Parliament's Informal Consultative Committee for the Ministry of Community Development and Co-operation.

The lists of persons and institutions who replied to these questionnaires are given in Appendix I.

III. Tours

6. As required by the terms of reference we have examined the working of primary credit societies in the Community Development Blocks and in other areas. In the selection of societies for our visits, we kept in view, as far as possible, the objectives set out in the terms. Though the Committee as a whole could not visit the States for this purpose, one or more members visited all States except Jammu and Kashmir, Kerala and Assam. Visits to these States were not considered necessary as one of our colleagues had, in the course of his official duties, visited several co-operative credit and marketing organisations there and made his notes on the impressions of his tours available to us. We visited not only good societies but also certain indifferent and weak ones. Besides, some of us visited a few marketing societies, central co-operative banks and apex banks. A full list of institutions visited is furnished in Appendix II. An account of the main features noticed in the working of some of the primary credit societies and marketing organisations visited by us in the different States is given in Appendix III. The discussions which members had with the members of primary credit societies, officers of co-operative departments and co-operative institutions and office-bearers of societies and banks were of immense value to us in coming to the various conclusions which are embodied in our report. We are grateful to the authorities of State Governments and to official and non-official co-operators who thus rendered to us valuable assistance in our task.

IV. Interviews

7. We visited Lucknow, Madras, Calcutta, Bombay and Delhi to meet Ministers in charge of Co-operation, representatives of state and central co-operative banks and state co-operative unions, Development Commissioners and Registrars of Co-operative Societies in the different States as shown below :

Place	Dates	States
1. Lucknow	19 & 20 February 1960	Uttar Pradesh
2. Madras	7 & 8 March 1960	Mysore, Madras, Andhra Pradesh and Kerala
3. Calcutta	9 & 10 March 1960	West Bengal, Assam, Orissa and Bihar
4. Bombay	16 & 17 March 1960	Bombay and Madhya Pradesh
5. Delhi	31 March & 1 April 1960	Punjab and Rajasthan

We also interviewed at Bombay a few non-official co-operators and the Chief Officer of the Agricultural Credit Department of the Reserve Bank. A list of persons who gave evidence before us is given in Appendix IV. We had thus an opportunity to have full and frank discussions with officials and non-official co-operators from the different parts of the

country about problems connected with the expansion of co-operative credit. We were invited to attend a meeting of the Informal Consultative Committee of the Members of Parliament for the Ministry of Community Development and Co-operation and thus had the benefit of the views of some of the Members of the Committee on the various issues before us.

Pattern of report

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8. As we have to suggest measures for providing adequate credit to cultivating families in the light of production programmes, we discuss first in Chapter II the position in regard to those programmes in the different States. In Chapters III and IV, we describe and make a critical examination of the working of primary co-operative credit societies, state and central co-operative banks and central and primary land mortgage banks. Chapter V deals with the trends in co-operative policy with particular reference to the Second Five-Year Plan period. A large number of primary credit societies are dormant and will have to be revived. It will be necessary also to revitalise and reorganize a substantial proportion of existing societies. We, therefore, indicate in Chapter VI the lines on which the rectification and revitalization may proceed. In that chapter, we suggest the future pattern of organization and reorganization of credit societies. We then proceed to discuss, in Chapters VII to IX, the law and practice relating to the fixation of credit limits at the different levels of the co-operative credit structure and indicate the extent to which the standards in that behalf may be liberalized or relaxed so that adequate credit may become available to cultivating families for their production programmes. We discuss in Chapters X to XIII the ways in which more resources can flow into the movement through share capital, deposits, borrowings from the Reserve Bank, the State Bank of India, State Governments, etc. In Chapter X, we also discuss the question of State partnership in primary credit societies and indicate the terms and conditions on which State contribution to share capital could suitably take place. In view of the importance of developing co-operative marketing in the programme of expansion of co-operative credit, we deal with this question in Chapter XIV. In Chapter XV, we indicate the legislative, administrative and organizational arrangements necessary to facilitate the extension of credit through co-operatives. We emphasize, in Chapter XVI, the need for strengthening Credit Stabilization Funds and Relief and Guarantee Funds and suggest the need for Government giving outright grants to primary credit societies and central co-operative banks to augment their reserves so that they may have the necessary incentive to undertake the provision of credit to the weaker sections of the agricultural community. In Chapter XVII, we give our concluding observations. There is, lastly, a summary of our conclusions and recommendations.

Secretariat

9. The office of the Committee, was located at Bombay in the Agricultural Credit Department of the Reserve Bank of India. This arrangement enabled us to secure access to the literature and the valuable information that the Department has collected. We are thankful to the Reserve Bank for having placed the services of the needed staff at our disposal and also for providing various facilities to the Committee and to its Secretariat,

Acknowledgements

10. We should like, especially, to record our high sense of appreciation of the assistance rendered by Dr. C.D. Datey, who placed at the disposal of the Committee his knowledge and experience as an officer of the Reserve Bank of India and brought to bear on his duties outstanding zeal and earnestness. We would like to make special mention of the services of Shri G.V. Ramamurthy who worked hard and with devotion. Thanks are also due to the other members of the staff for their arduous labours.

The rest of us on the Committee desire to express our warm appreciation of the contribution made by the Member-Secretary, Shri A. Palaniappa Mudaliar, who because of his personal acquaintance with the requirements and problems of co-operative credit institutions was in a position to give considerable help to us in our work.

CHAPTER II

AGRICULTURAL PRODUCTION PROGRAMMES

We have been required to examine the question of providing adequate credit to cultivating families in the villages in the light of production programmes. In this chapter we shall attempt to state the nature and extent of the production plans in operation in different parts of the country, the agency in charge of their preparation and implementation, and the part co-operative organisations can play in providing the necessary credit and other aids and services.

2. The emphasis in the First Five-Year Plan was on stepping up agricultural production. According to the Planning Commission :

In this sphere co-operation has a very significant contribution to make. Co-operatives can help to increase the effectiveness of extension work. Other services which a cultivator needs for efficient utilisation of his lands can also be made available through co-operative agencies. Such aids as seeds, fertilisers and implements on which depends the profitable exploitation of the resources of the soil can be effectively placed at the disposal even of the small farmer by co-operative societies

(chapter 10—para 12)

Scope of agricultural plans

3. Agricultural plans, according to the observations made by the Planning Commission in the Second Five-Year Plan, consist of (i) planning of land use, (ii) determination of targets, both long-term and short-term, (iii) linking up of development programmes and Government assistance to production targets and land use, including allocation of fertilisers, etc. according to plan and (iv) appropriate price policy. For this purpose, the Planning Commission suggested that-

Each district and in particular each National Extension and Community Development Project area should have a carefully worked out agricultural plan. This should indicate for villages, the targets to be aimed at, the broad distribution of land between different uses, and the programmes of development. Within the framework of an overall price policy, such as has been outlined in an earlier chapter such local plans will be valuable steps leading to more careful planning for the States and for regions and for the country as a whole. The crop pattern envisaged by these local plans has in the main to be influenced through such incentives as the provision of irrigation, credit and marketing facilities, provision of fertilisers, and intimate contact with the cultivator on the part of the extension workers and especially the village level workers.

(chapter 13—para 13)

4. The National Development Council, at its meeting on 8 and 9 November 1958, considered the role of co-operatives in intensifying agricultural production and in its resolution envisaged the programmes of agricultural production to be carried out by village co-operative societies in which every family was represented.

The co-operative should make permanent arrangements in the village for producing the seeds and organic and green manures needed, arrange for the supply of these in kind to persons who cannot pay for them in advance, recoveries being made after harvest. It should arrange for the distribution of fertilisers, received for the village and for their supply to small holders on credit in the first instance. (para 3)

Subsequently, the idea of drawing up agricultural production plans at the village level has come to the forefront as well as the question of the co-operatives making suitable arrangements for the supply of credit and other services for the execution of these plans.

Supplementary line of credit

5. The Ministry of Community Development and Co-operation in their letter dated 16 May 1959 addressed to Development Commissioners of all States and Union Territories indicated the outlines of a scheme to be tried in select areas for providing credit for agricultural production plans at the village level. The Ministry also indicated in the annexure to the letter how such plans should be drawn up. The scheme was intended to be tried in 4,000 villages selected from 200 community development blocks, spread all over the country. The Government of India were to provide a sum of Rs 8 crores to State Governments to be advanced by them to state co-operative banks which would pass on the funds through central banks to primary credit societies to enable the societies to provide credit to those who could not obtain at present any credit from the co-operatives or obtained it in inadequate volume in relation to their needs for executing a given production programme. The requirements of each member were to be worked out on the basis of his production programme to be drawn up by the village credit society with assistance from the village level worker and the block officers for agriculture and co-operation. The co-operative credit agencies were to provide funds to the extent permissible under their rules, etc. and the balance was to be made available by Government as supplementary credit. Credit was to be linked, on the one hand, with production programmes and, on the other, with co-operative marketing, so as to ensure regular repayment of loans.

6. A team of officers drawn from the Government of India, the Planning Commission and the Reserve Bank visited a few credit societies and central co-operative banks in some States and discussed the full implications of the scheme with members of credit societies, officials of central banks, the Registrars of Co-operative Societies and finally with the Development Commissioners, Secretaries to Government and Ministers in charge of Co-operation and Agriculture. The consensus of opinion was that the scheme required considerable modification. The subject was later discussed at a conference of State Ministers for Co-operation held at Mysore in July 1959. The conference came to the conclusion that there should be only one line of credit and that the Government of India's letter of 16 May 1959, should be revised in the light of this decision. The State Governments should, however, go ahead with the selection of villages for the pilot

projects and the preparation of production plans. The conference further recognized that if there was a production programme in a village, the creditworthiness of the cultivators would increase and in that context increased credit would have to be provided to them. In order to examine how this could be done, it recommended that an Expert Committee might be appointed by the Government of India.

Revised scheme

7. In the light of these recommendations, the Government of India modified the earlier scheme and issued fresh instructions in August 1959 giving the essential features of the pilot projects as indicated below :

1. The village would prepare an agricultural production programme on the basis of :

- (i) full utilization of irrigation facilities, including maintenance of field channels in good condition by the beneficiaries;
- (ii) multiplication in the village of the approved seeds and the supply in kind to those who were not in a position to pay in advance;
- (iii) adequate supply of fertilizers;
- (iv) adequate provision of compost and green manures in the village; and
- (v) contour bunding.

2. The Community Development organization would assist in the preparation and implementation of the production programmes.

3. Staff might be found by readjustment of the existing staff or by employment of additional staff, where readjustment was not possible.

4. The village agricultural production programme would be linked with co-operative marketing.

5. Central banks should advance adequate short-term and medium-term credit to village co-operative societies on the basis of the production programmes and other relevant factors, more especially advances for approved seeds and fertilisers.

6. If, after making all these arrangements, it was found that the village co-operative societies could not advance loans to certain cultivators, reasons for this should be ascertained and remedial measures devised in consultation with the central banks.

7. There should be close co-operation at every stage between the central banks and the authorities of the Community Development administration in all these projects.

8. There are a certain number of assumptions involved in the proposal. These may be set forth in some detail. It is assumed that agricultural production plans are the foundation for any effort to develop and revitalize the co-operative movement. It is suggested that agricultural production cannot increase to the level desired unless every cultivating family has a production plan. It is also emphasized that the basis for loans from the co-operative is a plan of production which provides the necessary

assurance for repayment of the loans. It is further considered that risks of lending by co-operative organizations will be reduced if, on the one hand, the supply of credit is linked with production programmes and, on the other, with marketing; for if the financing banks lend to primary societies to provide credit to cultivators on the basis of a production programme, there will be an assurance that the funds lent are utilised in increasing production and recovered out of the produce raised.

Agricultural production plans in States

9. It is in this context that we have been required to examine the steps necessary to provide credit for agricultural production plans. The gap between the requirements of cultivators for credit and the resources at the disposal of the co-operatives to supply that credit is large and it will take a long time indeed for the co-operatives to command the necessary resources themselves for financing agricultural production plans and implementing them successfully. The measures necessary for increasing the resources with the co-operatives and for removing the disabilities from which certain types of cultivators at present suffer have been dealt with in subsequent chapters. In this chapter, we propose to examine the position in respect of the preparation of agricultural production plans in different States, the levels at which such plans are being drawn up, the various matters connected with their implementation, etc. In order to elicit information on these subjects, we addressed a circular letter to the Development Commissioners of States which is reproduced as Appendix V. In the course of our tours, some of us had an opportunity to study what was being done in the States for the preparation and implementation of agricultural production plans. We also had the benefit of discussing this question with State Ministers for Co-operation, Development Commissioners and other officers in the course of our meetings with them. We describe below briefly the position in some States.

(i) *Uttar Pradesh*

10. The Plan at the State level is drawn up and breaking down of the targets is made by the Additional Director of Agriculture. The work of preparing production plans has been taken up very recently in all villages in block areas, though in 40% of them the plans prepared are stated to be sketchy and incomplete. No special staff has been appointed for supervising the implementation of the plans and the work has been entrusted to village level workers at the rate of five villages per worker and the *panchayat* secretary. In the course of our discussions with representatives of the State, we learnt that prior to the National Development Council resolution dated 9 November 1958, no production programmes for individual families had been drawn up. An attempt is now being made to formulate such plans in areas served by service co-operatives for members of the societies and for others. The plans not only estimate the financial requirements of the members, but also the likely increase in agricultural production if adequate credit on the basis of these plans is made available. They are being drawn up by village level workers and *panchayat* secretaries with assistance from village leaders. Some pro-formae are distributed by them to be filled up by cultivators. These are to be checked by the village level workers in consultation with individual cultivators. They are then approved by the *Krishikarya Samity* which has the president of the co-operative society as a member. The scheme was to be introduced in 60% of the villages in block areas. The results of the scheme will be known only after

the next harvest. It was stated that financial resources and the staff were not adequate to implement the production plans successfully.

(ii) *Mysore*

11. Agricultural production plans for each individual family are drawn up only in a pilot scheme under which 55 villages have been chosen. No special staff or experts were engaged for preparing or implementing, these plans as the normal development staff in each block was considered sufficient for this purpose. The work has been taken up only very recently so that no evaluation of the scheme has been possible. In other areas, the State targets for agricultural production and the means of production are broken down among districts after discussion with the district officials and regional staff. The block targets in turn are fixed by the district agricultural officer in consultation with the block development officers and block development committees. The targets are further split into each *gram-sevak* circle. In the course of discussions, we found that a scheme for drawing up production plans for every individual was introduced only recently in about 20 villages in select block areas and therefore it was too early to assess its achievements. Intensive plans were drawn up only in 4 villages. Village level workers were selected for the job and the plans were formulated in a simple way. The village co-operative societies accepted the requirements as indicated in the plans, which were, however, merely an enlargement of the normal credit statements sent by the societies to financing banks. If plans were to be made in a systematic way, the present staff would probably have to be doubled.

(iii) *Madras*

12. The State targets for each year are fixed with reference to the achievements of the previous years. The estimate of actual production of food and non-food crops is made by the Director of Statistics. At present agricultural production plans for each family are not drawn up. Village level workers have been asked to prepare plans for 10 families in their jurisdiction and progress in this behalf is being watched. Estimates of seeds, fertilisers, etc., required for a family are determined with reference to the area cultivated and its actual needs. The financial needs are also calculated on the same basis. The arrangements for drawing up plans are as follows: Individual schemes are prepared and targets for the State are fixed by the Director of Agriculture in consultation with technical officers in charge of the scheme at headquarters as also with district officers. The schemes so drawn up are supervised by technical officers at State and district levels. In the course of enquiries it was learnt that no agricultural production plans for each village or family were being drawn up. Further, it was stated that problems connected with the supply of adequate fertilisers, seeds, etc. had also to be carefully considered in preparing such plans.

(iv) *West Bengal*

13. Plans at the State level are drawn up and allocated by the Director of Agriculture in close collaboration with the Co-operation and Irrigation Directorates and the Community Development and Extension organization. At the district level, the Superintendent of Agriculture is in charge and at the block level the Block Development Officer. There is close collaboration between these officials and officials of the other departments mentioned above. So far, no attempt has been made to draw up

agricultural production plans for individuals. Targets for the production of different commodities are fixed on the basis of the known acreages under different crops and after taking into account the availability of improved seeds, fertilisers, manures, and improved agricultural implements. During our discussions with the State authorities it was stated that there should be planning at the village level and that cultivators should be taught about the utility of manures, fertilisers, etc. A rough and ready plan was being drawn up by the village level workers for 10 per cent of the families in the villages. The co-operative society was also associated with these plans. It was stated that it would not be possible to draw up a production plan for the entire village with the present staff and financial resources of the State.

(v) *Assam*

14. Targets for the production of different agricultural commodities are fixed in consultation with the Planning Commission and the Ministry of Agriculture. The target for the State is split up among the different districts on the basis of funds provided under the different schemes and the available resources. The drawing up of the plans and the allocation of targets at the State and district levels are being done by the Planning Cell in the Directorate of Agriculture. Extension Officers, Block Development Officers, District Agricultural Officers and the Director of Agriculture exercise supervision at the various levels. As regards agricultural production plans for individual families, it is considered that a thorough survey of the land resources should first be made by both the Co-operative and Agricultural Departments. As it would be difficult to cover the entire State, it is suggested that a pilot project should be launched, selecting a single village and plans made for each family in the village. Further programmes should be prepared only when the pilot project shows an encouraging result. The execution of the plan should be under the direct supervision of an experienced officer who has sufficient interest in the work. There should be one village level worker or agricultural demonstrator for each *gram panchayat* which would consist of about 500 families. We were told in the discussions we had with representatives from the State that no production plan was being drawn up for each family. We were informed that it was proposed to organise Field Management Committees throughout the State at the rate of one for each 'field' (compact block of land) which would draw up production plans and that Government proposed to give technical assistance to these committees. The size of the 'field' would vary from area to area, the main criterion being compactness. Two or three such 'fields' might cover one village. These committees would be in charge of both planning and execution.

(vi) *Bombay*

15. We have been informed that it is not possible to draw up plans for each village as planning on such an elaborate scale is, more or less, out of the question with the present financial and other resources available to the State. Further, as allotments under the Plan are small it is not possible to consider the preparation of production plans for each village. The available quota of fertilizers can cover only a small portion of the area under cultivation. A family or a village production plan is thus not a practicable proposition and planning, therefore, has to be confined only to distribution of available supplies among different territorial units and families. It has, therefore, been decided to restrict the production programmes only

to areas for which a reasonable guarantee could be given about adequate finance and supplies. The intensive kharif & rabi campaigns, therefore, have not covered more than 5% of the total area under cultivation. Unless the position regarding finances and supplies improves substantially, all that can be done is to work in selected areas with limited targets. During our discussions with the Development Commissioner and others it was learnt that there were no plans for individual families or even for a village. There was only a production programme for a block phased over a period of 5 years. The resources available being limited it was decided to utilise them in the best possible manner and, therefore, intensive programmes under the kharif, and rabi campaigns were launched in selected areas only, covering 10.75 lakh acres. No additional staff was appointed for the purpose, but about 55% to 60% of the area was in community development blocks, so that the position of staff in these areas was better than in the other areas. On the whole, the staff position was better than that of supplies of agricultural production requisites. There is a Co-ordination Committee at the district level on which all interested parties, including the financing agency, are represented and of which the District Collector is the chairman.

(vii) *Madhya Pradesh*

16. In pursuance of the Government of India's scheme for production plans, instructions for the preparation of plans for members of co-operative societies in 20 villages each in 54 pilot projects have been issued recently and further extension will be considered after experience is gained in this work. No separate staff for supervising the work has, however, been appointed. The plans will be prepared by Extension Officers and their implementation will be supervised by the Block Development Officer and Extension Officers. The village level workers will be in charge at the village level. Targets for seeds, fertilizers, minor irrigation schemes etc. are fixed in accordance with the year-wise Plan ceilings approved by the Government. The machinery for drawing up the plans, for breaking down the targets, and for supervision and implementation at the different levels consists of the Director of Agriculture at the State level and other officers at the divisional, district and block levels. It is stated that a large staff will be required for successfully carrying out production plans for individuals or for villages.

(viii) *Punjab*

17. On account of inadequate staff and other shortcomings, agricultural production plans for each individual family are not being drawn up. If this work is taken up, one village level worker can attend to 50 families and a large number of such workers will be required. As the work is of a technical nature, it cannot be undertaken by the village *panchayat* and the village co-operative without the assistance of agricultural extension officers and village level workers. After the plans are prepared, their execution will have to be supervised by village level workers.

(ix) *Rajasthan*

18. No attempt has been made so far to prepare production plans for each family for want of adequate staff. This can be done by the village *panchayat* in consultation with the *Vikas Mandal* and co-operative societies. Agricultural extension officers should be associated with the work of preparing and implementing the plans. One such officer can in a day prepare plans at the rate of 3 to 4 families. Plan targets at present are worked out

at the village level by *panchayats* in consultation with the *Vikas Mandal* and co-operative societies and then are placed before the *Panchayat Samiti* where they are finalised. Targets for various Samities are consolidated at the district level by the district agricultural officer. At the State level, the Director of Agriculture consolidates the targets of the various districts. The Director of Agriculture allocates funds to the districts after discussing the various development schemes with his technical staff and keeping in view local response. The district officers, in their turn, consult the Agricultural Extension Officers and allocate targets and funds to each block. The Agricultural Extension Officers in consultation with the Block Advisory Committee decide programmes for the villages.

(x) *Orissa*

19. No attempt has been made in Orissa to prepare agricultural production plans for each family on account of inadequate staff. The normal credit statement on the basis of which loans are sanctioned by co-operative credit societies gives information about the extent of land, crops to be grown, seeds and fertilizers needed, wages to be paid and probable production surplus at the end of the year. This is virtually the production plan for each member if it is properly prepared. Special steps have been taken to see that those adopting improved agricultural practices are given necessary credit. Such persons are listed by the village level worker and their loan applications to co-operative societies get special attention from the extension staff. Neither the *gram panchayat* nor the co-operative society can take upon itself the responsibility for drawing up such plans. It is proposed to have such plans formulated by *gram sahayaks*.

(xi) *Bihar*

20. During our discussions we learnt that no production plans on a systematic basis were being drawn up for individuals, but instructions had been issued that the village level worker, while preparing loan applications of members of co-operative credit societies should take into account their production requirements. He should also consult the Agricultural Extension Officer and the Co-operative Officer. The village level worker has a broad idea of the credit needs of the members in a village.

(xii) *Kerala*

21. In Kerala, there are no agricultural production plans for each family or individual. In the pilot areas, an attempt is made to prepare such plans at the village level. It is stated that with the existing staff it is not possible to draw up such plans on a systematic basis.

Special schemes of credit

22. We shall now refer to some special schemes which have been undertaken in certain States under which credit is linked with schemes of agricultural production. One such scheme is the Full Finance Scheme in Madras which is being worked in selected areas in certain districts. The aim of the scheme is that ultimately credit for agricultural production will be provided only through co-operative organizations, the other credit agencies including Government gradually withdrawing from the field. Here the emphasis is on the provision of adequate credit through societies rather than on linking credit with any plan of production in the villages. The main objective is to extend institutional credit to all the families engaged

in agricultural production. A second scheme is the Intensive Paddy Cultivation Scheme in Bombay State. The scheme is intended to popularise the Japanese method of paddy cultivation and does not imply an agricultural production plan for each village. The essential features of the scheme are as follows :

(i) Provision of credit to every cultivator member of a co-operative credit society, irrespective of whether he is a land owner or tenant so as to meet fully his requirements for production of paddy under the Japanese method of cultivation and also partially his consumption needs,

(ii) Supply of credit to a large extent in the form of fertilizers, manures and seed and arrangements for the supply of these in the village.

(iii) Government guarantee to central banks against losses arising in respect of loans granted under the scheme to the extent of 50 per cent in individual cases, subject to an overall limit of 5 per cent of the advances made by the banks.

(iv) Adequate staff in the co-operative department for supervision over the use and recovery of the loans.

(v) Adequate staff in the agriculture department to provide technical guidance and supervise agricultural operations from the beginning to the harvesting of crops.

23. A third scheme now under consideration of the Government of India is the one sponsored by the Ford Foundation for intensive agricultural production. The objectives of the scheme are : (1) to demonstrate, in pilot districts, the most effective ways of expanding food production by co-operative effort among the Centre, the State, the district, the block, the village and individual cultivators; (2) to increase the income of the cultivator and his family; (3) to increase the economic resources and potential of the villages; and (4) to provide an adequate agricultural base for more rapid economic development and social betterment.

The scheme covers a ten point programme as indicated below :

1. Adequate farm credit, based on production potential, made readily accessible through strengthened service co-operatives.

2. Adequate supplies of fertilizers, pesticides, improved seeds, improved farm implements and other essential production needs, made readily accessible through strengthened service co-operatives.

3. Price incentives to participating cultivators through assured price agreements for rice and wheat (and for millets in appropriate districts) announced two years in advance.

4. Marketing arrangements and services which enable the cultivator to obtain the full market price for his marketed surplus.

5. Intensive educational, technical and farm management assistance made available in every village in every development block in the pilot districts. (Organization of entire pilot district into development blocks as quickly as possible).

6. Participation of all interested cultivators, both large and small, in direct individual farm planning for increased food production :

(a) For all interested cultivators, a *simple farm* improvement plan to apply minimum recommended combination of improved practices. The goal should be to get 20% of all cultivators partici-

pating in the first year, rising to 65% by fifth year.

- (b) For 10-15 selected cultivators, a total farm improvement plan to use all available resources of the integrated programme. The goal is 10 cultivators in each village level worker's circle of 5 villages in the first year, and 10 in each village in the fifth year.

7. Village planning for increased production, and village improvement to include: livestock improvement programmes, strengthening of village organizations such as co-operatives, *panchayats*, development councils and of village leadership.

8. A public works programme, using local labour, to undertake drainage, bunding, soil conservation, minor irrigation, building of godowns and roads, and other development works contributing directly to increased food production.

9. Analysis and evaluation of the programme from the day of its initiation, to include:

- (a) a resource and production 'benchmark' study of each district at the beginning of programme;
- (b) analysis of the programme as it proceeds, as to the effectiveness of its methods and organizations; and
- (c) evaluation of results, season by season and at the end of 5-year period as to increased production and farm income, input-output data, etc.

10. Co-ordination on a priority basis, by village, block, district, State and Centre, of all resources—adequate and well trained staff, adequate administrative facilities, credit and farm supplies, pricing and marketing and godown arrangements, irrigation and soil conservation services, educational and information aids and programmes, etc. essential to initiate and carry out the programme with maximum speed and effectiveness.

The scheme also envisages the creation of a guarantee fund to reimburse the primary co-operative society for most of the loss sustained on any one loan and from 5 to 10 per cent of the total loans made by the society. The scheme, we understand, is under the consideration of the Government of India.

Absence of village and family agricultural production plans

24. From the account we have given in the preceding paragraphs, it will be evident that the preparation of agricultural production plans is being attempted only recently in certain States and even in these States such plans are being drawn up only in respect of select areas or villages and very rarely on a family basis. Certain States have introduced elaborate forms for the preparation of village plans on a family basis and issued necessary instructions to the staff for filling them up. The community development staff and the agricultural extension staff and in some cases the co-operatives and the extension staff for co-operation are associated with this work. From the replies received from the Development Commissioners and from the discussions we had during our meetings with representatives of the States, we think that hardly any headway has been made in the preparation of village agricultural production plans. In fact, the agency which is to prepare these plans has not been defined in many States, and much

less the agency responsible for their implementation. Even in States where an attempt has been made to draw up production plans in select areas-village-wise or family-wise-the plans are reported to be sketchy. They have not been prepared on any systematic basis with the help of suitable staff. Usually the block staff and the village level worker and the co-operative organizations have been associated with the work. While we see that certain efforts are being made to draw up the plans in a rough and ready manner in a few places, at the moment even these plans exist largely on paper. What exists in each State is a plan of State aid for agricultural production drawn up by the State under various heads such as minor irrigation, land development, manures, improved seeds; etc. which is prepared by the department concerned setting out the targets for each year. The State targets are broken down subsequently into district and block targets and from the block the village targets in some cases are laid down. They represent a programme of expenditure on several schemes relating to agricultural production, distribution of supplies, and agricultural development under certain heads. It will, therefore, not be wrong to conclude that with rare exceptions, there is no agricultural production plan for each village, much less for each family and even the plans that are now being drawn up in a few cases cannot be said to be on the lines contemplated by the Government of India as indicated in paragraph 7 (1).

Feasibility of drawing up production plans

25. We have considered the question whether village production plans could be drawn up on the lines envisaged and if so under what conditions. It was urged by those whom we met that the preparation of such plans was a task requiring considerable additional technical staff. Different estimates have been made by the States in this regard. But one point is clear, namely, that any plan to be drawn up in a systematic manner and to be implemented and supervised successfully would require the employment of a large technical staff which is not available to-day. The present arrangements for attending to individual cases and for tendering advice on agricultural matters are themselves inadequate. For drawing up production plans, the ground has to be prepared by a detailed survey of various aspects of agricultural production. Measures have to be taken for popularising improved production techniques, to be followed by an adequate credit programme. In the absence of adequate staff and supplies, the preparation of production programmes for all cultivating families does not at present seem feasible.

Every individual has a plan

26. As we have observed earlier, there are no production plans as such for a village or a family, with which our proposals for expansion of credit could be correlated. This does not, however, mean that there is no programme of agricultural production in the villages. Each farmer has a plan of his own whether he owns land or is a cultivating tenant. He knows how much land he is going to cultivate, what crops he proposes to raise, and what facilities he would require for production by way of seeds, manure, water supply, transport, credit, etc. What needs to be done is to estimate the requirements of farmers in the villages on these lines and to make arrangements for the provision of necessary facilities including credit, so that as a cumulative result of the various aids given, the farmers may be enabled to raise good crops on their lands.

27. We may observe in this connexion that primary co-operative credit societies in a few States usually adopt a rough and ready method of assessing the credit needs of farmers when they prepare what are called normal credit statements to be sent to financing banks at the time of applying for a loan. Under the crop loan system, advocated by the Rural Credit Survey Committee, societies are expected to finance members on the basis of their production requirements and it is obligatory on the members to repay the loans out of the harvest. If this method is adopted on a large scale, it will be possible to link credit with production and to provide finance to each farmer on the basis of his cultivation needs i.e. so much per acre under such and such practice, etc. Credit will thus be needed and should be provided to every cultivator for increasing agricultural production even if there is no production programme as such, village-wise or family-wise. Further, each State has a programme of assisting agricultural production and adequate credit facilities will be necessary in order to enable farmers to avail themselves of these aids fully, namely, better seeds, more fertilizers, improved methods of cultivation, sinking of wells, etc. In areas served by new irrigation projects, the question of finance will require special attention. With the extension of irrigation facilities, when farmers switch over from dry to irrigated farming, there is likely to be an appreciable increase in the demand for medium-term and long-term agricultural credit. These will be required for purposes such as bunding, land improvement, levelling of land, digging of field channels, etc. In the case of crops like rubber, cocoanut, etc. where the yield will begin only a few years after planting and farmers will not be getting any return till then, the problem of providing credit would require separate treatment.

Credit for agricultural production programmes in Third Plan

28. On the agricultural side, the main stress in the Third Five-Year Plan will be on the improvement of yield per acre by intensive cultivation. The principal programmes for increasing agricultural production envisaged in the Third Plan are irrigation from large and medium projects, irrigation from minor schemes, soil conservation, dry farming and land reclamation programmes, application of fertilisers and organic and green manure, use of improved seeds, use of better ploughs and improved agricultural implements and adoption of improved agricultural practices. In the execution of these programmes of agricultural development, co-operatives will be called upon to play a very important role. A dynamic programme of agricultural credit and distribution will be required to enable the farmer to take full advantage of the agricultural plans and the facilities that would be available for increased agricultural production. Credit for different periods—short-term, medium-term and long-term—will thus become an indispensable aid to increased agricultural production. We, therefore, consider that co-operatives will have to strengthen themselves financially and otherwise and extend their range of credit and distribution operations so that all farmers are enabled to take full advantage of the facilities provided under the schemes of agricultural improvement in the Third Five-Year Plan.

CHAPTER III

PROGRESS OF CO-OPERATIVE CREDIT—PRIMARIES

We describe in this and the succeeding chapter the progress of co-operative credit institutions during the Second Plan period.

2. The Second Five-Year Plan envisaged increase in membership of primary credit co-operatives to 15 millions by the end of 1960-61. The following table shows the progress made in this respect since the beginning of the Second Plan.

TABLE 1
Progress of Membership

Year	Number of societies (in lakhs)	Membership (in millions)
1	2	3
1955-56	1.60	7.80
1956-57	1.62	9.12
1957-58	1.67	10.22

We have not estimated the increase in membership that is likely to take place till the end of the Second Five-Year Plan. We reproduce, however, an extract from the annual report for 1959-60 of the Ministry of Community Development and Co-operation (Department of Co-operation).

The figures for 1958-59 are not available, but the indications are that the number of societies has increased to about 1.75 lakhs and membership to about 12 millions. On present trends, it would be reasonable to assume that at the end of 1960-61, the membership will be around 18 millions covering about a third of the rural population. The number of primary societies may be a little over 2 lakhs.

At the beginning of the Second Plan, primary agricultural co-operative credit societies supplied short-term and medium-term credit of the order of Rs. 49.62 crores. The Second Five-Year Plan set a target of Rs. 200 crores to be achieved by the end of 1960-61—Rs. 150 crores under short-term and Rs. 50 crores under medium-term. The following table indicates the progress in this direction.

TABLE 2
Loans Operations

Year	Loans advanced (in crores)	Average share capital per society	Average loan advanced per society	Average loan per member
1	2	3	4	5
	Rs	Rs	Rs	Rs
1955-56	49.62	1051	3102	64
1956-57	67.33	1228	4169	74
1957-58	96.08*	1695	5769	94

Here also we may mention that we have not made any estimate of the likely increase in the volume of loans from the primary societies by the end of the Second Plan. We, again, quote, however, from the report of the Ministry referred to above.

It is estimated that co-operatives supplied short and medium-term credit to the extent of Rs. 125 crores during 1958-59 and will supply Rs. 150 crores during 1959-60. At the present rate of growth, the credit made available in 1960-61, is unlikely to exceed Rs. 190 crores.

Progress of primaries

3. The progress of primary agricultural credit societies up to 1957-58 is indicated in the table below. Particulars for 1958-59 are not yet available.

TABLE 3
Progress of Primary Credit Societies
(1950-51 to 1957-58) (Rs lakhs)

Item	1950-51	1955-56	1957-58
1	2 @	3	4
1. Number	1,15,462	1,59,939	1,66,543
2. Membership	51,53,907	77,90,850	102,21,000
3. Paid-up share capital	839.97	1680.33	2822.27**
4. Statutory reserve	621.93	852.81	928.65
5. Other reserves	264.50	392.13	486.38
6. Owned funds	1726.40	2925.27	4237.30
7. Deposits	448.29	704.69	863.42
8. Borrowings from banks	1921.08	4280.14	8274.43
9. Working capital	4095.77	7910.10	13375.15
10. Loans outstanding	2912.88	5983.87	10710.38
11. Loans advanced	2289.72	4961.72	9608.34
12. Loans overdue	637.88	1495.69	2278.65
13. Percentage of overdues to outstandings	21.9	25.0	21.3

*Rs. 82.59 short-term, Rs. 13.46 medium-term.

@ Includes figures relating to grain banks

**Includes Rs. 221.27 lakhs contributed by State Governments to the share capital of large-sized societies.

It may be noticed that the progress made by primary societies in the first two years of the Second Plan has been satisfactory when compared to that made during the five years of the First Plan period. It will also be observed that while the number of societies increased from 1.15 lakhs in 1950-51 to 1.66 lakhs in 1957-58, i.e. by about 51,000, the membership of the societies has almost doubled itself. The loans advanced in 1955-56 were more than twice and those advanced in 1957-58 more than four times the loans issued in 1950-51. The following averages throw further light on the progress of primary societies.

TABLE 4
Averages showing Progress

Particulars	1950-51	1955-56	1957-8
1	2	3	4
1. Membership per society	45	49	61
2. Share capital per society	Rs 727	Rs 1051	Rs 1695
3. Share capital per member	" 16	" 22	" 27
4. Deposits per society	" 388	" 441	" 518
5. Deposits per member	" 9	" 9	" 8
6. Working capital per society	" 3547	" 4946	" 8031
7. Loan advanced per member	" 44	" 64	" 94

There has been an increase in every respect except in the average of deposit per member. The increase in the working capital has been possible largely because of borrowings from central banks as will be seen from the following table:

TABLE 5
Composition of Working Capital

Particulars	Percentage to working capital		
	1950-51	1955-56	1957-58
1	2	3	4
Owned funds	42	37	32
Deposits	11	9	6
Borrowings from banks and other sources	47	54	62

The proportion of owned funds to the working capital has declined from 42% to 32% during the period 1950-51 to 1957-58 although the State Governments had contributed Rs 2.21 crores out of the total paid-up capital of the societies amounting to Rs 28.22 crores as at the end of the year 1957-58. The trend towards an increasing reliance on central financing agencies which was noticed throughout the post-war years has continued with the result that more than 3/5th of their working capital in 1957-58 was derived from borrowing from banks. This shows that while the short-

term credit structure has been assuming a larger role in the provision of agricultural credit, proportionately increasing amounts have not been attracted by way of share capital and deposits.

Position in different States

4. The position of agricultural credit societies in the different States as on 30.6.58 may be seen from the table below:

TABLE 6
Position in the Different States—30.6.58

Name of State	No. of societies	Membership (in 000s)	Paid-up share capital	Owned funds	Deposits	Borrowings	Working capital	Percentage of owned funds to working capital
			Rs.	Rs.	Rs.	Rs.	Rs.	
1	2	3	4	5	6	7	8	9
Andhra								
Pradesh	10681	11,04	251.85	382.33	70.11	1153.83	1606.27	23.80
Assam	2590	1,22	17.34	22.34	1.85	142.03	166.22	13.44
Bihar	14685	5,30	53.86	73.15	9.49	151.28	233.92	31.27
Bombay	18354	14,78	872.87	1224.65	199.80	2333.30	3757.75	32.59
Delhi	371	18	12.95	17.10	4.58	23.36	46.04	37.14
Himachal Pradesh	588	50	12.74	17.84	4.15	16.09	38.08	46.85
Jammu & Kashmir	1355	1,90	17.10	24.98	11.99	52.02	88.99	28.07
Madhya Pradesh	16750	5,89	153.82	258.09	33.96	831.82	1123.87	22.96
Madras	8184	10,57	198.10	356.92	63.99	895.13	1316.04	27.12
Mysore	7264	8,95	225.08	341.75	85.50	664.63	1091.88	31.30
Orissa	6251	2,86	68.70	89.79	12.67	254.98	357.44	25.12
Punjab	14344	8,04	300.99	492.56	239.01	561.20	1292.77	38.10
Rajasthan	6163	2,77	66.98	88.83	10.41	184.98	284.22	31.25
Kerala	2072	4,74	86.65	168.49	47.78	64.61	280.88	59.99
Uttar Pradesh	44060	18,63	425.45	574.34	52.23	744.61	1371.18	41.89
Tripura	202	20	4.35	4.44	4.09	20.88	29.41	15.10
Manipur	8	2	0.62	0.62	—	—	0.62	100.00
West Bengal	12591	4,60	52.15	98.30	11.81	176.97	287.08	34.24
Pondicherry	29	2	0.54	0.65	—	1.61	—	—
Andaman & Nicobar Islands	1	—	0.13	0.13	—	0.10	0.23	56.52
Total	166543	102,21	2822.27	4237.30	863.42	8274.43	13375.15	31.68

Of the total number of 1.67 lakh societies, Uttar Pradesh alone accounted for 44,060 or a little over 26 per cent. Andhra Pradesh, Bihar, Bombay, Madhya Pradesh, Punjab and West Bengal each had more than 10,000 societies. As against the national average of 61 for membership per society, the average was 35 in Madhya Pradesh, 42 in Uttar Pradesh, and 47 in Assam. It was 81 in Bombay, 103 in Andhra Pradesh and 129 in Madras. Kerala with 229 had the highest average membership. Of the total working capital of Rs. 133.75 crores, Bombay accounted for Rs. 37.58 crores or about 28 per cent. Andhra Pradesh, Uttar Pradesh, Punjab, Madras and Madhya Pradesh accounted for 12, 10, 9, 9 and 8 per cent respectively. As regards deposits, Punjab and Bombay together accounted for Rs. 4.39 crores or over 50 per cent of the total deposits of Rs. 8.63 crores.

5. Table 7 below gives State-wise distribution of loans, outstandings, overdues, etc. of the societies.

TABLE 7
Loans, Outstandings and Overdues 1957-58

(Rs lakhs)

Name of State	Loan advanced during 1957-58	Outstanding at the end of 1957-58	Overdues at the end of 1957-58	Percentage of overdues to outstandings
	Rs	Rs	Rs	
1	2	3	4	5
1. Andhra Pradesh	1151.19	1409.91	327.63	23.2
2. Assam	131.06	141.65	25.88	18.3
3. Bihar	97.36	163.25	88.05	53.9
4. Bombay	3033.51	3161.84	641.29	20.3
5. Delhi	26.10	28.44	7.87	27.7
6. Himachal Pradesh	10.81	17.65	4.41	25.0
7. Jammu and Kashmir	36.05	63.19	10.85	17.2
8. Madhya Pradesh	864.35	936.90	113.89	12.2
9. Madras	911.37	1077.87	147.30	13.7
10. Mysore	696.74	865.17	266.47	30.8
11. Orissa	178.09	263.70	75.60	28.7
12. Punjab	789.35	992.09	239.88	24.2
13. Rajasthan	212.60	197.27	28.15	14.3
14. Kerala	179.36	206.67	51.31	24.8
15. Uttar Pradesh	1072.06	978.17	154.32	15.8
16. Tripura	4.43	4.64	0.13	2.8
17. Manipur	0.01	21200.	—	—
18. West Bengal	212.04	1.6	95.62	47.8
19. Pondicherry	1.65	—	—	—
20. Andaman & Nicobar Islands	₹	2108 0. 0.010.	—	—
Total	9608.34	10710.38	2278.65	21.3

During 1957-58 the amount of short-term and medium/term loans advanced by the societies was Rs. 82.59 crores and Rs. 13.46 crores respectively, as against the Second Five-Year Plan targets of Rs. 150 and Rs. 50 crores respectively.

6. It may be of advantage to indicate the average cost of management per society and the percentage of the cost to working capital. This is attempted in the following table.

TABLE 8
Cost of Management—1957-58
(Rs. thousands)

Name of State	No. of primary agricultural credit societies	Working capital	Cost of management	Average cost of management per society	Percentage of (4) to (3)
1	2	3	4	5	6
		Rs	Rs	Rs	
Andhra Pradesh	10,681	16,06,27	14,31	134	0.89
Assam	2,590	1,66,22	2,83	109	1.70
Bihar	14,685	2,33,92	4,09	28	1.75
Bombay	18,354	37,57,75	86,15	469	2.29
Jammu & Kashmir	1,355	88,99	2,32	171	2.60
Kerala	2,072	2,80,88	9,95	480	3.54
Madhya Pradesh	16,750	11,23,87	9,68	58	0.86
Madras	8,184	13,16,04	17,48	214	1.33
Mysore	7,264	10,91,88	19,48	268	1.78
Orissa	6,251	3,57,44	3,22	52	0.90
Punjab	14,344	12,92,77	20,63	144	1.60
Rajasthan	6,163	2,84,22	2,60	42	0.91
Uttar Pradesh	44,060	13,71,18	11,27	26	0.82
West Bengal	12,591	2,87,08	4,60	37	1.60
Andaman & Nicobar Islands	1	23	—	—	—
Delhi	371	46,04	73	197	1.59
Himachal Pradesh	588	38,08	47	80	1.23
Manipur	8	62	2	250	3.23
Pondicherry	29	2,26	2	69	0.88
Tripura	202	29,41	90	446	3.06
Total	1,66,543	1,33,75,15	2,10,75	127	1.58

It may be observed that the average cost of management per society for the whole country was Rs. 127 and the cost of worked to 1.58 per cent of the total working capital of the societies. Kerala had the highest average of Rs. 480 and the proportion of the cost to working capital was also the highest at 3.54 per cent. The average cost was less than Rs. 30 in Bihar and Uttar Pradesh, between Rs. 31 and 50 in West Bengal

and Rajasthan, between Rs. 51 and 100 in Madhya Pradesh, Orissa, Himachal Pradesh and Pondicherry, between Rs. 101 and Rs. 200 in Assam, Jammu and Kashmir and Delhi, between Rs. 201 and 300 in Madras, Mysore and Manipur and above Rs 400 in Bombay, Kerala and Tripura. The percentage of the cost of management to the working capital was less than 1 in Andhra Pradesh, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh and Pondicherry, between 1 and 2 in Assam, Bihar, Madras, Mysore, Punjab, West Bengal, Delhi and Himachal Pradesh and between 2 and 3 in Bombay and Jammu and Kashmir. In Kerala, Manipur and Tripura, it was above 3.

Medium-term credit

7. While short-term credit is required by the agriculturists to facilitate their seasonal agricultural operations and the marketing of crops, medium-term credit is needed for purchase of bullocks, improvement of land, sinking or deepening of wells, installation of pumping-plants, etc. It is the general practice for loans for periods exceeding 12 months (15 months for sugar-cane in some States) but not exceeding five years to be treated as medium-term. Information about the amount of medium-term credit advanced by primary credit societies during the first year of the Second Plan is not available. During the year 1957-58, out of the total loans issued by primary credit societies amounting to Rs. 96.05 crores, Rs. 13.46 crores or about 14 per cent were medium-term. The State-wise break-up of the short-term and medium-term advances is given in the table below :

TABLE 9
Short-term and Medium-term Loans Advanced 1957-58.

Name of State	Short-term		Medium-term		Total amount
	Amount	% to total	Amount	% to total	
	1	2	3	4		5	6
Andhra Pradesh	1043.65	90.66	107.54	9.34	1151.19
Assam	121.45	92.67	9.60	7.33	131.05
Bihar	53.24	56.43	41.11	43.57	94.35
Bombay	2877.90	94.87	155.61	5.13	3033.51
Jammu & Kashmir	35.88	99.53	0.17	0.47	36.05
Kerala	110.41	61.56	68.95	38.44	179.36
Madhya Pradesh	502.61	58.15	361.74	41.85	864.35
Madras	725.44	79.60	185.93	20.40	911.37
Mysore	612.95	87.97	83.79	12.03	696.74
Orissa	81.55	45.79	96.54	54.21	178.09
Punjab	617.63	78.25	171.72	21.75	789.35
Rajasthan	186.21	87.59	26.38	12.41	212.59
Uttar Pradesh	1055.89	98.49	16.17	1.51	1072.06
West Bengal	195.99	92.43	16.05	7.57	212.04
Delhi	26.02	99.69	0.08	0.31	26.10
Himachal Pradesh	5.89	54.48	4.92	45.52	10.81
Manipur	0.01	100.00	—	—	0.01
Pondicherry	1.65	100.00	—	—	1.65
Tripura	4.43	100.00	—	—	4.43
Total	8258.80	85.98	1346.30	14.02	9605.10

(Rs. lakhs)

Of the total medium-term loans of Rs. 13.46 crores, Madhya Pradesh accounted for Rs. 3.62 crores or 26.9 per cent, Madras for Rs. 1.86 crores or 13.8 per cent, Punjab for Rs. 1.72 crores or 12.8 per cent, and Bombay for Rs. 1.56 crores or 11.6 per cent. Thus these four States accounted for Rs. 8.75 crores or nearly 2/3rd of the total medium-term loans advanced by the primaries during 1957-8. In some States, medium-term loans have been more in demand among the cultivators than short-term loans. In Orissa, for instance, the amount of medium-term loans advanced during 1957-8 was more than that of short-term loans. In Bihar and Madhya Pradesh, medium-term loans formed 43.6 per cent and 41.8 per cent respectively of the total loans advanced by primary credit societies. In Kerala, Madras, Punjab and Andhra Pradesh, such loans formed 38.4 per cent, 20.4 per cent, 21.8 per cent and 9.3 per cent of the total loans respectively. In some States, however, the medium-term loans formed only a small proportion of the total as in Bombay and Uttar Pradesh, where the percentage of such loans to the total loans advanced formed respectively 5.1 per cent and 1.5 per cent only. The following table shows the purposes for which medium-term loans have been given.

TABLE 10
Purposes of Medium-term Loans Advanced 1957-58.

(Rs lakhs)

Name of State	Total	Sinking of or repairs to wells	Purchase of machi- nery	Purchase of cattle	Minor improve- ment to lands	Other purposes
1	2	3	4	5	6	7
Andhra Pradesh	1,07.54	3.70	5.44	16.24	49.30	32.86
Assam	9.60	—	0.41	6.73	1.77	0.69
Bihar	41.11	0.01	0.02	40.13	0.16	0.80
Bombay	1,55.61	6.59	6.18	59.02	36.33	47.49
Jammu & Kashmir	0.17	—	—	0.08	—	0.09
Kerala	68.95	2.18	4.09	6.75	23.25	32.68
Madhya Pradesh	3,61.74	10.25	9.68	2,63.04	10.03	68.74
Madras	1,85.93	1.74	13.90	83.34	65.61	21.34
Mysore	83.79	25.73	10.76	9.49	23.98	13.83
Orissa	96.54	1.52	3.14	64.67	16.23	10.98
Punjab	1,71.72	10.88	4.27	90.51	7.32	58.74
Rajasthan	26.38	1.05	2.17	18.02	1.72	3.42
Uttar Pradesh	16.17	2.08	0.63	8.88	3.71	0.87
West Bengal	16.05	0.10	—	2.10	2.59	10.25
Delhi	0.08	—	—	—	—	—
Himachal Pradesh	4.92	—	—	1.97	1.04	1.90
Manipur	—	—	—	—	—	—
Pondicherry	—	—	—	—	—	—
Tripura	—	—	—	—	—	—
Total	13,46.30	65.83	60.69	6,70.97	2,44.03	3,04.68

It will be observed that purchase of cattle accounted for Rs. 6.71 crores or about 50 per cent of the total medium-term loans of Rs. 13.46 crores. Repairs to wells, sinking of wells and minor improvements to land which can be said to bring about development of land, together accounted for Rs. 3.10 crores or about 23 per cent only. In Bihar, where medium-term loans formed 43.6 per cent and in Madhya Pradesh where they formed 41.8 per cent of the total loans advanced by the primaries during 1957-8, purchase of cattle accounted for Rs. 40.13 lakhs out of Rs. 41.11 lakhs and Rs. 263.04 lakhs out of Rs. 361.74 lakhs, respectively. Purchase of cattle thus accounted for 97.6 per cent and 72.7 per cent of the total medium-term loans respectively, in the two States. In Orissa where medium-term loans are more common, loans for purchase of cattle formed over 2/3rd of the total medium-term loans. The purposes of medium-term loans noted above may not necessarily represent the use to which they have been put, since there is a tendency to resort to medium-term loans because of the longer period available for repayment.

Long-term credit

8. Long-term credit requirements are for redemption of old debts which may or may not have been incurred for production or for effecting permanent and costly improvements to land or for purchase of land. Loans repayable in periods exceeding five years are treated as long-term. Co-operative land mortgage banks specialise in long-term loans, the period of which does not extend beyond 20 years. The working of land mortgage banks and questions connected with the provision of long-term credit are discussed in Chapter IV.

Existing position of primary credit societies

9. The primary credit society forms the base of the co-operative credit structure and on its soundness depends the soundness of the whole structure. In the preceding paragraphs, we have described the progress made by these societies. Before we proceed to make our recommendations for the strengthening and reorganization of primary agricultural credit societies so as to enable them to play their part effectively in schemes of increased agricultural production, it will be useful to make a brief appraisal of their general working. Some of the tests for judging the strength of primary credit societies are the size of their operations, the proportion of overdues, the proportion of the societies working at profit or in loss and finally the audit classification of the societies. These are discussed in the paragraphs that follow.

10. The following table gives certain averages in regard to the working of primary agricultural credit societies during 1957-58.

TABLE 11

Certain Averages 1957-58

Name of State	Membership	Paid-up capital Rs	Owned capital Rs	Deposit Rs	Working capital Rs	Loans advanced Rs	Loans advanced per member Rs
1	2	3	4	5	6	7	8
All-India	61	1695	2544	518	8031	5769	94
Andhra Pradesh	103	2358	3580	656	15039	10778	104
Assam	47	669	863	71	6418	5060	107
Bombay	81	4756	6672	1089	20474	16528	205
Bihar	36	367	498	65	1593	663	18
Jammu and Kashmir	140	1262	1844	885	6568	2661	19
Kerala	229	4182	8132	2306	13556	8656	38
Madhya Pradesh	35	918	1541	203	6710	5160	147
Madras	129	2421	4361	782	16081	11136	86
Mysore	123	3099	4705	1177	15031	9592	78
Orissa	46	1099	1436	203	5718	2849	62
Punjab	56	2098	3434	1666	9013	5503	98
Rajasthan	45	1087	1441	169	4612	3450	77
Uttar Pradesh	42	966	1304	119	3112	2433	58
West Bengal	37	414	781	94	2280	1684	46
Delhi	49	3491	4609	1234	12410	7035	145
Himachal Pradesh	85	2167	3034	706	6476	1838	22
Manipur	250	7750	7750	nil	7750	125	..
Pondicherry	69	1862	2241	nil	7793	5690	83
Tripura	99	2153	2198	2025	14559	2193	22

It may be noted from the table that the average loan advanced per society during 1957-58 came to Rs. 5,769 only. The average exceeded Rs. 10,000 only in Andhra Pradesh, Bombay and Madras, whereas the average in Bihar, West Bengal, Uttar Pradesh, Orissa, Jammu & Kashmir and the Union territories of Himachal Pradesh, Tripura and Manipur was less than Rs. 3,000. In Bihar it was as low as Rs. 663. The average working capital per society exceeded Rs. 10,000 in Andhra Pradesh, Bombay, Kerala, Madras, Mysore and Tripura and Delhi. The average was less than Rs. 5,000 in Bihar, Rajasthan, Uttar Pradesh, and West Bengal. It was as low as Rs. 1593 in Bihar. It was only in Bombay State that the average working capital per society exceeded Rs. 20,000,

11. The following table gives the position of overdues in primary agricultural credit societies at the close of 1956-57 and 1957-58.

TABLE 12
Overdues at the close of 1956-57 and 1957-58

(Rs. thousands)

Name of State	1956-57			1957-58		
	Total loans outstand- ing	Overdues at close	Percen- tage of overdues to total outstan- ings	Total loans outstan- dings	Overdues at close	Percen- tage of overdues to total out- standings
1	2	3	4	5	6	7
Andhra Pradesh	9,84,06	1,83,05	18.6	14,09,91	3,27,63	23.2
Assam	73,72	11,60	15.7	1,41,65	25,88	18.3
Bihar	1,10,71	56,40	50.9	1,63,25	88,05	53.9
Bombay	21,84,97	5,25,79	24.1	31,61,84	6,41,29	20.3
Jammu and Kashmir	42,66	28	0.7	63,19	10,85	17.2
Kerala	1,60,64	31,82	19.8	2,06,67	51,31	24.8
Madhya Pradesh	5,82,31	91,04	15.6	9,36,90	1,13,89	12.2
Madras	8,93,77	1,16,54	13.0	10,77,87	1,47,30	13.7
Mysore	6,42,57	1,88,39	29.3	8,65,17	2,66,47	30.8
Orissa	2,42,84	69,02	28.4	2,63,70	75,60	28.7
Punjab	7,75,49	1,79,30	23.1	9,92,09	2,39,88	24.2
Rajasthan	1,11,06	22,49	20.3	1,97,27	28,15	14.3
Uttar Pradesh	7,00,03	1,16,57	16.7	9,78,17	1,54,32	15.8
West Bengal	1,33,96	83,38	62.2	2,00,08	95,62	47.8
Andaman and Nicobar Islands	—	—	—	21	—	—
Delhi	17,01	3,61	21.2	28,44	7,87	27.7
Himachal Pradesh	23,23	2,41	10.4	17,65	4,41	25.0
Manipur	4	2	50.0	1	—	—
Pondicherry	1,86	1	0.5	1,67	—	—
Tripura	1,21	9	7.4	4,64	13	2.8
Total for All-India	76,82,14	16,81,81	21.9	1,07,10,38	22,78,65	21.3

For a proper appraisal of the position, the percentage of overdues should be calculated in relation to the demand and not to the outstandings. In most States, however, figures for demand are not worked out and hence we have given the percentage of the overdues to outstanding loans and not to the demand. The percentage of overdues exceeded 25 in Bihar, Mysore, Orissa, West Bengal, Delhi and Himachal Pradesh on 30 June 1958. In Bihar, the overdues exceeded 50 per cent and in West Bengal 45 per cent in both 1956-57 and 1957-58.

12. The following table gives the number of primary credit societies which showed profit or loss during 1956-57 and 1957-58.

TABLE 13

Societies working at Profit or in Loss during 1956-57 and 1957-58

Name of State	Total number		Number working at profit		Percentage of societies working at profit to total societies		Number working in loss		Number working with no profit or no loss	
	1956-57	1957-58	1956-57	1957-58	1956-57	1957-58	1956-57	1957-58	1956-57	1957-58
1	2	3	4	5	6	7	8	9	10	11
Andhra Pradesh	9690	10681	4979	6657	51.38	62.33	2333	3574	2378	450
Assam	2649	2590	1133	1475	42.77	56.95	410	865	1106	250
Bihar	13593	14685	..	7013	—	47.76	..	5467	..	2205
Bombay	17812	18354	13655	13872	76.66	75.58	3505	3878	652	604
Jammu & Kashmir	1621	1355	383	395	23.63	29.15	131	61	1107	899
Kerala	2098	2072	1194	1231	56.91	59.41	886	804	18	37
Madhya Pradesh	17021	16750	14689	13328	86.30	79.57	1475	2680	857	742
Madras	8096	8184	4995	5969	61.70	72.93	2593	1873	508	342
Mysore	7318	7264	5291	4181	72.30	57.56	2027	1586	—	1497
Orissa	7147	6251	5816	3447	81.38	55.14	1016	2171	315	633
Punjab	13144	14344	10389	11912	79.04	83.05	2651	2189	104	243
Rajasthan	5445	6163	4543	4859	83.43	78.84	522	655	380	649
Uttar Pradesh	42646	44060	33680	32479	78.98	73.72	3462	5273	5504	5738
West Bengal	12120	12591	5921	5962	48.85	47.35	3976	4229	2223	2400
Andaman and Nicobar Islands	1	1	—	1	—	100.00	—	—	—	—
Delhi	370	371	326	305	88.11	82.21	44	37	—	29
Himachal Pradesh	576	588	412	491	71.53	83.50	62	74	2	23
Manipur	14	8	5	7	35.71	87.50	6	1	3	—
Pondicherry	22	29	20	23	90.91	79.31	2	2	—	4
Tripura	127	202	51	87	40.16	43.07	45	80	31	35
Total for All-India	161510	166543	107482	113694	66.55	68.27	25146	35499	15188	16780

It will be observed that nearly 1/3rd of the societies worked in loss or did not make any profit during both the years. In Jammu & Kashmir, West Bengal and Tripura more than half the societies worked without

profit or loss during the years. In Bihar, also, the number of societies working at a profit was less than 50 per cent during 1957-58.

13. The audit classification of primary agricultural credit societies for 1956-57 is given below :

TABLE 14
Audit Classification 1956-57

Name of State	Number of societies					Audit- ed but unclassified	Unau- dited	Total	% of C % of D	
	A	B	C	D	E				class	class
1	2	3	4	5	6	7	8	9	10	11
Andhra Pradesh	51	816	5429	316	—	2824	254	9690	57.53	3.35
Assam	7	1305	510	535	—	155	137	2649	20.30	21.30
Bihar	23	302	5859	925	210	1174	5100	13593	68.99	10.89
Bombay	1704	4842	7996	1524	22	1724	—	17812	44.89	8.56
Jamum & Kashmir	275	197	14	1135	—	—	—	1621	0.86	70.02
Kerala	64	458	880	359	—	181	150	2098	45.31	18.49
Madhya Pradesh	29	728	11774	1944	372	47	2127	17021	79.05	13.05
Madras	101	1239	5453	412	—	120	843	8168	74.44	5.62
Mysore	541	3510	2303	1531	—	102	537	8524	28.83	19.17
Orissa	7	251	4665	667	33	1000	524	7147	70.44	10.07
Punjab	462	3147	6563	112	66	1438	1356	13144	55.68	0.95
Rajasthan	60	1648	1891	980	46	397	389	5411	37.65	19.51
Uttar Pradesh	1	180	21149	6537	—	—	14779	42646	75.89	23.46
West Bengal	10	38	6259	2024	1914	994	881	12120	55.69	18.01
Delhi	3	79	232	—	—	51	5	370	63.56	—
Manipur	—	5	10	—	—	—	11	26	66.67	—
Pondicherry	—	—	22	—	—	—	—	22	100.00	—
Tripura	—	13	64	6	—	1	43	127	76.19	7.14
Total for All-India	3338	18758	81073	19007	2663	10208	27142	162189	60.03	14.07

Of the 1,62,189 societies, 27,142 had not been audited and 10,208 were audited but not classified. Of the 1,35,047 societies audited, 21,670 or 16 per cent belonged to D and E class, and 81,073 or 60.03 per cent to C class. A and B class societies numbered 22,096 and formed only about 16 per cent of the total number of audited societies. The percentage of C class societies to total audited societies exceeded 75 in Madhya Pradesh,

Uttar Pradesh and Pondicherry. Nearly 1/5th or more of the societies belonged to D and E class in Uttar Pradesh, Assam, Jammu & Kashmir, Kerala, Mysore, Rajasthan and West Bengal. In West Bengal, the Registrar of Co-operative Societies has prepared a phased programme for the liquidation of 4,591 societies during a period of two years.

Grain banks

14. We shall now refer briefly to the working of grain banks which also serve as primary credit societies in some parts of the country. The object of grain banks is to provide loans to members in kind and to recover them generally on the *sawai* basis, that is with an addition of 25 per cent to the principal at the next harvest season. At the end of 1957-58, the total number of grain banks in country was 9,549, of which as many as 3,564 were in Andhra Pradesh. These are mostly in the areas of the former Hyderabad State where the banks were organized during the period of controls over foodgrains but are now mostly dormant. The other States where grain banks exist in sufficient number are Bombay (2,781), Mysore (1,098) and Orissa (1,873). The operations of grain banks during the year 1957-58 are given below :

TABLE 15
Operations of Grain Banks

Item	1957-58 (Rs lakhs)
1	1957-58 2
No. of banks	9,549
No. of members (in thousands)	10.86
Working capital	365.87
Paid-up share capital	91.52
Reserve fund	39.25
Other reserves	130.60
Deposits	33.15
Other borrowings	71.35
Loans outstanding	200.88
Overdues	124.69
<i>Profit</i>	
No. of banks	6,539
Amount	21.57
No. of banks without profit or loss	1,081
<i>Loss</i>	
No. of banks	1,929
Amount	9.43

Grain-cum-cash-credit societies in Orissa

15. While the grain banks mostly give loans in kind and recover them also in kind, in Orissa the experiment of combining both cash and kind loans in the same institution is being tried in what are now known as grain-cum-cash credit societies. The Reserve Bank of India has agreed to give loans to the State Government for contribution to the share capital

of about 800 such societies at the rate of Rs. 2,500 per society on certain conditions agreed upon between the Bank and the State Government so as to ensure that the combination of transactions both in cash and in kind does not in any manner affect the cash business of the societies. In every grain-cum-cash credit society every member is to take two different types of shares, namely, cash shares and grain shares. The cash and grain loans will be related in each case to the cash and grain shares held by a member. Grain loans must be repaid in grain and the cash loans in cash. The grain resources of the society consist of share capital paid in grain and deposits of grain from members, the *gram-panchayat* and Government. No part of the cash resources of the society is to be used in purchasing grain. A ceiling is to be fixed for the stocks of grain to be held by each society, the excess of stocks above which are to be sold at prices fixed by the Government. The valuation of grain stocks for the purposes of the balance sheet is to be done at a price stipulated by Government. The Government undertake to purchase surplus stocks of grain at the price fixed for the purpose of the society's balance sheet, in case the ruling price in the market is lower. The scheme also provides for appointment of paid secretaries and for periodic inspection of stocks of grain. In pursuance of the scheme, loans have been sanctioned so far by the Reserve Bank, for contribution to the share capital of 683 such societies. The *gram-panchayat* is admitted as a member and keeps a deposit of grain with the societies, on which interest is paid at 10 per cent. The *gram-panchayats* obtained loans from the State Government, purchased paddy and deposited it with the societies. The interest paid to the *gram-panchayat* is utilised by them in repaying the Government loans. Further, Government have also placed at the disposal of each society a rent-free godown with a capacity of about 2000 maunds. The grain-cum-cash credit societies have undertaken the distribution of seeds, fertilizers, etc., on a considerable scale. The societies are popular and have made considerable progress in the matter of coverage of population, loans advanced etc. At the end of 1958-9, there were 2,007 grain-golas in the State with a membership of 4.56 lakhs. The share capital of the societies was Rs. 29.39 lakhs and the working capital Rs. 142.34 lakhs.

Large-sized credit societies

16. The Rural Credit Survey Committee recommended that the future line of development should be in the direction of bigger societies covering larger areas. The Second Five-Year Plan of Co-operative Development provided for the organization of 10,400 such societies in the whole country, but the programme was suspended in the third year of the Plan. It was envisaged that these societies would adopt the 'crop loan' system and advance loans on the basis of the anticipated crop rather than that of title to land. Each society was to be provided with a trained and full-time manager whose salary was to be subsidised on a sliding-scale basis by the Government. About 4,000 of these societies were to be provided with small godown, each costing about Rs. 10,000. All of them were to receive Government contribution to their share capital. About 7,000 such societies were organized during the first three years, some by amalgamation of small-sized societies and others by fresh registration. Of these about 6,000 have received assistance in various ways as provided for under the Plan. Nearly 75 per cent of the societies were organized in the second and third years only, and hence most of the societies have functioned as large-sized societies only for a short period.

Performance of large-sized societies

17. Particulars regarding the progress made by the large-sized societies at the end of 1957-58 in some States are furnished in the table below :

TABLE 16
Operations of Large-sized Credit Societies 30.6.1958

(Rs. lakhs)

Name of State	No. of Societies	Membership	Paid-up capital Rs	Deposits Rs	Loans advanced Rs	Loans out- standing Rs	Percentage of overdues to total outstandings
1	2	3	4	5	6	7	8
Andhra Pradesh	351	2,29,288	91.06	66.03	475.85	451.14	7.9
Bombay	1175	3,25,498	271.26	N.A.	1046.12	1040.93	11.9
Madhya Pradesh	418	89,740	60.42	N.A.	203.50	168.28	13.2
Madras	245	1,60,751	45.02	17.95	248.98	266.19	7.9
Mysore	435	1,37,915	51.19	24.91	173.83	N.A.	N.A.
Orissa	461	67,494	34.83	0.50	63.41	63.83	17.2
Punjab	340	1,04,498	27.71	48.00	170.74	N.A.	N.A.
Rajasthan	169	71,413	31.96	2.73	78.91	39.86	8.4
West Bengal	391	86,561	10.85	0.92	69.21	40.75	12.3
Kerala	72	46,495	16.99	N.A.	28.64	N.A.	N.A.
Uttar Pradesh	683	5,30,000	162.69	16.76	366.00	360.47	7.2

In all States, except Orissa, the average membership of the societies was over 200. In Uttar Pradesh, Madras and Andhra Pradesh, the average was over 650. Andhra Pradesh had the highest average paid-up share capital per society namely Rs. 25,943; Uttar Pradesh, Kerala, Rajasthan and Madras following with Rs. 23,820, Rs. 23,597, Rs. 18,911 and Rs. 18,376 respectively. Andhra Pradesh also led in regard to the average deposits per society, the figure being Rs. 18,812, Punjab coming second with Rs. 14,118. It may be mentioned that of the total deposits held by all primary credit societies in Andhra Pradesh, Madras, Punjab and Mysore, the large-sized societies accounted for 94 per cent, 28 per cent, 20 per cent, and 29 per cent respectively. The average loan per society exceeded Rs. 1.00 lakh in Andhra Pradesh and Madras, while Uttar Pradesh, Punjab and Madhya Pradesh showed an average of Rs. 53,587, Rs. 50,218 and Rs. 48,684 respectively.

18. The following table will show that the large-sized societies have generally provided more credit to their member than the other societies.

TABLE 17

Loans advanced by Large-sized Societies 1957-58

Name of State	Average loan per member by large-sized societies	Average loan per member by rest of the credit societies
	Rs	Rs
1	2	3
1. Bombay	321	173
2. Madhya Pradesh	227	132
3. Andhra Pradesh	208	77
4. Punjab	163	88
5. Madras	155	74
6. Mysore	126	69
7. Rajasthan	110	65
8. Orissa	94	52
9. Uttar Pradesh	69	53

Side by side with the increase in the size of loans, these societies have considerably extended their membership as may be seen from the following table. Statistical information about the types of agriculturists constituting the membership of the societies in the different States is not available.

TABLE 18

Increase of Membership in Large-sized Societies

Name of State	No. of societies before registration	No. of large-sized societies after registration	Membership of societies on the date of formation as large sized societies (in lakhs)	Membership of large-sized societies on 30.6.58 (in lakhs)
1	2	3	4	5
1. Andhra Pradesh	931	351	1.31	2.29
2. Madras	771	245	1.00	1.61
3. Madhya Pradesh	418	418	0.57	0.90

Though it may be too early to assess the full impact of the working of this type of institution on the general credit structure at the primary level, the foregoing account indicates that generally the large-sized societies have been able to extend the range of credit operations. In Andhra Pradesh, Madras, Mysore and Punjab they have succeeded in a significant measure in mobilizing local resources.

General appraisal

19. We may now make a general appraisal of the working of primary co-operative credit societies. Although there has been a significant increase in the quantum of credit supplied by co-operatives in recent years, the State-wise picture shows uneven development. On 30 June 1958, Madras, Bombay and Andhra Pradesh alone accounted for slightly over 50 per cent of the total advances, while the eastern region comprising West Bengal, Assam, Bihar and Orissa accounted for only 7 per cent. Similarly, the average loan advanced per member varies considerably from State to State. Against the all-India average of Rs. 94 per member during 1957-58, the average for Bombay was as high as 205, while it was as low as Rs. 18 in Bihar. In Kerala it was 38, in West Bengal 46, in Uttar Pradesh 58 and in Orissa 62. During 1957-58, the average share capital per society was only about Rs. 1,700 and the average of deposits was slightly over Rs. 500. The average deposit per member was a little over Rs. 8. Owned funds constituted only about one-fourth of the total working capital of these societies, while deposits accounted for hardly 5 per cent of the working capital. The main source of working capital of these societies was borrowings which accounted for nearly for 60 per cent in 1957-58. The overdues in the societies are also large. Out of the overdues of Rs. 23 crores at the end of 1957-58, as much as Rs. 12 crores were overdue for over one year. Of the 1.35 lakhs agricultural credit and multipurpose societies audited during 1956-57, about 22,000 were in A and B categories and about 81,000 in C and about 22,000 in D and E categories, while about 10,000 societies were unclassified. Thus, out of a total of about 1.65 lakh societies, about 22,000 societies in D and E categories and a large number of C class societies require considerable reorganization and revitalization. Some of these may even have to be taken into liquidation if attempts to revive them fail.

Need for revitalization of societies

20. The above picture of the working of the primary co-operative credit societies cannot be viewed with complacency as it indicates lack of sufficient vitality and strength on their part. The existence of a fairly large number of dormant and weak societies is an impediment in the way of new schemes designed to widen the scope and utility of co-operative organizations and diffusion of co-operative activity in the rural areas. We, therefore, believe that for the expansion of agricultural credit, efforts have to be on parallel lines, one for the organization of new societies and the other for the reorganization and revitalization of a large number of existing societies.

CHAPTER IV

PROGRESS OF CO-OPERATIVE CREDIT-FINANCING BANKS

The co-operative banking structure, as it has evolved in this country, is federal, consisting of the agricultural credit societies at the primary level, central co-operative banks at the district level and the state co-operative bank at the apex. It is a merit of this set-up that, though the institutions at the different levels are connected with each other by the bond of affiliation, they are, in financial and legal terms, distinct entities, each serving a set of specific purposes which justify its existence as an independent unit at that level. Together, these institutions constitute an effective machinery functioning as balancing centres within the movement and supplementing the internal financial resources by borrowing from outside, i.e., from the public, the money market and the Central Bank of the country. Accordingly, they assist in supplying agricultural credit in the volume required, supervising its use and effecting its recovery on due dates. At the same time, the fact that the structure is federal in character and that the institutions at the different levels are independent legal entities also implies that the strength of the chain depends upon the strength of each of the links.

2. Two distinct types of co-operative financing banks have developed in this country—one dealing with the provision of short-term and medium-term credit and the other with the provision of long-term credit. The former consists of the state co-operative banks at the apex and central banks as intermediaries between the apex and the primary levels. The long-term credit structure consists ordinarily of the central land mortgage banks and primary land mortgage banks. In some States, in place of primary banks there are branches of the central land mortgage bank or central co-operative banks which act as agents of the central land mortgage bank for financing individual members. The division of the two types of financing agencies was dictated by the specialised nature of long-term credit which is provided on mortgage security and requires a detailed examination of the title to, and valuation of, the property to be mortgaged and also by the special nature of the principal source of funds for the business of the land mortgage banks. This source consists of debentures which are guaranteed by State Governments as to the payment of interest and repayment of principal. While the state co-operative bank and the central land mortgage bank should continue to remain separate entities for legal and financial purposes, it is important that there should be the greatest possible co-ordination between the two. Such co-ordination will make a systematic approach possible towards the question of providing adequate credit for agricultural production, improvement and development. Since the financing banks lend their support to the primary credit structure and provide necessary leadership to them, they have an important place in the co-operative credit structure. In the paragraphs that follow, we give a brief account of the working of central banks, state co-operative banks and land mortgage banks.

Rationalization of central banking structure

3. An important feature of the Second Plan was the rationalization of the central banking structure in the States through a process of amalgamation and elimination of weaker units with a view to establishing a strong central bank in each district. The process of rationalization is almost complete in Punjab, Orissa and in the areas of the erstwhile Hyderabad State where many districts had more than one bank each. As a result, the number of central banks in the country went down from 505 in 1950-1 to 390 in 1958-9. In Bihar, where there are 47 central banks at present, Government have decided to reduce the number to 28. In West Bengal, following the subventions and loans granted by the Government of India and the State Government to rehabilitate the state and central co-operative banks which had received a setback after the partition of the country, a scheme of amalgamating weaker banks to form strong district central banks is being implemented. As a result, there will be 17 banks to serve the 16 districts of the State. Reorganization has already been completed in some districts. In other States also where more than one central bank function in a district, the principle of amalgamating them has been accepted so as to have, as a rule, one bank for each district. While certain districts of some States had a multiplicity of central banks, there were others where there was no such agency, so that the needs of the societies in these areas were met either directly by the state co-operative bank or by a central bank of a neighbouring district. Where the need for an independent agency for the district was justified, new central banks have come to be established, as in Rajasthan and Saurashtra.

Progress of central banks

4. The progress made by central co-operative banks under the First Five-Year Plan and the first two years of the Second Plan will be seen from the following table :

TABLE 1
Progress of Central Co-operative Banks
(1950-51 to 1957-58)

(Rs Lakhs)

<i>Particulars</i>	<i>1950-51</i>	<i>1955-56</i>	<i>1957-58</i>
1. Paid-up share capital	403.92	849.95	1707.21
2. Statutory reserve	242.17	337.32	391.30
3. Other reserves	237.13	328.15	400.30
4. Owned funds	883.22	1515.42	2498.81
5. Deposits	3778.66	5571.20	6687.93
6. Borrowings	974.89	2180.02	4957.27
7. Working capital	5636.77	9266.64	14144.01
8. Loans outstanding	3413.90	5434.12	10098.91
9. Loans overdue	295.89	787.77	1207.90
10. Percentage of overdues to outstandings	8.67	14.50	11.96

It will be observed that during the first two years of the Second Plan, the paid-up capital of the banks registered a twofold increase over the figure of 1955-56. The share capital contributed by Government formed 18.8 per cent of the total capital of Rs 17.07 crores. The working capital of the central banks increased by about Rs 49 crores during the two years, of which nearly Rs 28 crores were accounted for by increase in borrowings from banks. The deposits with the banks increased by about Rs 11 crores, but the owned funds and deposits taken together have not expanded as fast as the needs of the banks, with the result that the expansion of business has taken place mainly with the help of increased borrowings from state co-operative banks. This trend will be seen from the following figures.

TABLE 2
Composition of Working Capital of
Central Banks (1950-51—1957-58)

Item	Percentage of Working Capital		
	1950-51	1955-56	1957-58
1. Owned funds	15.7	16.4	17.7
2. Deposits	67.0	60.1	47.3
3. Other borrowings	17.3	23.5	35.0
Total Working Capital	100.0	100.0	100.0

Deposits which constituted over 2/3 of the total working capital in 1950-51 formed only about 47 per cent in 1957-58, whereas outside borrowings increased from 17.3 per cent to 35 per cent during the period.

Position in different States

5. The progress of central co-operative banks in the different States shows wide variations as will be seen from Table 3 on page No. 40. Of the total paid-up capital of Rs. 17.07 crores, Bombay accounted for Rs. 3.97 crores or 23.2 per cent, Uttar Pradesh for 2.71 crores or 15.9 per cent and Andhra Pradesh and Mysore for Rs. 1.83 crores and Rs. 1.82 crores respectively or about 10.7 per cent each. Of the total deposits of Rs. 66.88 crores, the central banks of Bombay State had Rs. 21.94 crores or about 33 per cent. Punjab and Madras accounted, respectively, for Rs. 7.27 crores and Rs. 7.22 crores or about 10.8 per cent each of the total. Of the borrowings from the State co-operative banks and others of Rs. 49.57 crores, banks in Andhra Pradesh accounted for Rs. 10.79 crores and in Bombay for Rs. 10.07 crores or 21.8 per cent and 20.3 per cent respectively. Borrowings from higher financing agencies formed over 50 per cent of the total working capital in Andhra Pradesh, Assam, Bihar and Jammu & Kashmir. The proportion was less than 33 per cent in Bombay, Madras, Madhya Pradesh, Punjab, Kerala and West Bengal. Of the total loans aggregating Rs. 159.87 crores advanced during 1957-58, advances by central co-operative banks in Bombay amounted to a little over Rs. 50 crores or about 31 per cent of the total. Banks in Andhra Pradesh, Madras

TABLE 3
Position of Central Co-operative Banks 30-6-1958

(Rs. lakhs)

Name of State	No. of Central Banks	Paid-up share capital	Of which contributed by State Government	Statutory reserve fund	Owned funds	Deposits	Borrowings	Working capital	Loans advanced during 1957-8	Outstandings	Overdues	Percentage of overdues to outstandings	Bad and doubtful debts	Bad debt reserve
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Andhra Pradesh	26	183.23	25.00	49.75	276.30	559.76	1078.59	1914.65	2183.56	1571.65	137.05	8.7	23.37	19.14
Assam	10	18.22	8.08	0.75	19.65	3.04	125.80	148.49	99.27	128.94	23.44	20.5	1.32	0.42
Bihar	47	31.37	13.50	9.97	49.09	83.83	149.63	282.55	150.79	190.22	87.95	46.2	2.10	0.52
Bombay	56	396.57	107.30	86.57	593.51	2194.29	1006.94	3794.74	5002.18	2407.57	296.37	12.3	26.81	29.74
Jammu & Kashmir	4	3.76	—	2.16	8.57	13.74	40.92	63.23	26.99	48.59	36.69	75.5	—	0.65
Madras	15	150.66	11.00	58.87	250.37	722.11	356.15	1328.63	2128.85	1378.35	20.60	1.5	11.74	14.38
Madhya Pradesh	50	166.22	53.54	35.84	247.73	578.07	405.59	1231.39	1023.55	910.98	86.79	9.5	11.27	15.49
Orissa	17	61.89	10.25	10.59	83.19	170.39	144.09	397.67	245.35	332.01	67.69	20.4	9.78	5.96
Punjab	37	125.90	34.11	43.13	228.59	726.52	426.33	1381.44	846.53	803.91	119.46	14.9	24.70	27.71
Rajasthan	29	55.57	10.05	8.17	74.36	145.29	145.57	365.22	330.29	219.18	32.59	14.9	7.83	4.29
Mysore	23	182.45	17.30	25.33	229.50	684.90	518.35	1432.75	2246.78	993.49	98.77	9.9	2.45	5.44
Kerala	2	20.29	—	7.89	32.35	149.47	59.00	240.82	371.21	158.14	10.11	6.4	0.33	0.78
Uttar Pradesh	59	271.46	31.00	33.76	326.08	488.27	406.63	1220.98	1064.17	772.79	100.78	13.0	6.03	9.67
West Bengal	43	39.62	—	18.52	79.52	168.25	93.68	341.45	267.01	183.09	86.61	47.3	17.94	12.24
418	1707.21	321.13	391.30	2498.81	6687.93	4957.27	14144.01	15986.53	10098.91	1207.90	11.96	145.67	146.43	

and Mysore advanced loans amounting to Rs. 21.84 crores, Rs. 21.29 crores and Rs. 22.47 crores, respectively, or over 13 per cent in each case. Thus the central banks of four States viz. Bombay, Madras, Andhra Pradesh and Mysore together accounted for 72.3 per cent of the total advances of all the central banks in the country during 1957-58. Again, of the total loans outstanding at the end of 1957-58 amounting to about Rs. 101 crores, banks in Bombay, Andhra Pradesh and Madras accounted for Rs. 24.08 crores, Rs. 15.72 crores and Rs. 13.78 crores, respectively, or together for about 53 per cent of the total. Overdues constituted 11.96 per cent of the total outstandings of all central banks; they were above 20 per cent in Assam, Orissa, Bihar, Jammu & Kashmir and West Bengal. In the last three States, the proportion was over 45 per cent.

6. As will be seen from the particulars furnished above, the central banks have recorded all-round improvement in their transactions. Central co-operative banks form an important link in the chain as they help in balancing the deficits and surpluses in the resources of their constituents. Besides, they tap local savings for financing local production and provide the channel at the district level for the funds to flow from the state co-operative bank, the money market and the Reserve Bank of India. The banks have to lend support to the primaries and, therefore, their financial strength, stability and soundness are as important as those of the primaries.

The Standing Advisory Committee on Agricultural Credit of the Reserve Bank had recommended in 1952 that a central bank to be an economic unit should come upto the following standards :

Paid-up share capital and reserves	— About Rs. 3 lakhs
Working capital	— Rs. 20 to Rs. 25 lakhs

The following table shows the number of central banks which satisfy both or either of these tests.

TABLE 4

**Owned Funds* and Working Capital of Central Banks
30-6-1958**

Name of State	Total number of central banks & banking unions	Number of banks not satisfying both the tests of Rs 3 lakhs owned funds and Rs 20 lakhs of working capital	Number of banks with less than Rs 3 lakhs owned funds	Number of banks with less than Rs 20 lakhs working capital	Number of banks with working capital between Rs 20 lakhs & Rs 50 lakhs	Number of banks with working capital over Rs 50 lakhs
1	2	3	4	5	6	7
Andhra Pradesh	26	4	5	4	7	15
Assam	10	7	9	7	3	—
Bihar	47	45	45	47	—	—
Bombay	56	10	13	17	18	21
Jammu & Kashmir	4	2	3	3	1	—
Kerala	2	—	—	—	—	2
Madhya Pradesh	50	18	20	25	20	5
Madras	15	1	—	1	4	10
Mysore	23	4	4	5	10	8
Orissa	17	7	7	9	6	2
Punjab	37	12	12	13	12	12
Rajasthan	29	18	18	21	7	1
Uttar Pradesh	59	17	17	36	18	5
West Bengal	43	41	41	41	1	1
Total All-India	418	185	194	229	107	82

*(Paid-up share capital and statutory reserve)

Out of 418 central banks and banking unions in the country at the end of June 1958, 185 or about 44 per cent did not come upto the standards, inspite of the fact that considerable expansion of credit has taken place in recent years and that several of the institutions received.

contributions to their share capital from the State. Nearly 50 per cent of the banks had less than Rs. 3 lakhs as owned funds. In Bihar 45 out of 47, in West Bengal 41 out of 43, in Rajasthan 18 out of 29, in Assam 7 out of 10 and in Jammu & Kashmir 2 out of 4 banks did not satisfy the minimum standards. It is imperative that in the context of the increased responsibilities they will be called upon to bear in an expanded programme of agricultural credit, the banks should build up their resources quickly as well as expand their loan business.

7. It is possible that the financial weaknesses of some central banks, as evidenced by the size of their owned funds and working capital, may, to some extent, be remedied by completing the process of reorganization of the weak banks through amalgamation. In Assam, Bihar and West Bengal where the problem is acute, steps are being taken to rationalise the banking structure. Here, as well as in the other States, we would recommend that the work of reorganization of weak central banks through amalgamation, might be completed as expeditiously as possible so that the progress of agricultural credit co-operatives may not be impeded but, in fact, may be accelerated.

State co-operative banks

8. At the beginning of the Second Plan, state co-operative banks were functioning in all the States. On 30 June 1958, there were 21 state co-operative banks with a paid-up share capital of Rs. 8.47 crores and a total working capital of Rs. 109.07 crores. They advanced loans to the extent of Rs. 212.48 crores in 1957-58. The fourteen major States had 17 banks, as in two States viz., Bombay and Andhra Pradesh there were three and two banks, respectively. In the centrally administered areas of Delhi, Himachal Pradesh, Tripura and Manipur, there are no central co-operative banks and the state co-operative banks finance societies direct. There has been a general improvement in the financial position of the banks as may be seen from the progress made by them during the First Five-Year Plan period as also in the first two years of the Second Plan as indicated in the table below :

TABLE 5
Progress of State Co-operative Banks (1950-51 to 1957-58)

Particulars	(Rs. lakhs)		
	1950-51	1955-56	1957-58
1	2	3	4
1. Paid-up share capital	157.98	436.91	847.40
2. Statutory reserve	110.53	142.05	149.39
3. Other reserves	111.29	185.86	196.17
4. Owned funds	379.80	764.82	1192.96
5. Deposits	2207.94	3666.84	4544.60
6. Borrowings	854.35	1902.28	5169.18
7. Working capital	3442.09	6333.94	10906.74
8. Loans outstanding	1790.40	3477.16	7473.20
9. Loans overdue	215.21	370.28	550.42
10. Percentage of overdues to outstandings	12.01	10.65	7.37

It will be observed that in the first two years of the Second Plan, the paid-up capital of the banks increased by a little more than Rs. 4 crores. The process of Government contributing to the share capital of state co-operative banks which was started in the First Five-Year Plan was accelerated in the Second Plan. The following state co-operative banks had more than 50 per cent Government capital on 30 June 1958.

TABLE 6
State Co-operative Banks having more than 50 per cent
Government Capital on 30-6-58

(Rs. lakhs)

Name of State Co-operative Bank	Total paid- up capital	Of which contri- buted by Govt.	Percentage of col. 3 to col. 2
1	2	3	4
1. Assam	43.21	31.00	71.7
2. Bihar	44.22	40.00	90.5
3. Bombay	125.85	81.00	64.4
4. Jammu & Kashmir	15.43	12.90	83.6
5. Madhya Pradesh	57.44	34.60	60.2
6. Mysore	44.42	30.00	67.5
7. Punjab	56.19	34.00	60.5
8. Rajasthan	19.73	12.93	65.5
9. Himachal Pradesh	10.74	8.00	74.5
10. Tripura	1.79	1.00	55.9

In the Bihar State Co-operative Bank, the proportion of Government capital was as high as 90.5 per cent.

Composition of working capital

9. The working capital of the banks increased in the first two years of the Second Plan by nearly Rs. 46 crores, but a large proportion of the increase was due to increased borrowings from the Reserve Bank and Government which rose by about Rs 31 crores during the period, as against increase in deposits by Rs 9 crores and an increase in owned funds by about Rs 4 crores. The proportion of the different components to the total working capital of the banks is shown in the following table.

TABLE 7
Composition of Working Capital of State Co-operative Banks,
1950-1 to 1957-8

Item	Percentage to Working Capital		
	1950-1	1955-6	1957-8
1. Owned funds	11.0	12.1	10.9
2. Deposits	64.2	57.9	41.7
3. Other borrowings	24.8	30.0	47.4
Total	100.0	100.0	100.0

The proportion of owned funds to the total working capital has remained almost steady during the period, so that the decline in the proportion of deposits has been made up by a corresponding increase in the proportion of outside borrowings, the bulk of which has been from the Reserve Bank of India. With co-operative development proceeding at a rapid pace, increase in deposits has been outstripped by the demand for funds.

Position of state co-operative banks

10. The position of owned funds, deposits, borrowings and working capital of the different state co-operative banks as at the end of 1957-58 is indicated in the following table :

TABLE 8
Owned funds, Deposits, Borrowings and Working Capital of
State Co-operative Banks 30.6.58 (Rs lakhs)

Name of the State Co-operative Bank	Paid-up share capital	Of which contributed by State Government	Statutory reserve fund	Owned funds	Deposits	Borrowings from banks etc.	Of which from R.B.I.	Working capital
1	2	3	4	5	6	7	8	9
Andhra	46.00	15.00	28.00	81.05	115.55	808.54	705.92	1005.14
Assam	43.21	31.00	2.19	50.03	282.14	136.31	131.65	468.48
Bihar	44.22	40.00	9.80	61.34	196.84	44.83	—	303.01
Bombay	125.85	81.00	20.26	179.68	1375.27	799.39	665.46	2354.34
Delhi	5.70	1.50	2.76	10.90	39.84	—	—	50.74
Himachal Pradesh	10.74	8.00	2.30	14.31	54.82	—	—	69.13
Hyderabad	24.37	5.00	1.53	35.83	99.79	180.31	170.71	315.93
Jammu & Kashmir	15.43	12.90	0.94	18.41	6.98	37.50	—	62.89
Madhya Pradesh	57.44	34.60	7.05	71.23	181.86	300.73	292.40	553.82
Madras	74.38	25.00	26.20	117.34	436.92	740.71	523.89	1294.97
Manipur	1.36	0.50	—	1.36	3.81	—	—	5.17
Orissa	14.93	7.00	2.33	19.44	105.15	64.25	48.86	188.84
Punjab	56.19	34.00	1.45	64.41	119.67	308.46	287.82	492.54
Rajasthan	19.73	12.93	0.39	20.35	29.63	104.00	104.00	153.98
Mysore	44.42	30.00	5.57	54.94	137.14	434.00	434.00	626.08
Saurashtra	61.18	20.00	1.79	67.06	217.34	400.00	400.00	684.40
Tripura	1.79	1.00	—	1.79	18.70	—	—	20.49
Kerala	20.52	10.00	1.06	21.83	40.67	83.38	79.38	145.88
Uttar Pradesh	108.02	10.00	11.28	134.01	526.06	397.10	263.92	1057.17
Vidarbha	20.03	5.40	7.02	34.26	254.71	207.97	201.97	496.94
West Bengal	51.89	15.00	17.47	133.39	301.71	121.70	97.69	556.80
	847.40	399.83	149.39	1192.96	4544.60	5169.18	4407.67	10906.74

Of the 21 state co-operative banks, Bombay, Madras, Uttar Pradesh and West Bengal banks each had owned funds exceeding Rs 1 crore. These four banks accounted for Rs 5.64 crores out of the total owned funds of Rs 11.93 crores or a little less than 50 per cent. Of the total deposits of Rs 45.45 crores, the Bombay State Co-operative Bank had Rs 13.75 crores, or 30.3 per cent, the Madras State Co-operative Bank Rs 4.37 crores or 9.6 per cent, the Uttar Pradesh State Co-operative Bank Rs 5.26 crores or 11.6 per cent, so that these three banks together accounted for 51.5 per cent of the total deposits. The Andhra, Bombay, Madras and Uttar Pradesh State Co-operative Banks each had over Rs 10 crores working capital. These four banks together had Rs 57.12 crores or 52.4 per cent of the total working capital of all the banks. Borrowings from the Reserve Bank and others formed more than 50 per cent of the total working capital in Andhra, Hyderabad, Madras, Madhya Pradesh, Punjab, Rajasthan, Mysore, Saurashtra and Kerala State Co-operative Banks. Deposits formed more than 50 per cent of the total working capital in the state co-operative banks of Assam, Bihar, Bombay, Orissa, Vidarbha and West Bengal apart from those functioning in the centrally administered areas of Delhi, Himachal Pradesh, Manipur and Tripura.

11. Particulars of loans advanced, outstandings and overdues of the state co-operative banks at the end of 1957-58 are indicated in the table below :

TABLE 9
Loans advanced, Outstandings and Overdues of State Co-operative Banks
30-6-1958

Name of State Co-operative bank	(Rs lakhs)						
	Loans advanced during 1957-58	Outstandings	Overdues	Percentage of overdues to outstandings	Bad & doubtful debts	Bad debt reserve	Profit or loss
1	2	3	4	5	6	7	8
Andhra	1189.01	929.80	2.87	0.3	—	2.00	+ 7.64
Assam	604.88	328.80	69.12	21.0	2.46	3.27	+ 7.52
Bihar	152.17	125.12	37.65	30.0	0.14	1.60	+ 3.90
Bombay	13139.98	1485.93	51.00	3.5	9.59	10.00	+ 8.10
Delhi	34.29	39.26	1.75	4.5	1.50	1.79	+ 0.91
Himachal Pradesh	153.62	42.59	8.24	19.3	0.60	0.87	+ 0.49
Hyderabad	207.37	203.26	18.67	9.2	7.81	9.01	+ 1.23
Jammu & Kashmir	74.85	55.03	37.28	67.7	—	0.06	+ 0.64
Madras	816.46	952.23	—	—	1.13	1.77	+ 5.24
Madhya Pradesh	685.02	398.57	3.49	0.9	2.06	3.67	+ 5.76
Manipur	0.14	0.18	—	—	—	—	0.07
Orissa	124.37	117.89	0.35	0.3	0.35	0.71	+ 3.26
Punjab	522.56	391.15	3.65	0.9	1.50	0.56	+ 3.95
Rajasthan	136.87	130.61	—	—	—	0.14	+ 1.16

Mysore	911.31	480.40	10.64	2.2	—	0.30	+4.06
Saurashtra	720.44	489.53	44.88	9.2	0.60	1.00	+5.79
Tripura	6.75	4.88	0.02	—	—	—	+0.21
Kerala	142.54	102.81	6.66	6.5	0.29	0.12	+0.75
Uttar Pradesh	694.48	589.30	35.05	5.9	0.60	2.91	+10.75
Vidarbha	745.94	320.81	5.05	1.6	0.23	0.95	+ 2.41
West Bengal	184.97	285.05	214.05	75.1	173.50	46.35	— 3.29
Total	21248.02	7473.20	550.42	7.37	202.36	87.08	+73.77 —3.36

Of the total loans advanced by state co-operative banks during 1957-8 amounting to Rs 212.48 crores, the Bombay State Co-operative Bank alone accounted for Rs 131.40 crores or 61.8 per cent. The loans advanced exceeded Rs 10 crores in Andhra and Bombay banks, were between Rs 8 crores and Rs 10 crores in Madras and Mysore, were between Rs 6 crores and Rs 8 crores in Assam, Madhya Pradesh, Saurashtra, Uttar Pradesh and Vidarbha, were Rs 5.23 crores in Punjab, were between Rs 1 crore and Rs 2 crores in Bihar, Orissa, Rajasthan, Kerala and West Bengal banks and were less than Rs 1 crore in the rest. Of the total loans amounting to Rs 74.73 crores, which were outstanding on 30 June 1958, the Bombay, Andhra, Madras and Uttar Pradesh State Co-operative Banks accounted for Rs 39.57 crores or 53 per cent. Overdues formed 7.37 per cent of the total loans outstanding. In Assam, Bihar, Jammu & Kashmir and West Bengal, the overdues formed over 20 per cent. In Jammu & Kashmir and West Bengal banks, overdues constituted more than 2/3rd of the total loans outstanding at the close of the year.

Land mortgage banks

12. At the beginning of the Second Plan, central land mortgage banks functioned only in Bombay, Saurashtra, Hyderabad, Orissa, Madras, Mysore, Kerala and Andhra. During the Second Plan period, such banks were established in Uttar Pradesh, Bihar, Punjab, Assam, West Bengal and Rajasthan, so that at the end of 1958-59, there were central land mortgage banks in all the States except Madhya Pradesh and Jammu & Kashmir. To strengthen the capital base of the central land mortgage banks, the State Governments have up to the end of December 1959, contributed Rs 1.41 crores as share capital. In Madhya Pradesh the state co-operative bank functions as a central land mortgage bank through a separate land mortgage banking department. In Andhra Pradesh, Bombay and Kerala there are more than one central land mortgage bank, the integration of which into a unified bank for the whole State is in progress. While the set-up at the apex level is the same except in Madhya Pradesh, there is considerable diversity in the organization below that level. In Madras, Andhra Pradesh and Mysore, the units of operation at the taluka level are the primary land mortgage banks. They are affiliated to the apex bank and advance loans to individual agriculturists out of the funds provided by the central land mortgage bank. In Saurashtra and Orissa, there are no primary banks. The central land mortgage bank operates through its branches—in Orissa also through its agencies—set-up in various parts of the State. The Bombay State Land Mortgage Bank works through affiliated primaries, branches of its own and central banks acting as agents. There were 347 primary land mortgage banks at the end of 1957-58, the bulk of which were in Madras, Mysore, Andhra Pradesh and Bombay States. The advances made by the central and primary land mortgage

banks were of the order of Rs 4.68 crores and Rs 2.52 crores respectively, in 1957-58 as against the target of Rs 25 crores set out in the Plan.

Progress of land mortgage banks

13. The following table indicates the progress made by the banks since the beginning of the First Five-Year Plan till the end of the second year of the Second Plan.

TABLE 10
Progress of Co-operative Land Mortgage Banks
(Rs. lakhs)

Item	Central			Primary		
	1950-51	1955-56	1957-58	1950-51	1955-56	1957-58
1	2	3	4	5	6	7
No. of banks	5	9	17 ⁺	286	302	347
Membership	9,848	90,786	151,483*	215,063	313,827	375,980
Paid-up capital	31.34	78.73	225.84	52.50	85.64	107.06
Statutory reserve	23.35	36.32	45.35	11.65	17.82	21.76
Other reserves	10.14	17.19	26.23	4.51	10.05	16.84
Owned funds	64.83	132.24	297.42	68.66	113.51	145.66
Deposits and other borrowings	32.47	226.02	242.00	588.43	1011.52	1260.17
Debentures	674.76	1494.38	2047.85	8.59	7.62	—
Working capital	772.06	1852.64	2587.27	665.68	1132.65	1405.83
Loans advanced	132.93	283.04	467.65	129.02	173.64	251.66
Loans outstanding	597.77	1308.21	1892.23	626.41	1051.14	1308.09
Of which overdue	0.88	115.13	90.03	8.29	23.78	33.72
Bad & doubtful debts	0.41	0.19	—	0.01	0.87	—
Sinking fund investments	102.30	405.82	577.16	0.04	2.19	—

*Including two state co-operative banks working through land mortgage banking sections.

*Including 31,452 nominal members.

It may be observed that co-operative land mortgage credit has made steady progress in the first two years of the Second Plan, although the progress falls much short of the target under the Plan. As against the target of Rs 25 crores for advances under long-term credit to be reached in 1960-1, the loans advanced by the central land mortgage banks during 1957-8 were only Rs. 4.68 crores. One of the reasons for the relatively slow progress towards the attainment of the target is that in States lik

Bihar, Punjab and Rajasthan the central land mortgage banks were established only during the year 1957-8 and had not started issuing loans. Similarly, although central land mortgage banks had been established in West Bengal and Assam in 1956-7, no loans were advanced by the bank in West Bengal during 1957-8, while the bank in Assam advanced only Rs. 5.12 lakhs during that year. The foundation for expanding the business, however seems to have been laid in these States inasmuch as central land mortgage banks have been established with substantial contribution to their share capital by the State. In other States also, Government have contributed substantially to the share capital of the existing central land mortgage banks. As a result, therefore, out of the total paid-up share capital of the banks amounting to Rs. 2.26 crores, Government's contribution amounted to Rs 1.22 crores or 53.8 per cent. The owned funds of the banks increased from Rs 1.32 crores at the end of 1955-56 to Rs 2.97 crores at the end of 1957-8 and the working capital from about Rs 19 crores to about Rs 26 crores. The loans outstanding increased from Rs. 13.08 crores to Rs 18.92 crores during the period. The number of primary land mortgage banks which stood at 286 at the end of 1950-1 increased to 347 at the end of 1957-8. Their membership rose during this period from 2.15 lakhs to 3.76 lakhs and their paid-up capital from Rs 52.50 lakhs to Rs. 107.06 lakhs. The owned funds of the banks which stood at Rs 68.66 lakhs in 1950-1 increased to Rs 145.66 lakhs in 1957-8 and their working capital from Rs 6.66 crores to Rs. 14.06 crores. The loans advanced also almost doubled themselves from Rs 1.29 crores to Rs 2.52 crores during the same period.

14. As central land mortgage banks have been set-up in many States only recently, the progress made by the banks under the Second Five-Year Plan is confined to only a few States as will be seen from the following table :

TABLE 11
Position of Central Land Mortgage Banks in the Different States—
 30. 6. 1958

(Rs. lakhs)

Name of State	Member- ship *	Paid-up capital	Statutory reserve	Owned funds	Deposits & other borrow- ings	Deben- tures	Working capital	Sinking fund	Loans advanced	Loans out- standing
1	2	3	4	5	6	7	8	9	10	11
Andhra	60	33.43	14.82	55.01	31.47	501.83	588.31	140.56	69.94	412.51
Hyderabad	17	2.23	—	2.26	20.04	—	22.30	—	9.24	19.43
Assam	1,157	9.81	—	9.81	5.00	—	14.81	—	5.12	7.12
Bihar	36	10.01	—	10.01	—	—	10.01	—	—	—
Bombay	1,431	24.58	1.14	27.51	18.37	186.31	232.19	72.06	29.88	132.53
Saurashtra	99,462	51.57	8.75	63.91	30.19	475.00	569.10	112.55	173.87	437.05
Vidarbha	12	—	—	—	14.94	33.94	48.88	16.43	6.77	31.90
Kerala	476	26.53	0.10	28.17	21.62	—	49.79	—	15.12	92.33
Cochin	6,767	2.44	0.84	4.19	7.58	32.63	44.40	1.93	3.94	40.50
Madhya Pradesh	20	—	—	—	10.59	41.06	51.65	19.47	5.27	31.42
Madras	386	19.83	17.60	44.13	61.59	553.20	658.92	180.94	73.44	444.30
Mysore	98	20.90	1.56	26.95	11.33	193.90	232.18	29.14	59.33	202.46
Orissa	4,464	7.01	0.54	7.95	9.28	29.98	47.21	4.08	15.73	40.68
Punjab	4,719	11.23	—	11.23	—	—	11.23	—	—	—
Ajmer	8	0.01	—	0.01	—	—	0.01	—	—	—
Rajasthan	906	6.24	—	6.24	—	—	6.24	—	—	—
West Bengal	12	0.02	—	0.04	—	—	0.04	—	—	—
Total :	120,031	225.84	45.35	297.42	242.00	2047.85	2587.27	577.16	467.65	1892.23

* Excludes nominal members

It will thus be seen that five banks viz. Andhra, Bombay, Madras, Saurashtra and Mysore accounted for most of the total business of the central land mortgage banks in 1957-8. Of the total loans amounting to Rs 4.68 crores advanced during that year, these banks' share was Rs 4.06 crores or 87 per cent. Again, out of the total loans outstanding of Rs 18.92 crores, these five banks accounted for Rs 16.29 crores or 86 per cent. Similarly, of the total working capital of all the banks aggregating to Rs 25.87 crores, the working capital of the five banks was Rs 22.81 crores or 88 per cent. In the field of land mortgage credit, the most significant development is through these five banks.

Purposes of land mortgage credit

15. Co-operative land mortgage credit is provided for a variety of purposes such as redemption of old debts, improvement of land, purchase of costly agricultural equipment, construction of wells and erection of pumping-plants etc. Redemption of old debts still constitutes an important purpose, although in recent years greater emphasis is being laid on loans for land improvement. The relative importance of the different purposes for which loans were advanced by central land mortgage banks in the year 1957-8 is shown in the following table:

TABLE 12
Purposes of Long-term Loans in Central Land Mortgage Banks
1957-58

	(Rs. lakhs)	
Purpose	Amount	% to total
1	2	3
1. Redemption of old debts	159.88	34.2
2. Purchase of land	10.09	2.2
3. Purchase of rights	0.66	0.1
4. Land improvement	176.62	37.8
5. Purchase of machinery	79.79	17.0
6. Other purposes	40.62	8.7
	467.66	100.0

Thus, loans for land improvement accounted for Rs 176.62 lakhs or 37.8 per cent of the total, while loans for debt redemption were Rs 159.88 lakhs and formed 34.2 per cent. In some banks, however, debt redemption still forms the most important purpose, as for instance, in Madras and Mysore where such loans were Rs 41.79 lakhs and Rs 56.62 lakhs out of Rs 73.44 lakhs and Rs 59.33 lakhs respectively, advanced during 1957-8. In the Andhra Central Land Mortgage Bank, loans were advanced chiefly for land improvement.

Debentures

16. Debentures constitute the main source of funds for the provision of long-term credit by central land mortgage banks, either direct or through

affiliated primaries. An analysis of the subscribers to debentures floated by the Madras, Andhra, Bombay and Saurashtra Central Land Mortgage Banks in the past five years reveals that co-operative banks and societies accounted for a little over 30 per cent, while joint-stock commercial banks contributed a little less than 30 per cent of the debentures floated. The share of insurance companies, including the Life Insurance Corporation, was a little over 15 per cent of the total. For the past several years, the policy of the Reserve Bank has been to contribute, if necessary, up to 20 per cent of an issue. However, several central land mortgage banks did not avail themselves of this facility fully as their debentures were subscribed otherwise. In consequence, contributions made by the Reserve Bank in the past five years to debentures of the banks have been less than 5 per cent. Shortly after its establishment in 1955, the State Bank of India indicated its willingness to support the debenture issues of land mortgage banks and has been subscribing to the extent of 10 per cent of each issue. In recent years, land mortgage banks have found it increasingly difficult to raise long-term funds for periods exceeding 15 years because of the general aversion of the money market towards long-dated securities. Further, the banks have to face competition in the market from central and State Government loans, debentures of central and State Industrial Finance Corporations etc. The progress of land mortgage credit in the future will depend to a considerable extent upon their ability, in the face of these difficulties, to raise the required resources.

Rural debentures

17. The promotion of thrift and the mobilization of savings are among the most important objectives of the co-operative movement in this country as elsewhere in the world. They have also proved to be the most difficult among the tasks faced by them. At the same time, the co-operatives appear to be the most suitable agency for the purpose because they have intimate knowledge of and close contacts with the rural population. Moreover, the appeal must come at a time when the agriculturists, big or small, have funds in their possession, that is to say, generally within a short time after harvest. In the light of the above, the Rural Credit Survey Committee recommended a new type of debenture called rural debentures to be floated by central land mortgage banks. In November 1957, the Reserve Bank formulated a scheme and announced its willingness to subscribe to 2/3 of a series of rural debentures floated by a central land mortgage bank. Other essential features of the scheme were : (a) the grant of loans for periods not exceeding 7 years and (b) the floatation of a series of rural debentures immediately after harvest, of the maturity of 7 years to be subscribed by individuals, preferably residing in rural areas, and institutions like the *panchayats*. The Saurashtra, Andhra and Orissa Central Land Mortgage Banks floated rural debentures for the first time in 1957-58 and succeeded in getting subscriptions from individuals and *panchayats* amounting to Rs 25.89 lakhs, Rs 5.97 lakhs and Rs 2.23 lakhs, respectively. The scheme achieved a limited measure of success, as some central land mortgage banks found it difficult to collect mortgages of the maturity of seven years, since the borrowers in their areas were accustomed to loans for 15 years or more. In view of this, a modified scheme was introduced in September 1958, according to which a central land mortgage bank is to float a series of rural debentures in two parts, one for 7 years to be offered exclusively to individuals (not even *panchayats*) in rural areas, and the other for 15 years to be offered, exclusively, to the Reserve Bank. The

first part would be for 7/15th of the total amount of the series so that the accumulations in the sinking fund at the annual rate of 1/15th of the total amount would be enough to retire the first part fully at the end of 7 years. Subsequent accumulations in the sinking fund would go towards the retirement of the part held by the Reserve Bank. The rural debentures offered to individuals would carry a slightly higher rate to make them sufficiently attractive. To compensate for this, the Reserve Bank agreed to accept a rate of only 4 per cent on that part of the series purchased by it. Four central land mortgage banks, viz., Andhra, Madras, Mysore and Saurashtra floated rural debentures under the revised scheme during the year ended June 30, 1959, for an aggregate amount of Rs 90 lakhs, of which an amount of Rs 42.33 lakhs was collected from individuals. An article appearing in the July 1959 issue of the Reserve Bank Bulletin summarises the importance of the experiment of rural debentures as follows :

Briefly, the modified scheme introduced in January 1959, represents a compromise (made possible by the Reserve Bank's own contribution and assistance) between the need of the rural investor for a short-dated instrument with a comparatively attractive rate of interest and the need of the land mortgage banks for funds of a long-term nature at a relatively low cost. If the compromise works and if the scheme gets going, it may be possible for the land mortgage banks to depend more and more upon the rural investor and less and less on the Reserve Bank until eventually, the scheme is fully based on rural investment. The degree of success that these debentures have achieved in some States though by no means large in terms of the amounts subscribed, does perhaps indicate that the experiment is one of some importance in the evolution of suitable techniques for the mobilization of rural savings.

Land reforms

19. Since long-term loans issued by land mortgage banks are secured by mortgage of land, the success and development of their operations depend on the freedom enjoyed by agriculturists to mortgage their land. In areas where there are restrictions in regard to this, the movement cannot be expected to make much headway, unless these are removed in favour of co-operatives. Land reforms have been introduced in some States recently and other States are expected to follow suit shortly. It, therefore, becomes necessary to see how far the reforms will affect the growth of land mortgage banks in India, as this, in turn, would determine the extent to which long-term credit for agriculturists, particularly credit for productive purposes, would be available. In this connection, reference may be made to the following measures suggested by the Standing Advisory Committee on Agricultural Credit.

(a) State Governments should give a definite assurance that, if as a result of land or tenancy reforms, the banks suffered loss in respect of loans already advanced by them, they would make good the loss.

(b) It should be emphasized that all land-holders, occupancy tenants and tenants in the process of becoming owners should have an unfettered right to mortgage their ownership or occupancy rights to a co-operative society.

(c) Restrictions on ceilings on holdings or cultivation of lands by tenants or lessees should not be applied in respect of lands which came into possession of co-operative financing banks in the course of their business.

(d) Apart from the restrictions which were considered fundamental to land reforms, others regarding the sale of land should not as far as possible be made applicable to co-operatives and they should be given as much freedom as possible to deal in land.

(e) Legislation should be passed as expeditiously as possible to remove any uncertainties in regard to the title to land etc.

(f) Mortgages executed in favour of a land mortgage bank should have priority over any claim of Government arising from *taccavi* loans granted after the execution of the mortgage.

(g) A gesture on the part of the State Government to meet the actual losses suffered by land mortgage banks as a result of the land values going down consequent upon land tenancy reform legislation was likely to reassure the co-operative land mortgage banks in their future business.

If steps along the above lines are taken by State Governments simultaneously with the introduction of land reforms and tenancy reform legislation, land mortgage banks can be expected to finance the new class of landowners as well, so that there would be greater scope for the banks to expand their activities by providing credit to the agriculturists for increased developmental activities in the agricultural sector. For this purpose central land mortgage banks may have to draw up programmes for the organization of primary banks or, where that is not possible, the opening of branches or the appointment of central co-operative banks as agents. Since in the initial period the development of business may not be such as to cover the expenses of operation, we recommend that Government may give suitable subsidy to the banks for the appointment of managerial staff and may themselves provide valuation officers or contribute to their cost. Land mortgage banking serves a dual purpose. It helps in promoting increased agricultural production and serves as a channel for securing external resources in the interests of co-operative development.

CHAPTER V

TRENDS IN CO-OPERATIVE POLICY

The co-operative movement which began in this country, with the passing of the first Co-operative Societies Act in 1904, largely with a view to providing agriculturists with institutional facilities for obtaining the capital required for agricultural operations otherwise than at usurious rates of interest, is now regarded as an instrument of national policy aimed at increasing production and improving the economic condition of the masses of our rural population. An indication of the new role of the co-operative movement was given by the Agricultural Finance Sub-Committee which in its report submitted in 1945 observed that the spread of co-operation would provide the best and the most lasting solution for most problems of rural economy in general and for the problem of agricultural credit in particular. It, however, considered that it might not be possible for the co-operative movement to supply the entire credit needs of the agriculturists. The central recommendation of the Committee was that State aid should be given in much larger measure than had been done in the past so that the co-operatives might be enabled to supply better credit facilities.

2. The Co-operative Planning Committee, which was charged with the task of drawing up a plan of co-operative development, submitted its report in 1945. The main recommendation of this Committee was that as the supply of credit touched only one aspect of the life of a cultivator, the activities of the primary societies should be so extended as to cover the whole of his life and that primary co-operative credit societies should be so reformed and reorganised as to serve as centres for the general economic development of their members. The Committee further recommended that an attempt should be made to bring fifty per cent of the villages and thirty per cent of the rural population within the ambit of the reorganised primary societies within a period of ten years.

First Five-Year Plan

3. After the attainment of Independence in 1947, there was a material change in the conception of governmental functions and the ideal of a welfare State began to influence all activities of Government. With a view to realising this ideal, it would be necessary, it was recognized, to regulate and plan the economic life of the nation so as to augment production, to increase the employment potential and to lay the foundation for a balanced economy. The Planning Commission was constituted to formulate and direct the execution of plans calculated to achieve these ends. In the First Five-Year Plan, co-operation was recognized as an "instrument of planned economic action in democracy" combining initiative, mutual benefit and social purpose. It was recognized that the co-operative agency was better suited than the State for ensuring proper utilization of credit for produc-

tive purposes. It was, therefore, recommended that *taccavi* loans for developmental purposes should be distributed through the co-operatives. The Plan set the following targets for the provision of co-operative credit : (i) Rs 100 crores for short-term loans per year at the end of the 4th year of the plan ; (ii) Rs 25 crores as medium-term loans per year at the end of the plan ; and (iii) Rs 5 crores as long-term loans per year at the end of the Plan. Stress was laid at the same time, on the need for having adequately trained staff for facilitating the growth of the co-operative movement. It was, therefore, proposed to extend the existing facilities for the training of co-operative personnel. The need for developing co-operative marketing was also emphasized from the point of view principally of ensuring better prices for agriculturists.

All India Rural Credit Survey

4. The next important land mark in the history of the co-operative movement is the publication of the report of the Committee of Direction of the All-India Rural Credit Survey appointed by the Reserve Bank of India in 1951 to conduct a survey of the problems connected with rural credit in the country, to interpret its results and to make recommendations. The General Report of the Committee was published in December 1954. The Committee recommended an Integrated Scheme of Rural Credit involving the reorganization of rural co-operative credit based on the following three fundamental principles, namely, (i) State participation (including financial partnership at different levels), (ii) co-ordination of credit with other economic activities especially processing and marketing, and (iii) administration through adequately trained personnel responsive to the needs of the rural population. The Committee was of the view that at the village level no form of credit organization was suitable except the co-operative society, and that if the primary credit society was to carry out its functions effectively and fulfil its aims it should be reorganized into a bigger unit covering a group of villages and employing a full-time, qualified, paid, Secretary. Its usefulness should be enlarged by throwing open membership to all persons residing in its area of operations. There should be a right of appeal against refusal of admission to membership.

Conference of State Ministers, New Delhi

5. The basic principles and lines of organization underlying the integrated scheme of rural credit recommended by the Rural Credit Survey Committee were generally approved first by the Second Co-operative Congress held at Patna in March 1955 and later by the first conference of State Ministers for Co-operation, held at New Delhi in April 1955. One of the important recommendations of the Committee was that the State Governments should draw up plans for the development of co-operative credit in consultation with the Reserve Bank of India, and for the development of co-operative marketing, processing, etc. in consultation with the Government of India. The State Minister's Conference recommended that these plans should be drawn up as an integral part of the Second Five-Year Plan and that in the context of the Plan, but on the basis of a realistic appraisal of all the factors involved, targets should be worked for each State. The following tentative credit targets were laid down for the country as a whole for the Second Five-Year Plan,

<i>Co-operative Credit</i>	<i>Position in 1955</i>	<i>Targets in 1960-61</i>
1. Membership of primary agricultural credit societies	5 million	15 million
2. Short-term loans	Rs 30 crores	Rs 150 crores
3. Average loan per member	Rs 60	Rs 100
4. Medium-term loans	Rs 10 crores	Rs 50 crores
5. Long-term loans	Rs 3 crores	Rs 25 crores

6. The role of co-operatives was enunciated in still more precise terms and in greater detail in the Second Five-Year Plan. It has been outlined thus in the Report for 1959-60 of the Ministry of Community Development and Co-operation, (Department of Co-operation) :

(i) Economic development on democratic lines offers a vast field for the application of co-operation in its infinitely varied forms. This is particularly so in a socialistic pattern of society, where the creation of a large number of decentralized units in agriculture and industry is inevitable. The building up of a co-operative sector is, therefore, one of the central aims of national policy. Co-operatives have a particularly important role to play in respect of agricultural production, marketing, cottage and processing industries and internal trade.

(ii) For the agricultural part of the Plan, the village is the indispensable unit for planning and for implementation through suitable organizations at the village level. A village co-operative should be large enough to be an efficient unit, but not so large as would make it difficult to secure mutual knowledge, a sense of mutual obligation and concern for rehabilitation of the weaker sections of the community. A village co-operative should therefore, cover a population of approximately a thousand families and for this purpose small villages could join together. The Second Plan, however, provided for the organization of 10,400 large-sized societies with limited liability of members and State participation in their share capital.

Every family in the village should be represented by at least one member. Only thus can a co-operative be fully representative of the village.

The functions of the village co-operatives should be multi-purpose and should cover thrift, credit, supplies required for agricultural production, consumer requirements and marketing. Every member should be provided these facilities irrespective of the fact whether he owned any property or not. It is only through the provision of these facilities that persons who did not own land could, over a period of time, be made creditworthy.

Village societies should form federations of their own at various levels as necessary. For certain functions they should and indeed must combine into large units.

(iii) Co-operative marketing, storage and processing should be developed on a large scale. This was necessary if primary societies, whether large or small, were to advance adequate loans for agricultural production without insisting on tangible security. Co-opera-

tive marketing and processing societies should be assisted in various ways.

(iv) The ultimate justification for the community development was that self-help and a self-reliance by the people would be developed as a planned programme. Co-operatives and Panchayats should be organized in all the villages and there must be closest collaboration between them and the community development agency.

(v) Encouragement of co-operative farming by pilot projects, settlement of surplus land on co-operative lines and by giving financial and other assistance to existing farming societies.

(vi) Strengthening of departmental staff to cope with the larger volume of work and the larger responsibilities involved.

(vii) A comprehensive and country-wide programme of training and education of the people, of employees of co-operative institutions and of the departmental staff was necessary for the success of the programme. (pages 6-7).

Co-operative development in the Second Plan

7. Schemes of co-operative development were drawn up by different states keeping in view the targets mentioned above for expansion of agricultural credit and marketing. The schemes included :

1. the organisation of large-sized credit societies ;
 2. the rationalization of co-operative banking structure with a view to establishing a strong central bank in each district ;
 3. the organization or reorganization of primary marketing societies ;
 4. the organization of central land mortgage banks in States where they did not exist ;
 5. the promotion of processing activities as adjuncts of co-operative marketing societies or through separate societies organized for the purpose ;
 6. the contribution by Government to the share capital of co-operative credit and marketing institutions at different levels ;
 7. the strengthening of the departmental and institutional staff for improving the arrangements for supervision, inspection audit and other statutory functions ;
 8. the provision of such other facilities, as loans and subsidies for godowns, subsidies for managerial staff for large-sized credit societies and primary marketing societies ;
 9. the establishment of central and state warehouses for increasing storage facilities at market centres of state and national importance ;
 10. the establishment of a Relief and Guarantee Fund at the State level and
 11. the provision of arrangements for training of personnel in co-operative departments and institutions and for educating members and office-bearers of societies.
8. The targets set out in the Plan, financial as well as physical and the progress achieved are given in the tables below ;

TABLE 1

**Progress of Expenditure on Scheme of Co-operative
Development during Second Plan period**

(Rs. lakhs)

Sr. No.	Schemes	Plan Provision	Expenditure in 1956-7	Expenditure in 1957-8	Expenditure in 1958-9	Revised estimates for 1959-60	Agreed to for 1960-1
1	2	3	4	5	6	7	8
1.	Managerial staff of credit institutions	383.61	13.81	44.56	68.51	131.65	218.90
2.	Share capital contribution to marketing and processing societies other than sugar factories	736.86	78.49	111.04	104.64	219.87	154.00
3.	Loans and subsidies for construction of godowns	685.97	68.30	155.90	146.30	235.51	151.88
4.	Managerial staff of marketing & processing societies	120.64	4.37	9.57	15.67	19.02	31.86
5.	Contributions to funds	350.77	13.31	30.53	11.45	12.50	9.00
6.	Share capital contribution to State Warehousing Corporations	388.11	10.00	59.60	37.40	28.50	23.00
7.	Departmental staff	645.55	23.08	66.77	109.72	209.47	314.00
8.	Training & Education*	308.82	25.00	34.14	38.32	87.20	138.12
9.	Co-operative Farming	145.38	5.85	17.39	18.72	70.63	40.11
10.	Other development schemes	83.50	10.56	6.87	23.44	56.34	60.56
11.	Co-operative sugar factories	500.00	97.10	21.50	25.50	100.00	220.00
Total : All State		4349.21	349.87	557.87	599.67	1170.79	1361.43
Total : All Union Territories		129.52	3.28	11.21	18.66	28.66	27.42
Share capital to Central Warehousing Corporation		392.00	40.00	40.00	—	40.00	40.00
Grand Total		4870.73	393.15	609.08	618.33	1239.45	1428.85

Includes direct expenditure by Government of India

TABLE 2

Schemes of Co-operative Development during Second Five-Year Plan—Achievement of Physical Targets.

Sr. No.	Particulars of scheme	Plan Tar-gets	Achievements in					Total (4) to (8)
			1956-7	1957-8	1958-9	1959-60 (Esti-mated)	1960-1 (Esti-mated)	
1	2	3	4	5	6	7	8	9
1.	Revitalization of village societies	—	—	—	—	23,068	19,065	42,133
2.	Organization of new village societies	—	—	—	—	15,727	9,545	25,272
3.	Organization of large-sized societies	10,400	1,721	25,76	3,015	—	—	7,312
4.	Organization of primary land mortgage banks	—	7	7	16	27	39	96
5.	Organization of credit unions	—	—	—	—	271	230	501
6.	Construction of rural godowns*	4,000	403	991	927	1,045	743	4,109
7.	Organization of primary marketing societies	1,893	279	427	357	545	261	1,869
8.	Construction of godowns by marketing societies	1,543	187	340	311	544	297	1,679
9.	Co-operative sugar factories which went into production	—	6	6	7	5	5	29
10.	Establishment of processing societies other than sugar factories	166	14	33	51	145	136	379
11.	Training schools for subordinate personnel	—	19	3	6	9	1	38**
12.	Peripatetic units for training of non-officials	—	6	52	76	219	204	557

* Includes godowns of large-sized societies also.

** The total number of schools in the country by the end of the Plan is expected to be 62.

Mussoorie Conference

9. The second conference of the State Ministers for Co-operation held in July 1956 at Mussoorie recognising the need for expansion of existing co-operative credit facilities as an essential step towards increasing agricultural production and simplification of the procedure for making timely and adequate credit available to the farmer recommended that

1. the programme for setting up 10,400 large-sized societies should be accelerated with a view to its completion within four years ;
2. the existing procedure for advancing co-operative loans should be re-examined with a view to its simplification and avoidance of delays in payment of loans and
3. urgent steps should be taken to set up co-operative marketing societies even in advance of the large-sized credit societies and the programme of setting up 1908 marketing societies formulated under the Second Plan should be accelerated and completed in four years.

Revitalization of societies

10. The Second Five-Year Plan for co-operative development did not provide for financial assistance for revitalising and strengthening small credit societies. The need for providing financial and other assistance and for strengthening such societies, however, was emphasized at the conference. It was recognized that the small credit societies could not be neglected in any programme for the expansion of agricultural credit. In January 1957, therefore, the Government of India indicated that the programmes of co-operative development for 1957-58 should include schemes for strengthening and revitalizing existing small societies and for establishing new small societies. In making proposals for such strengthening and revitalization, steps should be taken to expand the membership of the societies and to increase their volume of business in such a way that they would be able to have, in the course of three years, a business of about Rs 20,000 to Rs 25,000 a year. The Government of India indicated that they would share the cost of any temporary subsidies towards working expenses given to small-sized credit societies. The Central assistance was to be for a period of three years only. In September 1957, the Government of India indicated that they considered the organization of new small-sized societies important and these should, therefore, form part of the co-operation programmes in the Second Five-Year Plan. The Government of India recommended a subsidy between Rs 120 and Rs 150 per year for each society for a period of three years which would be shared equally between the Central and the State Governments. The subsidy was to be given to such small societies as were taken up for revitalization and as would become economic units at the end of about three years.

11. While the question of strengthening and revitalizing small credit societies was receiving the attention of the Central and the State Governments, the policy regarding organization of large-sized credit societies was being reviewed by the Government of India and the Planning Commission. They came to the conclusion that the organization of large-sized credit societies at least in some States had not proceeded on right lines inasmuch as several of these societies covered very extensive areas

or were formed by compulsorily amalgamating small credit societies. In September 1958, the Government of India, therefore, decided that the organization of large-sized societies in future should be governed by the following principles :

- (i) a large-sized society should not comprise more than 4 to 5 villages ;
- (ii) large-sized societies should be formed mainly in backward and scarcity areas ; and
- (iii) while the programme for organization of large-sized societies included in the 1958-59 plans may be implemented in full, no further registration of large-sized societies may take place in States in which 10% of the villages had been covered by the end of 1958-59.

National Development Council

12. The National Development Council in its resolution of 9 November 1958 on Co-operative Policy recommended radical reforms in the pattern of organization of societies at the village level. The chief features of the policy recommended by it are :

The Council considered that for the development of co-operation as a people's movement, it was essential that co-operatives should be organized on the basis of the village community as the primary unit, and that responsibility and initiative for the social and economic development at the village level should be placed fully on the village co-operative and the village panchayat. (Para 1)

In a rural co-operative, the members should have intimate knowledge of one another as well as a sense of mutual obligation and concern for the rehabilitation of the weaker sections of the community. By working together for the common objective of raising the standard of living of all sections of the population, the community develops social cohesion and unity. Where villages are too small, with the consent of the communities concerned, it will be convenient to form them into larger groups with a population of about 1000. The aim should be to ensure that every family is represented in the village co-operative. It is one of the main purposes of co-operation to assist those who do not obtain credit under the ordinary banking principles. The greatest attention should, therefore, be given to ensure that the sections of the community that do not come into the co-operative society at present are enabled to share fully in its benefits and obligations in their own right. (Para 2).

The Council considered that the co-operative movement should be so developed as to bring within its fold all rural families before the end of the Third Five-Year Plan and with that objective in view the State Governments should make special efforts to revitalize existing small credit societies. The membership of co-operative societies should be increased from the present figure of about 10 million to about 15 million by the end of the Second Plan. If programmes on the lines indicated by it were pushed through, the council considered that the membership could well be raised to 20 million by the end of the Second Plan itself. The Council deemed it essential that the grant of credit should be linked with agri-

cultural production and marketing programmes so that expansion of membership and credit would be possible. For the new programmes recommended, the Council estimated that credit requirements were likely to be larger than those visualised in the Second Plan. For providing these suitable arrangements should be worked out in consultation with the Reserve Bank.

In the provision of credit, special attention must be given to facilities for the grant of crop loans. The National Development Council considers it essential that in each district and development block, the grant of credit through co-operative agencies should be closely linked with programmes for increasing agricultural production and for marketing. As arrangements are developed along these lines, steps should be taken to review the existing credit limits so as to facilitate the expansion of agricultural credit. (Para 6)

13. The Council attached considerable importance to the development of co-operative marketing for stabilizing prices and for expansion of agricultural credit.

By linking marketing societies with village societies and using the latter as agencies for collection and sale at assured prices at the village level, it will be possible not only to obtain larger supplies of food grains for meeting the needs of urban areas but also to expand greatly the credit facilities available for rural areas. (Para 8).

14. The Council also suggested simplification of existing law, rules and procedures relating to co-operative societies so that they could function freely and organize their work and activities without excessive official interference and red tape. Further, it was also essential that by making *taccavi* loans and other facilities available to individuals through co-operatives, conditions should be created in which every peasant and rural worker would find it to his advantage to join the village co-operative.

Working Group

15. The Government of India appointed in November 1958 a Working Group for considering the administrative and organizational arrangements required for implementing the resolution of the National Development Council. The Group considered that the target of 20 million membership to be reached before the end of 1960-61 was not impossible of achievement, but was of opinion that it was necessary to ensure that such large-scale expansion was not unsound or merely on paper as in either case, it would be detrimental to the movement. An achievement of the order envisaged would require considerable addition to membership in existing societies and the organization of a large number of new societies with adequate membership. The Working Group, therefore, considered that the target should be a realistic one in the context of existing conditions and the rate of growth achieved during recent years. It was estimated that on the basis of an average holding of 4 to 5 acres, the production credit requirements of a member at the rate of Rs 40 to Rs 50 per acre would be of the order of about Rs 200 per member. If the target of membership of 20 million was to be achieved, credit to the extent of about Rs 400 crores would have to be provided in order to meet more or less adequately their production credit requirements. The problem, therefore, was how such a large amount was to be found. To the extent

co-operative societies raised their own resources by way of share capital and deposits, their need for borrowing from outside would be reduced. In addition to the financial strength of the society, its ability to recover promptly the loans made to its members was also a matter of considerable importance. The question of prompt recovery of co-operative loans was inextricably linked with effective arrangements for the marketing of agricultural produce through the village and marketing societies. To quote the report of the Working Group :

In addition to the financial strength of the society its ability to recover promptly the loans made to its members is a matter of considerable importance. It must be pointed out that at present there are heavy overdues at the village society level in many parts of the country. This has to be rectified before a substantial expansion of outside credit could be thought of..... The present picture is thus not a happy one and, therefore, any substantial expansion in loans given may be difficult. The question of prompt recovery of co-operative loans is thus inextricably linked with effective arrangements for the marketing of agricultural produce through the village and marketing societies and the linking up of the activities of marketing and processing societies with the proposed scheme of State trading in foodgrains. This programme of linking credit with marketing, therefore, assumes great significance. It is thus necessary to point out that while every endeavour should be made to meet the increased credit requirements of agriculturists, the actual achievements will depend on the various factors mentioned above. (Para 13.4).

....Until the co-operative structure at each level is strengthened, the provision of credit on an adequate scale through the co-operative organizations does not seem feasible. On the other hand, we must recognize, that suitable arrangements for credit must be made urgently. Firstly, any substantial increase in membership unaccompanied by the provision of adequate and timely credit will discourage new members from joining the co-operative societies and will adversely affect the growth of the movement. Equally, if not more important, is that increased agricultural production in the immediate future will not be possible without much larger credit being made available. It is of the utmost importance that adequate credit for improved seeds, fertilizers, manures, etc. should be readily available and in time every cultivator who needs it. (Para 13. 7).

16. For achieving the objectives of the National Development Council's resolution, the Group put forward two patterns, one for general adoption and the other for adoption in special circumstances in which the general pattern might prove difficult to apply. Under pattern No. I, primary credit societies were to be organized with coverage as suggested by the National Development Council, while under pattern No. II also societies would be organized for each village but would perform all functions other than credit which would be undertaken by a credit union covering a compact group of villages within a radius of 3 miles from headquarters and with a population of about 4,000 to 5,000. Individual agriculturists were to become members both of the society in the village and of the credit union. While there was to be no partnership of the State

with village societies, the State Government might contribute to the share capital of the credit unions if they so desired.

17. Among the other important recommendations made by the Working Group, mention may be made of the following :

(i) The village co-operative was essentially a business organization whereas the *panchayat* was primarily an administrative body comprising all the people in the village and having revenue resources and tax powers. It, therefore, considered that it was necessary to demarcate the functions at the village level as between the *panchayat* and the co-operative. At the same time, there should be the fullest co-ordination between the two.

(ii) On the question of supervision, the Group was of the view that where supervision still rested with State Governments, steps should be taken to transfer it to a supervising union normally covering a block. The union might be placed in charge of supervision of activities connected with all the co-operative societies in the area, such as promotional work, education of members, rectification of defects disclosed in audit, ensuring proper and timely disbursements and recovery of loans and generally activating the societies in various ways.

(iii) The practice in some States to nominate Government officials as chairman of boards of directors should be given up as early as possible. In order to attract honorary workers and leaders with enthusiasm, ability and integrity in much larger number than before, the necessary atmosphere should be created.

(iv) The programme of expansion envisaged under the Second and Third Year Plans was very large and if it was to be implemented in full, it would call for something more than official and non-official effort in the form in which it was available today. A vast army of persons who had been given the essential background of co-operation as a movement would have to go into the field and carry the message to the rural population.

(v) Many of the restrictive features regarding the functioning of co-operative societies related more to administrative and procedural processes than to legal matters. The Group, therefore, recommended that State Governments should examine the position and take necessary steps to simplify the administrative processes and to ensure the popular character of the movement.

(vi) On the subject of the channelling of *taccavi* through co-operatives, the Group expressed the view that the question of the rate of interest was a very complicated one and required careful examination. The rate of interest at which *taccavi* loans were made available was generally lower than that charged by co-operative societies. If all credit to the cultivators were given through one agency, a uniform rate would have to be worked out and to some extent an element of subsidy might be involved. The Group, therefore, recommended that the whole question should be examined by State Governments so that a clear policy might be laid down.

(vii) The Group felt that it was essential for the success of the movement that the work of distribution of fertilisers, seeds etc. should, throughout the country, be handled by co-operative societies only.

Policy letter, May 1959

18. The report of the Working Group appointed to consider the administrative and organizational arrangements required for implementing the resolution of the National Development Council was considered by the Central Government and the National Development Council. Certain decisions were taken, on the basis of which, the Government of India, in their letter dated 11 May 1959 indicated to State Governments the broad outline of the policy to be followed by the latter in respect of co-operative development during the remaining period of the Second Five-Year Plan and thereafter. The salient features of the policy as briefly summarised in the annual Report of the Ministry of Community Development and Co-operation for 1959-60 are given below :

(i) For the development of Co-operation as a people's movement it was essential that co-operatives are organized on the basis of the village community as the primary unit. Where villages are small, they could with the consent of the communities concerned be grouped together to cover a population of about 1,000. Small adjustments in this could be made in the light of local conditions

This was to be the general pattern but credit unions covering a number of villages for only credit may be organized in special areas and in special conditions. Even then village co-operatives should simultaneously be organized and when built up should take over the credit function also.

The nature of liability of members of village societies—limited or unlimited—was a matter which should be left to the village societies for decision.

There should be no share capital participation at the primary village level but it may continue at other levels.

No large-sized societies covering a number of villages and a large population should be organized in future.

Co-operative societies must open their doors to all eligible persons. A right of appeal should be provided against refusal by a society to admit a person as a member.

(ii) The primary function of a village co-operative will be the provision of short and medium-term credit, supply of agricultural and other production requirements and the marketing of agricultural produce. In addition, they would help in formulating and implementing plans of agricultural production. For specific functions separate co-operative should be organized for a group of villages. Similarly, separate co-operatives should be organized in the village itself for specific tasks or interests.

(iii) A large scale programme of organisation of new societies and for revitalizing and reorganizing existing societies should be taken up. In the initial stages, they would require assistance and the State Governments and the Government of India should assist them to the extent of Rs. 900 spread over a period not exceeding five years.

(iv) A village co-operative and a village *panchayat* should to the maximum possible extent be co-terminous in their jurisdiction. They were the primary agencies for carrying out the community development programme and there must be the fullest coordination between them and the community development agency full use of which should be made in carrying out the co-operative programme.

(v) The loan policies of co-operative societies should be modified and loans should be given on the basis of the purpose for which the loan was required and not on the creditworthiness of the borrower on the basis of the property he possessed.

(vi) The target for membership of rural societies at the end of the Second Plan was fixed at 20 millions, the target to be achieved at the end of the Third Five-Year Plan being universal membership. In order to encourage new members to join co-operative societies various facilities were to be provided. Similarly, it was recommended that membership of a village co-operative should be obligatory on persons who wished to join other types of co-operative organizations, e.g. marketing societies. Expansion must be on sound lines and to ensure this, certain tests of minimum membership and minimum paid-up share capital should be laid down for new societies and for societies taken up for reorganization or revitalization

As regards the target for credit, it was realised that much more than about Rs. 100 crores advanced in 1957-58 would be required. There are many complicated problems in providing such credit to all members and the question should be examined by the Government of India, State Governments and the Reserve Bank of India and definite proposals put up.

(vii) The programme of co-operative marketing, storage and processing should be accelerated and expanded.

(viii) The staff of co-operative departments should be strengthened and adequate arrangements made for their training.

(ix) The movement, if it is to succeed as a popular movement, must increasingly be in the hands of non-officials, who must be encouraged in every way. Government officials should be withdrawn from the board of directors of co-operative organization. Co-operative organizations at the state, district and lower levels should be set up for education, training, promotion and supervision.

(x) A comprehensive programme of training for the staff of co-operative institutions and for the education of members and office-bearers of co-operative organizations should be drawn up and implemented.

(xi) The existing co-operative law was often restrictive and the procedure resulted in considerable delays. Some suggestions for amending the law and revising the procedure were made and State Governments requested to appoint expert committees to go into the question and take suitable action as early as possible.

(xii) Government assistance by way of *taccavi* and loans for agricultural production should, except in distress conditions, be channelled through co-operative organizations and for this purpose a phased programme should be formulated. (pp.8-10).

Supplementary line of credit

19. In May 1959, the Government of India circulated to State Governments a scheme for supplementary finance amounting to Rs. 8 crores to the co-operative banking structure for providing credit in selected villages in 200 community development blocks to those cultivators who could not obtain any credit from the co-operatives or could get it only in inadequate volume *vis-a-vis* their needs for executing a given production programme. The question was discussed at Mysore in the conference of the State Ministers in July 1959 and the consensus of opinion was that if the co-operatives advanced loans on the basis of production programmes and repaying capacity, the need for supplementary credit from Government would not arise. In the light of the discussions at Mysore, the Government of India modified the scheme and issued a fresh letter in August 1959 to all State Governments for pilot projects for preparing village agricultural production programmes.

Mysore Conference

20. The revised policy as laid down by the National Development Council was discussed at the third conference of State Ministers of Co-operation in July 1959 in Mysore and was generally accepted. The conference made, among others, the following important recommendations :

(a) The question of providing adequate finance and of State participation in the share capital at the primary level for which there was considerable demand from many State Governments and co-operative organizations should be referred to an expert committee.

(b) The existing arrangements for supervision which varied from State to State should not be disturbed without a careful examination.

(c) The co-operative societies must recognize their obligations towards the economically weaker sections in the village. In order to minimise risks arising from extension of credit to weaker sections in the village the following steps were suggested :

- (i) Every loan should be related to a specific production programme;
- (ii) Provision should be made in the by-laws requiring every borrower to sell his surplus produce through the nearest marketing society ;
- (iii) the borrower should provide sureties ;
- (vi) a specific statutory charge should be created on the crops for the short-terms loans given ; and
- (v) there must be close supervision over the use of loans.

Jaipur Conference

21. The fourth conference of state Ministers for Co-operation held at Jaipur on 31 January 1960 again discussed some of these aspects of co-operative credit and marketing. An important recommendation of the conference related to provision of medium-term credit. It emphasized that for a substantial increase in agricultural production much larger funds would be required for the issue of medium-term loans and that therefore, the Reserve Bank might consider the question of making larger funds available

for the purpose. Alternatively, the Government of India might make funds available to State Governments. The conference expressed the view that medium-term loans upto a reasonable limit should be advanced by the co-operatives without mortgage security. The conference felt that expansion of rural credit would be possible only to the extent marketing societies undertook marketing and processing activities. The conference recognized that progress in the organization of societies and ensuring adequate membership was inextricably linked with the availability of more funds for the issue of production loans by the co-operatives and until some arrangements were made for providing larger funds there might not be substantial progress in many States.

CHAPTER VI

REORGANIZATION AND REVITALIZATION OF PRIMARY CREDIT SOCIETIES

In Chapter III we have described the position of primary agricultural credit societies in the different States and indicated that over 20,000 societies or 16 per cent of the total belonged to D and E class and over 80,000 or 3/5th of the societies to C class. According to the general practice adopted by co-operative departments, E class societies have to be put into liquidation within a year and D class societies after two years during which period attempts are to be made to revive their working. Both D and E class societies are usually not considered eligible to borrow from central financing agencies. The large proportion of C class societies and the fact that nearly 1/3 of the total number of societies worked in loss or did not make any profit during 1957-8 indicate that several of these societies have become dormant and exist only on paper. We have, therefore, stressed the need for clearing the dead wood by a systematic programme of rectification, consolidation and revitalization of the large number of dormant societies, before they can be relied upon to play their part in the expansion of agricultural credit. Such rectification and consolidation has been done in the past in several States and they are, therefore, familiar with the procedure that has to be followed. It will, however, be worth while to indicate broadly the lines on which the work may proceed so that rectification is carried out as systematically and as expeditiously as possible.

Rectification and consolidation

2. We recommend that the following procedure may be adopted with such modification as may be necessary to suit local conditions :

(a) List should be prepared separately for each district in each State of D and E class societies and such of the C class societies as have advanced very meagre or no loans to their members in the past two years and where over 50 per cent of the loans outstanding against members are overdue for more than two years and where the membership has remained more or less constant in the past few years. Such societies are, strictly speaking, on the verge of D class and the distinction between them and the D class societies is more apparent than real.

(b) When the lists are prepared, steps should be taken to put the E class societies into liquidation after conducting statutory enquiries into their constitution, working and financial condition. In some States, every district has its own liquidation inspector who attends to collection work in these societies under the direction and control of the liquidator of these societies who may be the Assistant Registrar of the district. It is suggested that there should be one liquidation inspector for each district who will attend to the work of liquidation of the societies already under liquidation

or those to be brought under liquidation. Normally the charge of a liquidation inspector may not exceed 25 societies so that the work is completed within a period of 5 years. Where the number of societies is larger, more than one such inspector should be appointed.

(c) In the case of E class societies and such C class societies as are dormant, it will be necessary for a competent inspecting officer first to carry out a thorough examination of all the assets of each such society, such as loans, investments, etc. so as to determine the extent to which they are realisable. A comparison of the total liabilities with the realisable assets should then be made so as to indicate the estimated losses (a) to the society and (b) to the central bank. The report of the inspector should form the basis of rectification work in the society.

(d) Where the liabilities of a society exceed its realisable assets and the gap between the two is small, it may be possible to revive the society by admission of new members and expansion of its business, so that the additional profits earned in the next few years may make the position even. Steps may be taken by the co-operative department and the supervising agency or the central bank in that direction.

(e) Where, however, the realisable assets of a society are so small as not only to wipe out its owned funds, but also to result in loss to the central bank, it will have to be examined whether there is justification for an adjustment of that loss out of the central bank's own bad debt reserve. In deserving cases the central bank may be persuaded to do so.

(f) In the majority of cases, however societies may have become dormant not because their realisable assets fall very much short of their outside liabilities, but because their assets are frozen. Overdue loans will have to be 'closed' and claims filed by the society for arbitration and after awards are obtained efforts should be made for prompt execution of the awards.

(g) Because of the existence of heavy overdues, a society may have defaulted to the central bank which in its turn may have stopped further financing of the society. In such cases it will have to be shown to the satisfaction of the bank that adequate steps have been taken for the recovery of every loan overdue to the society and in consideration of the steps taken, the bank will have to be requested to grant an extension of time to the society to repay its dues. In the meanwhile, the central bank may continue to provide finance to the society for extending credit to existing members and new members so that the society may get a new lease of life.

3. The steps indicated here for rectification and consolidation of dormant societies are of an elaborate nature and will require persevering efforts. Since the number of inactive societies requiring careful attention is admittedly large, it will be necessary to appoint special staff to devote its attention exclusively to the work. We recommend that where the number of dormant societies is large, one or more inspectors may be posted in each district to attend to rectification. In States where the total number of societies to be rectified and revived runs into 500 or more, one or more Assistant Registrars may be appointed for expediting the work. We would emphasize that rectification and consolidation of societies and the expenditure incurred on the staff attending to them, will be more than compen-

sated in the long run by enabling the societies to get into normal working order and will pave the way for the expansion of credit that is now envisaged.

✓ *Functions of credit societies*

3. The problem today is not so much for rectification or reorganization of dormant and weak societies as of revitalizing all primary credit societies in such a way that they are enabled to provide credit adequately to all and perform various other functions efficiently. Before we give our recommendations in that respect it will be useful to indicate broadly the functions which the societies can and should perform. The Working Group on Co-operative Policy appointed by the Government of India in November 1958 considered the question of the functions which can be performed by village credit societies and expressed itself in the following terms :

As a corporate body the society has assets and liabilities ; it undertakes business and enters into financial transactions ; it has legal rights and obligations not only as between its members but externally *vis-a-vis* outside bodies, *e.g.*, a bank which lends to it. It is therefore, a well-established co-operative principle that the functions undertaken by any one co-operative unit should be based on a community of interests shared by a large majority of the members constituting the unit. The emphasis has to be on the provision of such services as are generally required by almost all members. Where any other activities are contemplated, the question arises whether they involve an extent of financial investment or degree of financial risk such as are likely to hamper or jeopardise the successful performance of the more basic and general functions of the particular type of society. If the answer is in the affirmative, it follows that these other activities should normally be entrusted so far as the financial and legal aspects are concerned to another co-operative unit, though of course both units will work in the closest co-ordination. (Para 5.2)

Following this recommendation, the Government of India in their letter of 11 May 1959 on Co-operative Policy have indicated the broad functions of primary co-operative credit society on the following lines :

The primary functions of the village co-operative will be the provision of short and medium-term credit, supply of agricultural and other production requirements and the marketing of agricultural produce. In addition to these functions, the co-operative will help formulate and implement a plan of agricultural production for the village and undertake such educative, advisory and welfare work as the members might be willing to take up. For specific functions, co-operative societies may be organized for groups of villages (*e.g.* for industrial workers). They may also be organized within a village on behalf of those who benefit from a particular activity (*e.g.* co-operative farming, tube wells, soil conservation, etc.). (Annexure A-Para 4).

5. We are in general agreement with the above views and consider that a primary credit society should render certain services and, correspondingly, discharge certain obligations. Among the more important of these are the following :—

- (a) to associate itself with programmes of production ;
- (b) to lend adequately *i.e.*, to lend adequate amounts to all producers, especially agricultural producers, and in this process increasingly cater to the smaller producers ; to a limited extent to cater also to consumption needs of these as well as agricultural labourers ; provided the borrower whether cultivator, artisan or worker, can and will repay, and there are adequate means of ensuring repayment ;
- (c) to borrow adequately for the above purpose, *i.e.*, equip itself financially and otherwise for getting adequate loans from the central financing agency ;
- (d) to attract local savings to the maximum possible extent not only as share capital, but also as fixed deposits, etc ;
- (e) to supervise the use of loans, especially medium-term loans ;
- (f) to recover the loans and to see that loans are repaid punctually ;
- (g) to distribute fertilisers, seeds, agricultural implements, etc., either on its own behalf or as agent ;
- (h) to supply certain consumer goods in common demand such as kerosene, sugar, etc.,
- (j) to collect or purchase produce, where necessary, on behalf of a consumer's society, marketing society or Government ;
- (k) to store produce ; and
- (l) generally to associate itself with programmes of welfare, economic and other, for the village.

Viability of primary unit

6. We have referred in some detail to the working of village societies and pointed out that while some of them are efficient, a large number are either dormant or weak. A programme of consolidation and reorganization has also been suggested. All this will cost a great deal, not only in terms of money but also of time, effort and personnel. It is necessary to ensure that none of this is wasted. The reorganized societies should therefore be capable, within four or five years of the commencement of special aid, to attain enough strength to dispense with such assistance and yet be capable of continuing to discharge the responsibilities devolving on them. The same considerations apply to societies which may be established hereafter. All these societies, old and new should be strong enough not only to function efficiently at the start but to weather the strains and difficulties which will be inevitable as they assume additional and heavier responsibilities as time progresses. It is in this context that the pattern of organization at the primary level is of vital importance.

7. Several factors will have to be taken into account in determining this pattern. It follows from what we have said that one of the most important considerations is viability. In other words—and we should like to state this quite unambiguously—one of the main aims of future endeavour should be the promotion of viable units of co-operative service and business. The service indeed comes first, for these units will lose all signi-

finance if they are unable to render effectively on an appreciable scale the functions we have enumerated in paragraph 5. Among these, it will be remembered, is the extension of adequate credit to widening range of producers including those who are small owners or tenants. Another important service is the supply of essential requisites of production such as seeds, fertilizers, implements and of domestic goods and controlled commodities, as also helping the marketing of produce. No less important is the ability to attract deposits ; we stress in a succeeding chapter the importance of the co-operative organization mobilising its own resources to the farthest extent possible, in order that it may eventually be self-supporting and be able meanwhile to increase the extent of credit to borrowers. A fourth function is the capacity to ensure that, by and large, the loans are being utilised for the productive purposes for which they are intended, and that they are promptly recovered. All these functions and a number of others important ones already described constitute the services which are the main reasons for the organization of a co-operative system. We regard a viable unit as that which may be expected within a reasonable time to render the more important of these services both adequately and to as large a number of producers as possible, without depending on financial assistance from Government except for a limited period. In order to do this, the society must have the ability not only to command the service of the competent personnel, but at the end of the stipulated period be able to meet fully the expenditure incurred on such personnel. Further, the society may have to pay rent for its office buildings and to meet the cost of stationery etc. It may also have to pay supervision and audit fees and also incur some expenditure on the visits the staff has to make to central financing institutions in connection with the obtaining and repayment of loans. Moreover, it may have to provide for an education fund or a common good fund. Further, it has to earn profits in order to provide for reserves, to maintain a fund for bad and doubtful debts and to pay a reasonable return on share capital.

8. Having said this, we do not wish to dogmatise on the extent of expenditure involved either on the whole or on different items. This is because conditions vary so much in the country that no prescribed level can be said to be applicable to all States or even parts of States. Moreover, there may well be particular regions or even individual villages where the services of competent honorary or part honorary workers are available. In that case, the expenditure will be correspondingly low. So long as the State Government, in consultation with the co-operative financing agencies, is satisfied that the services are, in fact, forthcoming in this manner and that the society can be run competently within the resources available, we consider that there is no reason to discourage such a society. On the contrary, honorary services should be encouraged to the maximum extent possible. A society requires services of two kinds, those consisting in direction, guidance and participation generally. These have been available so far on a voluntary basis ; but there are others involving managerial duties, clerical work, keeping of accounts and so on. We are aware that even these services may in some areas or individual instances be available on the honorary or near honorary basis. We are convinced, however, that in terms of the country as a whole, the services of competent and trained managers, accountants, clerks etc. are not available except on the basis of remuneration. The test, as we have pointed out, is whether, after taking all these considerations realistically into account, it is reasonably certain that the society will not only perform

competently and adequately the services contemplated, but, after a short initial period, be able to do so without depending on Government assistance. It is broadly societies of this type which we regard as viable units.

Co-operative aspect

9. The co-operative aspect is as important as that of viability. It is obvious that a co-operative society cannot afford to enlarge itself into an impersonal institution. A sound co-operative organization cannot afford to enlarge itself into an impersonal institution. A sound co-operative organization cannot be built at the primary level except on the basis of mutual knowledge and contact. The membership must, therefore, not be too large. Further, the areas of operation of the society should be compact. A good deal will depend on whether the communications are good or bad and how thickly or sparsely populated the area is. It is true, of course, that mutual contact and knowledge are best secured in one village, especially where the village is not very large. But, even if the village is large, e.g. even if it has 800 or 1000 families (i.e., a population of 4000 or 5000), there seem to us to be good practical reasons why there should be only one primary agricultural credit society for the village. The question of placing some limitations on area and number of families arises when there is need to combine two or more villages in order to secure viability. Here again, we are of the view that no rigid formula should be applied. So far as the area is concerned, we suggest that it will be enough to lay down, for purpose of guidance, that no village included in a society should be at a distance of more than three or four miles from the headquarters village. As regards the number of families, the majority of us are of the view that a broad indication of the maximum should be given since, otherwise, the societies formed might, in some instances, be too large. The majority also feel that the limit to be indicated should be a population of about 3,000 (i.e. 600 families or about 500 cultivating families). Some would prefer to put the maximum at 300 cultivating families. Two of us do not consider it necessary to indicate a maximum. Their note is appended.

10. This difference of opinion as to the maximum membership of a multi-village society is however, not material, because we are all agreed on two points. First, in the flexible pattern recommended, it will be for each State to decide on the maximum in the light of all the relevant recommendations and in consultation with the co-operative financing agencies which are, of course, directly interested in the primary credit organizations. Second, as we have stressed at more than one place, the aim of organization should be the promotion of viable units, and this consideration will, obviously, have to be taken into account in deciding on the number of families to be included in any particular society.

Need for flexibility

11. In determining the pattern of organization at the primary level there are thus a number of factors that have to be taken into account. To some extent there may appear to be a contradiction between these factors. But subject to the paramount need for building up an organization that has the potentiality of fulfilling its enlarged and diversified role, it will be for the people and the State to make workable compromises. We would hence strongly emphasize the need for flexibility in the approach to the pattern of organization at the primary level. There has to be flexibility

not only in respect of the details of the pattern itself, but of the process of choice and decision whereby patterns suitable to different areas are adopted by those who are most affected. It is needless to state that the pattern must fall within a broad framework of policy. But subject to this consideration, it is necessary that State Governments which are primarily responsible for Co-operation should be left free to choose, in consultation with local co-operators and co-operative financing agencies, the type most fitted for different areas of their States.

State assistance

12. This flexible pattern would have to be fitted into a broad framework not only of policy but also of State assistance. After taking into consideration all the factors involved we have come to the conclusion that the pattern of Government assistance must in its turn be a very flexible one, the main test being that it will help promote viable societies of the type required in different areas in relation to the conditions of those areas. Our proposals are as follows :

Share capital

Contribution to share capital should be available on the following basis : The State Government should be satisfied that the society is viable in the light of the broad criteria mentioned above. The contribution of share capital from the State should range from Rs 1,000 to Rs 10,000 on a matching basis. Further, the society should undertake to collect additional share capital of not less than Rs. 3,000 from its members over a period of three to five years.

Subsidy

(i) A subsidy of Rs 1,200 to be given for a period not exceeding five years should be available to all viable societies brought under the State programme.

(ii) Where a Society is already receiving or has been promised assistance on the basis of existing schemes such as the revitalization programmes, the present position should not be disturbed. In other words, such a society should continue to get assistance or hereafter get assistance, in the manner promised, whether or not it is viable.

Grants

Outright grants for contribution to "special bad debt reserves" on the lines elsewhere recommended, should be available to all societies whether or not viable (provided, of course, their audit classification is not D or E).

Note on size of Societies at the village level.

In paras 6 to 9 of Chapter VI the important questions of viability, co-operative character and compactness of co-operative organizations at the village level have been discussed at some length and we have recommended considerable discretion to state governments and the people concerned in all these respects. The majority of the members of the Committee, however, consider it necessary to prescribe an upper limit to the population covered by a primary society. They feel that without such a

limit there is a danger that very large societies may be organized. We consider it unnecessary to lay down any such limit for the following reasons :

(1) The National Development Council Resolution of 9th November 1958 lays down the pattern of organisation at the primary level, viz., a society for each village. If, however, villages are very small, two or more of them can, with the consent of the communities concerned, be joined together to form one society, provided the population covered does not exceed about 1000. The Department of Co-operation in its letter of 11th May 1959 advised the state governments that in regard to the population covered by such societies comprising two or more villages, suitable adjustments to suit local conditions could not be made. In view of this there is no need to consider any material change in the pattern prescribed.

(2) In prescribing an upper limit to the population covered by a primary unit there is always the danger that it may become the norm or even the minimum, and this should be avoided at all costs.

(3) We have already provided for considerable flexibility in the pattern of organisation and consequently in the size of a society and it does not, therefore, seem necessary to prescribe any definite figures in this respect.

CHAPTER VII

CREDIT FOR CULTIVATING MEMBERS

In the context of the need for increased agricultural production, the importance of supplying credit in adequate measure and at the proper time cannot be over-emphasized. It has been increasingly recognised that the requirements of small and medium-cultivators who constitute the bulk of the agricultural community, should be constantly studied and borne in mind in the formulation of policies for agricultural credit and development. Equally important are the needs of tenants and lessees who form about 16 per cent of the total number of cultivating families. Further, the increase in the cropped area and the intensive utilization of lands which are now being planned on a nation wide scale will call for considerable financial outlay. Most cultivators have to be helped with credit, to meet the initial as well as the recurring expenditure they have to incur for normal agricultural operations and for the improvement of land. It is now admitted generally that institutional credit is the most suited for agriculturists, and that the development should unmistakably be in the direction of expanding credit through co-operatives.

2. According to the Rural Credit Survey Committee (1954), co-operative finance was inadequate in three important respects: (1) there were large parts of the country which the movement had not hitherto covered; (2) even in those areas to which it had extended, there were large sections of the agricultural population which still remained outside its membership and (3) even in respect of members, the bulk of their credit requirements were met from sources other than the village co-operative society. The survey revealed that while the proportion of cultivating families borrowing from co-operatives was relatively small, the bulk of the finance provided by them went to large and medium cultivators. Further, though co-operative credit in theory is personal being based upon character and repaying capacity of the borrowers, the finance provided by the co-operatives was mostly on mortgage security.

Criteria in determining individual limits

3. We shall now describe briefly the criteria adopted in primary credit societies in the different States in fixing credit limits for individual members. This will enable us to indicate the modifications, if any, called for in these standards. The law and practice regarding the quantum of loans that may be made available to individual members of primary credit societies differ considerably from State to State. Even within a State there is diversity in the standards, as between the areas comprised in it following the reorganization of States in 1956. (Further, the quantum of loans available to an individual is governed by not one standard but by simultaneous conformity with two or more standards. For instance, in one State, an individual member of a limited liability society is eligible

to get a loan of Rs 55 per acre. At the same time, the loan advanced cannot exceed 10 times the paid-up share capital held by him in the society. Further, a member holding four shares of the value of Rs. 40 will not be eligible automatically for a loan of Rs 400 unless he cultivates lands exceeding 8 acres. A third limiting factor is the absolute limit for loans to an individual member which under the rules under the Co-operative Societies Act has been fixed in that State at Rs 1,500. Therefore, a member cultivating 30 acres of land and having paid-up shares of the value of Rs 160 will not be eligible for more than Rs 1,500, although on the basis of the area cultivated by him, he could have been sanctioned Rs 1,650 and on the basis of the share capital, Rs 1,600. We give in the following paragraphs an account of the basis on which the quantum of loans to individuals is determined in the different States.

Limit related to land revenue paid

4. In the Punjab, the Co-operative Societies Act, the rules or the by-laws of primary credit societies do not contain any provision fixing the maximum up to which loans may be advanced by a society to a member. However, in practice, the maximum credit limit of an individual land-owning cultivator is fixed at 30 times the land revenue paid by him, plus one-fourth of his miscellaneous income. For tenant cultivators or non-cultivating land-owners, the maximum limit is fixed at 15 times the land revenue paid plus one-fourth of their miscellaneous income. It is reported that since January 1959, a revised method based on the crops cultivated by a member and his miscellaneous income has been worked out and introduced in selected societies on an experimental basis. The experience, however, is that the limits arrived at on this basis for land-owning cultivators are the same as those arrived at on the basis of the existing practice. In the Telengana area of Andhra Pradesh, the maximum credit limits for individuals are fixed at 10 times, 20 times and 24 times the land revenue paid for wet lands, garden lands and dry lands respectively. These limits are fixed by the Deputy Registrar at the time of registering a society. In Uttar Pradesh, the following formula is generally adopted for fixing the maximum credit limit of a member in respect of societies other than large-sized societies:

40 times the land revenue on *Bhumidari*, plus 10 times the rent paid on *Sirdari*, plus 5 times the rent paid as *Adivasi* and *Asami*, plus 1/3rd of the value of cattle, trees and agricultural saleable machinery or carts, plus 1/10th of the net non-agricultural income earned by the borrower, minus outside debts and arrears of rent, revenue and irrigation charges.

The normal credit limit of a member is generally fixed in that State at two-thirds of the maximum credit limit, subject to eight times the shares held by him in the society. This is subject again to the ceiling on individual loans which until recently was Rs 500, but has now been raised to Rs 2,000 in the service co-operative societies.

Limit related to value of land or crops

5. In Madhya Pradesh, the Registrar has, by a circular, directed all central co-operative banks to see that, ordinarily, the amount of loans outstanding against a member of an unlimited liability society does not exceed two-thirds the value of landed property owned by him, which, again, is subject to the overall limit of Rs. 1,500 fixed under the rules. In West Bengal, according to the rules framed under the Act, the maximum limit

of all advances to an individual member of an unlimited liability society is 50 per cent of the total value of the unencumbered agricultural lands or three-fourths of the total estimated net income from such lands, whichever is less. But under the Crop Loan Rules prescribed by the Registrar in consultation with the State Government, this limit is subject to the overall limit of Rs 750 for an individual growing sugarcane and potato and Rs 500 in other cases. In Assam, under the rules, the maximum credit limit of an individual member of an unlimited liability society cannot exceed 1/2 of the total value of the lands under cultivation or 2/3 of the total estimated income from such lands during the period of repayment of the loan. In limited liability societies, the limit is fixed with reference to the paid-up capital as will be seen in a later paragraph, but in either case an individual is allowed to borrow up to Rs 300 as short-term loan and Rs 1,000 as medium-term loan. In Rajasthan, the maximum credit limit in unlimited liability societies is fixed on the basis of one-third of the net assets of a member, viz., lands and houses, cattle and carts and heavy agricultural machinery, or one-third of the average annual income from crops, whichever is more. For determining the value of land, the preceding 3 years' average price for similar lands is taken into account, while in the case of others, the valuation is made at current market prices. The above limit is subject to the overall ceiling of Rs 500 for individual loans, where there is no linking of credit with marketing and of Rs 1,000 where such a link exists.

Limit related to acreage under crops

6. The Registrar, Madhya Pradesh, by his circular letter issued in August 1959, has fixed the maximum credit limit of an individual member in limited liability societies in the Mahakoshal region at Rs 55 per acre, of which not more than Rs 40 per acre should be advanced in cash and the balance of Rs 15 in kind in the form of fertilizers etc. This limit is, of course, subject, again, to the overall ceiling for individual loans.

Limit related to acreage and crops grown

7. In Bombay and Delhi, limits for individual loans for short-term agricultural purposes are related not only to the acreage under cultivation, but also to the crops grown. Whereas in Delhi, the scale of finance has been prescribed by the Registrar by a circular letter, in Bombay the scale of finance for each type of crop is fixed at the district field workers' conference which is usually held every year at the commencement of the agricultural season. The conference is attended by representatives of societies, of the financing agency and of the Registrar. A distinction is drawn in some central banks in the scale of finance as between a land-owning cultivator and a tenant. For certain cash crops like sugarcane, the scale of finance is high, as for instance, in the Ahmednagar Central Co-operative Bank, the scale of finance is Rs 1,000 per acre for sugar-cane. The model by-laws of unlimited liability societies generally fix a ceiling on individual loans at Rs 300 for short-term and Rs 500 for medium-term loans, which can be raised to twice the limit with the permission of the Registrar and the financing bank. In the Vidarbha area of Bombay State also, limits in some districts are fixed per acre with reference to the crops grown as shown below

Oranges	Rs 300
Chillies and vegetables	Rs 100
Japanese method of rice cultivation	Rs 90
Wheat, gram etc.	Rs 60
Jowar and bajra	Rs 50

Loans are granted as above, subject to the overall limit of Rs 3,000 per member. Not more than 60 per cent of such loans can be short-term. In Kerala, the limit for individual loans is related to the repaying capacity based on the total acreage cultivated and the crops raised. The repaying capacity is assessed at so many rupees per acre, of paddy or sugarcane, tapioca or other crops. The rates vary from one region to another and according as the cultivator is an owner or a tenant. In Bihar, the maximum borrowing limit of a member is required to be fixed on the basis of an estimate of amounts ordinarily required for cultivation purposes with reference to the different types of crops grown and of the likely income expected to accrue therefrom.

Limit related to share capital

8. In limited liability societies, it is customary to fix the credit limit for a member with reference to the share capital held by him in the society. In Assam and Manipur, for instance, an individual member of a limited liability society can borrow up to 10 times his paid-up capital. In the case of borrowings against mortgage of land, however, he is permitted to borrow up to 20 times his paid-up share capital. In West Bengal, under the rules, no member of a limited liability society can be granted a loan exceeding 10 times the share capital paid up by him, but with the permission of the Registrar and under such conditions as he may impose, an agricultural society may grant loans to a member repayable within a period of 12 months for agricultural operations, irrespective of the amount of share capital paid by such member. In Bihar, Rajasthan, Madhya Pradesh, Pondicherry, Andhra Pradesh, Mysore, Assam, Bombay and Orissa, the by-laws generally lay down that an individual shall not be advanced loans exceeding 10 times the share capital paid up by him. The paid-up share capital in all these cases, however, is not the only determining factor. In fact, the limit may be fixed on the basis of the assets and repaying capacity of a member, the acreage under cultivation or the nature of the crops grown. The requirement of investing one-tenth of the borrowings in the share capital of the society is thus only one of the conditions of borrowing up to the limit fixed in any of the above ways.

Absolute limits

9. While the limits of individual loans may be fixed in any of the above ways, there are usually absolute limits fixed for loans under the rules, by-laws or circular instructions from the Registrar of Co-operative Societies. In certain States it is permissible, subject to approval by an appropriate authority, to grant loans in excess of the absolute limits. In Madhya Pradesh, the limit of loans to an individual member of an unlimited liability society has been fixed under the rules at Rs 1,000. This limit, however, may be varied in individual cases with the previous sanction of the Registrar who, by a circular letter, has raised the limit in all cases to Rs 1,500. In Bombay and Mysore, the limits specified in the by-laws of a society can be exceeded upto twice the limits with the permission of the financing agency and the Registrar. In Madras and Pondicherry, the limits fixed under the by-laws range between Rs 250 to Rs 1,000. In the unlimited liability credit societies in Andhra, the individual limit is fixed in the by-laws generally at the Rs 500. In good societies, however, the maximum may range from Rs 1,000 to Rs 3,000 in deltaic areas and from Rs 1,000 to Rs 2,000 in other areas. The by-laws also provide for exceeding the limit up to twice the normal figure with the permission of the

central bank and the Deputy Registrar. Loans taken against the pledge of produce or fixed deposits are excluded for the purpose of the limit. In Madras, limits for individual loans are prescribed with reference to the nature of security offered as indicated below:

1. Personal security	Rs 500
2. Under the controlled credit scheme—personal security	Rs 1,000
3. Security of land	Rs 3,000
4. Pledge of jewels	Rs 2,000
5. Pledge of produce	Rs 5,000

In West Bengal, the Crop Loan Rules prescribed by the Registrar fix the individual limit at Rs 750 for lands under potato and sugarcane and Rs 500 in other cases. In Rajasthan, the Registrar has by a circular letter indicated that, ordinarily, short-term borrowings of a member shall not exceed Rs 500, but in areas where there is linking of credit with marketing, the Assistant Registrar may raise the limit to Rs 1,000. In Orissa and Himachal Pradesh, the Registrar has fixed the individual borrowing power at Rs 2,000 and Rs 500 respectively. In Uttar Pradesh, the maximum loan which can be granted to an individual by the service co-operatives has been recently raised from Rs 500 to Rs 2,000. In Kerala, the limit for loans to an individual member is fixed in the by-laws. The limit usually varies from Rs 150 to Rs 1,000 in small-sized societies, but in large-sized societies, it goes up to Rs 2,000. In Bihar, generally, loans, both short-term and medium-term, are allowed up to Rs 300 to an individual member, but in exceptional cases loans up to and exceeding Rs 1,000 are allowed with the prior approval of the Assistant Registrar, who, in such cases, has to satisfy himself, by making personal enquiries about the purposes, repaying capacity and the nature of security offered by the borrower.

Medium-term loans

9. The by-laws of agricultural credit societies provide for the issue of medium-term loans, limits for which are sometimes fixed in the by-laws or by circular instructions of the Registrar. In Andhra, the by-laws lay down the proportion between the short-term and the medium-term loans at 3:1. A medium-term loan for a pumping-plant, however, may be given up to Rs 3,500. The loans are not to exceed 50 per cent of the value of the properties mortgaged. Of the total limit of Rs 600 for individual loans fixed by the Registrar, not more than Rs 400 can be advanced as medium-term loan. In Rajasthan, under the Registrar's instructions, the maximum limit of a medium-term loan to an individual has been fixed at Rs 5,000. The member is required to undertake to find 20 per cent of the total cost himself for the purpose for which he applies for a loan. The medium-term loans are not to exceed 50 per cent of the average value of lands in irrigated areas and one-third of the value of lands in rain-fed areas. In Bombay, medium-term loans up to one-third or one-sixth of the value of lands can be given for the purchase of oil engines, machinery etc., and for the purchase of bullocks respectively. The quantum of loan in all cases is restricted to two-thirds of the investments and the borrower is expected to provide one-third out of his own resources. The Bombay State Co-operative Bank has advised its affiliated central banks that medium-term loans for purchase of bullocks and pumping-plants should not exceed Rs 600 and Rs 3,500 respectively. In Mysore State, the Registrar has specified limits of medium-term loans according to purposes. For instance, a loan for the construction

of a new well should not exceed Rs 2,000. In determining the quantum of medium-term loan that can be advanced to an individual member in Uttar Pradesh, it is ensured that the normal credit limits fixed for short-term loans and the annual instalment of the medium-term loans do not exceed the annual repaying capacity of the member. Generally, medium-term loans are given up to 50 per cent of the market value of land mortgaged, but in special cases loans up to 75 per cent of the value of land are allowed. In Assam, the Registrar by a circular has laid down a limit of Rs 1,000 for medium-term loans. In Bihar, Madhya Pradesh, Himachal Pradesh and Kerala, no special limits are laid down for medium-term loans and such loans can be granted within the overall limit fixed by the Registrar. In Kerala, medium-term loans are granted only to the extent of 50 per cent of the value of the land mortgaged.

Security for loans

(a) Short-term

10. The practice with regard to the security for loans to individuals differs considerably from State to State. In Bombay, Saurashtra, Madhya Pradesh, Himachal Pradesh and Rajasthan, land-owning members give a declaration in writing creating a charge on the property owned by them. In Madhya Pradesh, under the Co-operative Societies Act a declaration made at his option by a member of a co-operative society creating a charge on the whole or part of his immovable property for the repayment of any amount due to the society has the same effect as if the property was mortgaged to the society. Any subsequent alienation of the property specified in the declaration is void. In Bombay, however, under the Act, it is obligatory for a member of a society to give a declaration creating a charge on the lands owned by him. In the Vidarbha area in Bombay State, the by-laws of the societies lay down that loans should be advanced to members against the security of their landed property. The security is obtained either in the form of a mortgage deed or a declaration signed by a member under the Act. In the Marathwada region, loans are advanced by a society only against mortgage of land. In Andhra and Madras, the by-laws permit a society to grant loans up to Rs 500 on personal security and require it to obtain a mortgage of land for loans above Rs 500. The practice in Andhra, however, is to obtain a mortgage for loans exceeding Rs 250. In the Telengana area, the practice is to grant loans only against mortgage of land. Further, the limits of individual loans are fixed with reference to the land revenue paid. The effect of these conditions, therefore, is that those who do not own land cannot get loans from a society. In West Bengal, under the Crop Loan Rules, loans above Rs 125 have to be supported by mortgage of land. In Assam, it is stated that short-term loans are given against personal security, but it is common for societies to obtain a mortgage even for short-term loans. In Orissa, loans up to Rs. 400 are given on personal security and loans above that limit only against mortgage security. Here, also, it is customary for many societies to obtain a mortgage for loans exceeding Rs 100. In the Bombay Karnatak region of Mysore societies obtain a declaration in writing from a borrowing member. In the Hyderabad-Karnatak area now a part of Mysore loans are given only against mortgage of land. In the Mangalore area, loans are given against personal security. In Uttar Pradesh, short-term loans are issued on personal security of two sureties, who should be members but not necessarily owners of land. According to a decision recently taken, hypothecation of land is not necessary for loans up to Rs 2,000.

11. In Bihar, the rules lay down that "the application for loan by a member of a registered society shall contain a declaration to the effect that the applicant pledges his property to the society for any debt due or advance to be made to him by the society subsequent to his admission as a member thereof, provided that the Staff Government may exempt any class or classes of society from the operation of the sub-rule". The Registrar's instructions are that a society may advance loans to individual members including *bataidars* up to Rs 200 (both short-term and medium-term) without mortgage of land. Such loans are advanced on the surety of one member up to Rs 100 and of two members up to Rs 200. Loans exceeding Rs 200 are advanced only on mortgage of land. In practice, however, a few central co-operative banks in the State insist on mortgage of land even for small amounts like Rs 50 or Rs 100. As in Uttar Pradesh, the sureties have to be members, but need not necessarily be owners of land. In Kerala, ordinarily mortgage of land is obtained for loans exceeding Rs 200 and in some districts for Rs 100 and above. The by-laws do not lay down that one or both the sureties should be owners of land. Both the sureties should necessarily be members of the society. In Manipur, according to the Act, no person is accepted as surety for any borrower unless he is also a member of the same registered society. The sureties, however, need not necessarily be owners of land. In Andaman and Nicobar Islands, mortgage of land is not obtained and loans up to Rs 100 are given against one surety and between Rs 100—Rs 250 against two sureties. Loans exceeding Rs 250 are given against two sureties and standing crop and/or house. In this territory also, only member sureties are accepted. It is only in the Punjab and Delhi that loans, whether short-term or medium-term, are given largely against personal security.

(b) *Medium-term loans*

12. The security for medium-term loans in Uttar Pradesh, West Bengal, Assam, Mysore, Andhra Pradesh and Kerala is mortgage of land. In Bombay, Madhya Pradesh and Rajasthan, the borrowers create a charge on their land. In Bihar, Orissa, Delhi, Punjab and Tripura loans up to Rs 100 (now raised to Rs 200), Rs 400, Rs 1,000, Rs 1,000 and Rs 100 respectively can be given on personal security. In Bihar, loans above Rs 200 are advanced only against the mortgage of land. For loans up to Rs 300, local verification of the land mortgaged is necessary. For loans exceeding Rs 300, verification of the prior encumbrances for the past twelve years on the land to be mortgaged is considered necessary. In Madras, loans up to Rs 250 are given on personal security, though some societies take mortgage of land even for loans below that sum. In Bombay, tenants are granted loans only if they are able to furnish personal sureties having surplus unencumbered assets worth six times the loan. Where an owner cultivator has assets worth less than the required security for the loan, the excess is allowed to be covered by personal sureties having surplus unencumbered assets equal to the deficit in the security for the medium-term loan. For loans for purchase of bullocks the security is personal.

Limits for sureties.

13. In the Andhra area of Andhra Pradesh, a member can stand surety to another only up to twice his own limit. In Madras the by-laws specify the limit up to which an individual member may stand as surety for another member. The limit is usually fixed at ten times his share capital. Whether a surety should be a land-owner or not is left to the dis-

cretion of the *panchayat* of the society, but usually the sureties are from among owners of land. In Uttar Pradesh, no limit has been laid down in the by-laws in regard to the extent up to which a member can stand surety. In practice, a member may stand surety up to twice his maximum credit limit. In Orissa, a member can stand surety only for two persons up to Rs 300 or twenty times the share capital held by him. In Kerala, according to the by-laws of credit societies, a member cannot stand surety beyond ten times the value of his shares in the society. In Manipur, a member can stand surety up to Rs 40 for each share of Rs 10 held by him. In Bombay, a person can stand surety for not more than 3 members provided the total amount for which he stands surety does not exceed his assets or creditworthiness. In Punjab and Delhi, generally two sureties are obtained and an individual can stand surety only up to twice his own limit or equal to his own limit, respectively. While in Punjab it is not necessary for the surety to be an owner of land, in West Bengal, the surety should be an owner of land. In Bombay, tenant borrowers are required to furnish personal sureties from among persons owning land. In Mysore where mortgage of land is insisted upon, no sureties are taken. Where mortgage of lands is not taken, two solvent sureties are necessary. For tenants, at least one of the sureties has to be creditworthy and should be an owner of land who has created a charge on it in favour of the society. In Assam, the by-laws provide for one or more sureties and although they are silent about the limits up to which members can stand surety, in practice one member can stand surety up to the extent of his surplus repaying capacity. In Madhya Pradesh and Vidarbha, under the rules, two sureties are necessary in all unlimited liability societies. In practice, only sureties from among owners of land are accepted in all societies. In Rajasthan, no limits are fixed for the amount up to which an individual can stand surety to another. In Bihar, there is no insistence in the rules or the by-laws or in actual practice about the sureties being owners of land. But they should be from among members. In West Bengal, although the by-laws do not require it, it is customary for societies to obtain sureties from owners of land only. In most States, sureties are from among members of the society. In many States, the law is generally silent on this question. In Rajasthan, however, the rules permit acceptance of non-member sureties with the special permission of the Registrar. The quantum of loans issued by credit societies in Andaman and Nicobar Islands being very small, the limit up to which an individual can stand surety has not been fixed.

Loans on basis of production costs and repaying capacity

14. From the description given above of the practice obtaining in several States regarding the credit limits allowed for individuals in primary societies, it is clear that, by and large, the grant of loans to individuals follows landed property rather than the productive purpose for which the loans are taken. This explains the practice in some States of insisting upon mortgage security for every loan. It also explains the insistence, practically in all States, on a borrower producing one or two sureties from among owners of land. A tenant, requiring a loan for a creditworthy purpose may be honest and industrious, but he is not able to obtain loans under the existing practice, if he does not own lands or is not able to offer sureties who own lands. This practice has an adverse effect on agricultural production. The proposed land legislation in various States seeks to confer on the tenants protection against arbitrary eviction and ensures to them a good share of the crops raised by them. Their status and economic position are bound to improve in future. It is, therefore, necessary that co-operatives provide

funds even to this class of cultivating members provided they are honest and possess the necessary repaying capacity and produce sureties who, however, need not necessarily be owners of land.

15. In this connection, it may be relevant to quote the views of the Agricultural Finance Sub-Committee (1945) which observed that loans from a co-operative credit society should become available on the basis of the character of an individual and of his repaying capacity. It observed:

We feel that it is not a wise policy to judge of the creditworthiness of the members and ultimately of a society, chiefly by the value of immovable assets possessed by the members as is the practice in some Provinces. We are of the opinion that in a co-operative society, (the creditworthiness of a member should be assessed on the basis of his repaying capacity which in its turn will depend on his earning capacity and his surplus income.) The basis of repaying capacity is also more appropriate in a programme of reconstruction and development. For, with such a basis, the credit of a member will depend on the extent to which he takes loans for productive purposes and brings about an increase in income and repaying capacity. (page 48)

The Rural Credit Survey Committee enunciated certain guiding principles in financing individuals by primary credit societies when they recommended the adoption of the crop loan system in which :

- (i) production is the main purpose of the arrangements for finance,
- (ii) short-term loans are given on the basis that a crop is anticipated, not primarily that a title exists; (iii) the loans are related in amount to the estimated outlay in raising the crop, and (iv) the recoveries are made, as and when the crop is sold, from the proceeds of the sale.

(Chapter 36—para 3)

16. In our opinion, a co-operative credit society should not deny a loan to a person merely on the ground that he does not own land or cannot produce owners of land as sureties. The primary test for judging the creditworthiness of an individual is his repaying capacity and we consider that up to that extent he can be advanced a loan by the society on the basis of his requirements for agricultural production. (Although the production needs of an owner cultivator and a tenant will be more or less the same, there may be a difference in the actual amount of funds made available to the two by reason of the difference in the repaying capacity of the two, because the tenant having to pay rent to the landlord may have less repaying capacity. This may not always be the case, since the tenant may well have other sources of income which the owner cultivator may not be having. We are, therefore, of opinion that a primary credit society should be in a position to make credit available to all cultivators, irrespective of whether they are owners, tenants or lessees on the basis of their repaying capacity and on their producing adequate sureties.) (In judging the production needs, account should be taken of the nature of the crops grown, of the fertilizers, manures, better seed etc. which the cultivator is going to use and also of the likely effect of these improved methods of cultivation on the borrower's income and his repaying capacity.) While the above may serve as broad indications of the policy that may be adopted in future for loans to individuals in primary credit societies, we have to emphasize that since no

hard and fast rules uniformly applicable to all types of cultivators, can be laid down for estimating the production requirements and repaying capacity, the judgement in that behalf should be left to the managing committee or the general body of the society itself. (Circumstances vary so much from area to area, village to village and individual to individual that it would be appropriate to leave the discretion in the matter to the society, as the local people are the best judges of the repaying capacity of an individual which is influenced considerably by moral qualities such as honesty, integrity and industry that an outside agency will never find it easy to assess.)

Loans in kind

17. While the productive use of a loan will to a certain extent be ensured by a correct assessment of the character of a member, the scope for misapplication of the loans obtained by him can be minimised by supplying in kind as large a part of the loans as is possible. For instance, if production requirements include the use of fertilizers, the society may undertake to supply these, debiting the loan account with the cost of the fertilizers supplied. In taking upon itself the responsibility to supply fertilizers to the members on the basis of their indents or otherwise, the society will not only ensure proper utilization of the loans, but will also be doing useful service to its members, incidentally earning a small income itself. We have observed in our tours that societies in some parts of the country have already introduced this system with advantage to members and to themselves. The merits of the system have well been recognized, but its introduction on a wider scale has not been possible so far for one reason or another. The supply of fertilizers may not be sufficient in an area. Apart from that, the smallness of the size of the society or want of suitable accommodation to stock the materials or the absence of a paid manager or clerk may have to some extent accounted for societies not taking upon themselves the above responsibility. If the societies are viable units, as recommended by us, we believe that there will be much greater scope for disbursement of loans to members in kind in the form of seeds, fertilizers etc. It will further be necessary to channel the distribution of the available quantities of seeds, fertilizers, agricultural implements and other agricultural requisites, etc. through primary credit societies so that these requisites may be made available to cultivating members either for cash or against the loans sanctioned to them by the society for production. It may also be expected that the distribution of essential agricultural requisites will, apart from increasing the popularity of the village co-operatives, tend to secure proper distribution of these requisites to agriculturists at reasonable prices.

Relationship between share capital and borrowings

18. Primary credit societies require their members to contribute to their capital. The system of raising share capital from the members is necessary for more than one reason. First, the primary credit society has a certain responsibility towards its members for meeting their financial and other requirements. At the same time, as a member of a corporate body, every person has a certain obligation towards the society also. The share capital held by a person in the society is a measure of his interest in its financial stability and soundness. It is found that members feel strong attachment to, and interest in, a society in which they have invested some of their own money. This creates a sense of responsibility among them and ensures their loyalty. Secondly, it enables the society to contribute towards the

share capital of the central bank and thus to help in strengthening the federal structure. Finally, the collection of share capital from members is a good way of promoting thrift among them. For these reasons, the share capital held by an individual in the society occupies an important place in the system of co-operative credit. We, therefore, recommend that individual members should be required to contribute to the share capital in certain proportion of their borrowings. This principle should be adopted in limited as well as unlimited liability societies, as has been done in Madras, Bombay and certain other States.

Share capital and borrowings

19. The proportion between a member's shareholding in, and borrowings from, his society varies from State to State. Further, in some States the borrowings are related to a certain multiple of an individual's paid-up capital in the society, whereas in some others they are related at a multiple of the subscribed capital, the individual being allowed to pay up the shares fully in a reasonable number of instalments. In view of the importance to the co-operative credit structure as a whole, of the share capital held by an individual in his society, we consider that an individual should be required to pay the full value of the shares taken by him in the society in proportion to the borrowings he expects from it. We recommend that the borrowings of an individual may not exceed 8 to 10 times this paid-up capital in the society. The by-laws of the societies should contain specific provisions to secure this linking. There may, however, be members owning or cultivating small bits of land who may not be able to pay the entire value of the shares at the time of taking the first loan. In such cases, insistence on payment of the share capital in full may not only cause hardship, but may actually stand in the way of their becoming members. We, therefore, recommend that a person who wants to join a society and whose loan requirements do not exceed Rs 200, may be allowed to subscribe to two shares of Rs 10 each but pay up only Rs 5 per share in the first instance and the balance in the next two years in annual instalments of Rs 2.50 each. Suitable provision should be made to that effect in the by-laws of primary credit societies.

Absolute limits

20. We find that the by-laws of most co-operative credit societies lay down a maximum beyond which loans to individual members cannot be advanced. The limits vary from State to State and from area to area. Often, the limits are prescribed in the by-laws at the time of registration. Elsewhere, the limits are regulated by the central financing agencies and the co-operative departments to prevent undue concentration of loans in the hands of a few big cultivators. Whatever may have been the circumstances under which the individual limits were prescribed in the by-laws or the rules or by the department, it appears to us that the time has come for reviewing the absolute limits fixed for the individual in the light of the increased costs of cultivation and also of the need for making adequate credit available to cultivators in relation to the acreage under cultivation and the kind of crops grown. It is not possible for us to suggest any specific ceiling which would be uniformly applicable to all areas and to all States, because the requirement of cultivators would be different from area to area and from crop to crop. We desire that the position in this respect should be reviewed by central financing agencies and co-operative departments as early as possible and suitable limits fixed. For two reasons, we

are of opinion that there should be some ceiling prescribed for loans to individuals from primary credit societies. First, the primary credit societies should make their resources available to as many persons as possible, particularly medium and small cultivators. The bigger cultivator whose credit requirements are considerable may be in a position to command sufficient credit independently of any assistance from his society or may be relied upon to have enough savings of his own, so that he may not require from the society all the finance he needs. Secondly, if a ceiling is not prescribed in the by-laws, there is danger of the needs of small and medium cultivators being sacrificed in favour of big cultivators. While, therefore, there is every justification for fixing a ceiling for individual loans, there may be instances where the grant of loans above the general ceiling may be necessary. It should, therefore, be possible to make exceptions in such cases, provided the borrower gives satisfactory evidence that the additional credit limit will be utilised by him for increasing agricultural production. For example, an individual may be carrying out certain improvements on his land, or may be installing a pumping-plant so that the amount required for the above purposes may be in excess of the general ceiling for individual loans. In such an event, relaxation of the general limit may be necessary and desirable. We would, therefore, recommend that such relaxation may be made on the merits of each case, either by the central financing agency or by the appropriate supervising agency. Apart from exceptions made in the circumstances described above, we would suggest that the borrowings of an individual against the pledge of jewels (gold and silver in bars or ornaments) or goods or against fixed deposits may, if necessary, be in excess of the general ceiling prescribed by the by-laws of the society. However, it would be desirable to prescribe ceilings for each such class of loan so as to ensure that the benefit of credit facilities from a primary credit society is restricted only to cultivators and not passed on to others, e.g. traders, merchants etc. We observe that in some States it is the practice to prescribe special limits for loans against securities other than landed security or personal surety, such as jewels, crops etc. We would recommend adoption of this practice uniformly by all States. Incidentally, we would like to emphasize that it would be desirable if credit limits for individual members are fixed in the general meeting of a society.

Security for short-term loans

21. We have indicated earlier the nature of the security for loans to individuals taken by primary credit societies in the different States. While it is recognised that the discretion to prescribe the nature of security for a loan to an individual must necessarily be left to the managing committee of a society, we believe that insistence on mortgage security from every individual member wishing to obtain a loan, as is the law or practice in some States, is a denial of the benefit of co-operative credit to a large section of the agricultural community which does not have ownership rights in land. We have already emphasized that the primary test of eligibility for a loan by an individual is his repaying capacity and that subject to this consideration, loans may be given to individual members on the basis of their production requirements and anticipated crops. We have indicated that an individual member has to furnish personal sureties for the loans advanced to him. In law, the sureties are as much responsible for the repayment of the loan as the principal borrower and, therefore, they are expected to watch the proper use of the loan and to see that the loan is repaid by the borrower in time. The discretion to determine the person or persons who may be accepted as sureties for a loan to a individual should rest with

the managing committee of the society. The practice in many States is to have one or both the sureties from among owners of land. This insistence prevents several cultivators from enjoying from a co-operative society the credit facilities required by them for carrying on their legitimate agricultural operations. We are of the view, therefore, that a change in the existing practice is called for the individuals should be allowed to offer any two sureties from fellow-members whether or not they own land, provided the amount for which they stand surety is within the limits prescribed for the purpose either in the by-laws of the society or by convention.

Medium-term credit

22. Short-term loans are needed by agriculturists primarily for financing seasonal agricultural operations and should generally be repaid by them in periods not exceeding twelve months, and in the case of crops like sugarcane in fifteen months. In other words, short-term credit for cultivation should be the first charge on the harvest and crop loans should be repaid immediately thereafter. The agriculturist however, needs credit not only for current expenses on his land, but also for other productive purposes. Medium-term loans are required for the purpose of buying cattle, costly implements, carts or effecting improvements to lands or repairs to houses, etc. In the course of our tours, we found that there was almost everywhere a pressing demand from agriculturists for more medium-term loans. Representatives of several States urged upon us the imperative need for the provision of more medium-term funds to agriculturists for periods up to 5 years. Government have undertaken several major irrigation projects and if full advantage is to be taken of these, agriculturists will have to be provided with medium-term loans for such purposes as conversion of dry lands into wet lands, reclamation of land etc. Besides, we understand that there are large areas of land where increased productivity can be brought about by sinking new wells or deepening existing wells, installation of pumping-plants etc. Loans are also required for bunding and in some cases for improving the fertility of the land by periodically applying *patti earth* i.e. improved earth. For all these purposes, agriculturists require medium-term loans, the present supply of which is far from adequate. We shall deal elsewhere with the ways and means of improving the resources for the grant of medium-term loans to members of societies. Here we shall refer to the modifications in the loan policies of societies and banks in regard to the advance of such loans to individuals.

Limits for medium-term credit

23. Generally, no separate credit limits are fixed for medium-term loans to individuals. We recommend that all borrowings by an individual, whether short-term or medium-term, should be within the credit limit fixed for him by his society. It does not seem necessary, however, to prescribe a ratio between short-term and medium-term loans taken by an individual.

Security for medium-term loans

24. We observe that medium-term loans are advanced generally on the mortgage of land, although in some States, loans below a particular limit are advanced on personal security. In Bihar, for instance, loans below Rs 200 whether short-term or medium-term, are given by societies without taking a mortgage. In Punjab, all loans below Rs 1,000, whether short-term or medium-term, are advanced by societies on personal security. The

insistence on mortgage security for all medium-term loans, irrespective of the amount, results in denying such loans even to tenants who have a heritable tenancy right, but no right to mortgage it. *Sirdars* in Uttar Pradesh, for instance, who form a substantial proportion of the total number of cultivators in the State, may not thus be in a position to obtain medium-term loans, if mortgage security is made a condition for every such loan. At the same time, this class of cultivators is in need of medium-term loans for such purposes as purchase of livestock. It may not be appropriate to deny them the loans merely on the ground that they have no mortgageable right in land, although they may have a legitimate need and may also have the necessary repaying capacity. We consider that, as a general rule, mortgage security need not be insisted upon for loans below Rs 500. Loans between Rs 500 and Rs 1,000 may be given on the borrower creating a charge on his land, so that he may be saved from the trouble and expense of executing a mortgage bond. We, however, are of the view that for loans above Rs 1,000 it would be desirable to obtain mortgage security. This will not hamper production because the demand for such loans will generally be for carrying out permanent improvements to land which are ordinarily undertaken by persons having an ownership right in it.

Period of medium-term loans.

25. Medium-term loans are granted for periods ranging between two and five years according to the purpose of the loans and the repaying capacity of individual borrowers. There should be a certain amount of flexibility in this respect. The period of loans may vary as indicated above but repayment of the loans is invariably in annual instalments. In some cases, therefore, the instalment may fall due even before the benefit of the improvements effected out of the loans start accruing to the borrower. Payment of the annual instalments in these circumstances may, therefore, cause hardship. We would, therefore, recommend that societies and central financing agencies may examine the question of making the first instalment of loans for improvement of land payable not at the end of the first year, but at the end of the second or third years, when the investment on the land will begin to yield additional income.

Long-term credit

26. Long-term credit is required by agriculturists either for redemption of old debts or for effecting permanent improvement to land. In some cases, the debts would have been incurred for improvements to land which are subsequently sought to be redeemed by taking a long-term loan. Several irrigation projects in the Five-Year Plans have either been completed or are nearing completion, while others are in progress. In the areas served by these, agriculturists have to reclaim lands and make them fit for irrigation. They require funds on reasonable terms. Again, rural electrification is proceeding apace in some parts of the country. The advantages of having electric motors for irrigation purposes as compared to other methods of lift irrigation are being appreciated by agriculturists. Land mortgage banks can render help by advancing loans for the purchase of electric motors and costly pumping-plants. Even the installation of oil engines in places where electricity is not available has much to commend itself as lift irrigation by bullocks is comparatively costly. For such purposes, the provision of long-term credit will be necessary. Again, there are vast areas without irrigation facilities and several agriculturists owning these lands would like to sink wells for which long-term loans will be required,

The requirements for long-term credit are thus going to be large in the years to come.

27. The long-term borrowings of a cultivator are fixed generally at twenty times his share capital in a primary land mortgage bank. This linking is necessary for the reasons we have already stated in connexion with short-term and medium-term loans. The limit for loans is ordinarily Rs 10,000, going up to Rs 15,000 in some cases. We consider that some limits should be prescribed for loans to individuals from land mortgage banks.

28. We shall refer here to one or two aspects of the question of long-term credit. We have referred to the need for allowing a borrower of a medium-term loan for land improvement to pay the first instalment of the loan at the end of the second or even third years, or as soon as the investment on the land begins to yield additional income. A similar facility will be desirable in respect of long-term loans, particularly when such loans are required for plantation crops like rubber which begin giving income from the seventh year or so. We suggest that land mortgage banks may consider this point while fixing the date from which the repayment of the loan in annual instalments should commence.

Loans on basis of anticipated increase in value.

29. Land mortgage banks advance loans on the mortgage of land belonging to a borrower. The loans are given only up to 50 per cent of the value of the land mortgaged. Valuation is done with reference to statistics of sales over a period and does not take into account any increase in the value of land that may result from improvements effected out of the loans. The financing of such improvements will be greatly facilitated if the anticipated and not the present value of land is taken into consideration while valuing the land. At the same time, it will be risky for the banks to advance loans on the basis of the anticipated value, for there may be no guarantee that such an increase will occur. In view of this difficulty, the Rural Credit Survey Committee recommended that Government might provide a guarantee to the land mortgage bank to cover the difference between the value before and after improvement. The guarantee will be for the amount advanced to an individual in excess of what he would be eligible under the existing standards of valuation. We endorse this recommendation and suggest that State Governments and land mortgage banks may examine the need for giving effect to it from the point of view of promoting scheme for permanent land improvement.

CHAPTER VIII

CREDIT LIMITS : PRIMARY CREDIT SOCIETIES

Cultivators expect the primary credit society of which they become members to provide the credit required by them for agricultural production and for other needs. The societies will have, therefore, to raise funds for meeting these demands. Primary credit societies in the beginning were based on unlimited liability as this was expected to increase their credit-worthiness in the eyes of creditors. Later, in some States, option was given to promoters to register a village credit society either on limited or unlimited liability basis. Societies with limited liability are now being registered on a large scale in many States, particularly large-sized societies of the type recommended by the Rural Credit Survey Committee. Even then unlimited liability societies still predominate in the co-operative credit structure at the village level. Out of 1,66,543 primary credit societies at the end of June 1958, 91,739 or 55 per cent were of the unlimited liability type. There were 74,804 limited liability societies of which over 42,000 were in Uttar Pradesh, about 13,000 in Bihar and about 6,800 in Bombay. Except in these three States, unlimited liability is the rule and limited liability the exception. The trend of opinion is in favour of limited liability in some States, while in others fresh organization is still mainly on the basis of unlimited liability. In their letter dated 11 May 1959 on Co-operative Policy sent to the States, the Government of India have indicated that the liability of members in village societies may be either limited or unlimited and that this question should be left to be determined by the members of the village societies concerned. In the type of viable unit we visualize and the services we expect village societies to undertake, we consider organization on the basis of limited liability to be more suitable.

Fixation of credit limits

2. The present position in regard to the law and practice governing the fixation of credit limits of primary credit societies in the different States is described in the following paragraphs :

Unlimited liability societies

3. In Bombay, the rules require every society with unlimited liability to fix its maximum borrowing limit in a general meeting. In the pre-1956 Bombay area, the limit is generally fixed at one-sixth of the total value of the assets of the members, but in some cases, it is raised to one-fourth. The valuation of assets is expected to be revised every three years by the central financing agency on the basis of statistics of sales of land for the preceding 5 years. The limit so fixed is subject to sanction by the Registrar. In Madras and Andhra, the limit is fixed by the Registrar on the basis of a Government order. At present, the limit cannot exceed one-eighth of the net assets of the members specified in the property statement

which is certified by the *panchayaddars* of the society and the village accountant. Generally, the latest average market values of movable and immovable properties are taken into account in preparing the property statements. It has been reported that it is usual to fix the maximum borrowing power of a society, when it is first organized, at a much lower figure than at one-eighth of the net assets of the members. The credit limit is fixed by the Registrar and the central co-operative bank on the basis of various factors, such as total assets of members, total income, repaying capacity, owned funds of the society, its audit classification, record of repayment etc. The credit limit so fixed is revised from time to time. In the Telengana region of Andhra Pradesh the borrowing limits are not fixed either under the rules or by-laws of societies and, therefore, it follows that the limit for a society is the sum total of the limits fixed for individual members.

4. In Uttar Pradesh, the maximum borrowing power of a society is fixed at its annual general meeting. This has no relationship with the owned funds and is fixed according to the needs of the society and in relation to the assets of its members. The borrowing power of an unlimited liability society is specified as so much, say Rs. 10,000, Rs 20,000 etc., which would roughly represent one-eighth of the net assets of its members. In Assam, an unlimited liability society has to fix its maximum borrowing limit at its general body meeting. This limit, however, is subject to the sanction of the Registrar. The practice is to fix the limit at 10 per cent of the value of the assets of the members. In West Bengal, the borrowing power is to be fixed by a society at its general meeting. The Registrar is empowered to revise the limit so fixed. In the pre-1956 Mysore area, the maximum borrowing power is fixed at 15 times the paid-up share capital. In Bihar, Punjab, Delhi and Himachal Pradesh, the maximum is fixed in the same manner in which it is fixed for limited liability societies. In Manipur, the by-laws lay down that the total borrowings should not exceed Rs. 10,000, except with the specific sanction of the general meeting and the Registrar.

Limited liability societies

5. The limits for limited liability societies are fixed under the rules or their by-laws generally at a certain multiple of the owned funds. In Bombay, a society with limited liability cannot, without the previous sanction of the Registrar, incur liabilities exceeding eight times the total amount of its paid-up share capital and accumulated reserves and building fund, minus accumulated losses. In Uttar Pradesh, under the rules the maximum borrowing power of a society, fixed at its annual general meeting, should not, without the sanction of the Registrar, exceed ten times its owned capital. Therefore, in these two States, with the previous sanction of the Registrar, societies will be in a position to borrow in excess of eight and ten times their owned capital respectively. In practice, however, in Uttar Pradesh the maximum credit limit of a society is worked out on the basis of the *haisiyat* of members. The sum total of the maximum credit limits of members represents the maximum credit limit of the society. In the case of large sized societies, the basis for fixing the credit limit has shifted from the *haisiyat* of members to the estimated value of crops grown by them. The practice has been introduced by central co-operative banks of fixing limits on the basis of one-third of the estimated value of crops to be grown by members and paid-up value of shares held by members, subject to a ceiling of eight times the paid-up value of the shares held by the society.

6. In Rajasthan, the limit is fixed, under the rules, at eight times the aggregate of the paid-up share capital and reserves. The limit is, however, subject to the approval of the Registrar and of the financing bank. In West Bengal, under the rules, a society can incur liabilities to the extent of ten times its paid-up share capital and reserve fund separately invested, but several relaxations have been allowed with the permission of the Registrar. For example, an agricultural society may incur liabilities for the purpose of providing loans to its members for production and the marketing of crops repayable within a period of twelve months, irrespective of the amount of its paid-up share capital and reserve fund separately invested. In Assam and Manipur, a society may not incur liabilities exceeding fifteen times its paid-up share capital and reserve fund, but as in West Bengal, the society may incur any amount of liabilities for short-term agricultural loans. The by-laws of large-sized societies in Manipur, however, lay down that the total borrowings of the society both by way of loans and deposits or otherwise and whether from members or others shall not at any time exceed eight times the paid-up share capital plus reserve fund. The Registrar may, however, for reasons to be recorded by him in writing reduce the limit so fixed.

7. In Bihar, the societies are allowed under their by-laws, to borrow up to ten times the amount of share capital actually subscribed plus reserve fund. In Orissa, and Pondicherry, the by-laws fix the limit at ten and eight times the paid-up share capital and reserve fund respectively. The provisions in the Co-operative Societies Act and the rules thereunder leave to the Registrar the authority to fix the credit limit of a society in Orissa and Pondicherry. By an amendment to the by-law, which necessarily has to be approved by the Registrar, the multiple can, however, be increased. In Mysore, the by-laws fix the limit at eight times the paid-up share capital plus reserve fund in the case of large-sized credit societies. For small societies also the outside borrowing limit is fixed at eight times. However, the limit so fixed can be exceeded in their case with the specific permission of the general body and the Registrar. Most credit societies in Kerala are formed with limited liability and their borrowing limit is fixed at eight times the owned funds. In the large-sized societies and big agricultural banks, the limit is fixed at ten times.

8. In Punjab, the rules lay down that a society can fix its maximum credit limit at its general meeting which, however, is subject to the approval of the Registrar. The by-laws of limited liability societies, fix the limit at ten times their owned funds. The maximum credit limit in the Punjab and Delhi excludes borrowings from members. In Vidarbha and Marathwada regions of Bombay and in Madhya Pradesh, the rules vest in the Registrar the power to fix the maximum credit limits of societies.

9. In Madras and Andhra Pradesh, the power to fix the limit is, under the rules, vested in the Registrar, but for doing so he is governed by orders issued by the State Government from time to time. Under the existing orders, a limited liability society in both Madras and Andhra can borrow up to eight times its owned funds. Recently, however, the Government of Madras have permitted the Registrar to allow an agricultural bank (large-sized credit society) to borrow up to ten times its owned funds. In the Telengana region of Andhra Pradesh the borrowing limits are fixed within the range of five to twelve times the owned funds.

10. The practice in regard to the fixation of credit limits of societies varies to some extent from the law. For instance, in Punjab, although the by-laws permit a society to borrow up to ten times its owned funds, in practice the limit is fixed as follows: total maximum credit limits of members less 25 per cent in case of societies in the first year of their registration and 10 per cent thereafter less owned capital. In Madhya Pradesh, the limit is fixed at a multiple of its owned funds which varies from five to ten. In West Bengal, the practice is to fix the limit at ten times. In Assam, it is fixed at twenty times the paid-up capital for large-sized societies in which there is no Government participation. In Himachal Pradesh, it is fixed at a sum equal to the total liability of the members minus its paid-up share capital. The liability of members in such societies is generally four times the paid-up capital.

11. Central banks have a voice in the determination of credit limits of primary credit societies, though they generally accept the limits fixed under the rules or the by-laws or by the Registrar. The Registrar of Co-operative Societies, Punjab, has, for instance, stated that in 90 per cent of the cases, the maximum credit limits approved by the Registrar and the credit limits fixed by the central banks for the societies are identical. In Rajasthan, the central banks have no separate standards for fixing credit limits for the societies. In Andhra Pradesh, no credit limit is fixed for the societies by central banks. As and when the need arises, or once in a year, the societies prepare loan applications of their members and send them to the banks which sanction loans within the maximum credit limits as fixed under the by-laws. In Bombay, in fixing the credit limits for a society under the crop loan system, the banks take into account (a) managerial efficiency, (b) arrangements for supervision of the use of loans, (c) facilities for marketing of agricultural produce and (d) ability of the society to control the disposal of the produce of the members. In most cases, however, the efficiency of management as reflected in repayment of the loans is the guiding factor.

12. In some States, the banks follow certain standards for sanctioning fresh loans to societies. For instance, in Andhra and Madras, the banks do not advance fresh loans to a society where the overdues exceed $33\frac{1}{3}$ per cent of the outstandings from members or the overdues of the society to the bank exceed 25 per cent of the loans payable. In Kerala, no new loan are advanced to unlimited liability societies whose arrears exceed $33\frac{1}{3}$ per cent. For limited liability society the arrears should not exceed 25 per cent. In the Telengana area of Andhra Pradesh, societies having overdues in excess of 25 per cent are not financed by the banks. In Rajasthan societies whose overdues to the central banks exceed 40 per cent are not financed. In Uttar Pradesh, no loans are advanced to defaulting societies, but it has recently been decided to advance loans to a defaulting society provided its overdues to the central banks do not exceed 15 per cent of the outstandings and provided arbitration proceedings have been instituted against the defaulting members.

Revision of the standards

13. We are required under the terms of reference, to examine the existing standards for the fixation of credit limits at different levels of the co-operative credit structure and to suggest modifications which are consistent with the principles of co-operative finance, so that adequate credit may become available to cultivating families. We have indicated in the pre-

vious chapter the general lines on which the various restrictive provisions in the Act, rules or by-laws may be liberalised so that credit facilities from a village co-operative society are enjoyed adequately by all cultivators on the basis of their production requirements, but with due reference to their production requirements, but with due reference to their repaying capacity and such qualities as honesty, integrity and industry. It is not enough, however, to expand the sphere of business of a society by making more persons eligible for assistance from it and by raising the scale of finance for members. Equally important is the need to ensure proper utilization and prompt recovery of the loans advanced, so that the credit of the society with the depositors and the financing bank is not impaired. In other words, the examination of the standards that may justifiably be adopted in fixing the credit limits in co-operative credit institutions will have to be made not only in the context of the need for providing more credit, but also of the factors that help to make the institutions more credit-worthy in the eyes of creditors. On their confidence rests the hope for attracting larger funds in the movement, so that credit may become more broad-based than at present. Confidence depends as much upon the financial strength and stability of the institutions as on the creation of conditions which will minimise the risks inherent in the financing of a large number of persons belonging to the weaker sections of the agricultural community, hitherto remaining outside the co-operative fold. The borrowing capacity of a co-operative institution, be it a society or a bank, is no doubt an important factor, but of much greater significance is the willingness of the creditor to lend to it, which is dependent on his initial confidence in the ability of the society to repay in time the sums lent and which is sustained by the actual performance of the society in honouring its commitments to him. We indicate in the following paragraphs the various factors which are looked into by a creditor before he shows his willingness to lend the funds required by a co-operative society.

14. It has been recognized ever since the beginning of the co-operative movement, not only in this country but also elsewhere, that the extent to which a co-operative society based on limited liability may borrow should be related in some manner to its owned capital. A larger capital base is calculated to inspire greater confidence among the investors by bringing home to them that the members of the institution have enough stake of their own in the business. In other words, the owned funds of an institution are regarded by creditors as the margin of security for their lendings to it and, in that context, a larger margin should prove conducive to the creation of more confidence in the minds of outside creditors. What the owned funds are to a limited liability society, the net assets of the members are to an unlimited liability society.

15. Apart from serving as a margin of security, the creditor looks to the owned funds as absorbers of the impact of overdues which to some extent are inevitable in agricultural finance. The larger the owned funds of a society, the greater is its ability to absorb the overdues so that repayment of the dues of outside creditors may be ensured. For this reason it is advantageous even for an unlimited liability society to have a large capital base. The owned funds of a society which provide a cushion against default are thus very important from the point of view of the creditor. They are equally important from the point of view of the society in maintaining a continuous flow of finance to it from outside creditors. If the shock of overdues is not adequately absorbed by the owned funds and the

society defaults to the creditor, further finance to it may be curtailed. The owned funds have thus importance for both the creditor and the borrowing society.

✓ 16. To illustrate the point, if a primary society's borrowing power is eight times its owned funds and it borrows to the full extent of Rs. 800 as against its owned funds of Rs. 100 and lends all the borrowed and owned capital amounting to Rs. 900, it can afford to have overdues of the order of Rs. 100. For, it will then have recovered Rs. 800 which will be sufficient to repay the dues of the creditors in time. In other words, the proportion of overdues to demand can be about 11 per cent. If, however, its borrowing power is raised to, say, twelve times its owned funds and it borrows to the full extent and lends both the borrowed as well as owned capital, the lendings will amount to Rs. 1,300. It can still afford to have overdues only to the extent of its owned capital, i.e. up to Rs. 100. The proportion of overdues to demand in the latter case cannot be more than 8 per cent, for, otherwise, the society will default in meeting the dues of its creditors. Thus liberalization of the standards becomes possible, if the chances of overdues in primary societies are reduced appreciably by creating conditions more favourable for prompt recovery of the loans advanced. In this context, therefore, it will be relevant to see the position of overdues in primary agricultural credit societies in the past three years. This is indicated below :

	(Rs crores)		
	1955-56	1956-57	1957-58
Loans advanced	49.62	67.33	96.08
Loans outstanding	59.84	76.82	107.10
Loans overdue	14.96	16.82	22.79
Percentage of overdues to outstandings	25.00	21.90	21.27

While the percentage of overdues to outstanding loans (and not to demand) is going down, it is still above 20 per cent. There are States where the percentage is very much higher. The creditor who lends will be guided more by the quantum of owned funds of a society which can serve as a cushion against overdues and the present position of overdues and not by what the borrowing capacity of the society is. He has to ensure that the moneys lent to the society do not get frozen in overdues against its members.

✓ 17. The next important factor is how the funds provided to the society will ultimately be utilised. If there are carefully worked out production programmes for individual cultivating families and if the machinery for implementing them is reasonably satisfactory, the creditor will be assured that the funds provided to the society will be utilised for increasing agricultural production and not for unproductive expenditure so that the members of the society will have the necessary wherewithal to repay the loans taken from the society. This will thus serve as a safeguard against the risk of overdues or losses in the society financing its members. We have indicated in Chapter II that production programmes for individual families do not at present exist in any State.

18. Even if there are no production programmes of the above type, every individual has his own production plans and if credit is provided on that basis and the arrangements for supervision are sufficiently satisfactory,

the creditor can still be induced to lend larger funds to a society, provided there are arrangements for recovering the dues of individual members from the sale of crops raised by them. The risk of overdues and losses is considerably reduced where there is effective linking of credit and marketing. For one reason or another it has so far not been possible to establish such a link on an appreciable scale, so that the creditor cannot be assured that the credit provided for production will necessarily be recovered out of the crops raised.

19. We have indicated earlier that the credit limits for limited liability societies are fixed, generally, at eight times the owned funds and for the unlimited liability societies at one-eighth of the net assets of the members. By and large, these limits have not so far stood in the way of the societies raising adequate funds. It has been urged before us that in view of the appreciable increase in the volume of co-operative agricultural credit contemplated in the coming few years, especially in the light of the aims set out in the resolution of the National Development Council, the limits at which the maximum borrowing of the societies are at present fixed will prove inadequate and will have to be raised. We have examined this carefully in the context of the factors determining the creditworthiness of the societies in the eyes of the creditors, of the actual position in regard to the reserve borrowing power of the societies on the basis of the existing standards and also of the improvement that is likely to result in it from the addition to their owned funds in the case of limited liability societies and from a proper valuation of the assets of the members of unlimited liability societies. From the point of view of the creditor any relaxation of the existing standards may not be looked upon with favour when the proportion of overdues to outstandings is high, when the financing is not strictly based on production requirements and when there is no effective linking of credit with marketing. The present position of the reserve borrowing power of primary credit societies does not also indicate the need for a general and immediate liberalization in all cases. As regards the future, we have to take in to account the increase in the owned funds that will result from contributions to the share capital of the societies both from members and Government about which we have made certain recommendations elsewhere. Such an increase in the share capital will enhance the borrowing power of the societies based on limited liability, even on the existing standards. In the case of unlimited liability societies, an enhanced borrowing power may result from a proper valuation of the assets with reference to current prices which may not have been done. Taking all these factors into account, we believe that it may not be necessary to enhance, as a rule, the present limits in respect of all limited and unlimited liability societies.

20. We recognize, however, that there may be need for increased credit limits for the societies under certain circumstances. They are in some States areas in which well planned and adequately supervised schemes for increasing agricultural production are in operation. There are also areas in which for certain types of crops, if not for all, there is effective linking of credit with marketing. There are, again, many credit societies in every State whose record in the matter of advances and recoveries is encouraging. In these types of societies the demand for credit will grow as their membership is extended to the weaker sections of the agricultural community and as they attempt to provide adequate credit for agricultural production. We have recommended in the previous chapter that persons borrowing less than Rs. 200 from a society may be allowed the

option to pay up the minimum share capital, i.e. one-tenth of the borrowings, in instalments, one-half in lump sum and the balance in two annual instalments. If in such circumstances the society has to raise necessary funds by way of deposits or loans to meet the requirements of all, the borrowing power based on the existing standards may prove inadequate.

✓ 21. To illustrate the point, it may be assumed that members borrowing on the basis of ten times their paid-up capital have contributed Rs. 4,000 and those borrowing at twenty times their subscribed capital have contributed Rs. 1,000 to the share capital of a primary credit society. If the borrowing power is fixed at eight times the paid-up capital, the maximum borrowing power of the society will be Rs. 40,000 as against which the maximum demand for loans from individuals can be of the order of Rs. 60,000 (Rs. 4,000 x 10 = Rs. 40,000 + Rs. 1,000 x 20 = Rs. 20,000 = Total Rs. 60,000). If the share capital is utilised fully in advancing loans, to members, the society will need Rs. 55,000 from outside so as to meet the demands fully. If the borrowing capacity is, however, Rs. 40,000 i.e. eight times the paid-up capital, it will fall short of the requirements by Rs. 15,000. The shortage in the borrowing power will be made good to some extent when the instalments due on the share capital are fully paid up in the next two years. Thus, the deficit in the borrowing power will be brought down to Rs. 7,000 at the end of the third year when the balance of Rs. 1,000 in share money is recovered from the borrowers. The gap will be narrowed further if a society has a sizeable reserve fund, for the amount to the credit of the fund will be available for the purpose of calculating the borrowing power of a society in the same manner as its paid-up share capital.

22. In unlimited liability societies, the need for a larger borrowing power than one-eighth of the net assets of the members may arise because of the admission of a several cultivators who do not own land but who, at the same time, require credit for their agricultural operations. The admission of such persons will not bring about an appreciable increase in the net assets of the society and will not lead to an increase in its borrowing power on the basis of the existing standards.

23. In such circumstances it may be necessary to fix the credit limits in both limited and unlimited liability societies at higher levels than at present. The lending programme of a society and particularly its programme to lend to small and medium cultivators including landless tenants will, however, have to be examined before the borrowing power is allowed to be raised. Similar scrutiny will also have to be made in regard to the efficiency of management and its record in respect of advances and recoveries. The existence of special schemes of credit and effective linking of credit with marketing in the area will be additional considerations to be taken into account. In unlimited liability societies the paid-up share capital will be an important consideration for that will serve as security to creditors in addition to the assets of the members. We, therefore, recommend that the Registrar of Co-operative Societies may be authorised to fix the maximum credit limit of a limited liability primary credit society between ten times to twelve times its owned funds as against the present limit of eight times and of an unlimited liability society upto one sixth the value of the net assets of the members after taking into account all the factors mentioned above and after consulting the central co-operative bank to which it is affiliated. Consultation with the bank will be necessary

to ensure that it will be prepared to lend to the society up to the higher limit. The fixation of the limit beyond eight times the owned funds in limited liability societies and one-eighth of the net assets in the case of unlimited liability societies may be reviewed periodically so as to assess the performance of the society. We believe that the power to relax the limits in individual cases after examining the merit in each case, provide a sufficient amount of flexibility in fixing the credit limits so as to satisfy the increased demands of borrowing institutions.

Finance for members of defaulting societies

24. A primary credit society is a corporate body and, therefore, higher financing agencies will be justified in judging its creditworthiness from its performance in repaying the loans due by it, as well as from the repayment of loans due to it from its members. We observe that in some States it is the practice for a central bank to require cent per cent repayment of the loans due to it before any fresh loan is advanced to a society. We feel that this practice is unduly rigid. Members who repay their dues punctually often suffer because of the defaults of others. Wherever possible an attempt should be made to meet their demands for production credit. At the same time, we do not wish to suggest that a central bank should continue to finance a society irrespective of the degree of default, firstly of members to the society and secondly of the society to the central bank. Our suggestion, therefore, is that certain standards should be prescribed by each central co-operative bank in these respects, after taking local circumstances into account. The standards prescribed would indicate the circumstances in which societies would be financed and the extent to which finance would be available.

CHAPTER IX

CREDIT LIMITS : CENTRAL & STATE CO-OPERATIVE BANKS

In the previous two chapters, we have examined the credit limits of individual members and of primary agricultural credit societies. In this chapter, we propose to examine the standards for fixation of credit limits in respect of central and state co-operative banks.

Owned funds as basis for borrowing power

2. In the earlier chapter, we have emphasized the importance of owned capital in primary credit societies as a means for inspiring confidence among the creditors and as a cushion against overdues. Co-operative credit institutions at the higher levels can be allowed to borrow more in proportion to their owned funds by virtue of the greater resources that they command and consequently their greater ability to withstand defaults in repayment of their dues by primary societies. This will be evident from the fact that the percentage of overdues is higher at the primary level than that at the central bank level and that at the latter level is higher than at the apex bank level. On 30 June 1958, the percentage of overdues of primary agricultural credit societies was 21.3, of central banks 11.96 and of apex banks 7.37. It has generally been the practice to relate the borrowing power of central and apex co-operative banks to their owned funds. Otherwise, an institution with very little stake of its own in its activities may be tempted to undertake business without a sufficient sense of responsibility. Generally speaking, heavy borrowings, except to meet seasonal requirements, are not considered a healthy practice even in commercial banks as they are expected to trade within a reasonable proportion of their deposits and owned funds in normal times. Though there is no statutory provision restricting the quantum of deposits that may be accepted by commercial banks, a ratio of 1:10 between the owned funds and the deposits is generally considered as the norm. To protect the interests of depositors from banks indulging in overtrading, certain regulatory provisions such as requiring the banks to maintain a certain percentage of their demand and time liabilities in unencumbered approved securities, are contained in the Banking Companies Act. Further, some provisions in this law also enable the Reserve Bank to exercise quantitative and qualitative checks on the advances portfolio of banks. Besides, the primary function of commercial banks is to provide short-term advances which are largely spread over a variety of easily realisable securities. Hence although there is no regulation requiring commercial banks to restrict their deposits and borrowings to a multiple of the volume of their owned funds, there are suitable safeguards operating in their case to ensure that the depositors' interests are not jeopardized.

The need for correlating the owned funds to the borrowings is fundamentally alike for commercial and co-operative banks and for other types

of financing institutions. There is, however this difference that co-operative banking has certain peculiar problems arising out of the fact that it has to undertake the financing of agriculture, with its attendant risks.

Definition of owned capital

3. We would first like to indicate the scope of the term 'owned funds' and what should constitute the 'owned funds' of a central or an apex co-operative bank as it has an important bearing on determining their borrowing power. The Co-operative Societies Act or the rules framed thereunder do not define the term 'owned capital' except in a few States viz. Uttar Pradesh, West Bengal, Assam and Punjab, where the term has been defined in a general way as the total of paid-up share capital and reserves and other funds created out of profits. Secondly, different interpretations have been given to the term 'owned capital' in different States. In Madras and Andhra Pradesh, 'owned capital' for the purpose of determining the borrowing power of a co-operative bank is taken as the total of the paid-up share capital and statutory reserve fund. The term applies in Bombay State to the total of paid-up capital and all reserves minus accumulated losses, if any, in the case of the Bombay State Co-operative Bank and the total of the paid-up capital, statutory reserve fund and building fund minus the accumulated losses, if any, in the case of the central co-operative banks. For the purpose of fixing credit limits of a state co-operative bank on behalf of affiliated central co-operative banks, the Reserve Bank generally includes only the paid-up capital and the statutory reserve in the owned funds with reference to which such limits are fixed. It has been represented that this definition is unduly restrictive and that, therefore, owned funds of central financing agencies should be so defined as to include not only the statutory reserve but the other types of reserves as well.

4. Apart from the statutory reserve fund, the other funds that the banks maintain may consist of bad and doubtful debts reserve, investment depreciation reserve, reserve for overdue interest, building fund, dividend equalization fund, income-tax reserve, gratuity reserve, sinking fund for debentures, stabilization fund etc. It may be observed that some of these reserves represent provisions made to meet specific or anticipated losses or contingencies. For the purpose of determining the borrowing power of an institution, only such funds should be taken into account as will serve as a margin of security to outside creditors. Some of the reserves listed above may have to be utilised by a bank to meet the objects for which they were created and in the process they may get reduced or extinguished. The same is, however, not the case with the paid-up capital and the statutory reserve. The share capital in the case of co-operative banks, under their by-law, is not redeemable but is only transferable, so that there is little possibility of its reduction. The statutory reserve is also inalienable and indivisible and cannot be drawn upon except under extraordinary circumstances. We suggest that, apart from the paid-up capital and statutory reserve fund, other funds of a permanent nature created out of profits such as building fund, stabilization fund, sinking fund for debentures other than in central land mortgage banks, may be included in the definition of the 'owned capital' of banks. We also suggest that this definition may be accepted by the Reserve Bank when fixing credit limits with reference to owned funds of state and central co-operative banks,

Borrowing limits of state and central co-operative banks in Madras and Bombay

5. Before we give an account of the existing law and practice relating to the fixation of maximum borrowing limits of state and central co-operative banks, it will be useful to give a brief account of how the borrowing limits for these two types of institutions have been fixed from time to time in Madras and Bombay states over the last four decades, for such an account will help us in examining the issue before us. It may be recalled at the outset that Maclagan Committee (1915) had recommended that, in the interests of depositors, the total liabilities of central banks should not, in ordinary circumstances, exceed eight times their owned capital, i.e. paid-up share capital plus reserve fund. In 1928, the Government of Madras prescribed that in no case should the liabilities of a central bank exceed ten times its owned capital. The Madras Committee on Co-operation, (1939-40) recommended the exclusion of advances against agricultural produce from this ceiling, though they did not favour any increase in the multiple. The position came to be altered in 1941 when the maximum borrowing power of central banks was raised from ten to twelve times subject to the condition that the increased limit was utilised only to borrow for the purpose of financing a marketing society. In 1946, the Government empowered the Registrar to permit central banks to borrow upto twenty times their owned funds with a view to facilitating the financing of a scheme relating to procurement and distribution of food-grains, yarn and mill cloth through co-operative societies. This relaxation became inoperative after the scheme referred to above was discontinued. The question of the maximum borrowing power of central banks was again examined by the Committee on Co-operation in Madras (1955-56) which recommended that the normal borrowing power of central banks might be raised from ten to twelve times. In the case of the Madras State Co-operative Bank the maximum borrowing power which was fixed in 1922 at ten times the paid-up capital and reserve was raised to twelve times in 1926 and to twenty times in 1941. In 1957, when the financing of schemes relating to procurement work was over, it was reduced to fifteen times. Last year, it was raised to twentyfive times temporarily pending the additional contribution to its share capital from the State. In Bombay also, the limits were raised in 1953 from eight to twelve times in the case of central banks and twelve to fifteen times in the case of the apex bank. In these two States, borrowing limits have been altered from time to time to meet changing conditions and demands.

LAW AND PRACTICE

Central co-operative banks

6. There are three distinct ways in which the maximum borrowing power of central co-operative banks is fixed : (i) under the rules, (ii) under the by-laws and (iii) by the Registrar. In all these systems, however, it is customary to relate the borrowing power of central co-operative banks to, and fix it at a multiple of, their owned funds.

(i) In Bombay, according to the rules, a central co-operative bank cannot incur liabilities exceeding twelve times the total amount of its paid-up share capital, accumulated reserves and building fund minus accumulated losses. However, with the previous sanction of the Registrar, a bank can borrow in excess of the above limit. The rules in Rajasthan are similar to those in Bombay. The central banks, however, can incur liabilities in excess of the above limit up to their paid-up share capital, provided the excess is invested in Government securities. In West Bengal

and Assam, the rules fix the limit at ten times the paid-up share capital plus reserve fund separately invested. However, if the borrowings are incurred for financing societies for agricultural operations and marketing of crops, no relation with the owned funds need be maintained. In Assam, the practice is to limit the borrowings to ten times the owned fund in the case of central banks which have received Government capital. In Uttar Pradesh, a central co-operative bank cannot incur liabilities exceeding ten times its owned capital.

(ii) In the pre-1956 Mysore area, as well as in Punjab, the by-laws of central banks provide for a limit of twelve times the paid-up capital plus reserve fund. In Delhi and Pondicherry, where there are no central banks, and the state co-operative bank serves as a central bank, its borrowing power is limited under the by-laws to twelve times the paid-up capital and reserves. In Himachal Pradesh, where also there are no central banks, the borrowing power of the state co-operative bank is fixed under its by-laws at fifteen times the owned funds. The maximum borrowing power is fixed at ten times the owned funds under the by-laws of the banks in Kerala. In Bihar, the maximum is ordinarily not to exceed fifteen times, except with the special sanction of the Registrar.

(iii) In Madras and Andhra, the Registrar is empowered to fix the borrowing power of central co-operative banks within the limits laid down by a Government order. In Madras, the Government have empowered the Registrar to permit central banks to borrow up to twenty times their paid-up share capital and reserve fund for such periods as may be necessary. The Registrar is invested with this power year after year. In Andhra, the Registrar has been empowered to fix the borrowing limit of central co-operative banks up to twelve times the paid-up share capital and reserve fund. In the Telengana area, the Government, by an order issued in 1958, have fixed limit at twelve times, although the state co-operative bank for its own purpose, calculates the borrowing power of central co-operative banks at ten times their owned funds. In Madhya Pradesh, uniformity has been brought about in all the integrated regions of the State by fixing the maximum borrowing power of central banks at ten times the owned funds.

State co-operative banks

7. The borrowing limits of state co-operative banks are fixed, as in the case of central banks, under the rules, the by-laws or by the Registrar. In Bombay, rules permit the Bombay State Co-operative Bank to incur liabilities not exceeding fifteen times the total amount of its paid-up share capital and all reserves minus accumulated losses, actual bad debts, if any, and overdue interest. The bank, however, is permitted to incur liabilities in excess of the above limit by receiving deposits or borrowing loans, subject to the condition that the amounts so received shall not be utilized in the ordinary business of the Bank, but shall be invested in Government securities, or by way of advances against Government securities or in short-term deposits with such banks as may be approved by the Registrar, or in loans guaranteed by the State Government. Rules in Rajasthan are generally similar to those in Bombay, the difference being that the limit is fixed at twelve times instead of at fifteen times. The Registrar is empowered under the Act and the rules to fix the maximum borrowing power of the Vidarbha State Co-operative Bank. The maximum liability of the Saurashtra State Co-operative Bank is not to exceed, without the permission of the Registrar, twelve times the paid-up capital, reserve

fund and building fund less accumulated losses, provided that the maximum borrowing limit of the bank does not in any case exceed twenty times the paid-up capital, reserve fund and building fund less accumulated losses. In Assam, rules permit the state co-operative bank to incur liabilities up to the extent of twenty times its paid-up share capital and reserve fund separately invested, unless relaxation is made by the Registrar by an order in writing. In other words, rules give powers to the Registrar to fix the limit even in excess of twenty times the owned funds. In practice, however, the limit has been fixed at fifteen times. In West Bengal and Manipur, the limit is fixed respectively at ten and fifteen times under the rules, but can be exceeded for the purpose of borrowing for short-term agricultural finance. The maximum liability of the Uttar Pradesh Co-operative Bank has been fixed with the sanction of the Registrar at Rs 30 crores which works out to fifteen times its owned funds. Under the by-laws of the Bihar State Co-operative Bank, the ordinary general meeting is to fix the maximum borrowing limit of the Bank with the approval of the Registrar. This limit, however, is not to exceed fifteen times the paid-up share capital and reserve fund of the Bank. The credit limits of following state Co-operative banks are fixed in their by-laws as shown below :

<i>Name of the state co-operative bank</i>	<i>Multiple of owned funds</i>
1. Punjab	12
2. Mysore	20
3. Madhya Pradesh	15
4. Kerala	15
5. Hyderabad	15

In Madras and Andhra, as has been indicated earlier, the power to fix the limit is vested in the Registrar who has to take into account the Government orders in this behalf. In Madras and Andhra, the latest Government orders permit borrowings by the state co-operative banks up to fifteen times the owned funds.

Revision of standards

8. Several state co-operative banks and Registrars have stated that the co-operative banks, both state and central, will be called upon to raise much larger resources than at present to carry out the expanded programme of credit and, therefore, it will be necessary to liberalize the existing standards for the fixation of their credit limits. From the account given in the preceding paragraphs, it will be observed that the standards in this behalf vary from State to State. It may be said that generally the maximum borrowing power of state and central co-operative banks is fixed at fifteen times and ten to twelve times the owned funds respectively. The Reserve Bank has also been advising the adoption of the above standards. The question of liberalizing the existing multiples may, therefore, have to be examined with reference to the above, but before we do so, it will be useful to compare the level of the present borrowings of the banks with the level of their owned funds.

Reserve borrowing power of state and central banks

9. The following table gives the position on 30 June 1959 in this regard for state co-operative banks.

TABLE 1

State Co-operative Banks—Reserve Borrowing Power 30-6-1959

(Rs lakhs)

Sr. No.	Name of the bank	Paid-up share capital	Statutory Reserve Fund	Owne d Funds	Maximum borrowing power	Actual borrowings	Reserve borrowing power	Ratio of owne d funds to actual borrowings
1	2	3	4	5	6	7	8	9
1.	Andhra	78.10	30.00	108.10	1621.50	1140.42	481.08	10.54
2.	Hyderabad	38.62	1.56	40.18	602.70	340.84	261.86	8.48
3.	Assam	37.27	3.64	40.91	615.90	541.67	74.23	13.24
4.	Bihar	44.34	9.81	54.15	900.00	301.80	598.20	5.57
5.	Bombay	130.72	21.75	152.47	2845.80	2478.43	367.37	16.25
6.	Saurashtra	71.69	3.53	75.22	909.84	833.69	76.15	11.08
7.	Vidarbha	20.60	7.57	28.17	900.00	619.71	280.29	21.99
8.	Kerala	27.51	1.33	28.84	432.60	171.10	261.50	5.93
9.	Madhya Pradesh	87.81	9.01	96.82	1453.20	735.23	717.97	7.59
10.	Madras	91.50	28.00	119.50	1792.58	1459.05	333.53	12.20
11.	Mysore	65.62	7.42	73.04	1095.56	904.11	191.45	12.37
12.	Punjab	64.26	3.02	67.28	807.36	726.90	80.46	10.80
13.	Rajasthan	41.04	0.77	41.81	454.65	367.10	87.55	8.78
14.	Tripura	2.16	0.07	2.23	26.83	19.18	7.65	8.60
15.	West Bengal	56.74	17.47	187.83	742.10	485.38	256.72	6.54
16.	Orissa	18.89	3.35	25.28	333.60	204.02	129.58	9.17
17.	Uttar Pradesh	143.68	11.28	169.90	3000.00	1366.08	1633.92	8.82

It may be observed that as on 30 June 1959, most state co-operative banks had a large reserve borrowing power. The Uttar Pradesh State Co-operative Bank had a reserve borrowing power of over Rs 16 crores, the Madhya Pradesh State Co-operative Bank over Rs 7 crores and the Bihar State Co-operative Bank of about Rs 6 crores. The reserve borrowing power on 30 June 1959 of the Andhra, Bombay and Madras State Co-operative Banks was Rs 4.81 crores, Rs 3.67 crores and Rs 3.33 crores respectively. It is possible that during the course of the year the level of actual borrowings of the banks is higher than at the end of the year so that the reserve borrowing power would be lower. The ratio of owned funds to actual borrowings has varied from 1 : 5.57 in the Bihar State Co-operative Bank to 1 : 21.99 in the Vidarbha Co-operative Bank. To ratio was above 1 : 15 in the Bombay and Vidarbha State Co-operative Banks only. In the latter, the high proportion was due to the fact that pending amalgamation of that bank with the Bombay State Co-operative bank, in keeping with the principle of having only one state co-operative bank in each State, no loans were sanctioned by the Reserve Bank to the State Government for contribution to the share capital of that bank. In the Bombay State Co-operative Bank, the proportion was 1 : 16.25 because the rules permit certain types of borrowings of the bank being excluded for the purpose of its maximum borrowing power.

10. The position in regard to some central co-operative banks is given in table No. 2.

TABLE 2

Central Co-operative Banks—Reserve Borrowing Power 30-6-1959

(Rs. lakhs)

Sr. No.	Name of the central bank	Paid-up share capital	Statutory reserve fund	Owned funds	Maximum borrowing power	Actual borrowings	Reserve borrowing power	Ratio of owned funds to actual borrowings
1	2	3	4	5	6	7	8	9
<i>Andhra Pradesh State</i>								
1.	Guntur	18.00	4.16	22.16	267.07	142.98	124.09	6.45
2.	Ramachandrapuram	7.39	2.88	10.27	123.24	68.35	54.89	6.65
3.	Srikakulam	10.50	1.36	11.86	142.32	44.57	97.75	3.76
4.	Mahboobnagar	7.23	1.53	8.78	105.13	45.11	60.02	5.14
5.	Kakinada	9.04	1.64	10.68	128.16	55.37	72.79	5.18
<i>Madras State</i>								
6.	Kumbakonam	6.67	2.32	8.99	89.95	75.98	13.97	8.45
7.	Madurai	18.00	9.00	27.00	326.00	251.00	75.00	9.30
8.	Tinnevely	9.50	5.79	15.29	214.06	116.75	97.31	7.64
<i>Bombay State</i>								
9.	Baroda	22.49	2.83	25.32	466.68	204.35	262.33	8.07
10.	Kaira	19.97	1.58	21.55	269.68	184.86	84.82	8.58
11.	Nagpur	18.95	0.95	19.90	100.00	93.19	6.81	4.68
12.	Sholapur	8.95	4.01	12.96	163.37	150.15	13.23	11.59
13.	Wardha	6.39	0.97	7.36	50.00	29.91	20.09	4.06
<i>Madhya Pradesh</i>								
14.	Hoshangabad	1.98	0.70	2.68	21.44	4.34	17.10	1.62
15.	Sagar	3.67	0.74	4.41	44.04	22.24	21.80	5.04
16.	Shujalpur	3.00	1.06	4.06	40.53	20.19	20.34	4.97
<i>Orissa State</i>								
17.	Berhampur	5.32	2.19	7.51	112.55	66.67	45.88	8.87
18.	Nowrangpur	3.04	0.15	3.19	30.53	12.68	17.85	3.97
<i>Rajasthan</i>								
19.	Banswara	3.02	0.14	3.16	39.26	7.86	31.40	2.49
20.	Ganganagar	5.48	0.74	6.22	78.12	48.94	29.18	7.87

1	2	3	4	5	6	7	8	9
<i>Punjab</i>								
21. Kangra		2.67	0.51	3.18	36.12	31.90	4.22	10.03
22. Jullundur		10.73	7.43	18.16	217.89	147.41	70.48	8.12
<i>Uttar Pradesh</i>								
23. Aligarh		20.61	0.84	21.45	214.38	23.08	191.30	1.07
24. Fatehpur		8.00	0.42	8.42	50.00	12.69	37.31	1.51
25. Kotdwara		2.50	0.08	2.58	25.94	3.17	22.77	1.23
<i>West Bengal</i>								
26. Burdwan		4.42	2.81	7.23	75.00	51.66	23.34	7.15
<i>Assam</i>								
27. Nowgong		7.03	0.33	7.36	73.60	55.26	18.34	7.51
<i>Mysore</i>								
28. Bijapur		11.30	3.04	14.34	185.44	146.62	38.12	10.22
29. South Kanara		5.33	2.60	7.93	100.00	92.00	8.00	11.60
30. Karnatak (Dharwar)		28.87	8.25	37.12	464.64	297.12	167.52	8.00

As in the case of state co-operative banks, several central co-operative banks had a large reserve borrowing power on the basis of the existing standards. The ratio of owned funds to actual borrowings varied between 1:1.07 in the case of the Aligarh Central Co-operative Bank in Uttar Pradesh to 1:11.60 in the case of the South Kanara Central Co-operative Bank in Mysore. In the five central banks in Andhra Pradesh for which particulars have been furnished in the above table, the ratio of owned funds to actual borrowings have varied between 1:3.76 in Srikakulam to 1:6.65 in Ramachandrapuram Central Banks. In the three-banks in Madhya Pradesh, it have varied between 1:1.62 and 1:5.04. In Bombay, four banks have a ratio of less than 1:9.

11. From these figures of the reserve borrowing power of most state and central co-operative banks it seems that by and large the banks have adequate borrowing power on the basis of the existing standards. Account has to be taken of the fact that owned funds of the banks will grow automatically with the expansion of business by the linking of the borrowings of the various units with their share capital as we have recommended elsewhere. Further, State Governments will continue to contribute to the share capital of the banks. Finally, the revised definition of 'owned capital' suggested by us earlier will immediately mean an increase in the owned funds for some banks, thus giving them larger borrowing power. Against this background one has also to bear in mind how a large capital base is important in any co-operative credit institution for inspiring confidence among creditors and for absorbing the shock of overdues. On the other hand, it is contended that the increase in the demands from affiliated societies that will follow the large-scale expansion of co-operative credit

now envisaged, may outstrip the increase in the owned funds of central banks from contributions from constituent borrowers and Government. For instance, Rs. 5,000 invested in the shares of a central bank by a primary credit society should, ordinarily, enable the latter to borrow Rs. 1 lakh from the bank, but the investment gives the bank itself a borrowing power of only Rs. 60,000, if the credit limit is fixed at 12 times the owned funds. This is, however, an extreme example for it is assumed that the bank has no reserve funds or other funds which can be included in the owned funds and has also not received any contribution to its share capital from Government. To the extent to which these exist in a bank, its borrowing power will be higher than Rs. 60,000 and the gap between it and the possible demands will be narrowed.

12. We have carefully examined the pros and cons of the question and are of opinion that, as a rule, it may not be necessary to revise the standards for the fixation of credit limits in state and central co-operative banks beyond fifteen times and twelve times the owned funds, respectively. There may, however, be individual cases where in the context of special schemes of agricultural credit or of the extension of credit facilities to medium and small cultivators by a substantial proportion of primary credit societies affiliated to the bank, or of procurement and distribution of controlled commodities through co-operatives or of the financing on a large-scale of marketing and processing societies against pledge of goods, the credit limits fixed on the above standards may prove inadequate. We would recommend that in such cases limits may be fixed at higher levels by liberalizing the existing standards. Each case, however, should be considered on its merits and an upward revision made with due reference to the efficiency of management of the bank, the position of overdues etc. Liberalisation may be made in each case by the Registrar of Co-operative Societies, in consultation with the state co-operative bank so far as central banks are concerned, within the range of twelve to fifteen times for central banks and fifteen to twenty times the owned funds for state co-operative banks. The revision so made may be reviewed periodically. We would, however, emphasize that liberalization in the circumstances described above should not result in slowing down the process of collecting more share capital from constituents in the manner prescribed in the by-laws. It should not also result in the State Government contributing less to the share capital of the bank than they would have otherwise done. We attach considerable importance to state and central banks having a strong capital base so that they may be able to attract sizeable funds from outside and lend their support to the co-operative credit structure below them.

CHAPTER X

AUGMENTING THE INTERNAL RESOURCES : SHARE CAPITAL

We have indicated in the earlier chapters how the various policies and procedures followed by co-operative credit institutions at the different levels may be liberalised so as to facilitate the provision of adequate credit to cultivating families. We realise that mere liberalization of certain procedures on the lines suggested will not by itself make the credit available, if institutions are not able to command the needed resources. We propose to discuss in this and the succeeding chapters in what possible ways the co-operative credit structure may build up resources, both internal and external, provided intensive efforts in that direction are made by all concerned.

Share capital in relation to borrowings

2. A distinguishing characteristic of co-operative banking and credit is the emphasis laid on thrift, self-help and mutual aid at the different levels of the organization, including the primary borrower in the village. It is in this context that one has to view the importance of owned capital in relation to the total working capital at any of the levels of the organization. The urge for developing internal strength may diminish if increasing reliance is placed on funds borrowed from outside the organization. Though the co-operative credit movement is over fifty years old in the country we have often to be reminded of the fact that the movement is essentially intended to promote thrift and self-reliance. Deposits and share capital are the two chief ways of achieving the above objectives. Judged by past performance, it appears that mobilization of resources through deposits will be a slow process in respect of primary credit societies. On 30 June 1958, the deposits with primary agricultural credit societies (from members and non-members) stood at Rs. 8.63 crores and constituted only about 6.4 per cent of their total working capital of Rs. 133.75 crores. While there are various institutional and other factors which may account for the poor record of the primaries in the matter of tapping savings through deposits, the fact remains that share capital as a means of promoting thrift in the co-operative movement at the base has a more satisfactory record and holds out better promise for the future. As against the figures of deposits given above, the paid-up share capital of primary agricultural credit societies amounted to Rs. 28.22 crores or about 21.1 per cent of the total working capital. The failure of primary credit societies to attract rural savings to any appreciable extent is, among other things, due also to their failure to inspire, by their financial strength, confidence among rural investors. At the higher levels of the co-operative credit structure also, share capital will be equally important from the point of view of creating the necessary confidence among the depositors. It is in this context that the importance of the owned funds *vis-a-vis* the borrowed funds has to be emphasized. We have indicated elsewhere the impor-

tance of owned capital on other grounds such as serving as a margin of security for the creditors and as a cushion against overdues etc. We would, therefore, strongly urge the necessity of building up a strong capital structure at all levels of the co-operative credit structure.

Measures for building up share capital in primary societies

3. We have recommended in an earlier chapter that it is necessary to establish a link between an individual member's shareholding in, and his borrowings from, the primary credit society. We have suggested that a member should not be allowed credit beyond ten times his paid-up share capital in the society except for those whose borrowings are less than Rs. 200. For such members, borrowing is to be related to the subscribed capital, but even here, we have suggested that the society should insist on these members paying the balance of the share capital within a period of two years from the date of their admission to membership. Where conditions are favourable, particularly in areas where cash crops are raised, attempts should be made, at the primary level, to increase the share capital from members in excess of what is required in relation to the loans needed by them. These voluntary contributions would give the desired measure of strength not only to the primary society, but also to the higher financial institutions in the federal structure. We observe that in some parts of Bombay State such an attempt is being made with success. Apart from inspiring greater confidence among creditors, the strengthening of the share capital base serves to increase the internal resources of the primaries and thereby reduces their reliance for funds on outside agencies. We would, therefore, recommend that instead of ceasing to collect share capital at the level considered by us as the minimum viz. 10 per cent of the borrowings, societies should make systematic efforts to augment their share capital regularly. Such further contributions to the share capital from members should be so fixed as would not cause any undue hardship to a member and should, therefore, in our opinion be realised at the time of harvest when he sells his produce or on any other occasion when he can conveniently part with some portion of his savings. We do, however, realise that it will be necessary to educate members of societies and to impress upon them that the share capital they contribute is not only evidence of their stake in their society, but is also necessary to give added strength, both to the society and to institutions at other levels of the credit structure. We are sure that if the members are approached at the right time and in the proper manner, in course of time they will appreciate the need for contributing to the share capital more liberally than the minimum suggested by us.

Share capital in central co-operative banks.

4. We also consider that strengthening the share capital in central co-operative banks is equally important. We have suggested that the borrowing power in all co-operative credit institutions should be related to their owned funds. For providing credit on a larger scale than at present, the banks will be called upon to raise more funds and, therefore, it will be necessary for them to strengthen their owned capital. We would recommend that even for central co-operative banks, as for primary credit societies, it would be necessary to establish a link between shareholding and borrowing, so that their owned capital will increase automatically and proportionately to the increase in the loan operations. The proportion in this case may, however, be lower than in the case of primary credit socie-

ties for two principal reasons. First, the borrowing power of central co-operative banks, for the reasons given earlier, can be fixed at a higher multiple of the owned funds than in primary credit societies. Secondly, if the proportions between the borrowings of individuals and their share capital in their society and that between the borrowings of the latter and its share-holding in the banks are the same, it may result in the society being called upon to invest the entire share capital collected by it from members in the share capital of the central bank, since as is the position in most States, the borrowing of a primary credit society consist entirely of loans raised from the bank. For example, when the share capital collected from individual members of a society is Rs. 5,000 and the borrowing power of members is fixed at ten times the amount of paid-up share capital, the maximum advances made by the society can be of the order of Rs. 50,000. If this amount is to be raised from the central bank and the bank requires the society to invest 1/10th of its borrowings in its shares, the investment will have to be Rs. 5,000. In other words, the entire share capital collected from the members will be passed on to the central bank. The society will, therefore, not be left with funds for investment which can serve as a cushion against default to the central bank, if some members are in default. Further, inasmuch as State Governments now contribute to the share capital of central co-operative banks, the need for raising from constituent borrowing societies all the share capital required will be less. We, therefore, consider that it would be sufficient if primary credit societies are required to contribute to the share capital of central co-operative banks at the rate of one-twentieth of their borrowings. At the same time, we desire that even societies that do not borrow from the central co-operative bank should be required to contribute to its share capital in recognition of its role as a balancing centre of all co-operative organization in the district.

Individual membership in central banks

5. We have considered the suggestion to encourage membership of individuals with a view to augmenting the share capital of central co-operative banks. Such a course may have the advantage of bringing in some individuals who may, apart from contributing to the share capital, take active interest in the growth of the institutions. At the same time, there is the possibility of some individuals being admitted who may obstruct the progressive policy of a central bank. This may lead to a central bank going in for commercial banking by providing loans to individuals against the pledge of goods, discounting their bills etc. to the detriment of its legitimate business namely the financing of societies. We do not favour central banks undertaking this kind of business. Further, we find that out of the total share capital of central co-operative banks as at the end of the year 1957-58 at Rs. 17.07 crores, the amount held by individuals was only of the order of Rs. 1.59 crores. We do not see any large scope for the central co-operative banks building up their share capital by enrolling more individual members and, therefore, do not recommend any special attempts being made in that direction.

State partnership in primaries

6. We have earlier emphasized the need for a strong capital base for primary credit societies. As a step in this direction, we have suggested that members should contribute a certain percentage of their borrowings to the society's share capital. But we have also visualised that there may be

a class of cultivators who may not be able to contribute their part all at once and may have to be allowed a period of two years for the purpose. In the meantime, the primary society will have to find the necessary resources for meeting the needs of its members. We have also envisaged primary societies undertaking certain essential non-credit functions. While most of the business in this sphere will be on an agency basis, there will be need for some cash resources. The resources needed for credit and non-credit business will be large and can be raised only when the society's capital base is strong. We have earlier pointed out the importance of a strong capital structure at the base so that the shock of over-dues is absorbed to as large an extent as possible at that level and the liquidity and financial stability of institutions above it are not seriously affected. For all these reasons, we are of opinion that the share capital of primary credit societies will need strengthening by contributions from Government. We would, therefore, recommend that Government should contribute to the share capital of primary credit societies. We indicate in paragraph 19 the terms and conditions which, in our opinion, should apply to such participation.

Views of Government and co-operative institutions

7. We had requested, through the questionnaires issued by us, the Registrars of co-operative societies, state co-operative banks, State Governments and non-official co-operators to favour us with their views on the question of state participation in the share capital of primary credit societies. Subsequently, we had also an opportunity of discussing the subject with them. The consensus of opinion among these individuals and institutions was that the State should contribute to the share capital of primary credit societies, if they were to discharge satisfactorily the heavy responsibilities that they were expected to shoulder in the next few years. Further, the working of a few large-sized societies, of which partnership of the State is an essential feature, which we had an opportunity to study and the other relevant information which was placed before us on the working of the societies, leads us to believe that State partnership can have a healthy influence on the efficient working of primary credit societies and can help them in undertaking heavier responsibilities in the matter of supply of credit and other essential services.

Terms and conditions

8. It will be useful to recapitulate the views expressed by different authorities on the various aspects of State partnership with particular reference to partnership in primary credit societies. They may be considered under the following broad heads :

- (a) the extent of partnership ;
- (b) the duration of the partnership ;
- (c) the financial obligations of partnership on the society ;
- (d) the control of the State over the general management of society ;
and
- (e) whether the partnership should be direct or indirect.

(a) *Extent*

9. The Rural Credit Survey Committee drew a distinction between an 'initial minimum' level of share capital required for each institution and

an 'optimum level'. It envisaged that Government should hold initially, and until the optimum level was reached, at least 51 per cent of the share capital. For maintaining this level, Government might have to make additional contributions, as the institution progresses, from the initial to the optimum level. Where the Government's 51 per cent of the share capital would not be sufficient for the needs of an institution, the Committee envisaged the Government holding more than 51 per cent of the share capital. It recommended that a programme for reorganization of the co-operative credit structure, with State partnership as an essential aspect, might be drawn up by each State Government in consultation with the Reserve Bank. To quote the Committee :

The programme should provide for each of these institutions, whether to be reorganized or to be newly established, having an initial minimum level of share capital which, over a period of years, will be raised to the optimum level. At the apex and central levels invariably (and at the primary level generally) not less than 51 per cent of the share capital of these institutions should be held by, or derived from, the State Government in the manner described above; the percentage may have to be more than this, if contributions from the co-operatives etc., do not, together with Government's 51 per cent come up to the initial minimum level. Another possibility is that, as long as the process of increase from minimum to optimum goes on, Government may have to make additional contributions, directly or indirectly, in order to maintain the level of its partnership at 51% (Chapter 36 - para 2).

10. The Second Five-Year Plan of co-operative development provided for Government contribution to the share capital of 10,400 large-sized primary credit societies, generally at the rate of Rs. 10,000 per society. This was on the assumption that the society would soon be able to collect about the same amount from its members and thus have a paid-up share capital of Rs. 20,000. This would enable the society to develop business up to Rs. 1.50 lakhs considered necessary to make it a viable unit. The Standing Advisory Committee on Agricultural Credit of the Reserve Bank of India at its fifth meeting held in January 1956, examined this position and recommended as under :

Contributions to the share capital of large-sized credit societies would necessarily be phased according to the phasing of the establishment of the societies. Once a decision is taken to set up a larger-sized society the state's contribution to its share capital should be forthcoming in its entirety except in cases where it would lead to obvious over capitalization. This should be done even in instances where the State's contribution would thereby constitute more than 51% of the society's share capital.

Pursuant to this recommendation, the Reserve Bank has been sanctioning loans to State Governments for contribution to the share capital of large-sized societies in one instalment generally up to a maximum of Rs. 10,000 per society.

(b) *Duration*

11. The Rural Credit Survey Committee envisaged the retirement of Government capital in full in the case of primary credit societies and only

until the proportion was reduced to 51 per cent in the case of apex and central banks.

In the case of the large-sized primary agricultural credit society and all other societies at the primary level, the objective should be to retire the whole of the State derived contribution within a period of time to be fixed after taking into account the relevant circumstances so that, at the end of that period, the societies at the primary level become fully co-operative. As regards the apex and central levels, while the replacement of the State-derived share capital should proceed until this is reduced to 51 per cent, it should not continue beyond that. (Recommendation Number 54, pp. 546—547)

The next question is whether there should be a fixed period allowed to primaries to retire the Government held capital. The recommendation of the Rural Credit Survey Committee in this behalf is reproduced below.

In duration, no specific term should be set to it. The reverse process by which the State as the larger partner gradually becomes the lesser partner, and perhaps even eventually withdraws from partnership, cannot be expected either to start or to proceed as a matter of mechanical and scheduled uniformity. The point of commencement of this reverse process must differ for different institutions and areas (Chapter 36 — para 2).

12. Subsequent discussions showed that the weight of co-operative opinion was in favour of leaving the extent and duration of State participation in the share capital of co-operative institutions flexible, consistent with the preservation of co-operative principles.

(c) *Financial obligations*

13 The Standing Advisory Committee on Agricultural Credit, at its fifth meeting held in January 1956 recommended that the State Government should be a partner in the sense of participating in the 'risks' of business and should not be a lender or creditor. This implies that as a shareholder, the Government are not to be accorded any special treatment and their share capital will serve as a margin of security to creditors in the same manner as the capital contributed by others. In other words, in the event of liquidation of a society, Government will get back their share money in the same proportion as other shareholders, after meeting the liabilities to outside creditors. It also implies that Government will not be entitled to dividend at a rate higher than that paid on the other shares. In short, Government will have the same rights, privileges and obligations as attach to other shareholders. Any privileged treatment accorded to Government on the capital provided by them will take away the essentials of 'risks' involved and may convert the contribution into a loan and make the Government a creditor and not a partner.

(b) *Control by State*

14. The Rural Credit Survey Committee had recommended that, ordinarily, Government should not be allotted more than one-third of the seats on the directorate of co-operative institutions in which they held

shares. They did not, however, prescribe the number of such nominees ; but recommended that on certain specified matters, Government nominees should have over-riding powers *e.g.* (power to reverse or modify decisions on certain matters, or power to impose decisions of their own). This power to veto was objected to by co-operators at the Second Co-operative Congress held at Patna in March 1955. They were anxious that the autonomy of the institutions should be preserved, and, towards this end, they recommended that the number of the nominees of the Government on the Board should not exceed three. The Congress also suggested that such nominees might with advantage be experts and persons with special co-operative experience and not necessarily Government officials. Further, it was emphasized that the powers and rights of the Government or their nominees should not be used in matters relating to the internal administration of the societies, appointment of paid staff, elections etc. The Conference of State Ministers for Co-operation held subsequently in April 1955, generally agreed with this recommendation and suggested that the number of State nominees should not exceed one-third the total number of directors of the institution concerned. In the light of these official and non-official views on the subject, the Committee on Co-operative Law incorporated in their Model Co-operative Societies Bill a clause to the effect that Government should have the right to nominate not more than three or one-third of the total number of members of the committee of a co-operative society whichever is less.

(e) *Partnership—Direct or Indirect*

15. The Rural Credit Survey Committee was in favour of indirect partnership with central banks through the apex bank and with primary credit societies through the apex and central banks. The Committee had observed as under :

The form of what we have broadly called State partnership would differ according to the level of the co-operative structure. At the apex level, such partnership would be direct. In other words, the State Government would directly contribute to the share capital of the institutions concerned. At the district level, the State partnership would be through the apex institutions ; in this instance, the State Government would provide funds *e.g.*, in the shape of additional share capital, to the apex institutions to enable them to contribute to the share capital of the institutions at the district level. At the primary level also, State participation would be indirect ; it would take the form of similar contributions to the apex institutions to enable them to provide funds to the organizations at the district level, which in turn would contribute to the share capital of the institutions at the primary level. (Chapter 36—para 2).

The standing Advisory Committee, at its fifth meeting held in January 1956, desired that there might be flexibility in this behalf and the question whether the partnership of the State should be direct or indirect should be left to the State Governments to decide.

It was recognized that no uniform formula could be prescribed and that, for example, in some States it may be necessary to provide for direct participation by Government at various levels, including the primary level. Further, where the federal co-operative institution

concerned is itself in favour of direct State participation at the lower level, this may be allowed. Normally, however, the pattern might be one of indirect participation. The main points to ensure are : (i) that the State Government is a 'partner' in the sense of partaking in the 'risk' of share capital and is not a mere creditor and (ii) the apex bank's position as leader of a coherent structure is strengthened if possible but in no case is impaired.

16. Indirect partnership of the State is a more complicated arrangement than direct partnership with co-operative institutions. The Committee on Co-operative Law observed as follows in this connexion :

While direct partnership is simple and more satisfactory from the legal point of view, indirect partnership is a complicated affair, particularly, where the nominal shareholder will be another co-operative society and not the Government and when the Government should nevertheless bear the risks of partnership in lieu of the nominal shareholder. We had, therefore, to devise the method of the 'Principal State Partnership Fund' and the 'Subsidiary State Partnership Fund' to give legal effect to the recommendations. Thus, under the provisions for indirect partnership in the Model Bill, the apex co-operative institution will receive moneys from the State Government and credit them to the 'Principal State Partnership Fund'. It will draw from this fund and purchase shares in its own name in the affiliated district or central institutions. It will also draw from this Fund and provide moneys to affiliated central or district institutions to enable them to take shares in primary societies affiliated to them. In the latter case, district or central institutions will credit the amount to the Fund called the 'Subsidiary State Partnership Fund' and utilise it for purchasing shares in their own names in affiliated primary co-operative institutions. In order to ensure that the State is truly a partner in the institutions to which its money is given and is not a mere creditor, to Model Bill gives Government a title only to that amount of the dividend which is declared by the society in which it has entered into direct or indirect partnership. It also casts on the Government the responsibility to share the loss, if any, in the society in which it is a partner. To make State partnership effective in case where indirect partnership is adopted, the purchases of shares from the 'Principal State Partnership Fund' or the 'Subsidiary State Partnership Fund' are subjected to the previous approval of the Government and the sums to the credit of these funds are not treated as assets of the institution which holds them. (Part I pp. 18-19)

Existing pattern of State partnership in different States

17. We observe that State partnership in large-sized credit societies is not of a uniform pattern in all States. Partnership of a State is indirect in Bombay State. In Assam, the partnership was indirect to start with, but recently the State Government have taken a decision to have direct partnership at all levels. In most States, for example, Punjab, Uttar Pradesh, Madhya Pradesh, Andhra Pradesh, Bihar, Orissa, Rajasthan and Mysore, the partnership has been direct at all levels. In Madras, the partnership has been indirect so far, but recently the Government have decided to adopt direct partnership at all levels. Even in regard to the present indirect

partnership, steps are being taken to make necessary adjustments in the state and central co-operative banks to convert it into direct partnership.

Terms and conditions of partnership in different States

18. The terms and conditions of State partnership have yet to be finalised in many States. Information is given below about some States where decisions have been taken by Government in this regard.

(1) *Madras*

The Government of Madras laid down the following important conditions when a loan of Rs 8 lakhs was sanctioned to them by the Reserve Bank for contribution to the share capital of 80 large-sized societies in the State.

(i) The sum will be invested by Government as share capital in the Madras State Co-operative Bank.

(ii) The Bank will pass on the amount to district central banks as its investment in their share capital.

(iii) The district banks in their turn will pass on the amounts as their investment in the share capital of large-sized credit societies.

(iv) The share capital held by Government in the state co-operative bank will earn the same rate of dividend as that declared by the bank on other shares.

(v) The bank will pay dividend to Government at the same rates at which the Government borrows from the Longterm Operations Fund.

(vi) 50 per cent of the dividend in excess of that payable under (v) above shall be credited to the Agricultural Credit (Stabilization) Fund to be maintained by the bank and to be utilised in accordance with the rules framed by the Registrar in consultation with the Government.

(2) *Bombay*

The terms and conditions laid down by the State Government are summarised below :

(i) Government contribution to the share capital of credit institutions will be direct in the case of the apex co-operatives and indirect in the case of the central financing agencies and primary societies. In the case of indirect contribution, it will be made either by the apex bank or by the apex bank through the central financing agency, as the case may be.

(ii) Out of the dividends paid to the apex banks and central banks and the primary societies, Government will receive from the apex bank concerned, an amount which it has to pay as interest to the Reserve Bank of India on funds obtained for the purpose and placed at the disposal of the apex bank.

(iii) Government will be eligible for and will receive from the apex bank, dividends declared by the State partnered institutions as any other shareholder subject to the following conditions;

The apex bank will create a Credit Stabilization Fund and credit to it the following :

- (a) the excess of dividend over $3\frac{1}{2}$ per cent payable by the apex bank to Government, and
 - (b) 50 per cent of the dividend in excess of $3\frac{1}{2}$ per cent payable by a central financing agency.
- (iv) The other 50 per cent will be credited to a Credit Stabilization Fund maintained by the central financing agency.
- (v) The Credit Stabilization Fund of the central financing agencies will be utilised to meet contingencies arising in the areas within their jurisdiction.
- (vi) The difference between the rate of dividend at $3\frac{1}{2}$ per cent and the rate of interest payable by the apex bank to Government to enable the latter to pay the interest due to the Reserve Bank will be credited to a special fund to be called 'Reserve for Capital Losses'. Any loss in Government investments in co-operative institutions will be first met out of this Fund.
- (vii) Capital losses in excess of the 'Reserve for Capital Losses' arising after winding up any central financing institution shall be borne by Government and the apex bank on 50 : 50 basis, while those arising in agricultural primaries will be borne by Government, the apex bank and the central financing agency concerned in the ratio of 40 : 30 : 30 respectively.
- (viii) In determining the institution to be partnered and the quantum of contribution, the apex bank and the central financing agencies will be consulted by Government. Where Government directs contribution to the share capital of an institution against the advice of the apex bank and the central bank concerned, the loss, if any, in the Government capital of such institutions will be borne entirely by Government.
- (ix) Primary societies receiving Government contribution will appoint trained and qualified secretaries and managers from the pool of officers created for the purpose and with the approval of the central financing agency concerned.
- (x) Similarly, the appointments of managers and secretaries of central financing agencies will be subject to the approval of the apex bank concerned, and those of the apex bank to that of the State Government.
- (xi) The Government will have the right to nominate not more than three persons on the board of directors of a co-operative credit institution receiving contribution to its share capital. Besides, the apex or central financing agencies will have the right to nominate one representative on the board of directors of the central financing agencies and primary societies respectively. Each such nominee will have one vote.
- (xii) If the Government nominee is of the view that any resolution adopted by the Board, in spite of his advice, is likely to be injurious to the interests of Government, he will have the right to appeal to Government, through the Registrar. The decision of the Government in the matter will be final and binding on the institution concerned.
- (xiii) The appointment of a Government nominee will not be dependent on Government contribution,

(3) *West Bengal*

The following were the terms laid down by the State Government :

(i) Unless otherwise decided by the Government, a co-operative society in which shares have been purchased by Government shall retire such shares annually in 12 years, or in ten equal instalments, the first instalment being payable at the expiry of three years from the date of purchase of shares.

(ii) Unless otherwise decided by Government, the total value of the shares of a co-operative society which the State Government may purchase shall not ordinarily exceed the amount of share capital paid up by the other shareholders of the society.

(iii) The shares purchased by the State Government shall be entitled to such dividend as may be declared by the society and as is payable to other shareholders of the society.

(iv) The society shall maintain such staff as may be specified by the State Government

(v) There shall be three representatives of the State Government on the managing committee of a society. The society accepting Government contribution shall be bound by all the rules, circulars, orders, etc. issued by the Government or the Registrar, from time to time, in connection with State participation.

(4) *Uttar Pradesh*

The Government of Uttar Pradesh have laid down the following terms and conditions for State participation in the share capital of co-operative institutions.

(i) The Government will be at par with other share-holders.

(ii) The shares held by the Government will be retired by the institutions concerned in the manner indicated below :

(a) In the first two years, no retirement of shares need be made by any society.

(b) In the next three years, the societies will retire the maximum possible of the shares held by Government.

(c) The amount of share capital remaining unredeemed at the close of the fifth year will be redeemed fully by the societies in equal annual instalments, the amount of each instalment depending upon the number of unexpired years for the period for the repayment of the loans taken by the Government for the purpose.

(iii) The State Government will nominate three directors on the board of directors of large-sized societies, marketing societies, central banks and processing societies. They will also be entitled to nominate in addition to the three, an additional director for each investment of Rs 25 lakhs in the shares of the Uttar Pradesh State Co-operative Bank. The total number of such directors, however, will not exceed 5 at any time.

(5) *Kerala*

In December 1959, the Kerala Government issued orders regarding retirement of the share capital held by them in co-operative credit institutions.

(i) The shares invested by Government in the state co-operative bank, central banks, and central land mortgage bank may remain with them for as long a time as is necessary to enable these institutions to give strong and effective support to the rural societies. The question of retirement will be reviewed after 10 years in the light of the needs of the co-operative credit institutions they financed ; and

(ii) The share capital contributed to a large-sized society should be refunded by the society in 10 years from 1968-69 at the annual rate of one tenth of the total contribution made by the Government upto that year.

Our recommendations

19. We have considered the views expressed on the subject by various authorities in the past and the terms and conditions that have been imposed by different States. We have also examined the replies received by us from Registrars of Co-operative Societies, state co-operative banks and others and the views expressed by those with whom we held consultations. After taking all these into account we give below our views on the various aspects of the question of State partnership in primary credit societies.

(a) *Extent*

We think that the partnership of the State should ordinarily correspond to the efforts made by the individual members of the societies. The State should help those who help themselves, to some extent at least. There is the possibility, otherwise, of the members not making adequate efforts to collect additional capital, once the contribution is received from the State. Further, the business of a society is expected to grow gradually so that the need for sufficient capital may also grow gradually and not all at once. We therefore recommend that :

(i) the share capital contributed by the State should not be more than the contribution made by members of societies ;

(ii) the contribution of share capital from the state may range from Rs 1000 to Rs 10,000. The minimum contribution of Rs 1,000 should, however, be available only if the society undertakes to collect additional share capital of not less than Rs 3,000 from its members over a period of three to five years, and

(iii) the contribution may be continued from the initial level for a period of 5 to 8 years during which the society may be expected to reach the optimum level and may not therefore, require any further additions.

(b) *Duration*

There may not be any rigidity in matter of duration of State partnership and in the manner in which the share capital held by the Government is retired. The share capital of the Government has to be replaced by the members' capital and the process cannot happen uniformly

in any scheduled manner. The period required for a society to be independent of Government capital will vary from area to area and society to society. We do not, therefore, suggest any uniform standard in this regard. We are of opinion that during the period when additional contributions from the State will be made, there may be no retirement. After the optimum level is reached, the process of retirement should start and might be completed during the next 5 to 8 years. Such retirement should be properly regulated so that the interests of the creditors are safeguarded. In particular, we would suggest that the central co-operative bank should be consulted in the matter of the programme of retirement.

(c) *Financial and other obligations*

(i) We consider that the State should be a partner in the real sense and participate in the risk of business in the same manner as any other shareholder. We have explained earlier the implications of the State sharing the risks with other shareholders. Further, the State should not enjoy any privileged position in the matter of dividends *vis-a-vis* other shareholders. No stipulation about the rate of dividend payable on Government shares may be made, as, otherwise, the State's contribution will really be not capital but a loan earning a given rate of interest.

(ii) State partnership is intended to give the society added borrowing power and serve as a margin of security to the creditors. Hence the societies should show a progressive attitude towards the admission of small and medium cultivators and towards providing them with credit on the basis of their production needs and repaying capacity. It should be possible to review the performance of a society in this respect and if any society's management is found to be less responsive in that connection, the State may stop making further contributions to the share capital of the society and may even withdraw the share capital already contributed, after giving due notice of its desire to do so, both to the society and to its creditors.

(d) *Direct or Indirect*

We have noted the observations made by the Committee on Co-operative Law in this behalf and also the fact that in all States except Bombay the partnership of the State is direct at all levels. We, however, believe that it would be advantageous for the partnership of the State to be indirect at the primary level i.e. through the apex and central co-operative banks. This will help to strengthen the federal character of the co-operative credit structure. At the same time, it will be necessary to protect the apex and central banks from any loss of share capital in the primary credit societies such as would affect their own position. We recommend that the Co-operative Societies Acts may be amended, where necessary, to incorporate the provisions suggested by the Co-operative Law Committee, in the Model Co-operative Societies Bill, for constituting the Principal and Subsidiary State Partnership Funds and for protecting the interest of the financing banks.

(c) *Control by State*

The principle of the Government nominating one-third of the representatives on the Board, subject to a limit of three, was accepted by Govern-

ment as well as by non-official co-operators. Such nomination will help to tone up the efficiency of management in the societies. However, Government nomination should not lead to interference in the day to day working of the societies. Further, we would point out that it is not always necessary for Government to nominate their own representatives on the board of a primary society. In indirect partnership, the right to make nominations should be vested in the central bank which would be investing in the shares of a society on behalf of the Government. We are opposed to the right veto being given to the nominees either of Government or of central banks in the board of management of societies.

Type of society to be partnered

20. (i) The next question to be considered is whether the State should participate in the share capital of all primary credit societies. Our suggestion is that Government's contribution to the share capital of primaries may be viewed in the context of our recommendation that the organization at the primary level should be a viable unit. We recommend that partnership of the State may ordinarily be in such types of societies which in the course of a few year are likely to become self-sufficient. It will not be advisable for the State to participate in the share capital of societies which after the withdrawal of subsidies for staff will find it difficult to develop into organizations capable of rendering efficient service to their members.

(ii) Yet another point to be considered is whether Government may contribute to the share capital of unlimited liability societies. We have pointed out earlier that barring the three States of Uttar Pradesh, Bombay and Bihar, unlimited liability is the rule and limited liability the exception. Several unlimited liability societies are capable of developing into viable units and, therefore, it is for consideration whether, under certain conditions, Government may contribute to the share capital of such societies. It is obvious that the liability of the State cannot be unlimited in the same manner as that of the other members. Therefore, even if Government take shares in such societies, their liability will have to be limited to the capital actually contributed by them. We observe that the Madras Co-operative Societies Act contains provisions on the above lines.

The main reason for State partnership is that the contribution made by Government helps the society in getting larger borrowing power. This objective will not be served by Government participation in the share capital of an unlimited liability society if its borrowing power is determined, as is the general practice, not with reference to its owned capital but to the net assets of its members. The share capital of the State will not bring about an increase in these assets and it will, therefore, merely serve the purpose of providing additional working funds to the society and increasing its prestige in the eyes of the outsiders. In some States, however, the borrowing power even of unlimited liability societies is determined on the basis of their paid-up capital and not merely on the basis of the net assets of their members. In such States, the contributions made by Government will help the societies in getting increased borrowing power. The question of participating in the share capital of such unlimited liability societies may, therefore, be considered after examining the legal position.

(iii) The acceptance of State partnership should be decided by a society and the central bank which is to hold the shares on behalf of the Government. We, therefore, recommend that the State should take shares in a society only if 60 per cent of its members decide in its favour and the central bank to which it is affiliated endorses the resolution of the general body of the society.

CHAPTER XI

AUGMENTING INTERNAL RESOURCES—DEPOSITS

Promotion of thrift and savings was one of the most important objectives which the co-operative movement set before itself from the time of its inception in the country in 1904. However, this objective has remained, in the main unfulfilled at the base. What the MacLagan Committee said in 1915 remains true even today. The Committee said“.... in few things is the finance of co-operation in India so markedly distinguished from that of Western Europe as in the small proportion of deposits held by primary societies. In Germany, more than 87 per cent of the working capital of the Raiffeisen societies consists of deposits, while in India the corresponding percentage is 18 only”. We have indicated in a previous chapter that the proportion of deposits to the total working capital in primary credit societies has been steadily decreasing, so that their deposits which formed 11 per cent of the working capital in 1950-51 formed only 6 per cent in 1957-58. While the decline in the proportion is to some extent understandable because of the demand for increased funds from the societies necessitating heavy borrowings, it seems to us that there is considerable scope for mobilising rural savings, particularly at the primary level. The position of deposits in primary agricultural credit societies in the different States on 30 June 1958 is given in the following table :

Table 1

Primary Credit Societies Deposits at the end of June 1958

(Rs. thousands)

State	By Societies	By		Total
		Individuals and others	Non-members	
		Members	Non-members	
Andhra Pradesh	4	37,87	32,20	70,11
Assam	4	1,45	36	1,85
Bihar	15	8,55	79	9,49
Bombay	3,92	1,55,15	40,75	1,99,80
Jammu & Kashmir	9,55	1,91	53	11,99
Kerala	41	33,93	13,44	47,78
Madhya Pradesh	6	31,76	2,14	33,96
Madras	—	32,50	31,49	63,99
Mysore	4,75	49,95	30,80	85,50
Orissa	41	11,12	1,14	12,67

Punjab	5,52	1,41,48	92,01	2,39,01
Rajasthan	49	7,59	2,33	10,41
Uttar Pradesh	9,06	34,36	8,81	52,23
West Bengal	21	6,55	5,04	11,81
Andaman & Nicobar Islands	—	—	—	—
Delhi	43	2,28	1,87	4,53
Himachal Pradesh	1,97	1,28	90	4,15
Manipur	—	—	—	—
Pondicherry	—	—	—	—
Tripura	15	3,75	19	4,09
	37,16	5,61,48	2,64,79	8,63,42

It may be observed that of the total deposits with the societies amounting to Rs 8.63 crores, deposits from members amounted to Rs 5.61 crores or 65 per cent, whereas deposits from non-members were only Rs 2.65 crores or 30.7 per cent. Further, the performance of societies in attracting deposits is somewhat uneven in the different States. Of the total deposits of Rs 8.63 crores, societies in Bombay and Punjab held Rs 2.00 crores and Rs 2.39 crores respectively, these two States together accounting for over half of the total deposits. Three other States, Mysore, Andhra Pradesh and Madras together accounted for Rs 2.20 crores or 25.49 per cent of the total deposits.

Measures to facilitate increase in deposits in societies

2. The importance of thrift and self-help at the primary level of the co-operative credit structure has been stressed time and again by various committees that have examined the question of co-operative credit in this country. From the account given above, it is observed that the efforts made in that direction are not commensurate with the needs of the situation. We, therefore, reiterate what has been stressed by others, viz., that the success of the co-operative credit movement in this country will in the ultimate analysis depend upon the extent to which self-reliance is fostered at the primary level. At the same time, we believe that conditions will have to be created at this level so that the societies may be in a position to mobilise savings in the rural areas. No agency, co-operative or other, can hope for success in this respect unless it inspires confidence and invokes local interest. The most effective way, therefore, of ensuring that the co-operative agency does attract savings is to strengthen it and to extend and diversify its activities so that it inspires confidence and invokes local interest. The most effective way, therefore, of ensuring that the co-operative agency does attract savings is to strengthen it and to extend and diversify its activities so that it inspires confidence and creates local interest and enthusiasm. The Rural Credit Survey Committee observed that the relative absence of these factors had resulted in the co-operative credit movement in India being more a movement for lending moneys than for attracting deposits.

3. One of the grounds on which we have recommended a viable unit at the primary level is that it will be in a position to inspire confidence in, and provide the necessary services to, the depositors. The depositors are

interested not only in the safety of their funds, but naturally desire that their savings will be available to them in times of need. A viable society with adequate capital resources provided by its members, and with active support it receives from the State, may be able to create such confidence among depositors. Further, sound management will assure the depositor that he will be able to obtain temporary accommodation against his deposits should a need therefor arise. In an earlier chapter we have given a brief account of the working of large-sized credit societies in some States. We observe that these societies have generally proved to be a better agency than small credit societies for tapping rural deposits.

4. While the financial strength of a society and the facility it provides for withdrawal of deposits or for making available loans against such deposits are very important for attracting deposits, no less important is the rate of interest offered on such deposits. It is well known that the rates of interest on funds lent by private money-lenders are very high, ranging from 12 per cent to 36 per cent. A person with some savings of his own, therefore, may be tempted to make loans to others instead of keeping them as deposits with the primary credit society. We believe that in addition to the financial and administrative strengthening of primary credit societies, it will be necessary for them to offer sufficiently attractive rates of interest. It is not, however, possible for us to suggest what interest the societies should offer on their deposits since conditions vary from area to area. The financial strength of a society, the facilities it offers to its depositors and a sufficiently attractive rate of interest on deposits may provide the necessary incentives for persons in rural areas to deposit their savings with the society. In the initial stages, it may be necessary to bring home to the people in the rural areas, the various facilities offered by primary credit societies so that depositors may be induced to keep savings with them. We consider that a considerable amount of propaganda and persuasion will, however, be necessary for making the people realise the importance of thrift. In parts of the country, drives for collection of deposits and share capital are occasionally undertaken with good results. One of such campaigns was brought to the notice of members of the Committee who toured Uttar Pradesh. A novel scheme known as *Sahakari Bal Bachat Yojna* for mobilisation of rural savings has recently been launched in the Jhansi district of the State. The scheme is the outcome of the response from villagers to the appeal for making deposits in the name of their children and of the recognition of primary credit societies as suitable village level organizations for the purpose. As a result of the special drive launched under the scheme, about 30 primary credit societies functioning in the district collected a sum of Rs 25,000 during the course of six days as deposits which were subsequently deposited in the central co-operative bank.

5. We have suggested above the various measures that may be necessary for mobilising rural savings from persons who are not members of primary credit societies. It is expected that gradually more and more cultivating families will be admitted to the membership of the societies so that the class of non-members will eventually get reduced. In the matter of attracting deposits, however, the considerations that weigh with a member and a non-member will not be very different. The measures we have suggested above for attracting deposits from non-members will, therefore, also apply to deposits being drawn from members. Finally, we would like to stress that more important than the measures to facilitate the

mobilization of savings is the creation of conditions which will increase the income of the cultivators and make savings possible. To quote the Rural Credit Survey Committee, "the need to make rural savings *possible* (e.g., by economic development and credit extension of the types we have mentioned) is much more important than to render rural savings *available* (by 'mobilization' of different kinds)". Besides, the question is closely linked with that of the economic uplift of the people in rural areas. It was hoped, the Rural Credit Survey Committee further remarked, that 'savings would come through thrift, adding, however, that "thrift is a business-like quality of which the first implication is the existence of business".

Deposits in state and central co-operative banks

6. We have indicated in an earlier chapter that, of the total deposits of Rs 45.45 crores of state co-operative banks at the end of June 1958, the Bombay State Co-operative Bank had Rs 13.75 crores or 30.3 per cent, the Madras State Co-operative Bank Rs. 4.37 crores or 9.6 per cent, and the Uttar Pradesh State Co-operative Bank Rs 5.26 crores or 11.6 per cent, so that these three banks together accounted for 51.5 per cent of the total deposits. State co-operative banks are situated in big commercial centres or at the headquarters of the State so that they have enough scope for attracting deposits from the public. It is obvious that a state co-operative bank, as the balancing centre of the entire co-operative movement in the State, will have to make more strenuous efforts than at present in attracting deposits, if the expansion of co-operative credit on the scale envisaged is to become possible.

7. As regards central co-operative banks we have pointed out earlier that of the total deposits of Rs. 66.68 crores at the end of June 1958, the banks in Bombay State had Rs. 21.94 crores or 32.8 per cent of the total Punjab and Madras accounted respectively for Rs 7.27 crores and Rs 7.22 crores or about 10.8 per cent each. Thus these States together accounted for nearly 55 per cent of the total deposits of all central co-operative banks in the country. Deposits in some central banks were poor as may be seen from the following table :

Table 2
Deposits of Central Cooperative Banks
30-6-1958

Name of State	Total No. of banks	No. of banks with deposits less than Rs 1 lakh	No. of banks with deposits over Rs 1 lakhs but less than Rs 3 lakhs	No. of banks with deposits over Rs 3 lakh, but less than Rs 5 lakhs	No. of banks with deposits over Rs 5 lakhs but less than Rs 10 lakhs	No. of banks with deposits over Rs 10 lakhs but less than Rs 20 lakhs	No. of banks with deposits over Rs 20 lakhs but less than Rs 50 lakhs	No. of banks with deposits over Rs 50 lakhs	No. of banks with no deposits
1	2	3	4	5	6	7	8	9	10
Andhra									
Pradesh	26	2	3	3	4	4	7	3	—
Assam	10	10	—	—	—	—	—	—	—

Bihar	47	12	29	4	2	—	—	—	—
Bombay	56	3	9	2	15	6	5	14	2
Jammu & Kashmir	4	1	1	—	—	1	—	—	1
Kerala	2	—	—	—	—	—	—	2	—
Madhya Pradesh	50	3	9	5	11	12	10	—	—
Madras	15	—	—	1	1	—	9	4	—
Mysore	23	—	4	6	5	1	3	3	1
Orissa	17	1	4	2	6	2	1	1	—
Punjab	37	4	1	2	7	6	16	1	—
Rajasthan	29	10	6	4	2	3	1	—	3
Uttar Pradesh	59	11	4	6	23	7	8	—	—
West Bengal	43	10	18	4	5	3	1	—	2
All-India Total	418	67	88	39	81	45	61	28	9

Of the 418 banks whose position has been analysed, 9 had no deposits whatsoever. As many as 194 banks had deposits of less than Rs 5 lakhs. None of the central banks in Assam had more than Rs 1 lakh of deposits, whereas 25 per cent in Bihar, 33 per cent in Rajasthan and 23 per cent of the banks in West Bengal had deposits less than Rs 1 lakh ; 45 out of 47, 20 out of 29 and 32 out of 43 banks in Bihar, Rajasthan and West Bengal respectively had less than Rs 5 lakhs of deposits each.

Measures for increasing deposits in co-operative banks

8. The co-operative credit structure being federal, the higher financing institutions have a responsibility towards meeting the credit requirements of members of the primary society which constitutes the base. We would therefore, emphasise the need for the state and central co-operative banks making special efforts for tapping deposits from urban areas so that these savings may be made available for agricultural development in rural areas. We discuss below some of the special steps that the banks may have to take in their efforts to secure larger deposits.

(i) Deposits are dependent, in a very large measure, upon the degree of confidence which the depositing public have in the institution. Such confidence, to a large extent, depends upon the institution's financial stability and strength. We note with satisfaction that in the past few years State Governments have been contributing substantially to the share capital of state central co-operative banks and thus the desired financial strength is imparted to them. We consider that such strengthening of the share capital of the banks will have to continue for some time to come.

(ii) An important consideration with the people in urban areas is the rate of interest offered by the banks on deposits. In the context of large demands for funds, joint stock commercial banks have been offering attractive rates of interest on deposits. Further, there is a systematic programme of expansion of the activities of these banks by the opening of new branches in the smaller towns and *mandi* centres. The Government of India and the State Government float every year large loans at fairly

attractive rates of interest, for meeting their commitments under the Plan. There are, again, various schemes for mobilising savings under the National Savings Campaign. Here also, the terms and conditions have been made increasingly attractive. In the face of these facts, it is necessary for the state and central co-operative banks to offer competitive rates of interest if they are to collect more deposits from the public. We would, therefore, suggest that co-operative banks may review the rates which they are offering on the various types of deposits so as to bring them in line with the rates prevailing in the money market.

(iii) All Government funds are deposited with the Reserve Bank either direct or through its agents, viz., the State Bank of India and its associate banks. Other funds such as those of local bodies, educational institutions etc. are not required to be kept in this manner. We observe that certain administrative and legal provisions in some States place restrictions on the authority of these bodies to deposit their funds with co-operative banks even though they may be State-partnered and well-managed institutions. We do not think that there is justification for continuing the embargo. We, therefore, recommend that local bodies, educational institutions, trusts etc. should be permitted and even persuaded to deposit their funds with co-operative banks approved for this purpose by Government and within limits prescribed by the Registrar of Co-operative Societies. We observe that in some States where co-operative financing agencies are allowed to accept deposits from local bodies etc., the system has been working satisfactorily. We would, therefore, strongly urge upon the State Governments to review the position in this regard and remove the restrictions which stand in the way of these bodies depositing their funds with co-operative financing agencies. We have been told that in many States, it would not require any legislative action, but only an amendment of the administrative instructions that have been issued by the Local Self-Government or Education Departments. In such States, therefore, it should be possible to take action on our recommendation as expeditiously as possible. When the need for resources for financing agriculture through co-operative credit agencies is recognised to be very great by the State itself, there is no justification for the continuance of any restrictions on the investment of funds by local bodies in such agencies.

(iv) It has been suggested to us that it will greatly help co-operative banks in securing additional resources by way of deposits if State Governments guaranteed the payment of interest and repayment of principal, of the deposits raised by the banks, in the same manner as they guarantee the debentures issued by central land mortgage banks. We believe that this will not be practicable without the exercise of much greater control by Government than at present, which, however, is not desirable. Most state and central co-operative banks have received, and will continue to receive, substantial contributions to share capital from the State. Depositors are, therefore, generally aware of the fact that the State itself has a stake in the business of the financing institutions. State participation in the share capital, which should be given wide publicity, should itself, in our opinion, inspire the necessary confidence in the minds of depositors.

(v) We observe that some state and central co-operative banks do not provide reasonable banking facilities to individuals, who, therefore, are not inclined to have accounts with them. While we do not favour co-operative banks taking to commercial banking activities, such as granting

loans to individuals against the pledge of goods etc., we recommend that the banks should provide for their constituents several other types of banking facilities, such as opening current accounts, collecting cheques and bills, issuing demand drafts, etc.

(vi) Yet another step which the banks may usefully take is to open branches not only to provide facilities for their constituent societies, but also to attract deposits from the urban sector of the population. Co-operative financing agencies in Bombay State which have a network of branches, incidentally, have large deposits. We would, therefore, suggest that co-operative banks may take up the question of opening branches in suitable centres with a view to augmenting their deposits, besides rendering more efficient service to their constituent societies.

(vii) In many States, both state and central co-operative banks have officials as chairman. We do not favour the continuance of this practice, for we feel that influential non-official chairmen and directors can play a useful role in inducing the urban population to keep their funds with co-operative banks.

(viii) We have already referred to the keen competition that exists at present for securing the available resources in the money market. This competition cannot be a matter of complaint; at the same time, we wish that it may not operate in such a way as to be detrimental to the interests of the co-operatives. Several co-operators who gave evidence before us pointed out that the National Savings Campaign of State Governments had resulted sometimes in weaning away the existing deposits of co-operative societies and financing banks. It was represented that pressure had also been brought on some co-operatives to invest in the National Savings Certificates funds which could have ordinarily been utilised by them for financing their members for agricultural purposes. We would, therefore, strongly urge the need for proper co-ordination between the National Savings Campaign and the efforts of co-operatives to build up deposits, and suggest that the performance of a district in promoting savings may be judged not only with reference to their collections in the National Savings drive, but also by the success in bringing in more deposits and share capital for co-operative credit institutions. We would also like to emphasize that co-operative credit societies and banks and the staff employed by them should not be asked to do propaganda in favour of National Savings Certificates, or be appointed as agents for collecting contributions to these certificates. Further, no pressure may be exercised on depositors in co-operatives to withdraw their deposits for investment in the certificates or on the co-operatives themselves to invest funds in them.

Rates of interest on lendings

9. We have suggested in the previous paragraph that primary credit societies and co-operative banks may have to raise the rates of interest they offer on deposits so that they may provide the needed inducement to prospective depositors. We observe that co-operative banks are somewhat reluctant to increase the rates of interest on deposits for fear that this step will have to be followed by a corresponding increase in the rate of interest payable by the ultimate borrower. There was a time when it was considered that the rate to the ultimate borrower should not be higher

than 6½ per cent. There are some States where funds are provided to agriculturists at that rate. But there is enough evidence to show that institutions at all levels find it difficult to maintain the rate as the need for tapping larger deposits by offering higher rates is being increasingly felt. There are many States, some of them sufficiently well-advanced in the sphere of co-operative credit, where the rate of interest to the ultimate borrower is between 7 and 8 per cent. During the course of our enquiry, it was emphasized that what counted with the cultivator was not the rate at which he obtained credit from his society, but its adequacy and timeliness. The credit provided may be cheap, but may prove inadequate, with the result that the agriculturist is driven to the private money-lender for the balance. This dual allegiance is detrimental to the interests of the co-operatives. We, therefore, attach greater importance to providing adequate credit to agriculturists than to the rate at which it is provided. This should not be taken to indicate that credit may be provided without regard to its cost to the ultimate borrower. All that we suggest is that the rate should be a realistic one in the context of the prevailing money rates and the existing need of the cooperatives to attract larger funds by way of deposits. It is not possible for us to suggest a rate which would be appropriate for adoption by the different States. Nor is it possible to suggest that the margins that may be retained at the different levels of the co-operative credit structures. The whole question has to be examined in the light of the rates of interest offered by the institutions on various types of deposits, the volume of concessional finance obtained from the Reserve Bank and the scale of their operations. These factors vary so greatly from bank to bank and from society to society that no uniform rates can be suggested for the different levels of the structure. At the same time, we would suggest that, as far as possible, the highest margin may be allowed at the primary level as compared with the other two levels of the structure, to enable the primary credit societies to acquire greater financial strength.

Uniformity in rates of interest

10. We have observed that in some States, different rates are charged by co-operative banks on loans provided for the same purpose according to the source of the funds. For instance, a lower rate of interest is charged on funds obtained from the Reserve Bank and a higher rate on funds raised through share capital and deposits. We do not consider this to be a healthy practice. As a result of this distinction, it is possible that societies in some areas pay a higher rate of interest than those in the other areas for loans for the same purpose. We would, therefore, suggest that all the resources obtained by a financing bank from the Reserve Bank, the State Government or any other source; may be pooled and an average borrowing rate may be worked out. The rate of interest charged by the institutions should be based upon this average rate.

Resources for land mortgage banks

11. In this chapter, we propose to consider also the internal resources that may become available to land mortgage banks for facilitating their operations. It is common among these banks to accumulate mortgages before floating debentures. The interim finance required for this purpose generally comes from the State Government, some of whom, however, find it difficult to provide it to the required extent. We note that the State Bank of India has agreed to provide such interim finance to central land

mortgage banks against the guarantee afforded by State Governments. We, therefore, suggest that where the State Governments are unable to provide the necessary finance, the banks may approach the State Bank of India for the purpose so that their programme of providing long-term credit for agricultural improvement does not suffer. The Standing Advisory Committee on Agricultural Credit of the Reserve Bank which considered this question at its sixth meeting had suggested that the provision of more share capital by Government was one of the ways by which additional interim finance may become available to land mortgage banks. We observe that in pursuance of this recommendation, additional contributions to share capital of several land mortgage banks have been made by Government. We hope that this practice will continue in future also.

The operations of these banks have expanded considerably in recent years and they are expected to expand much more in the years to come. These banks, therefore, will have to come into the market with their debenture issues of much larger magnitude and at more frequent intervals than at present. With the existing competition for funds in the money market, it is possible that land mortgage banks may not always succeed in getting subscriptions to their debentures. We are of opinion that the co-operative movement can itself provide some assistance to land mortgage banks. State and central co-operative banks have to maintain a fluid cover, according to certain prescribed standards, against their current, savings, fixed deposits and certain other liabilities. Land mortgage bank debentures can provide a suitable medium for the maintenance of fluid resources, especially as for making advances the debentures are placed on par with Government and trustee securities by the Reserve Bank and the State Bank of India. We believe that there is good scope for land mortgage banks to take advantage of this source of funds for their debentures, because we visualize that, with the various measures suggested by us earlier, there will be considerable increase in the volume of deposits with state and central co-operative banks.

CHAPTER XII

EXTERNAL RESOURCES—THE ROLE OF THE RESERVE BANK

We deal in this and the succeeding chapter with the various external agencies that provide resources for the co-operative movement. The most important of these is the Reserve Bank of India. Before we indicate that our recommendations are in regard to its future role, it will be useful to describe the role the Bank has so far been playing in the scheme of agricultural credit. The broad functions of the Reserve Bank in the sphere of rural credit are set out in Section 54 of the Reserve Bank of India Act (1934) as follows :

The Bank shall create a special Agricultural Credit Department, the functions of which shall be—

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

(b) to co-ordinate the operations of the bank in connection with agricultural credit and its relations with state co-operative banks and any other banks or organizations engaged in the business of agricultural credit.

Section 55(1) of the Reserve Bank of India Act required the Bank to submit to the Central Government proposals for legislation for improving the machinery dealing with agricultural finance. The Bank submitted a Preliminary Report in December 1936 and the Statutory Report a year later. These reports indicated that, on various considerations, the co-operative movement was the best agency for supplying agricultural credit and that although the movement had not much to its credit, it was capable of playing its proper part in that sphere provided it was reconstructed and revitalized.

Pre-Independence period

2. The record of activities of the Bank in the sphere of agricultural credit falls into two broad periods, viz. (1) from the inception of the Bank in 1936 to 1947 which may be referred to as the pre-Independence period and (2) from 1948 to date which may be called the post-Independence period. During the first period, the Bank was engaged in examining the lines on which the co-operative movement could be reorganized. Further, the Bank regarded itself as the lender of last resort. For these reasons, the credit made available by the Bank to state co-operative banks and central banks during this period was not on any scale comparable to that of today. Gradually, however, the Bank recognized the need

to make finance available to state co-operative banks on favourable terms, so that agriculturists at the village level could benefit by the supply of credit at low rates of interest. This led to the formulation in January 1942 of a scheme for making advances to state co-operative banks for the marketing of crops at a concessional rate and in 1944 for seasonal agricultural operations also. The concession has been continued since then, so that the effective rate on the loans to state co-operative banks for the above purposes was $1\frac{1}{2}$ per cent from 1946 to 1957 when it was raised to 2 per cent.

Post-Independence period

3. In the post-Independence period, a significant change took place both in the Bank's conception of its role in rural credit and its actual policies and practices. The change in the attitude of the Bank towards rural finance generally and co-operative credit for agriculture in particular, may be attributed to the assumption of office by popular government at the centre after Independence and the nationalization of the Bank which followed. Further, various committees as well as the State and Central Governments considered the Reserve Bank as the most appropriate agency which should give a lead in regard to the establishment of a satisfactory system of agricultural credit, particularly in the context of the need for increasing agricultural production to meet the growing food shortage. The Report of the Central Board of Directors of the Reserve Bank for the year ended 30 June 1952 stated as under :

In no other sphere perhaps as in that of rural finance is it of so little use in Indian conditions, to turn for guidance to the central banking practices evolved in the highly industrialized countries of Western Europe. In this matter, as in the extension of banking facilities generally, fresh approaches had to be thought out, and it was in order that the lines laid down might be sound and well-considered that, at the suggestion of the Reserve Bank, the Government of India appointed the Rural Banking Enquiry Committee while the Bank itself subsequently convened an Informal Conference for the discussion of its role in rural finance.

Informal Conference ;

4. An Informal Conference of official and non-official co-operators convened by the Reserve Bank in 1951 recommended that steps should be taken (1) for enabling the Reserve Bank to play a more active role in the agricultural sector within the existing framework of the Reserve Bank of India Act, (2) for liberalizing the procedures that could be readily decided upon and carried out, and (3) for eventually designing a new and co-ordinated framework in the light of facts to be ascertained.

Liberalization of procedures

5. The Reserve Bank could grant loans and advances to state co-operative banks under Section 17(2)(b), 4(c) and 17(2)(a) of the Reserve Bank of India Act, but even within this framework certain procedural changes were introduced which enabled co-operative banks to make use of the accommodation more freely and on an increasing scale. For instance, there was a stipulation that all loans and advances taken by state co-operative banks should be repaid by a fixed date, viz. 30 September each

year. This was changed and each drawal was treated as a separate loan, repayable within a period of twelve months. The scope of the 'credit limit' sanctioned by the Reserve Bank was also widened so as to allow a large measure of flexibility. The credit limit which was originally meant to represent the limit of advances was allowed to be treated as the limits of outstandings. In other words, state cooperative banks were allowed to draw and repay any number of times against the credit limit provided the total outstandings did not exceed the limit fixed for the banks. Under the Reserve Bank of India Act, loans could be given on the security of bills of exchange and promissory notes carrying two good signatures. In States where the co-operative banking structure was weak and was unable to furnish the two good signatures required, the Reserve Bank agreed to give loans for seasonal agricultural operations and marketing of crops to state co-operative banks against the guarantee of the State Government.

Legislative changes

6. Alongside these procedural reforms certain legislative changes were also effected from time to time with a view to facilitating the supply of credit to the co-operative movement for agricultural as well as non-agricultural purposes. Among the amendments to the Reserve Bank of India Act that were passed between 1951 and 1953 mention may be made of the following : (a) Section 17(2)(a) of the Act was amended so as to place state co-operative banks on the same footing as scheduled banks for the purchase, sale or rediscount of bills of exchange and promissory notes arising out of *bona fide* commercial or trade transactions. Advantage of this amendment was taken to sanction credit limits for the first time in 1952, to a state handloom weavers' society for the purpose of purchasing yarn for sale to its affiliated units. (b) Section 17(2)(b) of the Act was amended so as to increase the period of accommodation from the Bank for seasonal agricultural operations and marketing of crops from 9 months to 15 months. (c) Section 17(2)(b) of the Act was amended to give a wider interpretation to the terms 'agricultural operations', 'crops' and 'marketing of crops' so as to include within their purview mixed farming activities, i.e. activities undertaken jointly with agricultural operations and the processing of crops, prior to marketing, by agricultural producers or any organization of such producers. (d) a new section, viz., Section 17(2)(bb) was added to empower the Bank to purchase, sell and rediscount bills of exchange or promissory notes of state co-operative banks drawn for the purpose of financing the production or marketing activities of cottage and small-scale industries approved by the Bank and maturing within 12 months, provided the payment of principal and interest of such bills of exchange or promissory notes were guaranteed by the State Government. (e) Another section viz. Section 17(4A) was introduced enabling the Reserve Bank to grant medium-term loans to state co-operative banks for agricultural purposes, for periods not less than 15 months and not exceeding 5 years, provided that such loans were guaranteed by the State Government, did not exceed the owned funds of such banks and did not at any time exceed Rs. 5 crores in the aggregate. Restrictions regarding individual and overall limits imposed by the above section were later removed by an amendment to the Reserve Bank of India Act passed in 1955.

The various measures taken by the Bank, as indicated above, have enabled state co-operative banks to make freer and fuller use of the

financial accommodation provided by the Reserve Bank. The effect of these measures can be seen from the fact that the drawings of state co-operative banks on credit limits sanctioned by the Reserve Bank increased from Rs 17 lakhs in 1957-58 to Rs 5.38 lakhs in 1950-51, to Rs 25.61 lakhs in 1955-56 and Rs 79.02 lakhs in 1958-59.

Long-term credit

7. In the beginning, no loans could be advanced by the Bank direct to central land mortgage banks. By an amendment effected to the Reserve Bank of India Act in 1955 setting up the National Agricultural Credit (Long-term Operations) Fund, the Bank is empowered to make long-term loans to central co-operative land mortgage banks for periods not exceeding 20 years. Since 1948, it was the practice of the Bank to purchase debentures issued by a central land mortgage bank upto 10 per cent of every issue or any shortfall in public subscriptions whichever was less. In 1950, this proportion was raised to 20 per cent. In 1953 the Government of India (or the State Governments by an arrangement with the Government of India) and the Reserve Bank agreed to subscribe jointly up to 40 per cent of the debentures or the unsubscribed balance whichever was lower, provided at least 50 per cent of the amount so contributed was used in loans for productive purposes. The total subscriptions to the debentures made by the Reserve Bank on 30 June 1959 amounted to Rs 172.36 lakhs, of which a sum of Rs 69.25 lakhs was towards rural debentures floated in the last two years.

Standing Advisory Committee

8. Along with the steps intended to make accommodation from the Reserve Bank more liberal, the Informal Conference (1951) had suggested that there should be a closer co-ordination between the activities of co-operative institutions on the one hand and the policies and operations of the Reserve Bank on the other. In this context, it had suggested the establishment of a Standing Advisory Committee on Agricultural Credit. This recommendation was implemented by the Reserve Bank in July 1951. The Committee has held fifteen meetings up to May 1960.

Visits of officers to States

9. It was recognized very early that any programme of rural credit would prove ineffective unless the Bank's policies and measures were supported and complemented by corresponding policies and organizational efforts made by State Governments and co-operative institutions. In 1951, the Bank organized a series of visits by its officers to Part A, Part B and Part C States, with a view to aiding the formulation, by the authorities concerned, of plans for the reorganization of the co-operative credit movement in the different states. In some, there was no state co-operative bank; in others the apex bank required considerable reorganization, both financial and administrative; or again, the central banks constituted a weak link in the chain; and in many the primary structure itself stood in need of reorganization. It was clear that the establishment or reorganisation of apex co-operative banks was a necessary preliminary to the general development or rehabilitation of the movement as a whole in the States. Where the problem was one of the establishing a new apex bank or of reorganizing the existing one, the Reserve Bank in all suitable cases advised a policy of State partnership including contribution to its

share capital. As a result of efforts made in this direction, state co-operative banks were newly set up in Saurashtra, PEPSU, Rajasthan, Madhya Bharat, Travancore-Cochin and Himachal Pradesh. The State co-operative banks already existing in Hyderabad, Mysore and West Bengal were reorganized.

Training of co-operative personnel

10. No co-operative development is possible without organizing efficient training arrangements on an extensive scale, at all levels, for the large number of personnel, existing as well as new, working in co-operative institutions as well as in co-operative departments. The Bank found that this need, which was great in many Part A states, was even greater in most Part B and Part C states. Accordingly, at an early stage, the Bank provided both finance and the initiative for organizing such training, and in collaboration with the Bombay Provincial Co-operative Institute (now the Bombay State Co-operative Union) organized in 1952 an all-India training college at Poona for the training of co-operative personnel. In November 1953, the Reserve Bank and the Government of India jointly constituted a Central Committee for Co-operative Training for formulating plans and for organizing and directing arrangements in regard to training the personnel of co-operative departments and Co-operative institutions in the States, at all levels, namely higher, intermediate and subordinate. The Bank undertook responsibility in regard to training the higher and intermediate personnel, while the Government of India accepted responsibility for that of the block level cooperative officers. The responsibility for the training of subordinate personnel is shared between the Government of India and the State Governments. The secretarial work relating to the Committee is done by the Agricultural Credit Department of the Reserve Bank.

Inspection of co-operative banks

11. Apart from the initiation of plans for the reorganization of the co-operative credit structure in various States and for the training of their co-operative personnel, the Reserve Bank, following the recommendations of the Informal Conference, undertook a scheme of inspection of co-operative banks, especially of those which borrowed or sought to borrow from it. Under the guidance of the Standing Advisory Committee, the scheme of inspection has been so designed as to be both constructive and in its broad details, complementary to, and not in duplication of, the inspection conducted by Registrars of Co-operative Societies.

All-India Rural Credit Survey

12. The Informal Conference referred to earlier in this chapter felt that the factual information available on credit needs and borrowing practices of rural families and the working of credit agencies in the different parts of the country was too sparse to be of help in formulating any long-range policies regarding agricultural credit. It, therefore, recommended to the Reserve Bank to undertake a rural credit survey which would include all strata of the rural population and cover problems of capital formation in the rural areas as well as credit requirements of both economic and indigent farmers. This survey was done under the direction of a Committee, and its General Report was published in December 1954. The report contained recommendations for the reorganization of co-opera-

tive institutions and the increased role the Reserve Bank should play in the new set-up. In the context of work relating to provision of agricultural credit which the Report entrusted to the Reserve Bank, two new sections, viz. 46A and 46B were added in 1955 to the Reserve Bank of India Act providing for the constitution of two funds (i) the National Agricultural Credit (Long-term Operations) Fund and (ii) National Agricultural Credit (Stabilization) Fund. The Long-term Operations Fund was to be utilised, among other objects, to make long-term loans to State Governments for the purpose of enabling them to subscribe, directly, or indirectly to the share capital of co-operative credit institutions. The Fund was created in February 1956 with an initial contribution of Rs. 10 crores and a sum of Rs. 5 crores was to be added to this fund every year. The total contributions to the Fund up to 30 June 1959 amounted to Rs. 30 crores. This Fund could also be utilised for giving long-term loans to central land mortgage banks and for the purchase of their debentures. Medium-term loans under Section 17(4A) of the Reserve Bank of India Act were also to be made out of this Fund. The National Agricultural Credit (Stabilization) Fund was to be utilised for granting medium-term loans to state co-operative banks in circumstances in which the Reserve Bank was satisfied that short-term loans in respect of which payment had become due from them could not be repaid, without serious dislocation to the co-operative credit structure, on account of famine, drought and other natural calamities. The Fund was created in June 1956 with an initial contribution of Rs 1 crore and three annual contributions of Rs 1 crore each were made to the Fund up to 30 June 1959. No amount has been utilised so far out of this Fund.

Reserve Bank and short-term agricultural credit

13. As has been indicated in the preceding paragraphs, the Reserve Bank of India, has, since 1950, begun to play an increasingly active role in the sphere of agricultural credit recognition of the functions appropriate to the Central Bank of a country whose economy is largely agricultural and is in the process of development on planned lines. The main objective of the Bank's policies has been to help in establishing and developing a strong and efficient co-operative credit structure which can provide loans for agricultural purposes in adequate volume, while ensuring that such loans are disbursed in time, utilised properly and recovered promptly. Following the Report of the Rural Credit Survey Committee and the formulation of co-operative development plans based on the integrated scheme of rural credit recommended by them, the Bank's role came to be enlarged in content as well as significance and became part of a many-sided and country-wide endeavour, in which the Central and State Governments, co-operative institutions and the Reserve Bank were joint participants. In their report for the year ended 30 June 1959, the Central Board of Directors of the Bank have outlined its policies in recent years in the sphere of rural credit in the following terms :

In recent years, few aspects of the working of the Reserve Bank have been so striking as its role in the sphere of rural finance. The activities of the Bank in this regard have been expanding markedly particularly since the Rural Credit Committee submitted its Report in December 1954. In brief, the Committee had recommended the setting up of an integrated rural credit structure based on three fundamental principles, namely, State partnership at different levels, full co-ordination between credit and other economic activities, especially marketing and processing,

and administration through adequately trained and efficient personnel responsive to the needs of the rural population. The Reserve Bank was assigned a crucial role in this scheme of integrated credit. In pursuance of the above recommendations, which found general support, the Reserve Bank has been playing an active and constructive role in the sphere of rural credit and co-operation. The magnitude of the Bank's accommodation to the co-operative sector has risen substantially, the outstanding short-term advances rising from Rs 8.57 crores at end of June 1954 to Rs 56.27 crores at the end of June 1959. The Bank has played an important part in the formulation of schemes for the reorganization of the co-operative credit structure in different States. Further, the Bank has been spending much money and effort on the training of co-operative personnel on the ground that this is one of the most effective ways of ensuring the success of its credit programme. (Page 22—para 48).

Credit limits sanctioned by the Reserve Bank

14. The Bank provides short-term accommodation to state co-operative banks for financing seasonal agricultural operations and marketing of crops at a concessional rate of 2 per cent below the Bank Rate. The accommodation is granted against a credit limit sanctioned for the co-operative year, each drawal against which is treated as a separate loan and allowed to run for 12 months. The credit limits sanctioned for the above purposes fall into three broad categories :—

- (i) those sanctioned to the apex banks on behalf of affiliated central banks taken individually, in which case loans are secured by two good signatures provided by the State and central co-operative banks ;
- (ii) those sanctioned to apex banks against the guarantee of the State Government in States where the relatively weak condition of the central co-operative banks and of the credit structure as a whole, do not make their signature good enough for loans from the Reserve Bank ; and
- (iii) those sanctioned to apex banks against the security of Government and trustee securities belonging to them or to their affiliated central banks.

15. The Madras, Bombay, and Uttar Pradesh State Co-operative Banks enjoy credit limits under the first and the third category. In Bombay, Andhra and Punjab State Co-operative Banks, although a major portion of the limits sanctioned in 1958-59 fall under the first category, some limits have been sanctioned under the second also. The Assam, Orissa, West Bengal, Hyderabad, Mysore, Jammu & Kashmir, Madhya Pradesh, Rajasthan, Saurashtra, Kerala, Vidarbha, Manipur and Tripura state co-operative banks enjoy credit limits under the second category only, though small limits have been sanctioned in one or two cases against Government and trustee securities.

Loans to central banks against their signature

16. While sanctioning a credit limit to a state co-operative bank on behalf of a central bank against their joint signatures, the Reserve Bank takes account of not only the central bank's programmes for providing agricultural credit, but also its financial condition, audit classification and soundness as indicated by its working and policies. The standards that

are being followed since 1956 are as follows :

<i>Audit Classification</i>	<i>Multiple of owned funds</i>	
	<i>Normal</i>	<i>Exceptional</i>
A	3	4
B	2	3
C	2 times on the special recommendation of the Registrar.	

Owned funds are generally taken to include the paid-up capital and the statutory reserve fund. The need for flexibility in defining the owned funds was stressed at the fifth meeting of the Standing Advisory Committee (1956) and consequently the Bank has in some cases taken other funds also into account for the purpose of calculating the owned funds. The quantum of credit sanctioned to a central bank is related to its audit classification, because the latter takes into account the relatively important features which have a bearing on the quality of its working, such as the proper utilization of resources, maintenance of fluid resources, repayment performance of affiliated societies, provision made for meeting bad debts, profits earned and the quality of its management.

17. Within the ranges indicated above, the Reserve Bank takes the following factors into account in sanctioning the credit limits for a central financing agency ;

- (i) heavy and continuous surplus in its fluid resources ;
- (ii) the lending programme for the year for which the limit is applied for with reference to the achievements of the bank in this behalf ;
- (iii) whether the overdues show an increase and whether the bad debts are fully covered ;
- (iv) whether the audit report of the bank has been furnished ;
- (v) the remarks contained in the audit report, the half-yearly departmental inspection report and the report of inspection by the officer of the Reserve Bank ;
- (vi) whether the bank is functioning or has reasonable prospects of functioning as an economic unit ;
- (vii) whether the bank finances individuals, i.e., traders, merchants, etc. to a large extent ; and
- (viii) the reserve borrowing power.

Thus it may be observed that in sanctioning credit limits to a central bank against two good signatures, the Reserve Bank takes into consideration all relevant factors so as not only to ensure safety of its funds, but also to give the maximum incentive to the bank to build up a sound, progressive and increasingly efficient structure.

Loans against Government guarantee

18. The Reserve Bank introduced the system of providing loans to state co-operative banks against the guarantee of State Governments in

States where the co-operative credit structure was generally weak, not so much as a means of securing the safety of its funds as of including the Governments to take an active interest in getting co-operative instructions established, in strengthening them to the extent necessary in terms of finance and organization and in ensuring that they worked on sound lines. It was recognized that in these States it would be impracticable to adopt the same criteria for providing financial accommodation as in the case of banks in more developed areas. If the quantum of accommodation was determined on the basis of owned funds of individual central banks, the total in most cases would have fallen far short of what was required to constitute a good start and to make a significant impression on the credit situation in these States. The Reserve Bank, therefore, adopts a more liberal policy towards them than in other cases where the banks could offer two good signatures. According to the present practice, the limits are sanctioned generally with reference to the requirements of agricultural credit through co-operatives in the State and are not based on the owned funds and the audit classification of the central banks.

Volume of credit supplied

19. Short-term credit limits sanctioned by the Reserve Bank have increased progressively as will be seen from the table below :

Table 1
Short-term Agricultural Credit from the Reserve Bank

(Rs. lakhs)

Year	Amount sanctioned	Amount outstanding
1	2	3
1950-1	762.00	315.00
1951-2	1240.00	645.29
1952-3	1242.39	679.62
1953-4	1632.15	856.54
1954-5	2120.55	811.16
1955-6	2963.50	1298.30
1956-7	3525.00	2332.39
1957-8	4824.35	4047.35
1958-9	6542.55	5626.81

It will thus be seen that short-term credit limits from the Reserve Bank have been steadily increasing in the past eight years. Starting from Rs. 7.62 crores in 1950-1, they have been risen to Rs. 65.43 crores in 1958-9. The outstandings at the close of the year which stood at Rs. 3.15 crores in 1950-1 increased to Rs. 56.27 crores in 1958-9.

20. The limits sanctioned may broadly be grouped (i) against Government guarantee (ii) against the security offered by the co-operative themselves, both co-operative paper and trustee securities. This is indicated in the following table :

Table 2
Short-term Agricultural Credit from the Reserve Bank

(Rs. lakhs)

Name of State Co-operative Bank	1957-58				1958-59			
	Amount sanctioned		Amount outstanding at the end of the year		Amount sanctioned		Amount outstanding at the end of the year	
	Under RBI Act Sec. 17 (4) (c) i.e. Government guarantee	Under RBI Act Sec. 17 (2) (b) or (4) (c) and 17 (4) (a)	Under RBI Act Sec. 17 (4) (c) i.e. Government guarantee	Under RBI Act Sec. 17 (2) (b) or (4) (c) and 17 (4) (a)	Under RBI Act Sec. 17 (4) (c) i.e. Government guarantee	Under RBI Act Sec. 17 (2) (b) or (4) (c) and 17 (4) (a)	Under RBI Act Sec. 17 (4) (c) i.e. Government guarantee	Under RBI Act Sec. 17 (2) (b) or (4) (c) and 17 (4) (a)
1	2	3	4	5	6	8	9	
Andhra	150.00	566.50	150.00	493.90	150.00	693.40	150.00	666.95
Assam	125.00	—	125.00	—	225.00	—	225.00	—
Bombay	45.00	890.20	44.26	606.45	85.00	1127.00	76.40	616.80
Madras	—	452.00	—	425.25	—	744.50	—	702.25
Orissa	—	—	29.00	—	75.00	—	25.00	—
Punjab	—	228.75	—	219.90	76.50	352.70	75.40	343.25
Uttar Pradesh	—	348.40	—	263.92	—	405.95	—	314.01
West Bengal	—	—	97.69	—	250.00	—	147.50	—
Hyderabad	150.00	25.00	147.78	25.00	300.00	—	213.35	—
Mysore	500.00	—	374.08	—	600.00	—	534.95	—
Jammu & Kashmir	30.00	—	15.00	—	30.00	—	22.00	—
Madhya Pradesh	475.00*	21.00	213.50	—	197.00***	15.00	412.20	0.50
PEPSU	60.00	—	60.00	—	—	—	—	—
Rajasthan	100.00	7.50	100.00	4.00	275.00	7.50	230.00	7.50
Saurashtra	500.00	—	400.00	—	500.00	—	450.00	—
Kerala	80.00	—	53.11	—	75.00	—	58.80	—
Vidarbha	70.00	—	199.51	—	350.00	—	349.85	—
Manipur	—	—	—	—	4.00	—	—	—
Tripura	—	—	—	—	4.00	—	4.00	—
	2285.00**	2539.35	2008.93	2038.42	3196.50	3346.05	2975.55	2651.26

* Excludes Rs. 20 lakhs sanctioned during 1956-57 but operative up to 30.6.1958.

** Excludes Rs. 75 lakhs and Rs. 250 lakhs sanctioned to Orissa and West Bengal States Cooperative banks in 1956-57 but operative up to 30.6.1958.

*** Excludes Rs. 300 lakhs sanctioned in 1957-58 but operative up to 30.6.1959.

It may be observed that of the total credit limits sanctioned by the Bank during 1957-58 amounting to Rs 48.24 crores, those against Government guarantee were for Rs 22.85 crores or 47 per cent. In 1958-59, the total limits sanctioned rose to Rs 65.43 crores of which those against Government guarantee accounted for Rs 31.96 crores or 48 per cent. Thus in both the years nearly half the credit limits sanctioned by the Reserve Bank for seasonal agricultural operations and marketing of crops were against guarantees provided by the State Governments.

Reserve Bank and Medium-term Credit

21. Initially, the Reserve Bank of India Act did not permit the Bank to grant medium-term loans for agricultural or other purposes. The Informal Conference suggested that the Bank might provide such loans to the co-operative banking structure. The Act was amended in 1953 empowering the Bank to give medium-term loans for agriculture against the guarantee afforded by the respective State Governments, subject to certain restrictions indicated earlier. The position in this behalf came to be reviewed by the Rural Credit Survey Committee which stated as under :

In regard to medium-term credit and long-term credit—both of them of special importance to development and both of them insignificantly channelled at present through co-operatives—it is obvious that the Reserve Bank of India Act should be amended and financial dispositions made so as to make it possible for the Bank to be of much greater assistance than at present through the medium of the recognized co-operative credit structure. In this respect, there has, of course, been an improvement in the recent past in that the Act has been amended to enable the Reserve Bank to lend for medium-term purposes, that is to say, for periods ranging between 15 months and five years, amounts which together do not exceed at one time Rs 5 crores, the further limitation being that no one state co-operative bank may borrow more than the total of its owned funds. Here it seems necessary to make, through legislative amendment and other necessary ways, such modifications in the present system as will enable the Bank to lend a much larger amount. (Chapter 26—para 7)

The Committee, therefore, recommended that :

The present overall statutory limit of Rs 5 crores should be removed as well as the restriction relating to the owned funds of the state co-operative banks; the individual limits will be set by the Reserve Bank's appreciation of the financial position of each of the state co-operative banks and central co-operative banks to which it lends. The medium-term loans would be given out of the National Agricultural Credit (Long-term Operations) Fund. (Chapter 33—para 8)

The recommendations of the Committee on the subject were accepted by the Government of India and the Reserve Bank of India Act was amended in 1955 to provide for medium-term loans being given out of the Long-term Operations Fund.

Procedure for sanctioning medium-term loans

22. Following the first amendment to the Act in 1953, the Bank in its circular letter in July 1954 indicated the purposes, the security, and other terms for medium-term loans. The important points referred to in the letter were as follows :

(a) As far as possible, the medium-term credit facilities would be utilised for lendings for three years, though loans upto 5 years were not altogether ruled out.

(b) The purposes for which such loans might be utilized included the reclamation of land ; bunding and other land improvements as were necessary for or conducive to the cultivation of crops ; the preparation of land for orchards and plantations ; the construction, development and maintenance of irrigation sources ; the purchase of such livestock, implements, machinery and transport equipment as were necessary for or conducive to agriculture ; the construction of farm houses and cattle sheds ; and the purchase, construction, development or maintenance of such equipment as might be needed for carrying on animal husbandry and allied activities jointly undertaken with agricultural operations.

(c) Medium-term loans should not exceed the owned funds of the state co-operative bank. Owned funds were defined as paid-up capital and all categories of reserve funds, excluding accumulated losses. It was suggested that the state co-operative bank in its turn might not grant a limit to a central bank (out of the Reserve Bank's limit) exceeding its owned funds.

(d) The rate of interest would be two per cent below the Bank Rate.

(e) The amounts made available by the Reserve Bank should not be treated as reimbursement finance but should, as a rule, be considered as additional finance i.e. over and above what the state or central co-operative banks were already providing out of their owned funds.

(f) The loans drawn on the basis of the credit limit would be treated as fixed loans and not as cash credits. The state co-operative bank should draw upon the limit in two or three instalments within a period of three to six months.

Subsequently, in October 1954 the Central Board of the Bank, as required under the Act, prescribed that a promissory note or notes for the amount of the loan required by the state co-operative bank by one or more central banks in favour of the state co-operative bank should be taken as security for the medium-term loans obtained from the Reserve Bank.

23. After the amendment to the Reserve Bank of India Act was passed in 1955 setting up the National Agricultural (Long-term Operations) Fund, the Reserve Bank issued another letter in August 1955 advising the banks that restrictions limiting the issue of medium-term loans to Rs 5 crores in the aggregate and to the owned funds of individual state co-operative banks had been removed. The other conditions of the loans as indicated in the circular letter of July 1954, however, remained unchanged. The suggestion contained in that letter that state co-operative banks might not sanction limits to central banks exceeding their owned funds was not withdrawn, and, therefore while sanctioning medium-term loans to a state co-operative bank, the Reserve Bank stipulated that an affiliated central bank should not be sanctioned medium-term loans, out of

the funds provided by the Bank, in excess of its owned funds. The Reserve Bank had not in the beginning prescribed the security for medium-term loans for individual agriculturist members of primary credit societies. During the past two years, however, it stipulated that funds provided by it as medium-term loans should be supported by mortgage of land belonging to individual members. Originally, all medium-term loans were sanctioned by the Bank uniformly for a period of 3 years. Following the recommendation made at the fifth meeting of the Standing Advisory Committee (1956), 25 per cent of the loans sanctioned to a bank can be given for a period of five years.

Volume of medium-term loans

24. The volume of medium-term credit provided by the Bank has been increasing steadily from the year 1954-55, when such loans were sanctioned for the first time, as will be seen from the following table.

Table 3
Medium-term loans to State Co-operative Banks
1954-55 to 1958-59

(Rs. lakhs)

Year	Amount sanctioned during	Amount drawn during	Amount outstanding during
1	2	3	4
1954-55	121.86	26.56	22.18
1955-56	139.67	89.79	98.82
1956-57	167.00	106.11	158.22
1957-58	772.00	279.65	342.47
1958-59	452.05	399.32	577.19

The amount outstanding at the close of 1958-59 was Rs 5.77 crores. The State-wise classification of the loans outstanding at the close of that year is given in the following table :

Table 4
Medium-term Loans Outstanding Against State Co-operative Banks—30.6.1959

(Rs lakhs)

Name of Bank	Amount outstanding
1	2
1. Madras	112.21
2. Andhra	60.60
3. Punjab	54.50
4. Bombay	38.90
5. Hyderabad	11.06
6. Kerala	45.87
7. Orissa	29.32
8. Mysore	71.12
9. Assam	8.33
10. Madhya Pradesh	108.33
11. Saurashtra	36.95
Total	577.19

No medium-term loans from the Reserve Bank have been availed of by state co-operative banks in Uttar Pradesh, Bihar, Jammu & Kashmir, Rajasthan, Vidarbha, and the centrally administered territories of Delhi, Himachal Pradesh, Tripura and Manipur.

Long-term Credit

25. Assistance from the Reserve Bank in the sphere of long-term credit, as has been indicated earlier, has in the main been confined to making contributions to the debentures floated by land mortgage banks. The debentures floated by land mortgage banks are of two kinds viz. ordinary debentures and rural debentures. The Reserve Bank's subscription to the ordinary debentures is limited to 20 per cent of the floatation or the short-fall in the public subscription, whichever is less. Contributions to rural debentures from the Reserve Bank and the public in rural areas are in the ratio of 8 : 7. The rate of interest on the Reserve Bank's share of the rural debentures is limited to 4 per cent. The table below shows, bank by bank, the total number of their debenture issues during the period from 1948-49 to 1958-59, the number of issues to which the Reserve Bank made contributions as also the extent of such contributions.

Table 5
Investments in Ordinary Debentures

(Rs lakhs)

Name of the Central Land Mortgage Bank	Total number of debentures issued 1948-49 to 1958-59	No. of issues in respect of which RBI was approached for contribution	Amount of floatation in regard to issues included in col. 3	Amount subscribed by public (including Govt. of India) in regard to series included in col. 3.	Amount subscribed by RBI	Percentage of 6 to 4
1	2	3	4	5	6	7
Madras	16	7	287.00	247.81	39.19	14
Andhra	5	2	160.00	138.56	21.44	13
Bombay	8	2*	50.00	36.81	10.00	17
Saurashtra	4	2	200.00	183.61	16.39	8
Orissa	5	4	37.50	31.41	6.09	16
Mysore	7**	1	30.00	6.90	6.00	20
Madhya Pradesh	8	1	20.00	18.00	2.00	10
Kerala	2	1	25.00	23.00	2.00	8
Total	55	20	809.50	686.10	103.11	

* Rs 3.19 lakhs were not subscribed during 1949-50

** Rs 15.65 lakhs were not subscribed during 1949-50 and Rs 17.10 lakhs were not subscribed during 1952-53.

The following table shows bank by bank the amount of rural debentures floated by them till 30 June 1959 and contributions to these debentures by the Reserve Bank and the public.

Table 6.**Investments in Rural Debentures**

(Rs lakhs)

Name of the C.L.M. Bank	No. of series floated	Amt. of floatation	Amt. subscribed by the public	Amt. subscribed by Reserve Bank	Percentage of 5 to 3
1	2	3	4	5	6
1. Saurashtra	2 @	80.00	37.59	37.48	46.85
2. Orissa	1	5.00	2.23	2.77	55.4
3. Andhra	2	35.00	16.50	18.50	33.63
4. Madras	1	20.00	9.50	10.50	52.50
Total	6	140.00	65.82	69.25	43.28

@ An amount of Rs. 4.93 lakhs was not subscribed.

Loans for contribution to the share-capital of co-operative credit institutions

26. Mention has been made earlier of the establishment by the Bank of the Long-term Operations Fund for granting loans to State Governments for contribution to the share capital of co-operative credit institutions. Although the Act permits the Bank to grant such loans up to 20 years, the Bank has sanctioned such loans only for a period of 12 years. The loans are free of interest for the first two years. Thereafter, the rate is 2 per cent for the next three years, 2½ per cent for the next four years and 3 per cent for the remaining three years. Since the inception of the Fund in 1956, and up to 31 December 1959, the Bank has advanced loans to State Governments amounting to Rs 13.44 crores, as shown in table 7, for enabling them to contribute to the share capital of state and central co-operative banks, large-sized primary credit societies and central land mortgage banks. Loans are not usually sanctioned to State Governments in respect of a society whose overdue loans constitute more than 40 per cent of the outstandings. Loans are also not ordinarily sanctioned for contributing to the share capital of a central co-operative bank in whose case the percentage of overdues to loans outstanding exceeds 25 or where bad debts and accumulated loss together exceed the total of all its reserves.

Table 7
Loans to State Governments for Contribution to Share Capital

Position as on 31 December 1959

(Rs lakhs)

States	Large-sized credit societies			Central Co-operative Banks			State Co-operative Banks			Central Land Mortgage Banks			Total	
	No.	Am- ount 'sanc- tioned	Am- ount drawn	No.	Am- ount 'sanc- tioned	Am- ount drawn	No.	Am- ount 'sanc- tioned	Am- ount drawn	No.	Am- ount 'sanc- tioned	Am- ount drawn	Amount sanc- tioned	Amount drawn
Andhra Pradesh	354	38.36	38.36	19	60.00	60.00	1	24.00	24.00	1	15.00	15.00	137.36	137.36
Assam	200	15.03	15.00	6	8.00	8.00	1	7.00	7.00	1	5.00	5.00	35.00	35.00
Bihar	201	20.10	20.10	17	23.50	23.50	—	—	—	1	10.00	10.00	53.60	53.60
Bombay	1799	120.79	115.40	28	176.25	127.25	1	55.00	55.00	2	30.00	30.00	333.04	327.65
Jammu & Kashmir	58	2.84	2.84	1	1.00	1.00	—	—	—	—	—	—	3.84	3.84
Kerala	122	12.20	12.20	5	8.00	8.00	1	10.00	10.00	1	10.00	10.00	40.20	40.20
Madhya Pradesh	612	51.64	51.47	45	65.10	55.40	1	40.00	40.00	—	—	—	156.74	146.87
Madras	80	8.00	8.00	15	81.00	1.00	1	77.00	37.00	—	—	—	166.00	146.00
Mysore	451	45.10	41.90	17	22.10	22.10	1	35.00	35.00	1	20.00	20.00	122.20	119.00
Orissa	1033@	52.08	51.98	14	13.65	12.75	1	6.00	6.00	1	11.00	11.00	82.73	81.73
Punjab	410	32.24	32.24	24	42.20	41.20	1	28.00	21.00	1	15.00	15.00	117.44	109.44
Rajasthan	202	19.23	19.23	18	10.60	10.60	1	4.00	4.00	1	5.00	5.00	38.83	38.83
Uttar Pradesh	683	68.30	68.30	44	94.70	94.70	1	5.00	5.00	1	15.00	15.00	183.00	183.00
West Bengal	327	32.70	9.29	7	7.00	7.00	—	—	—	1	5.00	5.00	44.70	21.29
Totals	6532*	518.58	486.31	260	564.10	472.50	11	291.00	244.00	12	141.00	141.00	1514.68	1343.81
Renewals		54.45			56.00			21.00			1.00		132.45	

* This indicates the number of loans given in respect of large-sized societies and not the number of societies as in a few cases more than one loan has been sanctioned.

@ This includes 683 grain-cum-cash credit societies.

Position of the Long-term Operations Fund

27. The purposes for which the Long-term Operations Fund can be utilised by the Bank have been indicated in the preceding paragraphs. The balance to the credit of the Fund is Rs 30 crores. Loans outstanding for the different purposes and the amounts available for drawal against existing sanctions are indicated in the following table :

Table 8**Position of the Long-term Operations Fund as on 31.3.1960**

(Rs crores)

Purpose of loans from the Fund	Amounts outstanding	Amounts sanctioned but not drawn
1	2	3
1. Contributions to share capital	17.95	—
2. Medium-term loans	6.22	1.96
3. Purchase of debentures of land mortgage banks	0.74	—
4. Loans to land mortgage banks	0.12	—
Total	25.03	1.96

Thus as against Rs 30 crores in the Fund, loans outstanding and unutilised sanctions together amounted to Rs 26.99 crores, leaving a balance of only Rs 3.01 crores available on 31.3.1960 for further advances for any of the above purposes. Sanctions given and draws made after the above date will reduce the balance further. The resources will increase by a sum of Rs 5 crores when the statutory annual contribution is made on 30 June 1960.

Advances against warehouse receipts

28. Mention may also be made here of Section 17(4)(d) of the Reserve Bank of India Act which provides for advances to scheduled banks and State co-operative banks against documents of title to goods. The provision is intended to facilitate advances against warehouse receipts. In the beginning, hardly any warehouses existed in the country which were licensed to give a negotiable warehouse receipt. The Reserve Bank, therefore, circulated among the State Governments in November 1944 a model Warehouse Bill for establishing licensed warehouses. With the establishment of the Central & State Warehousing Corporations at the national and State levels, there is a programme in the Second Five-Year Plan for setting up a net-work of warehouses in the country which will be authorised to issue warehouse receipts. There are, however, some legal

difficulties still which stand in the way of making the warehouse receipt fully negotiable. Steps are being taken to remove them. It is only then that advantage can be derived of the facility available under the above section of the Reserve Bank of India Act.

29. The relevant provisions of the Reserve Bank of India Act under which loans and advances can be made by the Bank to State Co-operative Banks, State Governments etc. are reproduced in Appendix VI.

Reserve Bank's Role in Agricultural Credit

30. The progress made by co-operative credit societies and banks in providing agricultural credit has been outlined in chapters III and IV. It was observed there that in promoting this progress, the part played by the Reserve Bank was substantial. A clear indication of this part may be seen from this and subsequent paragraphs.

Table 9
**Proportion of Reserve Bank Finance to Total Advances
made by Agricultural Societies**

Year	All-India Figures				(Rs crores)	
	Outstandings of loans					
	From individuals to primary socie- ties (Agricultural & Marketing)	From State Co-operative Banks to RBI	Total	Short- term	Medium- term	3 as percentage
1	2	3	4	5	6	
1955-56	62.34	13.97	12.98	0.99	22.41	
1956-57	80.42	24.90	23.32	1.58	30.96	
1957-58	110.96	43.89	40.47	3.42	39.55	
1958-59		62.04	56.27	5.77		

It will be observed that of the total loans outstanding from agriculturists to primary agricultural credit and marketing societies, the proportion of finance from the Reserve Bank has increased steadily from 22.41 per cent at the close of 1955-56 to 39.55 per cent at the end of 1957-58. The relative importance of the Reserve Bank's contribution to the funds provided by societies in the different States during 1957-58 may be seen from the following table.

Table 10

**Proportion of Reserve Bank Finance to Total Advances
made by Agricultural Societies in the Different States**

1957-58

(Rs crores)

Name of the State	Outstandings as on 30.6.58			Outstandings against Apex Banks on account RBI Loan			% of 7 to 4
	Credit societies	Market- ing	Total	Short-term	Medium-term	Total	
1	2	3	4	5	6	7	8
Andhra Pradesh	14.10	1.20	15.30	8.17	0.59	8.76	57.25
Assam	1.42	0.01	1.43	1.25	0.07	1.32	92.31
Bihar	1.63	0.01	1.64	—	—	—	—
Bombay	31.62	1.16	32.78	12.50	—	12.50	38.13
Jammu & Kashmir	3.63	0.09	0.72	0.15	—	0.15	20.83
Kerala	2.07	0.03	2.10	0.53	0.26	0.79	37.61
Madhya Pradesh	9.37	0.12	9.49	2.13	0.79	2.92	30.76
Madras	10.78	0.66	11.44	4.25	0.89	5.14	44.93
Mysore	8.65	0.30	8.95	3.74	0.61	4.35	48.60
Orissa	2.64	0.07	2.71	0.29	0.13	0.42	15.49
Punjab	9.92	0.10	10.02	2.80	0.08	2.88	28.74
Rajasthan	1.97	—	1.97	1.04	—	1.04	52.79
Uttar Pradesh	9.78	0.06	9.84	2.64	—	2.64	26.82
West Bengal	2.00	0.05	2.05	0.98	—	0.98	47.80
Delhi	0.28	—	0.28	—	—	—	—
Himachal Pradesh	0.18	—	0.18	—	—	—	—
Pondicherry	0.02	—	0.02	—	—	—	—
Tripura	0.05	—	0.05	—	—	—	—
Total for All-India	107.11	3.86	110.97	40.47	3.42	43.89	39.55

As against the All-India average of 39.55 per cent, the Reserve Bank's contribution was as much as 92.31 per cent in Assam, 57.25 per cent in Andhra Pradesh, 52.79 per cent in Rajasthan and over 45 per cent in Mysore and West Bengal.

31. The proportion of Reserve Bank's finance to the total working capital of state co-operative banks also increased steadily from 22.06 per cent in 1955-56 to 40.21 per cent in 1957-58 as will be seen from table 11.

Table 11

**Proportion of Borrowings from the Reserve Bank to the
Total Working Capital of State Co-operative Banks.**

(Rs. crores)

Year	Total working capital	Borrowings from Reserve Bank of India	(3) as percentage of (2)
1	2	3	4
1955-56	63.34	13.97	22.06
1956-57	79.54	24.91	31.32
1957-58	109.14	43.89	40.21

At the end of 1957-58 the proportion of borrowings from the Reserve Bank was above 50 per cent in the case of the following seven state co-operative banks :

Table 12

**State Co-operative Banks whose proportion of borrowings
from the Reserve Bank was above 50 per cent on 30.6.58.**

(Rs crores)

No. of the State Co-operative Bank	Working capital	Outstandings of RBI Loans	Percentage of RBI finance to total working capital
1	2	3	4
1. Andhra	10.05	7.01	69.8
2. Hyderabad	3.16	1.75	55.4
3. Saurashtra	6.84	4.00	58.5
4. Kerala	1.46	0.79	54.1
5. Madhya Pradesh	5.54	2.92	52.7
6. Mysore	6.26	4.36	69.7
7. Rajasthan	1.54	1.04	67.5

The reasons for this increasing dependence on the Reserve Bank are not far to seek. While the demand for credit through co-operatives increased substantially under the impact of the development schemes under the Second Five-Year Plan, the owned resources as well as deposits with the co-operative credit institutions did not increase to a corresponding extent. While the rise in the volume of deposits of the state and central co-operative banks was not inconsiderable, their percentage to the total

working capital has steadily declined. Whereas the percentage of deposits to the working capital of state co-operative banks at the end of 1953-54 was 60.97, at the end of 1957-58 it fell to 41.65. In central co-operative banks also, the percentage fell from 62.31 to 47.36 during the period.

Future role of the Reserve Bank

32. The increasing reliance of some state co-operative banks on the Reserve Bank is in itself not an indication of the weakness of the banks but may on the contrary be a sign of a rapidly developing agricultural economy in the area which looks to the banks for the finance required for such development. Nor is the converse true, namely, that a state co-operative bank which has borrowed little or has not borrowed at all is a strong institution or is supported by an equally strong credit structure below. It may, in fact, be an indication of the weak condition of the structure at the level of central banks or of primary credit societies which are unable to avail themselves fully of the facilities available from the Reserve Bank. But where the borrowings from the Reserve Bank constitute a very large part of the agricultural lendings of a bank, the question does arise whether maximum efforts are being made to mobilize resources such as deposits as also to divert a reasonable proportion of such resources to agricultural finance. The proportion of financial accommodation from the Reserve Bank has, therefore, to be considered in the light of many factors, such as the pace of agricultural development in an area and the strength and efficiency of the co-operative credit structure.

33. When a rapid agricultural development is envisaged and the co-operatives have been chosen as the best agency for the provision of credit, it will be unrealistic to expect them in the near future to raise the necessary resources, wholly or in the bulk from own funds and deposits. Self-help and self-reliance are undoubtedly the guiding principles of co-operation. But to achieve self-sufficiency will be relatively a slow process. The Reserve Bank, therefore, is likely to have to play a prominent part in this context for many years to come.

34. Various estimates have been made from time to time about the volume of agricultural credit that the co-operative movement may be called upon to provide during the period of the Third Five Year Plan. We do not propose to examine these estimates. It is clear, however, that with the expansion that has taken place in the number of agricultural credit societies and the accretion to their membership that will result from the drive for enrolling as members as many cultivating families as possible, the demand for funds will go up considerably. Moreover, it is expected that a large number of persons belonging to the weaker sections of the community will be admitted to the co-operative fold and be provided finance for agricultural production on the basis of their repaying capacity. It will be sometime before full contributions to share capital of primaries are made by these persons. Similarly, the increase in the deposits cannot keep pace with the increased demand for funds. For these reasons the questions arises about the provision of funds from the Reserve Bank on an even larger scale than in the past few years.

35. We consider that the need for greater assistance from the Reserve Bank should be viewed in the context of the policy pursued by the Bank over the past decade. This policy is part of the larger

objective of building up a strong, sound and country-wide structure of co-operative credit for agriculture and other purposes. Accordingly, in providing short-term and medium-term credit to co-operatives on a more liberal scale than at present, the Reserve Bank will be entitled to take into account the efforts made by state and central co-operative banks and also primary credit societies in (i) increasing their financial strength and operational efficiency, (ii) developing their resources through share capital and deposits with a view to promoting greater self-sufficiency and (iii) extending the provision of agricultural credit. Our recommendations regarding liberalization of credit from the Reserve Bank are indicated in the paragraphs that follow.

Liberalization of Short-term Credit Limits

36. We have indicated in paragraphs 16 to 18, the standards followed and the criteria adopted by the Reserve Bank in sanctioning short-term credit limits to state co-operative banks for being operated upon by their constituent central banks both against joint signatures of the bank and against the guarantee of the State Government. We have indicated also that in the former case there are a normal limit and an exceptional limit which vary according to the audit classification of the banks. We have also pointed out that these standards are not applied to banks borrowing against Government guarantee. The existing standards and procedures will require modification for providing more liberal credit by the Reserve Bank.

We recommend that :

(i) The distinction at present made between 'normal' and 'exceptional' limits may be removed so that the normal credit limit to which A and B class bank will be eligible will be 4 times and 3 times their owned funds respectively.

(ii) In addition to the above, an A class bank may be sanctioned a limit not exceeding twice its owned funds and a 'B' class bank equal to its owned funds on the following conditions :

(a) For the amount outstanding against a bank out of the limit sanctioned by the Reserve Bank in excess of the 'normal' limit as indicated in (i) above, the bank should show outstanding loans against societies for agricultural purposes for twice the amount borrowed. In other words, of the excess of loans outstanding against societies for agricultural purposes over and above the 'normal' limit, only 50 per cent can be from funds provided by the Reserve Bank, the other half being provided by the bank out of its own resources.

(b) The outstanding loans for the above purpose i.e. for normal or additional limits, will not include any overdue loans. It will also be necessary to ensure that the real position of overdues is not concealed by extensions granted without proper examination of the merits in each case.

(c) In computing a bank's own resources for the purpose mentioned in (a), borrowings from the state co-operative bank, the State Bank of India and Government will be excluded. Account will be taken of the funds derived from the bank's share capital, reserves and deposits. To take an example, an A class bank with Rs. 1 lakh owned funds

will be eligible as at present to a limit of Rs. 4 lakhs. In addition, it may be able to borrow Rs. 2 lakhs from the Reserve Bank, provided it shows non-overdue agricultural loans from its own resources of the order of Rs. 2 lakhs. Thus out of total non-overdue agricultural loans of Rs. 8 lakhs, the Reserve Bank's contribution can be Rs. 6 lakhs.

(iii) At present a C class bank is eligible to get a maximum limit equal to twice its owned funds on the special recommendation of the Registrar. At the end of 1957-58, C class banks numbered 70. In addition, 112 banks audited but not classified may belong to that class. Some of these banks will probably be merged with others in the programme of rationalizing the co-operative banking structure. There will still be a large number of C class banks and unless they are revitalized and strengthened, the primary credit societies and eventually the individual members of these societies will suffer. Provision of finance on a more liberal scale than at present from the Reserve Bank will enable them to expand their business and gain in strength. At the same time, the signature of these banks may not be acceptable to the Reserve Bank. Hence, we recommend that a C class bank may be sanctioned a limit up to 3 times its owned funds against the guarantee provided by Government; the limit may be raised to 4 times in special circumstances. Simultaneously, there should be systematic programme of rectifying the defects in the banks. The facility for loans against Government guarantee may be for a period of three years during which the programme of rectification and consolidation of the bank should be completed. The State Government may review the position in this behalf at the end of each year.

Medium-term Credit

37. The demand for medium-term credit is admittedly great and it should be satisfied to the maximum possible extent, particularly when such credit is utilised for improvement of land or for purchasing implements, machinery etc. which will help increase agricultural production. The medium-term resources with co-operative banks and societies being limited to their owned funds and small amounts of fixed deposits, there is much force in the request that has been placed before us that the Reserve Bank should provide larger medium-term credit to co-operative banks than at present.

38. We have indicated that these loans are to come out of the Long-term Operations Fund which is to be utilized for several other purposes. The amount to the credit of the Fund is Rs 30 crores and the balance available for utilization was only Rs 3.01 crores on 31.3.1960. Besides, the pressure on the Fund for loans for other purposes, particularly for contributions to share capital of co-operative credit institutions including primary societies on the lines indicated by us, will increase appreciably during the next few years.

The Reserve Bank sanctions medium-term loans to a state co-operative bank against Government guarantee, but the outstandings of that bank against a central bank out of funds obtained from the Reserve Bank are not to exceed the owned funds of the latter. The owned funds of the central banks on June 30, 1958 amounted to Rs 21 crores and they may have gone up appreciably since then. It is obvious, therefore, that in view of the limited sums available from the Long-term Operations Fund, the Reserve

Bank may soon find it difficult to meet the demand for medium-term credit even on the basis of its present formula. Any liberalization in the present standard for sanctioning loans equal to owned funds of a central bank will be possible only if the resources in the Long-term Operations Fund are appreciably augmented. We recommend, therefore, that as against the present annual contribution to the Fund amounting to Rs 5 crores, the Bank may be authorized by the Government of India to credit Rs 15 crores to the Fund.

39. All the same, the urgent need for co-operatives to raise the resources required for medium-term loans cannot be over-emphasized. The provision of more medium-term credit from the Reserve Bank might be correlated to the efforts made by a central bank in raising more medium-term funds in the form of share capital and fixed deposits. We recommend that the Reserve Bank may sanction an additional limit to a central bank up to twice the increase in fixed deposits and share capital registered during the year prior to that for which the limit applies, provided, however, that the normal and the additional limits do not together exceed twice the owned funds of the bank. For the purpose of the additional limit, the increase in share capital taken into account would exclude that received from Government during the year. The above formula may be applicable to all central banks, irrespective of their audit classification. The limits proposed are with reference to the medium-term loan outstandings and not to the amounts borrowed every year.

40. We hope that liberalization on the lines suggested by us will provide the needed additional short-term and medium-term credit from the Reserve Bank, consistently with the basic objectives of the Bank's policies in the sphere of agricultural credit. While we trust that liberalization suggested will be brought into effect at an early date by the Reserve Bank, we would also urge that state and central co-operative banks should take vigorous steps to augment their own resources by way of share capital and deposits. It is only then that it will be possible for them to take any substantial advantage of the additional facilities recommended by us.

CHAPTER XIII

OTHER EXTERNAL RESOURCES

In the previous chapter we have indicated the extent to which increased assistance may be given by the Reserve Bank to state and central co-operative banks. We realise that even when such assistance becomes available and more funds are raised by co-operatives by way of deposits, the requirements at the primary level will not be fully met. Hence the need for assistance from other sources becomes urgent. In this chapter we propose to deal with external agencies other than the Reserve Bank of India.

State Bank of India and Agricultural Credit

2. The part that the State Bank of India can play in the sphere of agricultural credit has been indicated in the following terms by the Rural Credit Survey Committee :

The State Bank of India should endeavour to be responsive to the needs of co-operative institutions connected with credit and, especially, marketing and processing. (It is of course the Reserve Bank, primarily which will continue to lend to state co-operative banks and through them to central co-operative Banks, etc.) The branch extension of the State Bank of India should be co-ordinated and wherever possible, positively associated with development of co-operative credit, from the point of view especially of the provision of cheap remittance facilities. Particular attention to this aspect should be given at the sub-divisional level.

(chapter 34—para 14)

Facilities provided

(i) Central banks

3. The State Bank of India has endeavoured to be responsive to the needs of co-operative institutions and through them to aid in the development of rural credit generally, subject, however, to the limitations placed under its statute. With a view to assisting co-operative credit institutions such as co-operative central banks, the State Bank provides loan/overdraft facilities against Government securities at a concessional rate of interest, viz., one-half per cent below the State Bank of India Advance Rate subject to a minimum of three per cent per annum, irrespective of the amount of advance or the centre where the advance is granted. Co-operative credit institutions are given advances on the repledge of goods subject to the usual conditions relating to pledge advances by the Bank. The rate of interest is one-half percent below the usual rate for such advances or one per cent over the State Bank of India Advance Rate, whichever is lower. The Bank provides in special cases advances to state co-operative banks against Government guarantee to enable them to finance their affiliated co-operative societies.

(ii) Marketing societies

4. Particular mention may be made about the provision of financial accommodation directly to marketing and processing co-operative societies in areas where there is little or no near prospect of the co-operative banks being able to provide for them prompt and adequate funds at reasonable rates of interest. In suitable cases, after consulting the apex banks and other co-operative interests concerned, the Registrar of Co-operative Societies may give a general clearance to the State Bank in respect of the whole of a region or of a State. Marketing societies are given advances against pledge of produce, the margin retained varying generally between 25 and 30 per cent with due regard to the nature of the crop. In suitable cases, clean accommodation for small amounts is granted by the Bank to the societies against the guarantee of their directors or the collateral security of immovable property or the second signature of the central co-operative bank of the area. The limit of such accommodation is usually fixed with regard to the volume of goods handled by the society and may not ordinarily exceed the owned funds of the society. In the case of secured advances, the goods belonging to the societies as well as those left in their charge by others with authority to pledge, may be pledged to the Bank. Societies are required to furnish periodical statements regarding pledge advances granted by them. The bank charges interest on secured loans at rates not exceeding one-half percent over the State Bank of India Rate (which is at present $4\frac{1}{2}$ per cent) so that the overall incidence of the rate of interest, payment of rent, insurance and other overhead charges etc, on the borrower might be kept as low as possible. No separate godown keeper's charges are recovered except in case of advances exceeding Rs 5 lakhs where the existing godown staff may not be sufficient to attend to the work and additional staff is required to be employed.

(iii) Processing

5. Co-operative processing societies such as sugar factories, cotton ginning and processing societies, jute baling co-operatives etc., may also obtain accommodation from the Bank. The lines of assistance in the case of co-operative sugar factories are as follows :

- (i) provision of interim accommodation by way of clean loans pending disbursement of loans granted to the factories by the Industrial Finance Corporation on the guarantee of State Governments;
- (ii) advances against pledge of stocks;
- (iii) grant of loans, up to limited amounts, for working capital (i. e. payment of cane prices, wages etc.) against the security of the general assets of co-operative sugar factories;
- (iv) provision of clean credit facilities for limits in certain cases ; and
- (v) provision for establishing letters of credit and wherever necessary, for giving deferred payment guarantees for the import of machinery and capital goods on the security of the general assets of the factory and/or the guarantee of State Governments.

6. The State Bank has thus been shaping its policies so as to help and strengthen the co-operative marketing and processing structure, while,

at the same time ensuring that the discipline of the co-operative banking structure is not disturbed. The total limits sanctioned by the Bank to co-operative banks against Government securities have risen from Rs 5.1 crores in 1955 to Rs 10.5 crores in (September) 1959. The total limits sanctioned to marketing and processing societies other than co-operative sugar factories as at the end of the year 1959 amounted to Rs 224 lakhs. Against these, the outstandings amounted only to Rs. 53.37 lakhs as on that date. We see in the part played by the State Bank much scope for relieving the pressure on the short-term funds of co-operative credit institutions. To the extent the needs of marketing societies are met by the finance made available by the State Bank of India either directly or through central and state co-operative banks, the funds of the latter could be diverted for providing production loans. We learnt during our visits to marketing societies in several parts of the country that the volume of funds drawn from the State Bank of India would have been much larger, if the terms and conditions imposed by the State Bank were more liberal. The marketing societies urge that the Bank need not insist on repledge of the produce held by them. The procedure of repledge entails delay and inconvenience in the provision of efficient services to their members. We suggest that the Bank may examine whether any relaxation in the existing procedure is possible, with a view to facilitating the business of marketing societies. The Bank may, in particular, examine whether instead of having physical custody of the produce, it can protect its interest effectively by arranging, if necessary, periodical inspection and by requiring the societies to furnish, at frequent intervals, statements of the stock held by them.

(iv) *Long-term credit*

7. In the sphere of long-term agricultural credit, the State Bank of India assists central co-operative land mortgage banks in the following ways :

- (i) the Bank subscribes, in suitable lots, to the debentures floated by them from time to time and thus helps them to finance land development, etc. ;
- (ii) the Bank contributes to improvement in the marketability and popularity of land mortgage debentures in the money market by granting advances on the security of such debentures ; and
- (iii) the Bank provides, in suitable cases, land mortgage banks with limited temporary financial accommodation against government guarantee, to help them carry on their normal loan business pending the raising of funds through floatation of debentures.

The State Bank's role in this context has been significant. The Bank's total holdings of the debentures of land mortgage banks have risen from Rs. 5.00 lakhs in 1954 to Rs. 76.7 lakhs in (September) 1959. The policy recently followed by the State Bank of India in this respect has been such as to encourage land mortgage banks to go ahead with their programme of providing long-term loans.

Taccavi loans through co-operatives

8. The funds at present provided by Government as loans of different types—*taccavi* loans—constitute another possible source of strengthening

the resources of co-operative credit institutions. There are two different kinds of loans provided by Government to agriculturists. First, under the Agriculturists Loans Act of 1884, loans up to a period of two years are given by the Revenue Department to agriculturists for purchase of seeds, cattle and to meet cultivation expenses. Medium and long-term loans are also given to agriculturists by the Revenue Department under the Land Improvement Loans Act of 1883, for the purpose of making improvements to land, for construction of wells, installation of oil-engines and pumping-plants, preparation of lands for irrigation, reclamation of land, etc. The period of loans given under the Act is fixed under the rules framed by the State Government having regard to the purpose for which loans are granted and the general repaying capacity of the borrowers. Secondly, in some States, the Agriculture Department issues loans to agriculturists especially under the schemes of intensive manuring for purchase of fertilizers, etc. Thirdly, in the Community Development and National Extension Service Blocks, loans are given by the Community Development Department for the purchase of seeds and manure. Thus there are various State agencies that supply loans to agriculturists, short-term as well as medium-term, and in some cases for periods beyond five years and at rates which are lower than the rates charged by co-operative credit societies. The need for direct financing by the State and the effects of such financing on the working of primary credit societies has come in for discussion from time to time. The consensus of opinion has been that the State should not continue to issue loans direct in areas where co-operative societies are functioning. For, otherwise, it results in lack of co-ordination between the two agencies, needless duplication of work, and temptation to over-borrow. At various State Ministers' Conferences the importance of routing *taccavi*—other than distress *taccavi* through the co-operatives and effecting proper co-ordination between Government *taccavi* loans and loans issued by the co-operatives to the agriculturists has been stressed. We reiterate this view and recommend that funds intended for disbursement as *taccavi*, short-term or medium-term, be placed at the disposal of the state co-operative banks for being passed on through central banks and primary credit societies to their members. The reasons adduced for not implementing the policy are that in many areas a majority of agriculturists have not become members of primary credit societies or that there are no such societies or that the societies are not capable of handling large funds either because of the existence of overdues or because of bad management etc. While we recognise the need for the continuance of *taccavi* in such special cases, there is no justification for *taccavi* loans being provided by Government freely even in areas where there is a reasonably good co-operative credit structure. In areas where both Government and co-operative agencies are functioning, agriculturists prefer to borrow from the former as the rate of interest on *taccavi* loans is lower than the rates charged by co-operatives on the loans provided by them. We do not see any justification for such competition. The National Development Council in its resolution of November 1958 had also observed in this connexion as followsh :

It is also essential that by making *taccavi* loans and other facilities available to individuals through co-operatives, conditions should be created in which every peasant and rural worker will find it to his advantage to join the village co-operatives. (para 10)

We consider that at the village level there should be only one institutional agency for the supply of credit, namely, the co-operative and the

policy of the Government should be such as will eventually lead to that result. We, therefore, recommend that Government should place at the disposal of the state co-operative banks the funds that are at present disbursed in the form of *taccavi* loans, through the Revenue, Agriculture and Community Development Departments. We understand that provision has been made under the Community Development Programme for issue of loans in Block areas for purposes such as sinking of wells, land improvement etc. We consider that, wherever a co-operative society exists, medium-term loans should be channelled through it alone and that for this purpose appropriate funds should be placed at its disposal.

9. In routing *taccavi* through the state co-operative bank the rate of interest is an important consideration. Even if the State places funds at the disposal of co-operative banks at the same rate at which it borrows in the open market, the rate to the ultimate borrower will be much higher than what the Government at present charge on their direct lendings. The Working Group set up by the Government of India for considering the administrative and organizational arrangements for implementing the resolution of the National Development Council stated as follows :

Co-operative societies advance loans to their members at rates of interest which depend on a number of factors and the ultimate rate to the borrower varies from State to State and in various parts of the State itself. The rate at which *taccavi* loans are made available is generally lower. If all credit to the cultivator is given through one agency, a uniform rate will have to be worked out and to some extent an element of subsidy may be involved. The whole question, therefore, requires very careful examination by the State Government so that a clear policy can be laid down. We recommend that this should be done without any avoidable delay and necessary steps to channel all credit through co-operatives should be taken. (para 22.2)

We endorse the Working Group's recommendations in this regard and urge early action. Where for a particular purpose or in a particular area or for a class of persons, the State Government considers that the rate of interest should be fixed at a particular level, the co-operatives might be required to issue loans in such circumstances at that rate. The difference between the actual lending rate and the institution's economic lending rate may be made good by the State Government by providing the necessary subsidy.

P.L. 480 Funds

10. We have elsewhere stressed the importance of increasing the provision for credit among the measures to be taken for stepping up agricultural production. No sector is so vitally important in India as the agricultural sector and attempts made for developing this sector will greatly contribute to the country's economic growth. We have also indicated elsewhere that the medium-term resources of the co-operative credit structure are so inadequate that without substantial help from outside, we see no great hope for large increase in the provision of medium-term agricultural credit. The assistance which the Reserve Bank can render, as we have indicated earlier, may not be adequate. It would, therefore, be necessary to find other sources from which funds could be drawn for the purpose. One of such sources that we venture to suggest is the

American aid funds, popularly known as the "P.L. 480 Funds". We understand that a part of those funds has been reserved for Indian developmental activities. Where a particular activity is found acceptable, funds are earmarked for the purpose. We would recommend that the Government of India take up with the authorities in the United States the question of allocating a part of these funds to the co-operative credit structure for the provision of medium-term and long-term finance for promoting agricultural development. We have not gone into the details of the organization etc. that may have to be set up for utilising the funds, in case they are made available. These will have, in that event, to be worked out by the Government of India in consultation with the Reserve Bank of India.

Sources of funds for land mortgage bank debentures

11. Central land mortgage banks raise long-term funds by floating debentures. An assured support for these debentures that are being periodically floated by the various banks would facilitate the supply of long-term credit needed by agriculturists for land improvement or development. The climate for the success of the debenture issues of land mortgage banks is better today than what it was until recent years, with the support extended by the Reserve Bank of India and the State Bank of India, the latter by subscribing, in suitable lots, to the debentures. With the increasing tempo for issue of long-term loans for land improvement purposes for stepping up agricultural production, it would be necessary for land mortgage banks to raise resources in larger volume. Besides, the Reserve Bank and the State Bank of India, it will be helpful if other agencies can be induced to interest themselves in providing funds to the land mortgage banks. Among such agencies, the Life Insurance Corporation with large resources at its disposal for investment would be the most important. We observe that during the past one year or two the Life Insurance Corporation has been responsive to the needs of the long-term credit agencies and has been contributing to the debentures floated by land mortgage banks. We have every hope that this policy will continue and would urge the Corporation to agree to subscribe to the debentures on a much higher scale than it has been doing till now. We do not wish to suggest any definite proportion of a debenture issue that should be taken up by the Life Insurance Corporation, but consider that the contributions should be substantial, particularly in areas which are less favourably situated in the matter of raising funds. It is usual for land mortgage banks to approach the Life Insurance Corporation before they float debentures and get their support ensured in advance. We would suggest that where the Corporation has agreed to a definite subscription, land mortgage banks should reserve that part of their debenture issue for allotment to the Corporation.

12. Another source from which substantial contributions to debentures can be tapped is commercial banks which are required to invest a good part of their deposits in Government and trustee securities. Commercial banks in the past took little or no interest in the debenture floatation of land mortgage banks as their marketability was relatively restricted as compared with Government securities. Moreover, in the event of need, the possibility of obtaining advances against the security of such debentures more or less on the same terms as those obtainable against Government securities did not exist. But conditions in this regard have changed favourably in recent years since the Reserve Bank and the State

Bank now treat the debentures on par with Government securities for the purpose of advances from them. Further, these debentures carry a slightly higher rate of interest than Government securities and thus represent an attractive form of investment. Another advantage this mode of investment possesses is that income-tax is not deducted at source at the time of payment of interest. Special features such as these have greatly added to the marketability of the debentures and need to be publicised widely so that debentures of land mortgage banks will receive wide and prompt support in the money market.

13. Other sources which we consider open to land mortgage banks for raising funds are the Trusts and Provident Funds. We recommend that where legislation in regard to investment of the trust funds does not provide for investment in debentures of land mortgage banks, such a provision should be made as expeditiously as possible. A good part of trust funds may then become available for investment in the debentures of land mortgage banks. Similarly, large sums that are available under the Provident Funds might also be allowed to be invested in these debentures.

14. It may be held that these steps would divert resources that would otherwise have found their way to Government securities and National Savings Schemes. But as the diversion of these funds would benefit agricultural production and as long-term resources for land improvement are in short supply, the investment of trust funds and Provident Funds in land mortgage bank debentures will be amply justified. We, therefore, recommend that steps may be taken by the Government to permit the investment of these funds in the debentures of land mortgage banks.

CHAPTER XIV

CO-OPERATIVE MARKETING

The integration of activities relating to credit, production, and marketing is a very important factor in the promotion of the economic well-being of agriculturists. We have elsewhere emphasized the need for the provision of credit with a view to augmenting and improving agricultural production. If, however, the full benefit of increased production is to reach agriculturists, they should be helped to market their produce in an advantageous manner. Better marketing facilities, it is needless to say, will have beneficial reaction on production.

Linking credit with marketing

2. The need for linking of production with marketing has been long recognized. In Madras, a system of 'controlled credit' has been in operation for a number of years. Under this system, primary credit societies issue loans to members for meeting cultivation expenses, the quantum being determined with reference to the kind of crops and the extent of land on which the crops are proposed to be raised. The member receiving a loan undertakes to sell his produce through the marketing society to which the primary credit society is affiliated. After the harvest, office-bearers of primary credit societies and the supervisory staff of banks make arrangements to ensure that the produce of the cultivators to whom loans were given is taken to the marketing societies. Marketing societies sell the produce of members of primary credit societies and deduct the amounts due to the societies, remit the moneys so deducted to the financing bank under advice to the societies and pay the balance to the cultivators. If a member wants to hold over his produce for a better market and in the meantime wants an advance, the marketing society gives it on the pledge of the produce, after deducting the dues the member has to pay to the village credit society. Briefly stated, the object of this scheme is to provide a built-in safeguard that facilitates the grant of timely and adequate finance to agriculturists for cultivation purposes. The linking of credit with marketing, besides enabling members of credit societies to reap the benefit of organized marketing, helps in the recovery of loans out of sale proceeds of the produce and thus reduces, if it does not obviate, the possibility of overdues.

3. The Rural Credit Survey Committee laid much emphasis on the establishment of a close link between co-operative credit and co-operative marketing. According to the committee, the loan operations of primary credit societies should be principally of the type of crop loans *e.i.* loans issued for raising crops to all, irrespective of whether they own land or not, subject, of course, to the repaying capacity of each. But this crop loan system cannot by itself become effective and complete unless integrated with co-operative marketing. There should be a close link between

the agricultural credit society and the marketing society. The former should finance members on condition that their produce is sold through the marketing society with which it works in close co-ordination. The primary credit society should act as the agent of the latter, assemble the produce of its members and arrange for its transport to the marketing society. We strongly commend the above arrangements for linking credit with marketing and desire that they should be introduced throughout the country.

4. The effectiveness of these arrangements will itself depend upon several other measures. Before we set forth these, we propose to survey in brief the progress of co-operative marketing, especially during the period of planning.

Co-operative Marketing Under the Plans

5. The First Five-Year Plan had emphasized the need for development of co-operative marketing side by side with co-operative credit, but it did not lay down any targets in this respect. No special efforts appear to have been made, therefore, to strengthen or expand co-operative marketing during the period of the Plan. The Second Five-Year Plan, accepting broadly the approach recommended by the Rural Credit Survey Committee, envisaged the organization or reorganization of 1,900 primary co-operative marketing societies in important *mandis* and of an apex marketing society in each State. These marketing societies were further expected to handle the distribution of essential agricultural requisites such as fertilizers and to assist in co-ordinating inter-State and export trade. It was also hoped that by the end of the Plan period, co-operative agencies might be able to handle about ten per cent of the marketable surplus.

6. In pursuance of the recommendations made by the Rural Credit Survey Committee, the National Co-operative Development and Warehousing Board was constituted by the Government of India in 1956 to plan and co-ordinate activities connected with marketing, processing, storage, warehousing, etc. The Central Warehousing Corporation started functioning in March 1957 and State Warehousing Corporations have now been established in practically all the major States except Jammu and Kashmir. These Corporations have set up 176 warehouses in different parts of the country upto the end of April 1963. The warehouse receipts issued by the Corporations have not yet become fully negotiable. The State Bank of India, however, has commenced granting advances against their security.

7. During the first three years of the Second Plan, the number of marketing societies organized was 1063. According to the Administration Report of the Ministry of Community Development and Co-operation for the year 1959-60, the programme for 1959-60 is for the organization of 545 societies. With the programme for 261 societies in the year 1960-61, it is hoped that the target of 1900 societies fixed under the Plan will be very nearly achieved by the end of the Plan. Apex marketing societies have been organized in all the States. A National Agricultural Co-operative Marketing Federation has been established with headquarters at Delhi to co-ordinate the activities of state marketing societies and to promote inter-State and export trade.

8. In order to develop marketing on a co-operative basis, State Governments assist co-operative marketing societies by contributing generally a sum of Rs. 25,000/- towards the share capital of each such society. In order to enable the State Governments to do so, loans to the extent of 75 per cent of such contributions are given to them by the National Co-operative Development and Warehousing Board. Assistance made available in this regard was to extent of Rs. 1.95 crores in the first three years of the Plan. Besides, each society is given a subsidy towards the cost of managerial staff. Assistance provided to marketing co-operative for this purpose was of the order of Rs. 27 lakhs in the first three years of the Plan.

9. We have indicated above the various measures for assistance to co-operative marketing societies provided under the Second Five-Year Plan. The actual achievements of these societies in the marketing of agricultural produce and the distribution of seeds, fertilizers, etc. has not been significant. The figures for 1957-58 are as follows :

(Rs. crores)

	Sale of produce			Sale of fertilizers etc.
	As owners	As agents	Total	
	1	2	3	
Central societies	16.04	12.60	28.64	7.02
Primary societies	4.76	11.33	16.09	5.30
	20.80	23.93	44.73	12.32

These figures, do however, not reveal the differences in the progress attained as among the States. Of the total value of agricultural produce sold as owners or as agents by the central and primary marketing societies amounting to about Rs.45 crores, three States viz., Andhra Pradesh, Bombay and Uttar Pradesh, accounted for over Rs. 30 crores or nearly 70 per cent as shown below :

(Rs. crores)

Name of State	Central Societies			Primary Societies			Grand total
	Sales as owners	Sales as agents	Total	Sales as owners	Sales as agents	Total	
	2	3	4	5	6	7	
1. Andhra Pradesh	2.64	0.44	3.08	1.61	0.39	2.00	5.08
2. Bombay	5.08	6.92	12.00	0.90	5.78	6.68	18.68
3. Uttar Pradesh	5.84	1.01	6.85	0.05	—	0.05	6.90
Total	13.56	8.37	21.93	2.56	6.17	8.73	30.66

Of these three States again, Bombay States accounted for over two-fifths of the total produce marketed as owners or as agents by all the central and primary marketing societies in the country. In the case of Uttar Pradesh, the value of seeds supplied through seed stores by the block development unions has been included in the sales made by central marketing societies.

The total paid-up capital of central and primary marketing societies was Rs. 2.41 crores and Rs. 2.22 crores respectively at the end of 1957-58. The central societies had 49,846 societies and 5.53 lakh individuals as members. In the primary societies, the membership was 19,478 and 5.22 lakhs respectively. Loans advanced by the central and primary marketing societies during 1957-58 amounted to about Rs. 17 crores of which nearly Rs. 9 crores were advanced by the primary societies.

10. An essential feature of the integrated scheme of rural credit is linking the operations of co-operative credit societies with those of co-operative marketing societies. The actual progress in this field has, however, been insignificant and no concerted measures towards linking credit with marketing appear to have been taken except in a few areas in one or two States. The Second Plan anticipated that 10 per cent of the marketable surplus of agricultural produce would be channelled through co-operative societies. Most societies, new and old, have not done much on the marketing side although some dealing mainly in cash crops have made good progress in that direction increasing the volume of sales and the proportion that this bears to the transactions in their respective local markets.

11. Marketing societies have, however, slightly better results to show in the distribution of agricultural requisites. During the financial year 1958-59, the State marketing societies of Assam, Bihar, Madhya Pradesh, Punjab and Uttar Pradesh were the sole distributors of nitrogenous fertilizers in the States concerned. In Andhra Pradesh, Bombay, Mysore and Madras, co-operatives handled a large part of the business. The total quantity of nitrogenous fertilizers handled by the co-operatives in the States of Madhya Pradesh, Assam, Bihar, West Bengal, Punjab, Delhi, Orissa, Madras, Mysore and Bombay was about 2.63 lakh tons worth over Rs. 9 crores. During 1957-58, the central marketing societies in Bombay, Andhra Pradesh, Jammu & Kashmir and Mysore and the primary marketing societies in Madhya Pradesh, Madras and Punjab distributed seeds worth Rs. 70 lakhs. The value of other agricultural requisites supplied by the central marketing societies in Bombay and the primary marketing societies in Madras and Mysore was Rs. 168 lakhs. The distribution of agricultural requisites through co-operatives should prove very helpful to village co-operatives in giving production credit to members in kind and in ensuring, to a large extent, that the loans granted by them are not misapplied.

Godowns

12. The Second Plan provided for the construction of 5,500 godowns, 4,000 by large-sized societies and 1,500 by primary marketing societies for facilitating successful marketing operations. The cost of each godown for a primary marketing society has been estimated at Rs. 20,000 and for a large-sized society at Rs. 10,000. Bigger godowns have been provided for apex marketing societies. About 2,300 rural godowns and about 840 godowns at *mandi* centres have come up by the end of 1958-59. It is understood that the Plan for 1959-60 provides for the construction of 1,045 rural godowns and 544 godowns

at *mandi* centres by marketing co-operatives. For construction of godowns by marketing and other societies, the Central and State assistance takes the form of loans and subsidies. An amount of Rs. 370 lakhs was spent up to the end of 1958-59 for giving loans and subsidies to co-operative societies for the construction of 3,158 godowns. A sum of Rs. 235.5 lakhs had been provided during the year 1959-60 for this purpose.

Cold storage

13. Storage and preservation of perishable commodities form an important function of co-operative marketing as they enable the producer to get a better return, make the commodities available to consumers at reasonable prices, and also prevent seasonal gluts, by providing arrangements for holding the goods for future sale. During 1959-60, the pattern for financial assistance to marketing societies in this regard has been finalised, and a sum of Rs. 20 lakhs has been earmarked for this purpose for 1960-61. The proposals for setting up cold storage plants in West Bengal, Punjab, Jammu & Kashmir, Mysore and Bombay are being finalised.

Co-operative Processing

(a) *Co-operative sugar factories*

14. The Second Plan included a programme for starting co-operative sugar factories. Upto 30. 6. 1958, licenses under the Industries (Development and Regulation) Act of 1951 were granted for 38 co-operative sugar factories. In addition, two such factories were established prior to 1951. Of these, 21 were in production on 30 June 1959 and 6 factories were under installation. Arrangements have been made for the supply of machinery to 11 co-operatives through the consortium of sugar-plant manufacturers. During the 1957-58 crushing season, 14 co-operative sugar factories were in production accounting for a total production of nearly 1.5 lakh tons of sugar against a total national production of 19.78 lakh tons for that season. During the crushing season 1958-59, 21 co-operatives were in production manufacturing 1.79 lakh tons of sugar against the estimated total production of 19.20 lakh tons for that season. The share capital of the co-operative sugar factories on 30 June 1958 was Rs. 9.84 crores. It rose to Rs. 11.12 crores on 30.6.1959, of which Rs. 4.50 crores were contributed by State Governments. To enable the Governments to contribute to the share capital of co-operative sugar factories, assistance in the form of loans to the extent of Rs. 15 lakhs per factory is given by the Centre. In view of the considerable rise in the block capital requirements of a sugar factory which are now estimated at nearly Rs. 145 lakhs per factory, it is understood that there is a proposal to increase the Central assistance to Rs. 20 lakhs per factory. Upto 31 March 1959, total Central assistance to the extent of Rs. 324.10 lakhs was given to State Governments for this purpose and further assistance of Rs. 100 lakhs is proposed to be granted during 1959-60. A sizeable portion of the block capital requirements of the co-operative sugar factories is being met by the Industrial Finance Corporation of India which upto 30 June 1959 had sanctioned loans to the extent of Rs. 14.68 crores. The loans from the Industrial Finance Corporation to co-operative sugar factories are guaranteed by the State and Central Governments on a 50:50 basis.

(b) *Other processing activities*

15. The Second Five-Year Plan fixed a target of 48 cotton ginning co-operatives and 118 other processing societies, exclusive of co-operative

sugar mills. Besides these, co-operative marketing societies were also expected to take up processing activity as an adjunct to their normal operations. Against this target, 98 units were established in the first three years of the Plan as detailed below :

Cotton ginning and pressing	.....	.....	42
Groundnut decorticators	.....	.....	6
Rice Mills	.....	.....	13
Oil Mills	.....	.....	5
Jute Baling	.....	.....	2
Others	.....	.....	30
Total	.....	.....	98

By the end of 1960-61, another 280 units are expected to be set up bringing the total to about 380. There were 76 cotton ginning and pressing societies on 30 June 1958 which pressed nearly 1.52 lakh bales of cotton during the year 1957-58. Besides, nearly 554 marketing societies were engaged in processing activities such as cotton ginning and pressing, groundnut decorticating, etc. With a view to encouraging co-operative processing, Government have decided that in the matter of giving permits for the establishment of rice mills preference should be given to co-operatives. In regard to the establishment of mills for the crushing of cotton seeds, the Central Government are willing to reserve areas or States for co-operatives.

Reasons for slow progress

16. If the linking of credit with marketing has not been established to the extent desired or even necessary, it is largely because of the fact that marketing societies have not till now acquired any hold over agriculturists except in certain areas in a few States and in respect of some cash crops. These exceptions apparently show that primary marketing societies have failed to attract in any appreciable degree either agriculturists generally or the members of co-operative credit organizations. The reasons for this state of affairs are many and varied. First, the bulk of these co-operative marketing organizations are themselves comparatively of recent origin and it is only in the last few years, particularly during the Second Plan period, that attempts are being made to provide them with necessary share capital, managerial staff, storage facilities, etc. Secondly, their practices and methods are often out of tune with the general prevalent trade conditions so that they are not in a position to offer sufficient inducement to producers to bring their produce to them in just the same way as private traders do; much less can they compete with the traders. The merchants have their agents operating in the viliages who either arrange for the transport of the produce to the *mandis* or even purchase the produce in the villages. Thirdly, the marketing societies have not been able to provide reasonable marketing services to enable the grower to obtain a fair price for his produce. The societies and the staff employed by them are mostly new to the market and hence well-established buyers are hesitant to enter into business contracts with them. Fourthly, there are certain trade practices in some markets i.e. sales to merchants on credit for a short period for say, a week or 10 days, which the marketing societies are often disinclined to

adopt either because of want of funds or because of some reluctance on the part of their management. Fifthly, the marketing societies have scarcely any or no facilities to undertake processing of agricultural produce. Sixthly, producers with a small surplus produce will more often be inclined to sell the produce outright rather than entrust it to the marketing society for sale on an agency basis. At present marketing societies undertake the sale of members' produce only as agents, charging a commission for their services. If their by-laws provide for outright purchases of members' produce, such purchases can be only to a limited extent, usually not exceeding their paid-up share capital. The limit is generally low and prevents the societies from helping many small producers who would like to sell their produce outright. Lastly, a factor that stands in the way of a member of a co-operative credit society taking his produce to the marketing society is the inadequate supply of credit by the former. As a result, the cultivator looks to a trader or a merchant and obtains accommodation from him against promise of selling the produce to him. The willingness of the trader to provide such credit ensures loyalty to him instead of to the credit society which has not given the cultivator his full requirements for cultivation or has not met his urgent demands later in the season.

Assistance to co-operative marketing societies

17. We consider it essential that the utmost effort is called for to overcome the handicaps which the marketing organizations face today to develop this branch of co-operation. Co-operative marketing of agricultural produce is needed not only to establish a link between credit and marketing, but also to enable the grower to secure a good price for his agricultural produce. We believe that today conditions are more favourable for the development of co-operative marketing than they were hitherto. With the introduction of the 'crop loan' system in several parts of the country, an attempt is being made to provide adequate and timely credit to the cultivators. Under the arrangements proposed by us, we expect further expansion of production credit. Secondly, marketing societies receive assistance from State Governments by way of contribution to share capital, financial assistance by way of subsidy and loans for the construction of godowns, subsidy for the employment of managerial staff, etc. Processing units are being set up with State assistance. Central and State marketing organizations have also come into being and are being assisted by Government on similar lines. When higher marketing organizations develop in due course, they will provide the needed strength to the primaries in the matter of purchase and sale of agricultural produce for markets—both internal and external. Steps are also being taken to provide marketing societies with trained staff and to tone up the efficiency of the personnel in these institutions. It will be necessary, however, to provide more godowns for primary credit societies which can serve as auxiliary to those set up by marketing societies. The payment for the construction of godowns by primary credit societies should, we recommend, be proceeded with as part of the Third Five-Year Plan.

Outright purchases

18. At the same time, we consider that for co-operative marketing to succeed the above measures will not by themselves be sufficient. There should be sufficient inducement for an agriculturist to bring his produce to the marketing society. He should be assured of a reasonable price for his produce. That he should also be paid on the spot—particularly if he is a small producer

—for the produce brought by him to the marketing society has been amply brought out in the evidence before us. Unless, therefore, marketing organizations are permitted and enabled to make outright purchases from the producers, the benefit of co-operative marketing cannot be enjoyed by them. Outright purchase no doubt involves risks due to fluctuations in prices. Normally, the prices of agricultural produce go down for a few months after the harvest and would be possible for a marketing society to sell the produce at a higher price later. The possibility of the prices going down later owing to other factors cannot be ruled out. To protect the marketing societies from the risks of loss in making outright purchases on a large scale, we consider that State Governments should fix a certain minimum price at which they would be prepared to purchase from the co-operative societies either as part of the Government policy of supporting prices by assuring a minimum price for the agriculturists, or as part of the policy to stabilize prices by building up buffer stocks with Government. A suggestion was made to us that the link between credit and marketing might be established by requiring a member of a credit society by law to bring to the marketing society agricultural produce in value not less than what would be required to repay the crop loan taken by him from the credit society. The agriculturist should be guaranteed a minimum price to be announced in advance by Government. We are, however, of the view that the introduction of a compulsory levy may cause hardship either because the grower may like to retain the crop raised by him for consumption purposes and pay the loan from other sources of income, or because he may be able to find a better price elsewhere than the one at which the co-operative marketing society offers to purchase. We do not, therefore, favour the idea of requiring the member compulsorily to bring his produce for sale to the marketing society at a particular price. At the same time, we recommend that the marketing society should be enabled to purchase agricultural produce from members of co-operative credit societies at a minimum price guaranteed by Government and announced sufficiently in advance of the cultivation season. If the grower knows what price he would get at the marketing society, he will be induced to take his produce to the society for sale if that price is advantageous to him. The marketing society in its turn will also be assured of a minimum price and will not have to bear the risk of loss caused by a fall in prices. We recommend that State Governments should take suitable steps in his behalf.

State trading

19. The Government of India, on the recommendations of the National Development Council, adopted in 1958-59 the policy of State trading in food-grains. The State Governments were made responsible for executing the policy which has varied in its application from State to State. It was envisaged at the time when the policy was enunciated that co-operative marketing societies would act as agents of Government in implementing the policy. It has happened in some States that the price offered by the societies was lower than that paid by private traders with the result that members of the societies were unwilling to take their produce to the societies for sale for fear that they would get less than what was due to them. We have been told by representatives from some States that the Government's policy of State trading in food grains affected the growth of co-operative marketing societies and came in the way of linking credit with marketing. We recommend that in similar context, Government should ensure that the interests of the members who bring their produce to marketing societies are not placed at a disadvantage as compared to those dealing with private traders.

CHAPTER XV

LEGISLATIVE, ADMINISTRATIVE AND ORGANIZATIONAL ARRANGEMENTS

We need hardly emphasize that the success of the programme of expansion of agricultural credit envisaged in our recommendations will, in no small measure, depend upon the adequacy of suitable arrangements—legislative, administrative and organizations—in various States. We shall refer to such of them as are necessary for ensuring that the credit provided is utilised properly, supervised at all stages and recovered promptly.

Legislative arrangements

2. We shall here refer to the report of the Co-operative Law Committee appointed by the Government of India in 1956 to evolve a simple law to govern the working of co-operative societies and facilitate the co-ordinated progress of the movement. The Committee prepared a Model Co-operative Societies Bill and rules and model by-laws of important types of societies. The Model Bill included provisions for facilitating State partnership in co-operative societies. The Committee further expressed the view that the time was opportune for revising the Co-operative Societies Act in force in the various States with a view to bringing about as large a degree of uniformity as possible. The Committee recommended that every State might enact a new law or modify its existing law on the lines of the Model Bill suggested by it. We understand that several States have already taken steps to amend their law relating to co-operative societies. We recommend that State Governments may, in the light of our recommendations, consider what further change will be necessary in their laws and take action to get them suitably amended.

3. We shall next mention one or two matters of immediate importance in relation to the provision of increased credit. We have recommended elsewhere that it would be necessary to obtain mortgage security from an individual for medium-term loans exceeding Rs. 1,000. The execution and registration of mortgage deeds every time a loan is taken are cumbersome and tedious and very often put the borrower to great inconvenience and expenditure, especially where there are not adequate facilities for prompt registration of mortgage deeds. We believe that the cultivators can be saved from the trouble and expense of registration of mortgage deeds, if a provision is made in the Co-operative Societies Act to the effect that a declaration in writing by a borrower in a co-operative society creating a charge on specified property will make any subsequent alienations of that property void. The charge should be available notwithstanding any provisions in the Transfer of Property or other relevant Acts or any claim of the Government arising from a loan allowed under the Land Improvement Loans Act or the Agriculturists Loans Act after the grant of a loan by a co-operative society. For this purpose we recommend that where necessary

the Co-operative Societies Act may be amended so as to provide for a member creating a charge on his property by signing a declaration in writing. We find that provision to this effect exists in the Acts in Bombay, Mysore, Madhya Prade shand Rajasthan. We reproduce below Section 24AA of the Bombay Co-operative Societies Act, 1925—

Charge on immovable property of members borrowing loans from certain societies

24AA Notwithstanding anything contained in this Act or in any other law for the time being in force :—

(i) any person who makes an application to a society of which he is a member for a loan shall, if he owns any land make a declaration in the form prescribed by rules. Such declaration shall state that the applicant thereby creates a charge on the land owned by him and specified therein for the payment of the amount of the loan which the society may make to the member in pursuance of the application and for all future advances, if any, required by him which the society may make to him as such member subject to such maximum as may be determined by the society together with interest on such amount of the loan and advances ;

(ii) any person who has borrowed a loan from a society of which he is a member before the date of the coming into force of the Bombay Co-operative Societies (Amendment) Act, 1948, and who owns any land shall, as soon as possible, make a declaration in the form and to the effect referred to in clause (i) and no such person shall, unless and until he has made such declaration, be entitled to exercise any right as a member of the society ;

(iii) a declaration made under clause (i) or (ii) may be varied at any time by a member with the consent of the society in favour of which such charge is created;

(iv) no member shall alienate the whole or any part of the land specified in the declaration made under clause (i) or (ii) until the whole amount borrowed by the member together with interest thereon is paid in full :

Provided that standing crops on any such (land) may be alienated with the previous permission of the society ;

Provided further that it shall be lawful to member to execute a mortgage bond in favour of the State Government in respect of such land or any part thereof under the Bombay Canal Rules made under the Bombay Irrigation Act, 1879, for the supply of water from a canal to such land or any part thereof.

(v) any alienation made in contravention of the provisions of clause (iv) shall be void;

(vi) subject to the prior claims of the Government in respect of land revenue or any money recoverable as land revenue and to the charge, if any, created under an award made under the Bombay Agricultural Debtors Relief Act, 1947, there shall be a first charge in favour of the society on the land specified in the declaration made under clause (i) or (ii) for and to the extent of the dues owing by him on account of the loan;

(vii) Notwithstanding anything contained in the Chapter X-A the Bombay Land Revenue Code, 1879, the Record of the rights maintained under the said Chapter shall also include the particulars of every charge on land created under a declaration under clause (i) or (ii).

Statutory charge on crops etc.

4. While the above measure will benefit cultivators who own the lands cultivated by them, it may be necessary for the co-operatives to secure the credit made available by them to other classes of cultivators *e. g.* tenants, by creating a charge on the crops raised. In this connection, we consider that the adoption of clause 31 of the Model Co-operative Societies Bill suggested by the Committee on Co-operative Law, which is quoted below, may serve the purpose.

First charge of co-operative society on certain assets—(1) Notwithstanding anything contained in any law for the time being in force, but subject to any prior claim of the Government in respect of land revenue or any money recoverable as land revenue, any debt or outstanding demand owing to a co-operative society by any member or past member or deceased member shall be a first charge upon the crops and other agricultural produce, cattle, fodder for cattle, agricultural or industrial implements or machinery, raw materials for manufacture and any finished products manufactured from such raw materials, belonging to such member, past member or forming part of the estate of the deceased member as the case may be.

(2) No person shall transfer any property which is subject to a charge under sub-section (1) except with the previous permission in writing of the co-operative society which holds the charge.

(3) Notwithstanding anything contained in any law for the time being in force, any transfer of the property made in contravention of the provisions of sub-sections (2) shall be void.

(4) The charge created under sub-section (1) shall be available as against any claim of the Government arising from a loan granted under the Land Improvement Loans Act 1883 (19 of 1883) or the Agriculturists Loans Act, 1884 (12 of 1884) after the grant of the loan by the society. (page 83)

We recommend that State Governments may provide in the Co-operative Societies Act for a charge being created in favour of a society on the crops raised by a member and also frame appropriate rules for enforcement of the charge.

Registrar to be empowered to effect recovery of dues

5. Overdues in co-operative credit institutions are a sign of their financial weakness. In a sound co-operative organization members are expected to evince a sense of responsibility and mutual obligation and be punctual in repayment of the loans taken by them. Legal and administrative facilities are, however necessary to deal with cases of wilful default, so that such dues are recovered expeditiously and the liquidity of the institutions' assets is ensured. With that object in view, the Co-operative Societies Acts provide for summary disposal of cases of default etc. by the

Registrar of Co-operative Societies. This ensures speedy passing of awards and decrees on the defaulters. But this will not be enough, unless arrangements for execution of the awards and decrees are equally expeditious. The Co-operative Societies Acts in most States provide for the execution of awards and decrees passed by the Registrar through the Revenue Department or the Civil Courts. The experience of recovery of the dues through these agencies has not been encouraging. The Acts in force in Madras, Andhra Pradesh, Mysore, Orissa and Jammu & Kashmir provide for recovery of the dues also by the Registrar or by officers appointed by him. Although the provision for the Registrar effecting recovery of co-operative dues exists in these Acts, separate staff for the purpose has been appointed only in Madras and Andhra. Recoveries can be speeded up and overdue reduced not merely by investing the Registrar with power to recover the dues in co-operatives, but by appointing the required staff under him. We recommend that steps be taken to amend the Co-operative Societies Acts where necessary so as to vest in the Registrar also the power to execute decrees passed for the recovery of co-operative dues. Further, we recommend that the Registrar be given sufficient and special staff for this purpose. It is necessary to ensure that the procedure for recovery prescribed under the Civil Procedure Code is strictly observed by the staff appointed by the Registrar and, therefore, it will be desirable to train the staff in this respect and to place it under a senior and experienced Judicial Officer who may himself be attached to the office of the Registrar.

Amendments to the Act, rules or by-laws

6. We have indicated in the earlier chapter that the credit now being provided by co-operative credit institutions at the different levels is governed by several restrictions placed on them in the Co-operative Societies Act, the rules framed thereunder, or their by-laws. We have recommended revision of some of the existing standards for fixation of credit limits. If the adoption of these standards should require amendments to the Act, rules or by-laws of co-operative organizations, we recommend that State Governments should take appropriate steps in this regard. This may also involve delegation of power by the Registrar at various levels and to different authorities for the approval of by-laws or the sanctioning of loans in excess of the absolute limits prescribed in the by-laws etc.

Supervision

7. Supervision over the working of a co-operative society implies the scrutiny of its affairs from the viewpoint of the Act, rules and by-laws. It involves constant administrative assistance in routine work, advice in financial matters and general guidance both from the business and co-operative aspects. It covers such functions as ensuring the regular maintenance of books and accounts of the society, preparation of loan applications examination of account books and other registers, rectification of defects pointed out in audit and inspection notes, convening of general meetings, revision of property statements, assistance in recovery of dues in time, checking the proper use of loans, etc.

Present arrangements for supervision

8. The existing arrangements for supervision in the different States present wide variations; but amidst this diversity, two distinct systems seem to be in vogue according as the ultimate control over the supervisory

staff is departmental or institutional. In the former category may be included Jammu & Kashmir, Punjab, Rajasthan, Bombay, Uttar Pradesh, Bihar, West Bengal and Assam, while in the second category fall such States as Madhya Pradesh, Mysore, Orissa, Andhra Pradesh, Madras and Kerala. In some States like Bombay, central banks have in addition employed a staff of bank inspectors to inspect the societies. In some States belonging to the first group as Jammu & Kashmir, Punjab, Rajasthan and Assam, the staff for supervision is directly under the control of the Registrar of Co-operative Societies, while in others like Uttar Pradesh, Bombay and Bihar the staff is *prima facie* under the direct control of the state co-operative union, the district and taluka supervising unions and the central banks respectively, but the real control over the staff is that of the co-operative department. In the latter category also there are again two distinct patterns. In Madhya Pradesh, Orissa and Mysore, for instance, the supervisory staff is directly under the control of the central financing agencies. In Madras and parts of Andhra Pradesh, however, the staff is attached to supervising unions of primary societies, but is paid for and controlled by individual central banks. In Punjab, Jammu & Kashmir where the staff is a part of the co-operative department, the entire expenditure over it is borne by the State Government. Even where, as in Bihar and Uttar Pradesh, the staff is under the indirect control of the Registrar, the entire expenditure is borne by the State Government. In both the cases, therefore, the co-operative societies and banks are not called upon to contribute towards the cost of supervision. Where, as in Madras, Andhra Pradesh and Madhya Pradesh, the supervisory staff is under the direct control of the central financing agencies, both the societies and banks contribute towards the cost of supervision out of their profits or on the basis of their working capital or their membership. Under the Second Five-Year Plan, assistance is available to the banks in respect of the additional staff employed by them for supervision. In regard to the staff appointed by the State Government also, assistance is available from the Central Government.

Agency for supervision

9. According to the Rural Credit Survey Committee, supervision of primary societies should be invariably regarded as the legitimate function of the financing banks.

They are well fitted for this role because of the intimate relations which may be expected to exist between them and the societies. Besides, as financiers of the societies, they have to safeguard their own interests and ensure the soundness of the operations and solvency of the societies. The criticism that the financier's interest is likely to preponderate over the interests of societies which are to be supervised loses its force when the financing bank consists, as it should, largely of representatives of the societies to be supervised. (Chapter 38—para 6)

The National Development Council Resolution on Co-operative Policy of November 1958 in saying that 'village societies should be federated through unions' seemed to have contemplated the establishment, at a level below the central co-operative bank, of federation of village societies. The Working Group on Co-operative Policy appointed by the Government of India expressed the view that such an intermediary organization should be

a 'supervising union' to which all co-operative societies in its area would be affiliated. The area of operation of the union should normally cover a block, but there should be no objection to having more than one union in a block if the area and number of societies covered justified them. The unions should employ their own supervisory staff and meet their expenses from a 'supervision fund' to which contributions would be made by credit societies, the central bank, marketing societies and other affiliated societies, and also the Government. Contributions from Government which would be considerable in the earlier years would be gradually reduced to about one-third of the total expenditure. The policy letter of the Government of India 11 May 1959 suggested the organization of supervising unions at the block level to be federated into district unions which in turn would form the State co-operative union and carry out the functions of supervision and education. At the national level, the All-India Co-operative Union was proposed to be reorganized to become a federation of all state unions. The Government of India agreed to grant subsidies on a liberal scale for supervising unions organized on the above lines. This pattern for supervision was reaffirmed at the conference of State Ministers for Co-operation held at Mysore in July 1959, but the conference suggested that the existing arrangements in this behalf in the different States should not be disturbed without very careful consideration. The subject came up for consideration again at the Registrars' Conference and the State Ministers' conference held at Jaipur in January 1960 and the general opinion was not in favour of organizing supervising unions on the basis of a block to be federated into district unions. While one view was that the responsibility for supervision of primary credit societies should be that of the higher financing agencies, the general opinion was in favour of continuing the existing arrangements in the different States in that behalf. We have carefully examined the various points of view expressed on the subject and the majority of us are of opinion that in the context of expansion of credit envisaged in the future through the co-operatives, central financing agencies will have to assume responsibility for supervision of primary credit societies affiliated to and financed by them.

Charge of a supervisor

10. As indicated in para 7 above, a supervisor has to perform a variety of functions. He should, therefore, be in charge of such number of societies as he can reasonably be expected to supervise efficiently. The charge of a supervisor varies from State to State, and even within a State, between 15 to 25 or more primary credit societies. In view of the programme of expansion of co-operative credit we expect that supervision of primary credit societies will have to be more intensive and at more frequent intervals. We, therefore, consider that it will be necessary to reduce the present charge of a supervisor. The question of further strengthening the machinery for supervision may, therefore, be examined by the central financing agencies and the co-operative departments,

Inspection

11. There is provision in most Co-operative Societies Acts for the Registrar undertaking an inspection of a society at the request of its creditors. The Committee on Co-operative Law suggested statutory provision for inspection of societies by the Registrar on his own motion. The Madras co-operative Societies Act provides for inspection of societies by financing banks. Even in the absence of a statutory provision, it is an established

practice in all States for the Registrar, and duly authorized members of his staff, to inspect at regular intervals central banks and the state co-operative bank. Some state co-operative banks like Bombay, Vidarbha, Saurashtra, Madhya Pradesh, Madras and Andhra Pradesh have also appointed special staff of their own for inspecting affiliated central banks. Further, as indicated in Chapter XII, the Reserve Bank has been inspecting state and central co-operative banks from 1952. These inspections are intended to supplement the inspections carried out periodically by the co-operative department. The arrangements in this behalf have now been made more elaborate by the opening of eight regional offices of the Agricultural Credit Department in the different parts of the country. The Department intends to inspect state co-operative banks yearly and the central banks once in two years.

12. We consider the practice obtaining in some state co-operative banks to inspect affiliated central banks a healthy one and recommend its extension to all the state co-operative banks. Special staff for the purpose may have to be appointed in all the banks. In view of the large expansion of agricultural credit which is likely to take place in the near future through the co-operatives with substantial assistance from the State, it is recognized that the Registrar should be in close touch with the working of the state and central co-operative banks in his State. In some States this is ensured by the appointment of the Registrar on the board of directors of the state co-operative bank and the Assistant or Deputy Registrars on the boards of central banks, as nominees of the State Government, when the Government purchases shares in these institutions. In some other States, however, the Registrar or his officers are not appointed on the boards of the apex and central banks, so that the department has no means of keeping in close touch with their working. It is true that the Registrar in most States has the statutory responsibility for auditing the accounts of the banks. But this audit is annual and is sometimes entrusted to chartered accountants. It will, therefore, be necessary in such cases to vest in the Registrar by statute the power of inspection. We are, therefore, of the view that in States where it is not the practice to nominate the Registrar or the Deputy or Assistant Registrars on the boards of the apex and central banks, the Co-operative Societies Act should be amended to vest in the Registrar the power to inspect, on his own motion, apex and central co-operative bank and primary societies. This power may be delegated by the Registrar to officers working under him. It may be necessary, however, to prescribe that the power to inspect a state co-operative bank may not be delegated by the Registrar to an officer below the rank of a Joint or Additional Registrar. Similarly, the power to inspect a central bank may not be delegated to an officer below the rank of a Deputy or Assistant Registrar. For primary societies a person not below the rank of an inspector may be appointed. These restrictions are necessary to ensure that the power to inspect is enjoyed by an officer of the appropriate status and authority.

Audit

13. For the sound working of co-operative credit institutions, audit should not only be efficient but continuous. A system of annual or concurrent audit of co-operative organizations is vital for the healthy growth of the movement. The Co-operative Societies Acts in force in most States provide for the audit of accounts of co-operative societies by the Registrar

at least once in a year. In Punjab, however, the Act lays down that the accounts of every society shall be audited at least once during any year through an agency other than officers under the control of the Registrar. In Uttra Pradesh, audit is the responsibility of the Finance Department. The Committee on Co-operative Law (1956) which went into the matter recommended that audit should be the primary responsibility of the Registrar.

The important point to be borne in mind in regard to audit is that the Registrar of Co-operative Societies, who is responsible under the law for the proper conduct of co-operative societies, cannot fulfil his responsibility satisfactorily, unless he keeps in close touch with the working of these societies by getting their accounts audited under his direction and control. (Part I—Pp. 20-21)

We are in agreement with the above and recommend that steps may be taken in Punjab and Uttra Pradesh to transfer the control of audit to the Registrar.

14. We find that the audit of co-operative societies is in arrears in many States. As many as 27,142 (or 16 per cent) primary agricultural credit societies remained unaudited at the end of 1957-58. In Bihar, Orissa and West Bengal the arrears of audit were heavier. Even the audit of state and central banks remained in arrears in some States. Paucity of staff is the reason, given for the arrears in audit. Whatever may be the reason, we do not think that the heavy arrears in the audit of societies is a happy position. The need for auditing all types of co-operative credit societies efficiently and promptly will be much greater in the context of the programmes for expansion of agricultural credit. We, therefore, recommend that wherever the staff for audit is not adequate, steps may be taken by the State Government concerned to appoint the necessary additional staff so that all the societies and banks are audited every year. As the State Ministers of Co-operation at their meeting held in Mysore in July 1959 recommended, there should be one auditor for every 40 primary credit societies. We envisage an increase in the volume of transaction in the primary credit societies. Further, the nature of the transactions will also be more complicated if these societies undertake non-credit activities. We, therefore, suggest that the number of societies to be audited by an auditor may be reviewed in the light of the increase in the volume of transactions that may take place in primary credit societies and the charge of an auditor may be fixed by the States with due reference to these transactions. It may be necessary in some States further to strengthen the staff of auditors in the co-operative departments.

Strengthening departmental and institutional staff

15. For the proper supervision and execution of the programmes for expansion of co-operative credit which will be facilitated if the several recommendations made by us are accepted, it may be necessary to strengthen further the departmental staff and the staff in co-operative institutions at all levels. We recommend that the existing position may be reviewed by the State Governments and federal agencies concerned and additional staff provided for where necessary, so that the increased responsibilities of the various authorities can be discharged satisfactorily.

CHAPTER XVI

SPECIAL FUNDS & GUARANTEES

In the preceding chapters, we have made certain recommendations which would help in broadbasing the supply of credit to agriculturists and in extending the benefit of institutional credit to increasing numbers of cultivating families engaged in agricultural production. Under the arrangements proposed, credit will be made available to a cultivator whether or not he owns lands provided other requirements are satisfied, such as his honesty, repaying capacity, etc. In this process of extending credit, cultivating tenants and agricultural labourers will also become members of co-operative institutions. Peasants with small holdings who are often described as marginal or sub-marginal cultivators, will also, it is expected, be provided with loans. Apart from the various arrangements suggested in the previous chapter—legislative, administrative and organisational—to ensure the sound working of co-operative and organizations, we consider that it is essential to built up certain special funds at various levels to maintain the liquidity of the finances of co-operative credit organizations. The need for these special funds arises out of difficulties inherent in the financing of agriculture as an industry and of extending membership in co-operatives to persons whose wherewithal will be small and who will nonetheless require assistance for production. These constitute a large section of cultivating classes in a country like ours with its small-sized units of cultivation and are by no means a negligible element in the rural economy.

Uncertainties of agriculture

2. It is a well-known fact that production in agriculture is affected by cycles of shortfalls. Two or three years of normal and good crops are often followed by a lean year with a poor harvest owing to scarcity of rainfall, pests, floods, and other natural factors. In India the effects of such cyclical setbacks are all the more pronounced because the country stands at a low level of economic development in the agricultural sector. It is out of appreciation of the need for changing these conditions of our rural economy that considerable emphasis was laid on the development of agriculture under the First Five-Year Plan. The Second Plan also includes several schemes of improving agricultural production by the provision of irrigation facilities, better seeds, fertilizers etc. These schemes may no doubt help in mitigating dangers from cyclical setbacks in agriculture, but it is not possible to rule out the adverse effects of the calamities. Even after effective implementation of such measures, occasional setbacks are inevitable with the occurrence of unforeseen natural calamities. The agricultural industry can thus never be subjected to man's complete control. In the event of a natural calamity affecting agricultural production, cultivators may be unable to repay the loans taken by them for financing their cultivation, since the output of agriculture is the principal source of income for

most of them. At the same time, they will need additional finance for carrying on their agricultural operations for the succeeding season. It follows from this that our system of agricultural finance should be so designed as to provide for years in which the harvest is lean and when the agriculturist is not in a position to pay back the amounts advanced to him. The Maclagan Committee (1915) had pointed out that 'agricultural finance must be based on the agricultural cycle, and this cycle though usually of the duration of one year, may occasionally be a matter of months, but is frequently a matter of from two to five years.' Some dependable provision is, therefore, essential to enable co-operative financing banks to tide over financial difficulties arising from widespread adverse seasonal agricultural conditions and the consequent failure on the part of members of co-operative societies to repay their loans when even the banks' resources are inadequate to meet such situations.

Types of assistance required

3. Two distinct types situations are likely to arise that will demand attention. The dislocation caused by the natural calamity may be temporary and of a small magnitude when all that the cultivators desire is a postponement of loans due and facility to repay these in two or three easy instalments, so that they will not be required to repay in the following year, out of that year's harvest all the previous year's dues plus the current ones. The burden in such a case will obviously be beyond their repaying capacity. In other words, the facility a cultivator will welcome most is that of converting the short-term loan into a medium-term one. This facility may have to be made available also to the primary credit society, the central bank and the state co-operative bank i.e. to all the co-operative credit institutions in the chain so that the liquidity of the funds in the institutions concerned is not affected. If, however, the dislocation caused in one year is followed by similar dislocations in quick succession in the next one or two years because of similar natural calamities and if the dislocation becomes acute, the mere conversion of short-term loans into medium-term ones may not be enough, because the magnitude of the burden which may have accumulated may be too much for the cultivator to bear and may have a crippling effect on his production, unless something is done to provide him some relief. What is required in such cases is the writing off of at least a part of the debts. The primary society with its meagre profits will not, unaided, be in a position to provide any relief, nor will the central and state co-operative banks, be able to do so to any large extent. The necessary relief may be beyond the capacity of the co-operative movement to provide.

4. The Rural Credit Survey Committee which examined this question recommended the constitution of two types of funds, one to facilitate postponement of loans due and their recovery in instalments spread over a period of years not extending beyond five and the other to facilitate the writing off of the dues which had overstepped the repaying capacity of the borrowers. The objective in either case is to maintain the fluidity and liquidity of the co-operative banking system, so that the confidence of the depositors and other creditors in these institutions is not disturbed. The funds suggested by the Committee were :

(a) The National Agricultural Credit (Stabilization) Fund in the Reserve Bank with its counter-part in the State Co-operative Banks, central banks, and, if possible in the large-sized primary credit societies.

(b) The National Agricultural Credit (Relief and Guarantee) Fund in the Government of India with its counter-part in each State Government.

Stabilization Fund

5. On the need for the co-operative credit institutions and the Reserve Bank constituting Agricultural Credit Stabilization Funds, the Rural Credit Survey Committee observed as under :

It is, therefore, necessary to encourage primary societies if possible, but certainly central co-operative banks and state co-operative banks, to institute agricultural credit stabilization funds as part of their normal financial arrangements. But this by itself, for a long time to come, is not likely to be an adequate way of providing for these contingencies ; and an important form of assistance in this context would be for the Reserve Bank to build up a fund which can, on stated conditions, be drawn upon for the benefit of the co-operative institutions in emergencies such as those we have mentioned. The principle here would be that a short-term loan due to be repaid by a state co-operative bank to the Reserve Bank would be allowed to be converted into a medium-term loan in stated circumstances. When those circumstances occur, the Reserve Bank would draw on the fund to enable conversion of the accommodation from short-term to medium-term. The technical way of doing this would be to treat the short-term loan as repaid to the Reserve Bank, a medium-term loan having been given instead from the Bank's stabilization fund. Two principles to be stressed are : (1) that the provision and operation of this fund should be such that it should not encourage the co-operative institutions to come up to the Reserve Bank for this facility unless in demonstrably valid circumstances, and (2) that the Reserve Bank's financial responsibilities in this context should not go beyond the extension of the period of accommodation. For example, the responsibility of affording outright relief, which might quite legitimately be needed when from a mere temporary dislocation there arises a grave agricultural situation in a particular State, will certainly have to be institutionally provided for, but such a responsibility will have to vest not in the Reserve Bank but, in our view, in the Government of India. (Chapter 26, para 8).

The Committee further recommended that the Reserve Bank might make this facility conditional on the state co-operative bank concerned maintaining a similar Agricultural Credit Stabilization Fund, the same applying to central banks and where feasible to large-sized primary societies and the Reserve Bank might further insist that part of the overdue liability should be met from such Stabilization Funds kept within the co-operative credit structure itself. As regards contributions to the Funds at the level of the credit institutions the Committee recommended that dividend in excess of a prescribed level, say, 3 per cent, paid on the shares held by Government should in part be credited to this Fund. In addition, there should be compulsory deductions from the dividends payable to the other shareholders. These deductions might be equivalent to the excess above a prescribed level of dividend, such level being slightly higher for ordinary shareholders than fixed for the State Government. The fund is to be utilised only to meet situations arising out of natural calamities like floods etc. and not to meet ordinary overdues. In the words of the Committee :

It is not intended that the facility of conversion of short-term to medium-term accommodation should cover types of dislocation of credit arising from inefficiency, mismanagement or fraud in the institutions concerned. Nor, of course, should the facility be made available in conditions in which no amount of assistance of this kind can save the institution from liquidation. (Chapter 36—para 5).

6. The recommendation of the Committee regarding the constitution of the Fund in the Reserve Bank was accepted and the Reserve Bank of India Act was amended accordingly in 1955. Annual contributions of Rs. 1 crore have been made since 1956 so that the amount to the credit of the Fund stands at Rs. 4 crores. The Fund has not been utilised so far, although one or two requests for assistance, it has been reported to us, have been considered. As regards the constitution of the Fund in the credit institutions, the Committee on Co-operative Law suggested that a provision to that effect should be incorporated in the case of every society which facilitates the operations of affiliated co-operative credit societies.

Stabilization Funds in co-operatives

7. The Government of Bombay have directed that the state and central co-operative banks receiving contribution to their share capital from Government shall create Agricultural Credit Stabilization Funds. Dividend in excess of 3½ per cent payable on the Government's shares is to be credited by the state co-operative bank to a Stabilization Fund to be maintained by it. In the case of central banks, half the dividend in excess of 3½ per cent is to be credited to a Stabilization Fund to be created by them and the other half is to be transferred to the state co-operative bank for being credited to its Stabilization Fund. The Funds in either case are to be utilised for meeting contingencies in their respective jurisdictions. There is no provision in the by-laws of the Bombay State Co-operative Bank or of the central banks in Bombay State for the creation of the Agricultural Credit Stabilization Funds. The Government Resolution on the terms and conditions of State partnership governs the constitution and utilization of the Funds created by the state and central co-operative banks in the State.

8. In Andhra Pradesh, there is a provision in the by-laws of the Andhra State Co-operative Bank for allocation to the Fund: (i) by setting apart before arriving at net profits an amount not exceeding ¼ per cent of the margin of interest earned both on short-term and medium-term advances out of funds provided by the Reserve Bank, (ii) by crediting dividend in excess of 5 per cent per annum payable to Government on shares held by them and (iii) by crediting any additional amount out of net profits as decided by the general body. Central banks in that State have been instructed by the Registrar to make suitable amendments to the by-laws for creating the Fund by the following methods :

(1) any dividend in excess of a certain percentage to be fixed by the Government on the shares held by them should be credited to the Fund. In the case of shares held by other members also there may be a deduction from the dividends, which the Registrar may separately fix and these deductions will be credited to the Fund ;

(2) in addition to the above, such sums as are decided by the general body may be credited to the Fund ;

(3) by setting apart, before arriving at net profits, an amount as may be determined by the board of directors not exceeding $\frac{1}{2}$ per cent of the amount of interest earned during the year on amounts provided by the Reserve Bank at concessional rate of interest and utilised by the central bank ;

(4) by crediting to the Fund, the amount of dividends in excess of 5 per cent on shares held by the central bank in the apex bank.

The by-laws of the banks have been amended accordingly.

9. In Mysore State, there is a provision in the by-laws of the apex bank that any dividend declared by the general body in excess of 3 per cent on the shares held by the Government shall be credited to the Fund maintained by the bank. As regards central banks there is provision in the by-laws for creation of the Fund.

10. In the Madras State Co-operative Bank, 50 per cent of the amount of dividend in respect of shares held by the Government in excess of an agreed rate has to be credited to a Fund to be owned and administered by the bank in accordance with rules framed by the Registrar. Further, after providing for a contribution to the reserve fund at the rate of one-fourth of the net profits and then for dividends on preference shares at a rate not exceeding 9 per cent and then on ordinary shares at a rate not exceeding 9 per cent, of the balance a sum not exceeding 10 per cent of the net profits has to be carried to the Fund. In the case of central banks there is provision in the by-laws that out of the balance of profits, (after providing for reserve fund, dividends and other various funds) such sums as may be decided upon by the general body may be credited to the Fund to be utilised in accordance with rules prescribed by the Registrar.

11. In West Bengal, the by-laws of the reorganized central banks provide for the constitution of the Fund, although no contributions have been reported so far. In Bihar, the banks have not constituted the Fund nor has a provision been made to that effect in the by-laws. In Madhya Pradesh, the state co-operative bank and some central banks have created the fund. In Uttar Pradesh, provision has been made in the by-laws of the central banks recently, but no contributions were reported as at the close of 1958. In Punjab, the state co-operative bank and three central banks have constituted the Fund. In Kerala, the state co-operative bank and a few central banks and large-sized societies have also constituted the Fund. According to the latest information available, co-operative credit institutions in Bihar, West Bengal, Himachal Pradesh, Pondicherry and Tripura have yet not constituted a Stabilization Fund.

12. Particulars of the amounts to the credit of the fund of credit institutions—primary, central and apex—in the different States are not available. The following table, however, sets forth information that is available in regard to four States.

TABLE 1

**Contributions to Stabilization Funds at Different Levels during
1957-59**

Name of State	State Co-operative Banks		Central Co-operative Banks			
	1957-58	1958-59	1957-58		1958-59	
	Rs	Rs	No.	Amount Rs	No.	Amount Rs
1	2	3	4	5	6	7
Andhra Pradesh	50,000	1,14,959	15	99,738	15	1,04,355
Madhya Pradesh	25,000	N.A.	9	19,908		N.A.
Punjab	4,000	N.A.	3	3,000		N.A.
Madras	9,567	N.A.	1	5,000		N.A.

In Bombay State, the Vidarbha Co-operative Bank has been crediting Rs 25,000 each year to the Fund and the balance as on 30 June 1959 was Rs 1,00,500. The Bombay State Co-operative Bank has Rs 66,167 to the credit of the Fund on 30 June 1959. Sixteen central co-operative banks in the State were reported to have Rs 1,05,667 to the credit of the Fund as at the close of 1958-59.

It will thus be observed that though a few state and central co-operative banks have constituted the Fund, the amounts to its credit are small. We consider that the constitution and strengthening of the Agricultural Credit Stabilization Fund at various levels by the co-operative institutions is essential and, therefore, recommend that it should be obligatory for financing agencies and primary co-operative credit organizations to build up this Fund to the extent possible.

Further, it is necessary for the banks and societies to provide in their by-laws not only for the manner in which the Fund shall be constituted but also for the purposes and the manner in which it will be utilised. The Reserve Bank of India Act lays down the scale of contributions to the National Agricultural Credit (Stabilization) Fund and the purposes for which it may be applied. We have been informed that the Bank has not, however, framed rules governing the Fund. We suggest that the Bank may frame such rules early so that the co-operative financing agencies may know the circumstances under which assistance from the Fund may become available to them.

Relief and Guarantee Fund :

13. On the need for a Relief and Guarantee Fund, the Rural Credit Survey Committee also made certain recommendations which are as under :

It is, again, in connection with Government's responsibilities in times of distress and emergency that we recommend the establishment of a State Agricultural Credit (Relief and Guarantee) Fund to be used in conjunction with the National Agricultural Credit (Relief and Guarantee) Fund which should be similarly instituted by the Central Government under the Ministry of Food & Agriculture. Where irrecoverable arrears of debts due to co-operative credit institutions have assumed a magnitude which threatens the stability of the structure and provided the Ministry of Food and Agriculture is satisfied that such arrears have arisen from causes such as widespread or chronic famine beyond the control of the institutions concerned, the Fund of the Central Government can be utilised for the purpose of writing off such arrears ; relief from this Fund may be made conditional on the State Government making a stipulated Contribution for the same purpose from the corresponding Fund maintained by it. (Chapter 40—Para 7).

We consider that any payments which may, in extreme circumstances, be necessitated as a result of this guarantee should be legitimately payable out of the State Agricultural Credit (Relief and Guarantee) Fund which can also be drawn upon for payments of liabilities arising out of any guarantee in respect of the areas which are economically backward or which are inhabited by backward tribes. There are also other categories of guarantee by the State Government which have to be brought within the purview of the Relief and Guarantee Fund, in the sense that possible payments in fulfilment of those guarantees should be a recognized charge on the Fund. Principal among them are the State Government's guarantees in respect of (i) short-term accommodation and (ii) medium-term accommodation provided by the Reserve Bank to State and central co-operative banks for agricultural purposes. There is, however, one type of credit guarantee which should not be brought within the purpose of this Fund. We refer to the guarantee which State Governments may hereafter extend to the Reserve Bank in respect of its short-term accommodation for approved cottage industries. (Chapter 40—Para 9).

The two types of contribution to the State Agricultural Credit (Relief and Guarantee) Fund might be :

- (1) annual budgetary provision by the State Government ; and
- (2) part of the dividend earned by the State Government on its share capital in the various co-operative credit agencies to the extent that such dividend is over and above a particular minimum such as 3 per cent. (Chapter 40—para 10).

Thus, the objects of the Fund are twofold : (i) relief to institutions when a widespread calamity is likely to affect the very stability of the co-operative credit structure, and (ii) relief to Government when they have to fulfil the guarantee extended by them in respect of the accommodation received by them from the Reserve Bank or some other agency. It is also intended that for relief that is provided out of the Fund, there would be a contribution from a parallel Fund established by the Government of India.

14. In pursuance of the above recommendation, provision was made in the Second Five-Year Plan of co-operative development of the different States for contributions to the Relief and Guarantee Funds. The total provision in this behalf amounted to Rs 243 lakhs. In regard to the constitution of the Fund at the Central level, the Government of India decided not to establish such a Fund, but indicated that individual cases would be considered on their merits. Even the contributions which were provided under the State Plan were either not made or only small amounts were provided. As a result, amounts to the credit of the Relief and Guarantee Funds in the different States which have instituted such a Fund are small, as may be seen from the following table.

TABLE 2
State Relief and Guarantee Funds

(Rs. lakhs)

Name of State	Amount contributed			Amount proposed to be contributed during 1959-60	Total to the credit of the Fund at the end of 1959-60	Amount proposed to be contributed during 1960-61
	During 1956-7	During 1957-8	During 1958-9			
1	2	3	4	5	6	7
Bombay	6.31	6.00	3.00	2.00	17.31	4.50
Andhra Pradesh	1.75	1.25	—	—	3.00	1.50
Jammu & Kashmir	1.00	nil	nil	nil	1.00	nil
Kerala	0.75	0.50	nil	nil	1.25	nil
Madras	nil	nil	nil	nil	nil	nil
Madhya Pradesh	nil	2.55	0.40	nil	2.95	nil
Mysore	nil	nil	nil	0.25	0.25	nil
Punjab	nil	1.50	0.50	0.50	2.50	2.00
Rajasthan	nil	nil	0.10	1.50	1.60	nil
Uttar Pradesh	nil	4.95	nil	nil	4.95	nil
West Bengal	nil	nil	nil	nil	nil	1.00
Orissa	nil	nil	1.00	nil	1.00	2.00
Bihar	nil	nil	0.50	0.50	1.00	0.50
Assam	nil	nil	1.50	nil	1.50	1.50

It may be observed that only in Bombay State, contributions are being made regularly, though to a small extent. The amount to the credit of the Fund in Bombay State at the close of 1959-60 stood at Rs. 17.31 lakhs. Aggregate contribution to the funds in none of the other States has been in excess of Rs. 5 lakhs.

Rules for the Relief and Guarantee Fund.

15. It may be relevant to note here the draft model rules proposed by the Government of India in August 1959 and communicated to State

Governments for the administration of the Relief and Guarantee Fund in the States where it has been constituted. In order that the amounts to the credit of the Fund will be readily available for assistance to the co-operative movement, it is provided in the draft rules that the Fund shall be invested in Government securities and shall not be merged in the general cash balances of State Governments. The contributions to the Fund will comprise :

- (i) such sums as may be contributed by Government ;
- (ii) interest accruing from the investment of the amount standing to the credit of Fund ; and
- (iii) dividends actually received by Government during any financial year on account of the shares held by them in a co-operative credit institution in excess of 3 per cent.

The Fund shall be applied for the following purposes, namely :—

(a) assisting the co-operative credit institution to write off arrears of any debts the recovery of which has proved difficult, where the aggregate of such debts is of such magnitude as to threaten the stability of the co-operative credit institution and where the amounts sought to be written off have arisen on account of wide-spread floods, famine, failure of crops or any other natural calamity ;

(b) the recouping of losses sustained by a co-operative credit institution in an economically backward area or to a special class or classes of the population, where such loans have been granted at the instance of Government and on the understanding that Government will recoup, in whole or in part, the losses incurred thereby ;

(c) the recouping of losses sustained by a co-operative credit institution on account of loans provided out of Funds from the Reserve Bank or from any other source and guaranteed by State Government ;

(d) payment of the principal or interest in respect of debentures issued by the central land mortgage bank.

The draft rules provide for an application being made to the Registrar of Co-operative Societies who is expected to make necessary enquiries and put it up to a committee consisting of the Secretaries to Government in the Departments of Finance and Co-operation, the Development Commissioner, a representative of each of the state co-operative bank and the central co-operative banks and the Registrar who is to serve as ex-officio Secretary of the Committee.

16. We are of opinion that the need for Relief and Guarantee Fund will be greater when co-operatives undertake to finance agriculturists on a much bigger scale than hitherto. Hence we would urge upon State Governments to recognise the importance of the Fund and to make suitable provision in that behalf in the Third Five-Year Plan. It will also be necessary to frame rules for the use of the Fund and we recommend that the model rules circulated by the Government of India may be adopted by State Governments with such modifications as may be considered necessary to suit local conditions.

Government Guarantees

17. Certain States have accepted in a limited way the principle of Government providing a guarantee to co-operative societies in respect of their lendings to members. In Madras, a full Finance Scheme was introduced in certain areas with the object of giving a monopoly to co-operatives for supplying all the credit needs of the agriculturists, including production and marketing finance. As a result, the co-operatives would be required to finance all sections of the agricultural community, including tenant cultivators and agricultural labourers. Since provision of finance to these categories of persons involves risks, the Government of Madras have extended a guarantee to the co-operatives for reimbursement of losses upto 10 per cent of the short-term and medium-term loans issued by them. The guarantee would be available in individual cases upto 2/3rd of the losses, the remaining 1/3rd being borne by the state cooperative bank, the central bank or the primary credit societies concerned. To quote the Madras Government order dated 17 February 1960—

The object of the scheme is to make the co-operatives the sole suppliers of the entire credit needs of the agriculturists, including production and marketing finance, eliminating other private sources of credit. To achieve this objective, the co-operatives will have to cater to all sections of the agricultural community, including tenant cultivators and agricultural labourers. The co-operatives will necessarily have to lend to the latter class of persons on the security of crops raised or proposed to be raised by them. It will be conceded that the extension of co-operative credit to the above categories of persons involves risk on the part of financing institutions.

18. The above guarantee will cover losses which are ordinarily determined only when the loans in question are declared to be bad debts after the societies concerned have taken all proceedings to recover the loans. The time taken for this purpose is generally long, because a loan can be declared to be bad only after all attempts to recover the dues of defaulting member from his assets as well as from the assets of his sureties have failed. If the guarantee provided by Government, therefore, is to be utilised only after the loss is determined, the societies will have to wait for long time. Till then the amount of loss involved will be shown as overdue from the societies and it is possible that because of these overdues the societies will default to the central bank and may thus become ineligible to borrow further from it. Therefore, it may not be enough to protect the societies against losses. It may also be necessary to provide a guarantee to the central banks against defaults of loans due from the societies. This will ensure the liquid position of the entire co-operative credit system. This aspect of the question also has been taken into account in the Order of the Madras Government referred to above. The relevant extract therefrom is reproduced below :

The question of reimbursement of losses by Government will arise only after the societies concerned have taken all proceedings to recover the loans and the loans have to be finally written off as bad debts. As the final assessment of losses will take time, it is quite possible that the central financing institutions might in the interim experience difficulties in regard to Funds, as defaults from primary societies accumulate and it might be necessary to provide

them with necessary advances against these defaults. If the Registrar of Co-operative Societies considers such a scheme of advances against defaults necessary, he is requested to submit proposals in this regard for the consideration of Government.

19. The Government of Bombay also have accepted the principle of extending a guarantee to co-operative financing agencies for supplying agricultural credit on a more liberal scale in the Intensive Paddy Cultivation Blocks. The relevant extract from the Government's resolution is given below :

Government is pleased to guarantee, subject to the following terms and conditions, 50 per cent of losses in individual cases subject to a maximum overall limit of 5 per cent of the total finance of Rs. 75 lakhs to be advanced by the Bombay State Co-operative Bank and the Kolhapur, Poona and Surat District Central Co-operative Banks to the paddy growers in the five blocks namely (1) Chikhli, (2) Bhiwandi, (3) Karjat-Kalapur, (4) Maval and Mulshi and (5) Karvir Project areas selected for the pilot scheme for intensive cultivation in paddy areas.

(1) The guarantee would be operative in respect of any outstanding which would remain unpaid at the end of a period of two years from the date of advance provided however that if on account of a failure of crops extensions are granted for recovery of the dues with the permission of the Registrar of Co-operative Societies, the guarantee would be operative at the end of such extended period.

(2) The operation of the guarantee would not be deferred till the society or societies to which crop finance is granted are taken into liquidation, but would be available even if the societies continue to have their corporate existence.

It may be noted that the guarantee given by the the Government of Bombay to central financing agencies in the State becomes operative not in the event of actual losses that may be sustained by them in financing individual agriculturists through affiliated primary credit societies. It becomes effective immediately on the failure of the primary agricultural credit societies to repay the loans taken under the scheme after expiry of 24 months from the date of advance.

Government assistance to credit expansion

20. In the previous paragraphs we have recommended that co-operative credit institutions should create and strengthen Agricultural Credit Stabilization Funds and that the State Governments should create Relief and Guarantee Funds on the lines set forth by us. Both the Funds, however, are intended for meeting situations arising out of widespread natural calamities like famine, floods, etc. It has been urged in the course of our enquiry that when loans are provided on an extensive scale by co-operatives to their members on the basis of their production requirements, losses are likely to arise. These Funds will, however, not be available for meeting such losses. Co-operative societies are expected, more and more, to provide finance to a large class of tenants and leaseholders who have no lands to offer as security, but who nevertheless need credit for production. They will also be called upon to provide credit to owners of the sub-marginal type whose production suffers because of the usurious terms on

which they ordinarily get credit. Lastly, funds may have to be lent on a larger scale to existing members so that their requirements for production credit are met more or less adequately. Agricultural finance, as such, involves greater risk than finance for commerce which is largely based upon tangible security. The extension of credit facilities to a class of persons to whom they were so far denied and also to the class of persons who were getting credit inadequately, may amount to the co-operative credit agencies being called upon to shoulder heavier responsibilities and greater risk than they have been undertaking so far. As part of our Plan for increasing agricultural production, primary credit societies and their financing agencies have been called upon to extend the range of their operations and to assume on an increasing scale, responsibility for providing credit to individual agriculturists for crop production. These institutions work to a large extent on borrowed funds and have, therefore, shown some hesitation in providing credit for production on the basis of repaying capacity to landless tenants and leaseholders and others who are sometimes described as marginal or sub-marginal cultivators. These institutions fear that in the present stage of development, when they work on narrow margins and have limited resources, they will find it difficult to meet losses that may arise in extending credit facilities to the class of cultivators indicated above. It has, therefore, been urged before us that if a system can be devised by which the primary societies are enabled by suitable assistance to withstand accumulation of overdues and ultimate losses arising out of such overdues, it would help them as well as financing banks to go ahead with programmes for expansion of agricultural credit.

21. We have examined the possible methods by which such assistance can be provided. We have recommended Government's participation in the share capital of primary credit societies and for the development of such societies into viable units. Such participation, however, is calculated primarily, to give the societies necessary financial strength for the purpose of raising adequate resources by way of deposits and loans, so that they may have the desired wherewithal for the expansion of credit. That form of assistance may not, however, provide the incentive that is needed to induce the institutions to undertake the risk attendant on financing the weaker and the less privileged sections of the agricultural community.

22. Another method suggested to us was that the loans issued by primary credit societies might be guaranteed by Government up to an overall limit, say, 10 per cent of the total loans disbursed in a year and that in individual cases the losses might be shared equally between the Government and the institutions concerned. We have mentioned earlier that the Governments of Bombay and Madras have extended certain guarantees under the Intensive Paddy Cultivation and Full Finance Schemes respectively. Both these are of a special nature as they cover a specified field and have a limited objective. The purpose of the Governments guarantee is to encourage the co-operative institutions to take active interest in the schemes. The guarantee is not intended by the Government to be extended to all the areas and to cover the normal financing undertaken by co-operative credit institutions. Further, a guarantee is an assurance to make good the loss and it becomes necessary to ascertain the loss first before invoking the guarantee. This usually takes a very long time, because a loan can be treated as a bad debt only when the processes for recovery from the primary borrower and his sureties have been exhausted. Most societies and financing banks may not be inclined to take up the

financing of all classes of cultivators on the expanded scale now envisaged on the mere assurance that their ultimate losses will be met partially after they are finally determined.

23. In our examination of the broad requirements of production credit we are concerned with a much larger problem. It is necessary to devise such measures as will accelerate the pace of expansion of production credit all over the country. These measures should be so framed as to induce co-operative credit organizations to undertake the financing of all classes of cultivating families whether they own land or not whether they are the so called marginal or sub-marginal cultivators, provided they have the necessary repaying capacity. In order that co-operative societies may undertake these operations in earnest and without mental reservations, some incentives in a more concrete form than a Government guarantee appear to be necessary. The objective of the assistance being to induce the co-operative credit institutions to provide adequate credit to existing members and to landless tenants and other classes of cultivators, we consider that the assistance should be related to the efforts made by the institutions in extending credit facilities as indicated above. It will thus be related not to the actual losses that may arise in future, but to the risks involved in making the financing of cultivators more broadbased and more adequate.

24. We, therefore, recommend that : (a) Government may give an outright contribution to the funds of each society at 3 per cent of the additional loans made by it during a year over and above the loans advanced by it in the preceding year. The assistance proposed may be shared equally between the Central and State Governments.

(b) Government may also make an outright contribution at 1 per cent, similarly, to central co-operative banks in respect of the additional finance provided by them.

(c) The advances to be taken into account for the purpose of the assistance will be, in either case, those for financing agricultural production. Since, by and large, loans given against pledge of produce and jewels are not for agricultural production, we suggest that such loans should be excluded for this purpose.

(d) We recommend that the contribution may be made by the Government in the year 1961-62 in respect of the increase in the advances registered by the societies and banks in 1960-61 over the figure of advances in 1959-60.

(e) Contributions from the Government might be given for the first two years without examining how far the increase in the loan business was reflected in the expansion of credit facilities to the weaker sections of the community. Before contributions are made in the third year, Government may withhold assistance to a society which has not made any satisfactory progress in that direction.

(f) The contributions received by societies and central banks will be credited by them to a special bad debt reserve which will be distinct from the bad reserve created out of their profits.

(g) The special bad debt reserve of the societies should be kept as a deposit with the central bank to which they are affiliated. It will be permissible for the central bank to utilise its special bad debt reserve in its business.

(h) The special reserves may be drawn upon with the permission of the Registrar. Rules may be framed for the purpose. While withdrawal by a primary credit society from the reserve may be made to cover the entire amount of loss, withdrawal by a central bank may be only to the extent of 2/3rd of the loss, the balance being borne by the bank.

25. We have recommended the grant of financial assistance to primary credit societies and banks more for providing them with an incentive for enrolling new members and for liberalizing their policy in regard to financing these than with a view to enabling them to meet losses arising out of making credit broadbased and adequate. We have not suggested any objective criteria for increase in membership, admission of tenants and landless persons, quantum of credit to the weaker sections etc., because conditions will vary considerably from area to area. The Registrar of Co-operative Societies may judge the eligibility of the societies for assistance in the third year and onwards and deny assistance on the basis of his assessment of the performance of a society. We have recommended that assistance to central banks may be on a much smaller scale than for the societies, because we believe that the shock of losses and overdues will be absorbed considerably at the primary level itself and, therefore, the risk of losses in the central banks will be much less than in the societies.

26. We consider that assistance from the State, on the lines indicated, to primary societies and central banks, will provide the necessary incentive for extending credit to the large classes of cultivating population who may need it most and to whom by and large, it is at present denied. We attach the utmost importance to this recommendation and suggest that arrangements might be made to give effect to the proposal immediately. We shall then have the needed catalytic agent. This will also provide the moral, more than the material, assurance that may be necessary before the benefit of co-operative credit is extended to all sections of the agricultural community.

CHAPTER XVII

CONCLUSION

In our report we have made a number of recommendations to facilitate the provision of increased credit to cultivating families, big or small, owners or tenants, so that agricultural production can be substantially increased. Considerable emphasis was laid in the First and Second Five-Year Plans on creating conditions favourable to increased agricultural production by the provision of irrigation facilities, better seeds, increased quantities of fertilizers, etc. In the Third Five-Year Plan there is likely to be greater emphasis on programmes of intensive agricultural development. It is, therefore, important that cultivators, particularly those in the small and medium categories, who constitute the bulk of the peasantry, should be equipped with the means to take full advantage of the facilities that will be provided under the Plan. It is in this context that our recommendations for enhancing the supply of credit through agricultural co-operatives will have to be considered.

2. It is of the utmost importance that liberalized credit facilities are utilised for increasing agricultural production and not diverted to consumption, social expenditure, etc. To ensure that the funds supplied are utilised for production, there should be adequate arrangements to watch the use of the loans by the societies themselves as also by the agencies responsible for their supervision. Credit from the co-operatives should, no doubt, be adequate for the production requirements of a cultivator, but it should not be so facile or so inadequately supervised as to render possible its use for consumption rather than for increasing production. Any misuse of the extended facilities may give a setback to the attempts made to build up a strong co-operative credit system. We have, therefore, recommended that loans should be disbursed as far as possible in kind and that the machinery for supervision over the proper use of credit should be strengthened. Arrangements for the expansion of credit should be so designed as to strengthen the co-operative credit structure.

3. Another aspect which we wish to emphasize again is the need for flexibility. Within the framework of the broad principles which may be applied to the country as a whole, the greatest possible freedom should be allowed to State Governments who are under the Constitution responsible for co-operation and no less to the people associated with the movement. We have suggested certain types of assistance by way of share capital, subsidies, grants to meet losses, etc. to enable the co-operatives to take rapid strides. Provision of such assistance should not be intended or used for compelling societies to adopt a particular pattern of organization. We hope that the decisions on the various recommendations made by us for the reorganization and revitalization of credit societies at the different levels of the structure will be taken

by Governments after the fullest consultation with representatives of societies and banks. We wish to emphasize that once a policy is adopted after the fullest consideration, adherence to that policy for a fairly long period is essential so that it may have scope for operation over a reasonable length of time. It is only then that the effects of such a policy can be assessed. At the same time, we do not underrate the importance of periodical evaluation of the results. In fact, we would recommend that such evaluation be undertaken through a small committee by the Ministry of Community Development and Co-operation in collaboration with the Reserve Bank of India. We would wish to see associated with this committee, an economist and a non-official co-operator. The evaluation reports should provide the basis for adjustments or changes in policy in case they are deemed necessary after consultation with the various interests concerned.

4. We shall be failing in our duty if on this occasion we do not pay our tribute to the vast body of non-official co-operators who have given their time and attention to the movement and contributed to its growth in our country. To the extent it is possible to secure the services of suitable persons to associate themselves actively in the direction and management of co-operative organizations at various levels, the co-operative movement can be expected to establish itself firmly in the country. In our opinion, therefore, it is of vital importance that such leadership at various levels should be encouraged for the promotion of the movement.

5. The role of the State will consist in providing the assistance required by the institutions during the period of their initial growth, but should not extend to the internal administration of the societies and banks, which should be left to the representatives of members themselves. This will involve discontinuance of the practice obtaining in some States of officials occupying responsible positions in boards of directors—such as those of chairman and vice-chairman. The posts of managing directors or secretaries should, according to us, be normally filled by the board of management or the general meeting, the appointment to these posts being made by Government only for special reasons and for specified periods. The need for vigorous participation of the people in the actual working of the societies, banks, etc. is much great now that the co-operatives are to play an active role in providing credit and other services on an increasing scale. It will be necessary to draw in, for the management of co-operative institutions, public-spirited workers who will subordinate their personal interests and party and political considerations to the common good of the people.

6. In this report we have not given consideration to the needs of scheduled tribes and scheduled areas. To meet their requirements, special steps may become necessary. Some of the conditions attached to the grant of financial aids of various description that have been recommended by us may have to be modified or relaxed. The duration of such aids also may have to be extended. In order that the benefit of the system of co-operative credit is extended to tribes and scheduled areas, we would urge the Central Government and the State Governments concerned to examine our recommendations from this point of view.

Vaikunth L. Mehta (Chairman)

T. M. Narayanaswami Pillai (Vice-Chairman)

K. Achuta Reddy
Tarapado Chaudhary

B. Venkatappiah
Siddique Hassan

M. R. Bhide

V. K. Rao

B. P. Patel

T. V. Reddi

K. Ramamurthy

Bombay
12 May 1960

A. Palaniappa Mudaliar (Member-Secretary)

I am in agreement with the recommendations.

Sq. C. Narasimham

20.5.1960.

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

Agricultural Production Programmes

(Chapter II)

- | <i>S. No.</i> | | <i>Para No.</i> |
|---------------|---|-----------------|
| 1 | There is generally no agricultural production plan for each village, much less for each family. Even the plans that are now being drawn up in a few cases cannot be said to be on the lines contemplated by the Government of India. What really exists in each State is a plan of State aid for agricultural production drawn up by the State under various heads such as minor irrigation, land development, manures, improved seeds, etc. and these are prepared by the departments concerned and targets set out for each year. | 24 |
| 2 | Any production plan to be drawn up in a systematic manner and to be implemented and supervised successfully, would require the employment of a large technical staff which is not available today. For drawing up such programmes the ground has to be prepared by a detailed survey of various aspects of agricultural production. Measures have to be taken for popularising improved production techniques to be followed by an adequate credit programme. In the absence of adequate staff and supplies, the preparation of production programmes for all cultivating families does not at present seem feasible. | 25 |
| 3 | There is no production plan for a village or family with which proposals for expansion of credit could be correlated. Every farmer has a plan of his own and, therefore, arrangements should be made for providing necessary facilities including credit, so that farmers are enabled to raise good crops on their lands. | 26 |
| 4 | In areas served by new irrigation projects, the question of finance will require special attention. With the extension of irrigation facilities, when farmers switch over from dry to irrigated farming, there is likely to be an appreciable increase in the demand for medium-term and long-term agricultural credit. In the case of crops like rubber, cocoanut etc. where the yield will begin only a few years after planting, the problem of providing credit will require special treatment. | 27 |
| 5 | A dynamic programme of agricultural credit and distribution will be required to enable the farmer to take full advantage of the agricultural plans and the facilities that would be available for increased agricultural production. Co-operatives will have, therefore, to strengthen themselves financially and otherwise and extend their range of credit and distribution operations, so that all farmers are enabled to take full advantage of the facilities provided under the schemes of agricultural improvement in the Third Five-Year Plan. | 28 |

Progress of Co-operative Credit-Primaries
(Chapter III)

- | <i>S. No.</i> | | <i>Para No.</i> |
|---------------|--|-----------------|
| 6 | <p>The average working capital of primary agricultural credit societies on 30 June 1958 for the country was Rs. 8,031. It exceeded Rs. 10,000 in Andhra Pradesh, Bombay, Kerala, Madras, Mysore, Tripura and Delhi. It was only in Bombay that the average was above Rs 20,000. The percentage of overdues to loans outstanding exceeded 25 in Bihar, Mysore, West Bengal, Delhi and Himachal Pradesh. Nearly one-third of the societies in the country worked in loss or did not make any profit during 1956-57 and 1957-58. Of the 1.35 lakh agricultural credit and multi-purpose societies audited during 1956-57; about 22,000 were in A and B categories, about 81,000 in C and about 22,000 in D and E, while about 10,000 societies were unclassified. A large number of C class societies require considerable reorganization and revitalization. Some of these may even have to be liquidated, if attempts to revive their working fail.</p> | 10
to
13 |
| 7 | <p>The working of primary credit societies cannot be viewed with complacency, as it indicates lack of sufficient vitality and strength on their part. The existence of a fairly large number of dormant and weak societies is an impediment in the way of new schemes designed to widen the scope and utility of co-operative organizations in the rural areas. For any scheme of expansion of agricultural credit, efforts have to be on parallel lines, one for the organization of new societies and the other for the reorganization and revitalization of a large number of existing societies.</p> | 20 |

Progress of Co-operative Credit Financing Banks
(Chapter IV)

- | | | |
|---|---|----|
| 8 | <p>Out of 418 central co-operative banks and banking unions functioning in the country at the end of June 1958, 185 or about 44 per cent did not come up to the minimum standards regarding owned funds and working capital recommended by the Reserve Bank's Standing Advisory Committee on Agricultural Credit. It is imperative that in the context of the increased responsibilities they will be called upon to bear in an expanded programme of agricultural credit, the banks should build up quickly their resources and expand their loan business.</p> | 6 |
| 9 | <p>While introducing land reforms, State Governments should ensure that the interests of land mortgage banks are not adversely affected. All land owners, occupancy tenants and tenants in the process of becoming owners, should have an unfettered right to mortgage their rights in favour of a co-operative society. State Governments should give a definite assurance to make good the loss sustained by land mortgage banks as a result of land or tenancy reforms. If steps to safeguard the interests of land mortgage banks are taken simultaneously with</p> | 19 |

the introduction of land reforms, the banks can be expected to finance the new class of landowners as well. For this purpose central land mortgage banks may have to take the initiative in developing their business for which Government may give subsidies in the initial period for appointment of managerial and valuation staff.

Reorganization and Revitalization of Primary-Credit Societies (Chapter VI)

- 10 A systematic programme of rectification, consolidation and revitalization of the large number of dormant primary credit societies should be chalked out before they can be relied upon to play their part in the expansion of rural credit. 1
- 11 Since the number of inactive societies requiring careful attention is admittedly large, it will be necessary to appoint special staff for the purpose. Where the number of dormant societies is large, one or more inspectors may be posted in each district to attend to rectification. In States where the total number of societies to be rectified and revitalised runs into 500 or more, one or more Assistant Registrars may be appointed for expediting the work. 3
- 12 All societies, old and new, should be strong enough not only to function efficiently at the start, but to weather the strains and difficulties which will be inevitable as they assume additional and heavier responsibilities as time progresses. One of the main aims of future endeavour should be the promotion of viable units of co-operative service and business. A viable unit is that which may be expected within a reasonable time to render the more important of the services expected of credit societies both adequately and to as large a number of producers as possible, without depending upon financial assistance from Government except for a limited period. The society should have the ability not only to command the services of competent personnel, but at the end of the stipulated period be able to meet fully the expenditure incurred on such personnel as well as the expenditure on rent, audit and supervision and provide for education fund, reserves and a reasonable return on share capital. 6 to 7
- 13 A society requires services of two kinds, those consisting in direction, guidance and participation generally. These have been available so far on a voluntary basis; but there are others involving managerial duties, clerical work, keeping of accounts and so on. Even these services may in some areas or in individual instances be available on an honorary or near-honorary basis. In terms of the country as a whole, the services of competent and trained managers, accountants, clerks, etc. are not available except on the basis of remuneration. 8
- The co-operative aspect is as important as that of viability, the co-operative society cannot afford to enlarge itself into an 9

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Para No.

impersonal institution. The membership should not be too large and the area too extensive. No village included in a society should be at a distance of more than three or four miles from the headquarters village. The majority are of the view that the population covered should not exceed 3000 (i.e. 600 families or 500 cultivating families).

15 The need for flexibility in the approach to the pattern of organization should not be overlooked. There has to be flexibility not only in respect of the details of the pattern itself, but of the process of choice and decision whereby patterns suitable to different areas are adopted by those who are most affected. Such patterns must fall within a broad framework of policy. But, subject to this consideration, it is necessary that State Governments which are primarily responsible for co-operation should be left free to choose, in consultation with local co-operators and co-operative financing banks, the type most fitted for different areas of their States. 11

16 The pattern of Government assistance should in its turn be a flexible one, the main test being that it will help promote viable societies of the type required in the different areas in relation to the conditions of those areas. The proposals in this regard are as follows: 12

(a) *Share capital*: The State Government should be satisfied that the society is viable in the light of the broad criteria mentioned above. The contribution of share capital from the State should range from Rs 1,000 to Rs 10,000 on a matching basis. Further, the society should undertake to collect additional share capital of not less than Rs 3,000 from its members over a period of three to five years.

(b) *Subsidy*: A subsidy of Rs 1,200 to be given for a period not exceeding five years should be available to all viable societies brought under the State programme. Where a society is already receiving or has been promised assistance on the basis of existing schemes such as the revitalization programmes, the present position should not be disturbed.

(c) *Grants*: Outright grants for contribution to 'special bad debt reserves' should be available to all societies, whether or not viable, (provided, of course, their audit classification is not D or E).

Credit for Cultivating Members (Chapter VII)

17 By and large, the grant of loans to individuals follows landed property rather than the productive purpose for which the loans are taken. This practice has an adverse effect on agricultural production. The various land reform measures in the different States seek to confer on tenants protection against arbitrary eviction and ensures to them a good share of the crops raised by them. Their status and economic position are bound 14

- to improve in future. It is, therefore, necessary that co-operatives provide funds even to this class of cultivating members, provided they are honest and possess the necessary repaying capacity and produce sureties who, however, need not necessarily be owners of land.
- 18 A primary credit society should not deny a loan to a person merely on the ground that he does not own land or cannot produce owners of land as sureties. The primary test for judging the creditworthiness of an individual is his repaying capacity and to that extent he can be advanced a loan by the society on the basis of his requirements for agricultural production. 16
- 19 In judging the production needs, account should be taken of the nature of the crops grown, of the fertilizers, manures, better seed etc. which the cultivator is going to use and also of the likely effect of these improved methods of cultivation on the borrower's income and his repaying capacity. The judgment in that behalf should be left to the managing committee or the general body of the society itself. 16
- 20 The scope for misapplication of the loans obtained by a member can be minimised by supplying in kind as large a part of the loans as possible. It will be necessary to channel the distribution of the available quantities of seeds, fertilizers, agricultural implements etc. through primary credit societies. 17
- 21 The share capital held by a member in the society occupies an important place in the system of co-operative credit. It is a measure of his interest in the financial stability and soundness of the society. It also creates a sense of responsibility and ensures his loyalty to the society. Further, it is a good way of promoting thrift among members. Individual members, therefore, should be required to contribute to the society's share capital in certain proportion of their borrowings. This principle should be adopted in limited as well as unlimited liability societies. 18
- 22 The borrowings of an individual may not exceed eight to ten times his paid-up capital in the society. By-laws of societies should contain specific provisions to secure this linking. However, a member whose loan requirement do not exceed Rs 200 may be allowed to subscribe to two shares of Rs 10 each, but pay up only Rs 5 per share in the first instance and the balance in the next two years in two instalments of Rs 2.50 each. 19
- 23 In view of the need for making adequate credit available to all cultivators in relation to the acreage under cultivation and the kind of crops raised, absolute limits for loans to individuals prescribed in the by-laws or otherwise may be reviewed in the light of the increased costs of cultivation. There should, however, be a ceiling for individual loans as to ensure that the needs of small and medium cultivators are not sacrificed in favour of the big cultivators. There may be instances where 20

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the grant of loans above the general ceiling may be necessary. Exceptions may be made on the merits of each case where the borrower gives satisfactory evidence that the additional credit limit will be utilised by him for increasing agricultural production.

- 24 Borrowings of an individual against pledge of jewels (gold and silver in bars or ornaments) or goods or fixed deposit receipts may, if necessary, be in excess of the general ceiling prescribed by the by-laws of the society. It will be necessary, however, to fix ceilings for each such class of loans so as to ensure that the benefit of credit facilities from the primary credit society is restricted to cultivators and not passed on to others, e.g., traders, merchants, etc. 20
- 25 Discretion to prescribe the nature of security for a loan to an individual should necessarily be left to the managing committee of a society. Insistence on mortgage security for short-term loans denies the benefit of co-operative credit to a large section of agricultural community. Members should be allowed short-term loans on the production of two sureties from fellow-members, whether or not they own land, provided the amount for which they stand surety is within prescribed limits. 21
- 26 All borrowings—short-term or medium-term—by an individual should be within the credit limit fixed for him by his society. It does not seem necessary to prescribe a ratio between short-term and medium-term loans taken by an individual. 23
- 27 Insistence on mortgage security for all medium-term loans, irrespective of the amounts, results in denying such loans even to tenants who have a heritable tenancy right but no right to mortgage it. As a general rule, mortgage security need not be insisted upon for loans below Rs 500. Loans between Rs 500 and Rs 1,000 may be given on the borrower creating a charge on his land. For loans above Rs 1,000 it would be desirable to obtain mortgage security. 24
- 28 Where the benefits of improvement take time to accrue repayment of a medium-term loan in annual instalments beginning at the end of the first year may cause hardship to a borrower. Central banks and societies may examine the question of making the first instalment payable, in such cases, at the end of the second or third year when the investment on the land will begin to yield additional income. Similar facility will be desirable in respect of long-term loans, particularly when such loans are required for plantation crops like rubber which begin giving income from the seventh year or so. 25 to 23
- 29 In order to facilitate the issue of long-term loans for land improvement, land mortgage banks may, for the purpose of valuation of land, take into consideration not the existing but the anticipated value. To cover the risk involved, the State 29

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Government might provide guarantee to land mortgage banks to cover the difference between the value before and after land improvement.

Credit Limits : Primary Credit Societies (Chapter VIII)

- 30 For the type of viable unit visualized and the services 1
village societies are expected to undertake, organization of so-
cieties on the basis of limited liability would be more suitable.
- 31 The owned funds of a co-operative society serve as a 19
margin of security for creditors and also help it to absorb the
shock of overdues. What the owned funds are to a limited, lia-
bility society, the net assets are to an unlimited liability society.
The credit limits for limited liability societies are fixed, generally,
at eight times the owned funds and for unlimited liability societies
at one-eighth of the net assets of members. By and large these
limits have not so far stood in the way of the societies raising
adequate funds. It is urged that these limits will prove inadequate
to implement the expansion of credit now envisaged. After a
careful examination of the suggestion, in the context of the
factors determining the creditworthiness of the societies in the
eyes of the creditors, of the actual position in regard to reserve
borrowing power of the societies on the basis of the existing
standards and also the improvement that is likely to result in it
from the additions to their owned funds in the case of limited lia-
bility societies and from a proper valuation of the assets of the
members of unlimited liability societies, it seems that it may not
be necessary to commence, as a rule, the present limits in res-
pect of all limited and unlimited liability societies.
- 32 In special circumstances there may be need for increased 23
credit limits for the societies. Where the Registrar is satisfied
about the need, he may fix the maximum limit of a limited lia-
bility society between ten to twelve times its owned funds and
that of an unlimited liability society up to one-sixth of the value
of the net assets of members, after taking into account various
factors such as the efforts made by the society to build up its share
capital, the existence of special schemes of credit and of effective
linking of credit with marketing, the attempts made to extend
credit facilities to the weaker sections of the agricultural com-
munity, the adequacy or otherwise of the existing arrangements
for recovery, the record in the matter of advances and recoveries,
the efficiency of management etc. and after consulting the central
co-operative bank to which it is affiliated. The fixation of credit
limits beyond eight times the owned funds for limited liability
societies and one-eighth of net assets for unlimited liability
societies may be reviewed periodically so as to assess the per-
formance of the society.
- 33 The practice of some central banks to insist on cent per 24
cent repayment of the loans due to them from a society as a
condition of making fresh advances in unduly rigid and

denies credit to members who have repaid their dues punctually. At the same time, a central bank should not continue to finance a society irrespective of the degree of default, firstly of members to the society and secondly of the society to the central bank. Some standards in that regard should be prescribed by each central co-operative bank after taking local circumstances into account.

Credit Limits : Central and State Co-operative Banks (Chapter IX)

- 34 Owned funds for the purpose of determining the borrowing power of a co-operative bank may, apart from the paid-up capital and statutory reserve fund, include other funds of a permanent nature created out of profits, such as building fund, stabilization fund, sinking fund for debentures, other than in central land mortgage banks. This definition may be accepted by the Reserve Bank when fixing credit limits with reference to owned funds of state and central co-operative banks. 4
- 35 By and large, state and central co-operative banks have adequate borrowing power on the basis of the existing standards. Account has to be taken of the fact that owned funds of the banks will grow automatically with the expansion of business by the linking of the borrowings of the various units with their share capital. Further, State Governments will continue to contribute to the share capital of the banks. Finally, the revised definition of owned funds will mean an increase in such funds for some banks, thus giving them larger borrowing power. It may not therefore, be necessary, as a rule, to revise the existing standards which are generally ten to twelve times the owned funds for central co-operative banks and fifteen times the owned funds for state co-operative banks. In individual cases, in the context of special schemes of agricultural credit or of the extension of credit facilities to medium and small cultivators by a substantial proportion of primary credit societies affiliated to the bank, or of procurement and distribution of controlled commodities through co-operatives or of the financing on a large scale of marketing and processing societies against pledge of goods the credit limits fixed on the above standards may prove inadequate. In such an event the Registrar may fix limits at higher levels after examining each case on merits. Liberalization may be done in each case in consultation with the state co-operative bank (so far as central banks are concerned) within the range of twelve to fifteen times for central banks and fifteen to twenty times the owned funds for state co-operative banks. The revision so made may be reviewed periodically. Liberalization in the circumstances described above should not result in slowing down the process of collecting more share capital from constituents and should not also lead to the Government contributing less to the share capital of the bank than they would otherwise have done. 11
to
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**Augmenting Internal Resources : Share Capital
(Chapter X)**

<i>S. No.</i>		<i>Para No.</i>
36	Judged by past performance, it appears that mobilization of resources through deposits will be a slow process in primary credit societies. Share capital as a means of promoting thrift in the co-operative movement at the base has a more satisfactory record and holds out better promise for the future.	2
37	Apart from inspiring greater confidence among creditors, to strengthening of the share capital base services to increase the internal resources of primary credit societies and thereby reduces their reliance for funds on outside agencies. It would, therefore, be desirable for the societies to make systematic efforts to augment the share capital even beyond the level of 10 per cent of the borrowings recommended. The additional contributions should be realised at the time of harvest when a member sells his produce or on any other occasion when he can conveniently part with some portion of his savings.	3
38	There should also be a link between shareholding and borrowings in central banks so that their owned capital will increase automatically and proportionately with the increase in their loan operations. Primary credit societies should be required to contribute to the share capital of the central co-operative bank at the rate of one-twentieth of their borrowings. Societies that do not borrow from the central co-operative bank should also be required to contribute to its share capital in recognition of its role as a balancing centre for all co-operative societies in a district.	4
39	As there does not appear to be any large scope for central co-operative banks building up their share capital by enrolling more individual members, no special attempts may be made in that direction.	5
40	Several members would contribute to the share capital of primary credit societies in instalments. The societies could also require some cash resources for the non-credit activities undertaken by them. Thus the resources needed for credit and non-credit business will be large and can be raised only when the capital base of the societies is strong. Further, a broad capital base is required at the primary level so that the shock of overdues is absorbed to as large an extent as possible at that level and the liquidity and financial stability of the institutions above it are not seriously affected. For all these reasons the share capital of primary credit societies will need strengthening by contributions from Government.	6
41	Partnership of the State should ordinarily correspond to the efforts made by individual members of societies. The extent of Government contribution may be governed by the following :	19 (a)
	(i) the share capital contributed by the State should not	

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be more than the contribution made by individual members of societies;

(ii) the contribution of share capital from the State may range from Rs. 1,000 to Rs. 10,000. The minimum contribution of Rs. 1,000 should, however, be available only if the society undertakes to collect additional share capital of not less than Rs. 3,000 from its members over a period of three to five years; and

(iii) the contributions may be continued from the initial level for a period of five to eight years, during which the society may be expected to reach the optimum level and may not, therefore, require any further additions.

- 42 There may be no rigidity in the matter of duration of 19 (b) State partnership and in the manner in which share capital held by the Government is retired. During the period when additional contributions from the State are made, there may be no retirement. After the optimum level is reached, the process of retirement should start and might be completed during the next 5 to 8 years. Such retirement should be so regulated as not to affect the interests of creditors. In particular, the central co-operative bank should be consulted in the matter of the programme of retirement.
- 43 Government should be a partner in the real sense and 19 (c) participate in the risk of business in the same manner as any other shareholder. In other words, the Government's capital will also serve as margin of security to creditors. Further, the State should not enjoy any privileged position in the matter of dividends *vis-a-vis* the other share-holders.
- 44 Government may stop making further contributions 19(c) to the share capital of a society and may even withdraw the share capital already contributed, after giving due notice of its desire to do so both to the society and to its creditors, if they find that the society does not show a progressive attitude towards the admission of small and medium cultivators and towards financing them on the basis of their production needs and repaying capacity.
- 45 It would be advantageous for the partnership of the 19(d) State to be indirect at the primary level, i.e. through the apex and central co-operative banks. This will help strengthen the federal character of the co-operative credit structure.
- 46 In indirect partnership, the right to make nominations 19 (e) should vest in the central co-operative bank. The nominees of the Government or of the central bank should not have the right to veto. Government nomination should not lead to interference in the day-to-day working of the societies.
- 47 State partnership may ordinarily be in societies which, in 20 the course of a few years, are likely to become self-sufficient.

In unlimited liability societies, State partnership may resorted to where it will increase their borrowing power. The question may, however, be decided after examining the legal position. The State should take shares in a society only if 60 per cent of its members decide in its favour and the central bank to which it is affiliated endorses the resolution of the general body of the society.

Augmenting Internal Resources : Deposits (Chapter XI)

- 48 The success of the co-operative credit movement in the country will, in the ultimate analysis, depend upon the extent to which self-reliance is fostered at the primary level. At the same time, conditions will have to be created at this level so that primary credit societies may be in a position to mobilize savings in the rural areas. - No agency, co-operative or other, can hope for success unless it inspires confidence and invokes local interest. 2
- 49 One of the grounds for recommending a viable unit at the primary level is that it will be in a position to inspire confidence in, and provide the necessary services to, the depositors. In addition to the financial and administrative strengthening of primary credit societies, it will be necessary for them to offer sufficiently attractive rates of interest. These may provide the required incentives for persons in rural areas to deposit their savings with primary societies. 3-4
- 50 The co-operative structure being federal, the higher financing institutions have a responsibility towards meeting the credit requirements of members of primary societies which constitute the base. The need, therefore, for state and central co-operative banks making special efforts for tapping deposits from urban areas cannot be over-emphasized. 8

The following measures are suggested for this purpose.

(i) Substantial contributions may be made by Government to the share capital of co-operative banks to impart to them the financial strength necessary to inspire confidence among the depositors.

(ii) In the face of competition for available funds from commercial banks, Central and State Governments etc., the banks should offer competitive rates of interest on deposits.

(iii) State Governments should remove the restrictions which stand in the way of local bodies, educational institutions etc. depositing their funds with co-operative banks.

(iv) The banks should provide reasonable banking facilities to individuals such as opening current accounts, collecting cheques and bills, issuing demand drafts etc.

(v) The banks should take up the question of opening branches in suitable centres.

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(vi) Influential non-official chairmen and directors can play a useful role in inducing urban population to keep their funds with co-operative banks and hence the practice in some States of having officials as chairmen of the banks should be discontinued.

- 51 The suggestion that Government may guarantee deposits in co-operative banks as a measure of augmenting their resources is not practicable. 8
- 52 Co-operative credit societies and banks and the staff employed by them should not be asked to do propaganda in favour of National Savings Certificates or be appointed as agents for collecting contributions to these Certificates. No pressure should be exercised on depositors in co-operatives to withdraw their deposits for investment in the Certificates or on the co-operatives themselves to invest funds in them. 8
- 53 What counts with the cultivator is not the rate at which he obtains credit from his society, but its adequacy and timeliness. This should not be taken to indicate that credit may be provided without regard to its cost to the ultimate borrower. The rate of interest charged to him should be a realistic one in the context of the prevailing money rates and the existing need of the co-operatives to attract larger funds by way of deposits. It is not possible to suggest a rate which would be appropriate or the margins that may be retained at the different levels. The factors that are relevant in this context vary widely from bank to bank and from society to society that no uniform rates or margins can be suggested. As far as possible the highest margin may be allowed at the primary level as compared with the other two levels of the structure, to enable the primary credit societies to acquire greater financial strength. 9
- 54 Financing banks should not charge different rates of interest on loans for the same purpose according to the source of funds. The resources obtained from all sources should be pooled and an average borrowing rate worked out. The rates charged to the lower institutions should be based upon this average rate. 10
- 55 The State Bank of India has agreed to provide interim finance to central land mortgage banks against the guarantee of State Governments. Where the State Governments are unable to provide the necessary finance, the banks may approach the State Bank of India for the purpose. 11
- 56 With the existing competition for funds in the money market, it is possible that land mortgage banks may not always succeed in getting subscriptions to their debentures. The co-operative movement itself can provide some assistance to land mortgage banks in this regard. State and central co-operative banks have to maintain fluid resources according to certain prescribed standards against their deposits and certain other 11

liabilities. Debentures of land mortgage banks can serve as a suitable medium for the maintenance of fluid resources.

External Resources: The Role of the Reserve Bank (Chapter XII)

- 57 The part played by the Reserve Bank of India in the progress achieved by the co-operative credit structure in the provision of agricultural finance has been very significant. The increasing reliance of some state co-operative banks on the Reserve Bank is in itself not an indication of the weakness of the banks, but may on the contrary, be a sign of a rapidly developing agricultural economy in the area. But where the borrowings from the Reserve Bank constitute a very large part of the agricultural lendings of a bank, the question does arise whether maximum efforts are being made to mobilize resources such as deposits as also to divert a reasonable proportion of such resources to agricultural finance. The proportion of financial accommodation from the Reserve Bank has, therefore, to be considered in the light of many factors, such as the pace of agricultural development in an area and the strength and efficiency of the co-operative credit structure. 32
- 58 When a rapid agricultural development is envisaged and the co-operatives have been chosen as the best agency for the provision of credit, it will be unrealistic to expect them in the near future to raise the necessary resources, wholly or in the bulk, from owned funds and deposits. Self-help and self-reliance are undoubtedly the guiding principles of co-operation. But to achieve self-sufficiency will be relatively a slow process. The Reserve Bank, therefore, is likely to have to play a prominent part in this context for many years to come. 33
- 59 The need for greater assistance from the Reserve Bank should be viewed in the context of the policy pursued by the Bank over the past decade. This policy is part of the larger objective of building up a strong, sound and country-wide structure of co-operative credit for agriculture and other purposes. The Bank will, in the context of providing short and medium-term credit to co-operatives on a more liberal scale than at present, therefore, be entitled to take into account the efforts made by the co-operative movement in (i) increasing its financial strength and operational efficiency, (ii) developing its resources through share capital and deposits with a view to promoting greater self-sufficiency and (iii) extending the provision of agricultural credit. 35
- 60 The following criteria may be adopted by the Reserve Bank of granting short-term accommodation for agricultural purposes to state co-operative banks on behalf of central banks. 36
- (i) The distinction made at present between 'normal' and 'exceptional' limits may be removed so that the normal credit limit to which A and B class central banks will be eligible will

be 4 times and 3 times their owned funds respectively.

(ii) In addition to the above, an A class central bank may be sanctioned a limit not exceeding twice its owned funds and a B class bank equal to its owned funds on the following conditions :

(a) For the amount outstanding against a bank out of the limit sanctioned by the Reserve Bank in excess of the 'normal' limit as indicated in (i) above, the bank should show outstanding loans against societies for agricultural purposes for twice the amount borrowed. In other words, of the excess of loans outstanding against societies for agricultural purposes over and above the 'normal' limit, only 50 per cent can be from funds provided by the Reserve Bank, the other half being provided by the bank out of its own resources.

(b) The outstanding loans for the above purpose, i.e., for normal or additional limits, will not include any overdue loans. It will also be necessary to ensure that the real position of overdues is not concealed by extensions granted without proper examination of the merits in each case.

(c) In computing a bank's own resources for the purpose mentioned in (a), borrowing from the state co-operative bank, the State Bank of India and Government will be excluded. Account will be taken of the funds derived from the bank's share capital, reserves and deposits.

(iii) A C class central bank may be sanctioned a limit upto 3 times its owned funds against the guarantee provided by Government. The limit may be raised to 4 times in special circumstances. Simultaneously, there should be a systematic programme of rectifying the defects in these banks. The facility for loans against Government guarantee may be for a period of three years during which the programme of rectification and consolidation of the bank should be completed. The State Government may review the position in this behalf at the end of each year.

61 Any liberalization in the present standards for sanctioning medium-term loans by the Reserve Bank, i.e. equal to the owned funds of a central bank, will be possible only if the resources in the Long-term Operations Fund out of which such loans have to be sanctioned are appreciably augmented. The Reserve Bank may be authorised by the Government of India to credit Rs. 15 crores annually to the Fund as against Rs. 5 crores which are being contributed now. 38

62 The provision of more medium-term credit from the Reserve Bank should be co-related to the efforts made by a central bank in raising more medium-term funds in the form of share capital and fixed deposits. The Reserve Bank may sanction an additional limit to a central co-operative bank up to twice the increase in fixed deposits and share capital registered during the year prior to that for which the limit applies, 39

provided, however, that the 'normal' and the 'additional' limits do not together exceed twice the owned funds of the bank. For the purpose of the additional limit, the increase in share capital taken into account should exclude that received from Government during the year. The above formula may be applicable to all central banks, irrespective of their audit classification. The limits proposed are with reference to the medium-term loan outstandings and not to the amounts borrowed every year.

Other External Resources (Chapter XIII)

- 63 With a view to enabling marketing societies to avail themselves of larger facilities than hitherto from the State Bank of India, the bank may examine whether instead of having physical custody of the produce, it can protect its interests effectively by arranging, if necessary, periodical inspection and by requiring the societies to furnish, at frequent intervals, statements of the stock held by them. 6
- 64 At the village level there should be only one institutional agency for the supply of credit, viz., the co-operative, and the policy of the Government should be such as will eventually lead to that result. Funds intended for disbursement as *taccavi*, short-term or medium-term, should be placed at the disposal of the co-operative credit structure. 8
- 65 Provision has been made under the Community Development Programme for issue loans in block areas for purposes such as sinking of wells, land improvement, etc. Wherever a co-operative society exists, medium-term loans should be channelled through it alone and that for this purpose, appropriate funds should be placed at its disposal. 8
- 66 In routing *taccavi* through the co-operatives, if the State Government consider that the rate of interest on loans for a particular purpose or for a class of persons or for a particular area should be fixed at a particular level, the co-operatives may be required to issue such loans at that rate and the difference between an institution's actual lending rate and its economic lending rate may be made good by the State Government by providing the necessary subsidy. 9
- 67 The Government of India may take up with the authorities in the United States, the question of allocating a part of the "P.L. 480 Funds" to the co-operative credit structure for the provision of medium-term and long-term finance for promoting agricultural development. The necessary details of the organization etc. that may have to be set up for utilising the funds, in case they are made available, may be worked out by the Government in consultation with the Reserve Bank, 10

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- 68 The Life Insurance Corporation of India should make 11
substantial contributions to the debentures floated by land mort-
gage banks, particularly in areas which are less favourably
situated in the matter of raising funds. Where the Corpora-
tion has agreed to a definite subscription, land mortgage banks
should reserve that part of their debenture issue for allotment
to the Corporation.
- 69 Where legislation in regard to investment of the Trust 13
Funds does not provide for investment in debentures of land
mortgage banks, such a provision should be made as expedi-
tiously as possible. Large sums that are available under the
Provident Funds might also be allowed to be invested in these
debentures.

Co-operative Marketing

(Chapter XIV)

- 70 The linking of credit with marketing, besides enabling 2-3
members of credit societies to reap the benefit of organized
marketing, helps in the recovery of loans out of sale proceeds
of the produce. The arrangements for linking credit with
marketing should be strengthened throughout the country.
- 71 If the linking of credit with marketing has not been 16
established to the extent desired or even necessary, it is largely
because of the fact that marketing societies have not till now
acquired any hold over agriculturists, except in certain areas in a
few States and in respect of some cash crops. The reasons for
this state of affairs are many and varied.
- 72 It will be necessary to provide more godowns for pri- 17
mary credit societies, which can serve as auxiliary to those set up
by marketing societies. The programme for construction of
godowns by primary credit societies should be proceeded with
as part of the Third Five-Year Plan.
- 73 For co-operative marketing to succeed, marketing 18
societies should be permitted and enabled to make outright
purchases from the producers. To protect these societies from
the risks of loss in making outright purchases on a large scale,
State Governments should fix a certain minimum price at which
they would be prepared to purchase from the co-operative
societies.
- 74 The suggestion for establishing a link between credit and 18
marketing by requiring a member of a credit society by law to
bring to the marketing society agricultural produce at least
equal in value to the amount of crop loan raised by him from
the credit society, is not favoured. The introduction of a
compulsory levy might cause hardship either because the grower
may like to retain the crop raised by him for consumption and

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pay the loan from other sources of income, or because he may be able to get a better price elsewhere than the one at which the co-operative marketing society offers to purchase.

- 75 When a decision is taken by the State to take up trading in food grains, Government should ensure that the interests of the members who bring their produce to marketing societies are not placed at a disadvantage as compared to those dealing with private traders. 19

Legislative, Administrative and Organizational Arrangements (Chapter XV)

- 76 State Governments may, in the light of the recommendations made in the report, consider what further changes will be necessary in their laws and take action to get them suitably amended. 2
- 77 Where necessary, the Co-operative Societies Act may be amended to provide for a member creating a charge on his property by signing a declaration in writing so that he can be saved from the trouble and expense involved in registration of mortgage deeds. 3
- 78 State Governments may provide in the Co-operative Societies Act for a charge being created in favour of a society on the crops raised by a member and also frame appropriate rules for enforcement of the charge. 4
- 79 Steps may be taken to amend the Co-operative Societies Act, where necessary, so as to vest in the Registrar the power to execute awards passed for the recovery of co-operative dues. He should be given sufficient and special staff for this purpose. It is necessary to ensure that the procedure for recovery prescribed under the Civil Procedure Code is strictly observed by the staff appointed by the Registrar and, therefore, it will be desirable to train the staff in this respect and to place it under a senior and experienced judicial officer who may himself be attached to the office of the Registrar. 5
- 80 The majority are of opinion that in the context of the expansion of credit envisaged in the future through the co-operatives, central co-operative banks will have to assume responsibility for supervision of primary credit societies affiliated to and financed by them. 9
- 81 A supervisor has to perform a variety of functions. He should, therefore, be in charge of such number of societies as he can reasonably be expected to supervise efficiently. It will be necessary to reduce the charge of a supervisor which at present varies from State to State. The question of further strengthening the machinery for supervision may be examined by the central co-operative banks and the co-operative departments. 10

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- 82 In States where it is not the practice to nominate the Registrar or the Deputy or Assistant Registrars on the boards of the apex and central co-operative banks, the Co-operative Societies Act should be amended to vest in the Registrar the power to inspect, on his own motion, apex and central co-operative banks and primary societies. This power may be delegated by the Registrar to officers working under him. It may be necessary, however, to prescribe that the power to inspect a state co-operative bank may not be delegated by the Registrar to an officer below the rank of a Joint or Additional Registrar. Similarly, the power to inspect a central co-operative bank may not be delegated to an officer below the rank of a Deputy or Assistant Registrar. For primary societies, a person not below the rank of an inspector may be appointed. 12
- 83 The Registrar cannot fulfil his responsibility unless he keeps in close touch with the working of societies by getting their accounts audited under his direction and control. In Punjab and Uttar Pradesh where the Registrar is not responsible for audit of co-operative societies, steps may be taken to transfer the control of audit to the Registrar. 13
- 84 Audit of co-operative societies is in arrears in many States. This is not a happy position. The need for auditing all co-operative societies efficiently and promptly will be much greater in the context of the programmes for expansion of agricultural credit. Wherever the staff for audit is not adequate, steps may be taken by the State Government concerned to appoint the necessary additional staff so that all the societies and banks are audited every year. The number of societies under an auditor may be reviewed in the light of the increase in the volume of transactions that may take place in primary credit societies and the charge of an auditor may be fixed by the States with due reference to these transactions. 14
- 85 The existing position of staff in the co-operative departments and co-operative institutions may be reviewed by the State Governments and federal agencies concerned and additional staff provided for where necessary, so that the increased responsibilities of the various authorities can be discharged satisfactorily. 15

Special Funds and Guarantees (Chapter XVI)

- 86 Production in agriculture is affected by cycles of short-falls. Some dependable provision is essential to enable co-operative banks to tide over financial difficulties arising from widespread adverse seasonal conditions and the consequent failure on the part of members of co-operative societies to repay their loans when even the banks' resources are inadequate to meet such situations. 2

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- 87 The constitution and strengthening of the Agricultural Credit Stabilization Fund at various levels of the co-operative credit structure is essential. It should be obligatory on financing banks and primary credit societies to build up this Fund to the extent possible. It is necessary for banks and societies to provide in their by-laws not only for the manner in which the Fund shall be constituted, but also for the purposes for and the manner in which it will be utilised. 12
- 88 The Reserve Bank may frame rules governing its National Agricultural Credit (Stabilization) Fund so that co-operative financing agencies may know the circumstances under which assistance from the Fund may become available to them. 12
- 89 The need for the Governments setting up Relief and Guarantee Fund will be greater when the co-operatives undertake to finance agriculturists on a much bigger scale than hitherto. State Governments should make suitable provision in that behalf in the Third Five-Year Plan. It will also be necessary to frame rules for the purpose. The model rules circulated by the Government of India may be adopted by State Governments with such modifications as may be considered necessary to suit local conditions. 16
- 90 Agricultural finance, as such, involves greater risk than finance for commerce which is largely based upon tangible security. The extension of credit facilities to a class of persons to whom they were so far denied and also to the class of persons who were getting credit inadequately, may amount to the co-operative credit agencies being called upon to shoulder heavier responsibilities and greater risks than they have been undertaking so far. These institutions have shown some hesitation in providing credit for production on the basis of repaying capacity to landless tenants and others who are sometimes described as marginal or sub-marginal cultivators. If a system can be devised by which primary societies are enabled by suitable assistance to withstand accumulation of overdues and ultimate losses arising out of such overdues, it would help them and the financing banks to go ahead with programmes for expansion of agricultural credit. 20
- 91 A guarantee given by Government to make good the loss suffered by a society could be invoked only when the processes of recovery of the dues from the primary borrower and his sureties have been exhausted. Most societies and banks may not be inclined to take up the financing of all classes of cultivators on the expanded scale now envisaged, on the mere assurance that their ultimate losses will be met partially after they are finally determined. 22
- 92 In order that co-operative credit institutions may undertake the financing of all classes of cultivators in earnest and without mental reservations, some incentive in a more concrete 23
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form than a Government guarantee is necessary. The incentives may be as under :

(a) Government may give an outright contribution to the funds of each society at 3 per cent of the additional loans made by it during a year over and above the loans advanced by it in the preceding year. The assistance proposed may be shared equally between the Central and State Governments.

(b) Government may also make an outright contribution at 1 per cent, similarly, to central co-operative banks in respect of the additional finance provided by them.

(c) The advances to be taken into account for the purpose of the assistance will be, in either case, those made for financing agricultural production. Since, by and large, loans given against pledge of produce or jewels are not for production, such loans should be excluded for this purpose.

(d) The contribution recommended above may be made by the Government in the year 1961-62 in respect of the increase in the loans registered by societies and banks in 1960-61, over the figure of loans advanced in 1959-60.

(e) Contributions from the Government may be given for the first two years without examining how far the increase in the loan business is reflected in the expansion of credit facilities to the weaker sections of the community. Before contributions are made in the third year, Government may withhold assistance from a society which has not made any satisfactory progress in that direction.

(f) The contributions received by societies and central banks should be credited by them to a special bad debt reserve which will be distinct from the bad debt reserve created out of their profits.

(g) The special bad debt reserve of the societies should be kept as a deposit with the central bank to which they are affiliated. It should be permissible for the bank to invest its special bad debt reserve in its business.

(h) The special bad debt reserves may be drawn upon with the permission of the Registrar. Rules may be framed for the purpose. While withdrawal by a primary credit society from the reserve may be made to cover the entire amount of loss, the withdrawal by a central bank may be only to the extent of 2/3rd of the loss, the balance being borne by the bank.

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The assistance from the State, on the lines recommended above, will serve as the needed catalytic agent and provide the moral, more than the material, assurance that may be necessary before the benefit of co-operative credit is extended to all sections of the agricultural community.

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Conclusion (Chapter XVII)

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Credit from the co-operatives should no doubt be ade-

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- quate for the production requirements of a cultivator, but should not be so facile or so inadequately supervised as to render possible its use for consumption rather than for increasing production. Any misuse of the extended facilities may give a setback to the attempts made to build up a strong co-operative credit system.
- 95 Within the framework of the broad principles which 3
may be applied to the country as a whole, the greatest possible freedom should be allowed to State Governments who are responsible under the Constitution for Co-operation and no less to the people associated with the movement. Provision of various aids from Government should not be intended or used for compelling societies to adopt a particular pattern of organization.
- 96 Once a policy is adopted after the fullest consideration, 3
adherence to that policy for a fairly long period is essential so that it may have scope for operation over a reasonable length of time. It is only then that the effects of such a policy can be assessed. The importance of periodical evaluation of the results cannot be underrated. Such an evaluation may be undertaken, through a small committee, by the Ministry of Community Development and Co-operation in collaboration with the Reserve Bank of India. With this committee, an economist and a nonofficial co-operator should be associated. The evaluation reports should provide the basis for adjustments or changes in policy, in case they are deemed necessary after consultation with the various interests concerned.
- 97 To the extent it is possible to secure the services of sui- 4
table persons to associate themselves actively in the direction and management of co-operative organizations at various levels, the co-operative movement can be expected to establish itself firmly in the country. It is, therefore, of vital importance that such leadership should be encouraged for the promotion of the movement.
- 98 The role of the State will consist in providing the assis- 5
tance required by the institutions during the period of their initial growth, but should not extend to the internal management of societies and banks, which should be left to the representatives of the members themselves. This will involve discontinuance of the practice obtaining in some States of officials occupying responsible positions in boards of directors—such as those of chairman and vice-chairman. The posts of managing directors and secretaries should be normally filled by the board of management or the general meeting, appointment to these posts being made by Government only for special reasons and for specified periods.
- 99 It will be necessary to draw in, for the management of 6
co-operative institutions, public-spirited workers who will subordinate their personal interests and party and political considerations to the common good of the people.

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100 To meet the requirements of scheduled tribes and scheduled areas, special steps may become necessary. Some of the conditions attached to the grant of financial aids of various descriptions may have to be modified or relaxed. The duration of such aids also may have to be extended. 6

APPENDIX I

List of persons and institutions who replied to questionnaires

(i) Registrars of Co-operative Societies

a) General Questionnaire

- | | |
|-------------------|-----------------------|
| 1) Andhra Pradesh | 11) Punjab |
| 2) Assam | 12) Rajasthan |
| 3) Bihar | 13) Uttar Pradesh |
| 4) Bombay | 14) West Bengal |
| 5) Delhi | 15) Andaman & Nicobar |
| 6) Kerala | 16) Himachal Pradesh |
| 7) Madras | 17) Pondicherry |
| 8) Madhya Pradesh | 18) Manipur Admn. |
| 9) Mysore | 19) Tripura Admn. |
| 10) Orissa | |

b) Questionnaire regarding Special Schemes of Credit

- | | |
|-------------------|----------------------|
| 1) Assam | 5) Punjab |
| 2) Kerala | 6) West Bengal |
| 3) Madras | 7) Andaman & Nicobar |
| 4) Madhya Pradesh | 8) Rajasthan |

(ii) State Co-operative Banks

a) General questionnaire

- | | |
|-------------------|----------------------|
| 1) Andhra | 11) Punjab |
| 2) Assam | 12) Rajasthan |
| 3) Bihar | 13) Saurashtra |
| 4) Bombay | 14) Uttar Pradesh |
| 5) Hyderabad | 15) Vidarbha |
| 6) Kerala | 16) West Bengal |
| 7) Madras | 17) Delhi |
| 8) Madhya Pradesh | 18) Himachal Pradesh |
| 9) Mysore | 19) Pondicherry |
| 10) Orissa | |

b) Questionnaire regarding Statistical information

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|-------------------|----------------------|
| 1) Andhra | 10) Orissa |
| 2) Assam | 11) Punjab |
| 3) Bihar | 12) Rajasthan |
| 4) Bombay | 13) Saurashtra |
| 5) Hyderabad | 14) Uttar Pradesh |
| 6) Kerala | 15) Vidarbha |
| 7) Madras | 16) Himachal Pradesh |
| 8) Madhya Pradesh | 17) Tripura |
| 9) Mysore | |

(iii) *Central Co-operative Banks—Questionnaire regarding statistical information***Andhra Pradesh**

- | | |
|---------------|----------------------|
| 1) Anantapur | 11) Mahboobnagar |
| 2) Bhongir | 12) Nalgonda |
| 3) Chittoor | 13) Nellore |
| 4) Cuddapah | 14) Nizamabad |
| 5) Guntur | 15) Rajmundry |
| 6) Hyderabad | 16) Ramachandrapuram |
| 7) Kakinada | 17) Srikakulam |
| 8) Karimnagar | 18) Sreekonaseema |
| 9) Krishna | 19) Warangal |
| 10) Kurnool | 20) Vizianagaram |
| | 21) Vizivada |

Assam

- 1) Kamrup 2) Nawgong 3) Sibsagar

Bihar

- | | |
|---------------|---------------|
| 1) Banka | 8) Madhipura |
| 2) Bhagalpur | 9) Monghyr |
| 3) Daltongani | 10) Rajmahal |
| 4) Dhanbad | 11) Rohika |
| 5) Giridih | 12) Sitamarhi |
| 6) Hajipur | 13) Siwan |
| 7) Jamtara | 14) Supaul |

Bombay

- | | |
|---------------|----------------------------|
| 1) Achalapur | 19) Mehsana |
| 2) Ahmedabad | 20) Morvi |
| 3) Ahmednagar | 21) Nagpur |
| 4) Akola | 22) Nasik |
| 5) Amravati | 23) North Satara |
| 6) Amreli | 24) Osmanabad |
| 7) Aurangabad | 25) Panchamahhal |
| 8) Baroda | 26) Parbhani |
| 9) Bhandara | 27) Poona |
| 10) Broach | 28) Pusa |
| 11) Buldana | 29) Sholapur |
| 12) Darwha | 30) Shri Laxmi |
| 13) Kaira | 31) South Satara (Sangli) |
| 14) Khamgaon | 32) Surat |
| 15) Kolhapur | 33) Wankaner |
| 16) Latur | 34) Wardha |
| 17) Limbdi | 35) West Khandesh (Dhulia) |
| 18) Mehkar | 36) Yeotmal |

Kerala

- 1) Cochin

Madras

- | | |
|---------------|-------------------|
| 1) Coimbatore | 6) South Arcot |
| 2) Kumbakonam | 7) Tanjore |
| 3) Madras | 8) Tinnevely |
| 4) Madurai | 9) Tiruchirapalli |
| 5) Nilgiris | 10) Vellore |

Madhya Pradesh

- | | |
|-------------------|---------------|
| 1) Bhilsa | 10) Mandla |
| 2) Bhopal | 11) Raipur |
| 3) Bilaspur | 12) Rajagarh |
| 4) Birendra | 13) Sagar |
| 5) Damoh | 14) Sarguja |
| 6) Durg | 15) Seoni |
| 7) Hoshangabad | 16) Shivpuri |
| 8) Indore Premier | 17) Shujalpur |
| 9) Jhabua | 18) Sohagpur |

Mysore

- | | |
|---------------|------------------------------|
| 1) Belgaum | 7) Karnatak (Dharwar) |
| 2) Bellary | 8) Kolar |
| 3) Bijapur | 9) Mandya |
| 4) Chitaldurg | 10) Kanara (Sirsi) |
| 5) Gulbarga | 11) Shimoga |
| 6) Hassan | 12) South Canara (Mangalore) |

Orissa

- | | |
|---------------|-------------------------|
| 1) Angul | 5) Nowrangpur |
| 2) Aska | 6) United Puri Nimapara |
| 3) Berhampore | 7) Sundargarh |
| 4) Mayurbhan | |

Punjab

- | | |
|---------------|---------------|
| 1) Bhatinda | 8) Kapurthala |
| 2) Bhoranj | 9) Karnal |
| 3) Faridkot | 10) Moga |
| 4) Ferozepore | 11) Phagwara |
| 5) Gurgaon | 12) Sirsa |
| 6) Jullundur | 13) Tarntaran |
| 7) Kangra | |

Rajasthan

- | | |
|--------------|---------------|
| 1) Ajmer | 6) Ganganagar |
| 2) Alwar | 7) Jhalwar |
| 3) Banswara | 8) Jodhpur |
| 4) Bhim | 9) Tonk |
| 5) Dungarpur | 10) Todgarh |

Uttar Pradesh

- | | |
|----------------|----------------|
| 1) Agra | 12) Islamnagar |
| 2) Aligarh | 13) Jhansi |
| 3) Allahabad | 14) Gadhwal |
| 4) Balrampur | 15) Hamirpur |
| 5) Banda | 16) Muttra |
| 6) Basti | 17) Moradabad |
| 7) Biswan | 18) Nainital |
| 8) Bulandshahr | 19) Orai |
| 9) Faizabad | 20) Pratapgarh |
| 10) Fatehpur | 21) Rai Bereli |
| 11) Itawa | 22) Roorke |

West Bengal

- | | |
|----------------|---------------------------|
| 1) Balgeria | 6) Howrah |
| 2) Burdwan | 7) Katwa |
| 3) Cooch Behar | 8) Midnapore |
| 4) Darjeeling | 9) 24 Paragana (Northern) |
| 5) Ghatal | 10) Rampurhat |

(iv) Development Commissioners

- | | |
|-------------------|----------------------|
| 1) Assam | 8) Rajasthan |
| 2) Bombay | 9) Uttar Pradesh |
| 3) Madras | 10) West Bengal |
| 4) Madhya Pradesh | 11) Delhi |
| 5) Mysore | 12) Himachal Pradesh |
| 6) Orissa | 13) Manipur |
| 7) Punjab | 14) Tripura |

(v) Prominent non-official co-operators

- 1) Shri R.G. Saraiya

(vi) State Co-operative Unions

- 1) Bombay State Co-operative Union Ltd.
- 2) Madhya Pradesh State Co-operative Union Ltd.
- 3) Orissa State Co-operative Union Ltd.
- 4) Tamil Nadu Co-operative Union Ltd.
- 5) West Bengal State Co-operative Union Ltd.
- 6) Himachal Pradesh Co-operative Marketing & Development Federation Ltd.
- 7) Tripura State Co-operative Union Ltd.

*(vii) All India Co-operative Union**(viii) State Governments*

- | | |
|-------------------|------------------------------|
| 1) Andhra Pradesh | 9) Rajasthan |
| 2) Assam | 10) West Bengal |
| 3) Bombay | 11) Andaman & Nicobar island |
| 4) Kerala | 12) Delhi |
| 5) Madras | 13) Himachal Pradesh |
| 6) Madhya Pradesh | 14) Pondicherry |
| 7) Mysore | 15) Manipur |
| 8) Punjab | |

APPENDIX II

List of co-operative institutions visited

1. *ANDHRA*

1. Poranki Multi-purpose Co-operative Society, Poranki
2. Viziawada Co-operative Central Bank, Vijayawada
3. Andhra State Co-operative Bank, Vijayawada
4. Shri Mahatma Gandhi Multi-purpose Co-operative Society
Goddavarru
5. Central Co-operative Bank, Vizianagaram
6. Jami Large-sized Co-operative Society, Jami
7. Kazimkota Large-sized Co-operative Society, Kazimkota
8. Anakapalli Co-operative Marketing Society, Anakapalli
9. West Godavari District Co-operative Central Bank, Eluru
10. Chattaparru Large-sized Co-operative Society, Chattaparru
11. Ponnangi Large-sized Co-operative Society, Ponnangi
12. Peddapadu Co-operative Marketing Society, Peddapadu
13. Konakondala Large-sized Co-operative Society, Konakondala
14. Kasapuram Multi-purpose Rural Co-operative Society,
Kasapuram
15. Guntakkal Co-operative Marketing Society, Guntakkal
16. Devuni Cuddapah Large-sized Co-operative Society, Devuni
Cuddapah
17. Chinnachowk Multi-purpose Co-operative Credit Society,
Chinna Chowk
18. Puttlampalli Hindu Multi-purpose Co-operative Credit Society,
Puttlampalli
19. Cuddapah Co-operative Marketing Society, Cuddapah
20. Cuddapah District Central Co-operative Bank, Cuddapah.

2. *ASSAM*

1. Assam Co-operative Apex Marketing Society
2. Nowgong Central Co-operative Banking Union
3. Jorhat Central Co-operative Bank
4. Pubtukolai Co-operative Credit & Pubsoragaon Co-operative
Credit Society
5. Adarshkrishipam Samabai Samiti Golaghat
6. Assam Co-operative Sugar Mills
7. Nilbagan Co-operative Credit Society
8. Hojai Co-operative Credit Society
9. Hojai Marketing Co-operative Society
10. Kamrup District Central Co-operative Bank

3. *BIHAR*

1. Ramjeechak Digha Large-sized Multi-purpose Co-operative
Society

2. Banskothi Digha Multi-purpose Co-operative Society
3. Bihar State Co-operative Bank
4. Bihar State Co-operative Land Mortgage Bank
5. Ghoswari Multi-purpose Co-operative Society
6. Dipnagar Large-sized Multi-purpose Co-operative Society
7. Bihar-Sharif Central Co-operative Bank
8. Bihar Central Co-operative Bank

4. BOMBAY

1. Tunkartan Multi-purpose Co-operative Society
2. Chakan Multi-purpose Society
3. Khed Supervising Union
4. Khed Branch of Poona District Central Co-operative Bank
5. Moshi Gram Vividh Karyakari Sahakari Society
6. Poona District Co-operative Central Bank
7. Poona District Sale and Purchase Union
8. Vadgaon Group Vividh Karyakari Sahakari Society
9. Panvel Development Block
10. Khed Taluk Purchase & Sale Union
11. Broach District Co-operative Central Bank
12. Haldar Group Co-operative Multi-purpose Society
13. Trelsa Kothi Multi-purpose Co-operative Society
14. Kelod Group Co-operative Multi-purpose Society
15. Amod Group Co-operative Cotton Sale Ginning and Pressing Society
16. Shri Daxin Gujarat Sahakari Cotton Marketing Union, Surat
17. Purushottam Farmers' Co-operative Ginning and Pressing Society, Surat
18. Bombay State Co-operative Bank
19. East Khandesh District Central Co-operative Bank
20. East Khandesh District Co-operative Marketing Society
21. Dharangaon Co-operative Multi-purpose Society
22. Branch of East Khandesh District Central Co-operative Bank, Dharangaon
23. Nere Group Co-operative Cotton Sale Society
24. Trasod Vividh Karyakari Sewa Sahakari Sangh Society

5. DELHI

1. Delhi State Co-operative Bank

6. JAMMU AND KASHMIR

1. Boramula Central Co-operative Bank
2. Anantnag Central Co-operative Bank
3. Jammu Central Co-operative Bank
4. Jammu & Kashmir State Co-operative Apex Bank
5. Tanmarg Magam Co-operative Marketing Society
6. Mulgam Hardeeshara Multi-purpose Society
7. Mazhama Chak Kaweesa Multi-purpose Co-operative Society
8. Ajas Multi-purpose Society
9. Seeloo Co-operative Marketing Society
10. The Katrasoo Multi-purpose Co-operative Society, Bogam
11. Hawal Co-operative Marketing Society

12. Pulwania Co-operative Marketing Society
13. Aish Muquam Logripura, Pahalgam Multi-purpose Society
14. Achabal Multi-purpose Society
15. Seer Multi-purpose Society
16. Kashmir Peoples' Co-operative Service

7. KERALA

1. Malayankil Regional Co-operative Bank
2. Vattiyookavu Multi-purpose Co-operative Society
3. Shoranur Multi-purpose Co-operative Society
4. Cochin Central Co-operative Bank
5. Kolazhi Co-operative Credit Society
6. North Malbar District Co-operative Marketing and supply Society, Calicut
7. Malabar Co-operative Central Bank

8. MADHYA PRADESH

1. Madhya Pradesh State Co-operative Bank, Jubbulpore
2. Madhya Pradesh State Co-operative Marketing Society
3. Umeria Agricultural Credit Society
4. Shahipura Large-sized Primary Agricultural Co-operative Society
5. Shahipura Co-operative Marketing Society
6. Jabalpur Co-operative Central Bank
7. Madhya Pradesh State Co-operative Union
8. Jabalpur Divisional Co-operative Institute
9. Primary Land Mortgage Bank, Jubbulpore
10. Bhopal Co-operative Central Bank
11. Bairagarh Co-operative Large-sized Society (Bhopal)
12. Karvai Primary Credit Society (Raisen taluk)
13. Primary Co-operative Credit Society in Mana
14. Ashta Co-operative Marketing Society
15. Large-sized Co-operative Society, Harsola
16. Indore Premier Co-operative Central Bank, Indore
17. Large-sized Co-operative Society, Methwada.

9. MADRAS

1. Molasur Co-operative Multi-purpose Rural Credit Society
2. Killiyanur Co-operative Multi-purpose Rural Credit Society
3. B. Mutlur Multi-purpose Co-operative Credit Society
4. South Arcot District Co-operative Central Bank
5. Madurai District Central Co-operative Bank
6. Ramanathapuram District Co-operative Central Bank
7. Thenkarai Multi-purpose Co-operative Society
8. Sivarakottai Multi-purpose Co-operative Society
9. Tirupparankundram Co-operative Agricultural Bank
10. Parthibanur Co-operative Agricultural Bank
11. Arianandal Multi-purpose Co-operative Society
12. Kandanparvatham Co-operative Credit Society
13. Pazhavur Co-operative Credit Society
14. Kadambathur Co-operative Agricultural Bank
15. Thirupachur Multi-purpose Co-operative Credit Society
16. Madras State Co-operative Bank
17. Tirukalukundram Co-operative Agricultural Bank

10. *MYSORE*

1. Mysore State Co-operative Apex Bank
2. Mysore Central Co-operative Land Mortgage Bank
3. Mysore State Co-operative Union
4. Mysore State Co-operative Marketing Society
5. Bangalore District Co-operative Central Bank
6. Dodda Pramanada Prathamica Pattina Vyvasaya Sahakara Sangh, Byatarayanapura
7. Bangalore North & South Taluq Multi-purpose Co-operative Society
8. Kodigahalli Large-sized Agricultural Co-operative Society
9. Channapatna Taluq Agricultural Produce Co-operative Marketing Society
10. Hittanhalli Koppal Large-sized Co-operative Society
11. Malavalli Taluq Co-operative Marketing Society
12. Mandya Ryots Multi-purpose Co-operative Society
13. Gejjalagere Sri Rama Co-operative Society

11. *ORISSA*

1. Biratung Large-sized Credit Co-operative Society, Biratung
2. United Puri-Nimapara Co-operative Central Bank, Puri
3. Puri Co-operative Urban Co-operative Bank, Puri
4. Biranarasingpur Agricultural Credit Society, Birananrasingpur
5. Danda Mukundapur Grama Panchayat Grain Gola, Danda Mukundapur
6. Orissa State Co-operative Bank
7. Orissa State Co-operative Union
8. Orissa State Co-operative Marketing Society .

12. *PONDICHERY*

1. Pondicherry State Co-operative Bank
2. Seliamedu Multi-purpose Co-operative Credit Society

13. *PUNJAB*

1. Gholwar Co-operative Agricultural Service Society
2. Patti Co-operative Marketing-cum-processing Society
3. Sathiala Co-operative Agricultural Service Society
4. Punjab State Co-operative Bank
5. Jullundur Central Co-operative Bank
6. Lambra Co-operative Thrift & Credit Society
7. Littran Co-operative Large-sized Thrift & Credit Society
8. Jandwari Large-sized Co-operative Service Society
9. Burhampur Co-operative Thrift & Credit Society
10. Rupar Co-operative Cold Store
11. Karar Co-operative Marketing Society

14. *RAJASTHAN*

1. Jaipur Co-operative Central Bank
2. Rajasthan Rajya Sahakari Kraya Vikraya Sangh, Jaipur
3. Rajasthan State Co-operative Bank

4. Bai Multi-purpose Co-operative Credit Society
5. Jaipur Sahakari Kriya Vikraya Samiti.

15. *UTTAR PRADESH*

1. Allahabad Co-operative Milk Supply Union
2. Kakudi Service Co-operative Society
3. Kherahat Khurd Service Co-operative Society
4. Ghorpur Large-sized Co-operative Society
5. Garia Service Co-operative Society
6. Allahabad District Central Co-operative Bank
7. Uttar Pradesh Co-operative Bank, Varanasi Branch
8. Barain Sadhan Sahakari Samiti
9. Uttar Pradesh Co-operative Development Federation
10. Umarha Sadhan Sahakari Samiti
11. Chirgaon Co-operative Marketing Society
12. Chirgaon Large-sized Society
13. Albattia Service Co-operative Society
14. Mithakur Large-sized Co-operative Society
15. Muttra District Co-operative Bank

16. *WEST BENGAL*

1. Shankarpur Union Primary large-sized Co-operative Credit Society
2. Duma Union Large-sized Primary Co-operative Agricultural Credit Society
3. Baruaberia Krishi Bindan Samabaya Samiti, Baruaberia
4. Bongaon Central Co-operative Marketing Society
5. Bagdah Large-sized Primary Agricultural Co-operative Credit Society
6. 24 Paraganas Northern Central Co-operative Bank
7. Sankehura Union Co-operative Large-sized Primary Agricultural Credit Society
8. West Bengal Provincial Co-operative Bank

APPENDIX III

BRIEF NOTES ON THE WORKING OF SOCIETIES

1. The Chhattāparru Large-sized Co-operative Society (Andhra Pradesh) was registered as a large-sized society in January 1957 by amalgamating 3 small-sized societies. It is in the Peddapadu Block. Out of nearly 900 families in the area of the society, 860 persons had been enrolled as members. Its share capital on 24 February 1960 amounted to Rs. 61,364, of which Rs. 15,000 represented contribution by Government. Its reserve fund and deposits amounted to Rs. 15,303 and Rs. 59,595 respectively. A sum of Rs. 1,88,629 was outstanding to the central bank, no part of which was overdue. The society gives short-term, medium-term and produce loans to members. Individual maximum borrowing power has been fixed at Rs. 2,000 for short-term and Rs. 2,000 for medium-term loans. Loans are given upto Rs. 200 to tenant cultivators also on producing two sureties from land-owners or tenants. The society had advanced loans to 150 tenants. Due to want of funds it had reduced the maximum limit to such members from Rs. 200 to Rs. 100. Surety loans are given upto Rs. 500 only. Loans exceeding Rs. 500 are given only against mortgage security. A sum of Rs. 2,37,795 was outstanding from members of which Rs. 50,162 were overdue. The society had received from Government a loan of Rs. 15,000 and a subsidy of Rs. 7,500 for construction of a godown and a building. It earned Rs. 800 by way of rent and was able to meet the loan instalments out of the rent so collected. Over 100 members had taken produce loans. For produce loans in excess of Rs. 500, borrowers are required to get their stocks insured. Members pay the dues to the society, get the produce released and make their own arrangements for its sale. Loans are given throughout the year without any reference to season. Besides catering to the credit needs of members, the society is dealing in fertilizers as it is not getting enough quota. The management vests in a board nominated by Government. A central bank supervisor works as secretary of the society. This is a good society which has attracted deposits. It is, however, not able to expand its business further on account of lack of funds. It is unable to meet the entire needs of its members. There is a keen demand among the members for more loans, particularly medium-term loans.

2. Godavari Shri Mahatma Gandhi Multi-purpose Co-operative Society (Andhra Pradesh) which commenced its business in 1919, has 3 villages in its area of operations. There are about 2000 agricultural families, of whom about half are landless agriculturists. The society had 436 members, 215 of whom were landless agriculturists. Its share capital and deposits amounted to Rs. 20,341 and Rs. 11,000 respectively. Its maximum borrowing power is Rs. 4,000. A sum of Rs. 1.69 lakhs was due from members of which about Rs. 14,000 were overdue. The society gives landless labourers loans at the rate of Rs. 40 per head on surety basis.

The total amount disbursed to such members during 1958-59 amounted to Rs. 12,253. The present Chairman has been in office for 2 years and has been a *panchayatdar* for the past 10 years. A retired teacher in the village is writing the accounts of the society. The chairman checks the cash book and other ledgers. There is a great demand for medium-term loans in the area for applying *patti earth* to the land. At present members obtain long-term credit needed by them from the Vyur Land Mortgage Bank. But they would prefer to take medium term loans from the society, because it takes nearly a year to get loans from the land mortgage bank. Further, once their lands are mortgaged to that bank, it would be difficult for them to obtain from the society the credit needed for current agricultural operations.

3. The Guntakkal Co-operative Marketing Society Ltd. (Andhra Pradesh) started business in 1941. Its area of operation extends to Gooty taluk of Anantapur District and 6 villages in Alur taluk of Kurnool District. It had on 30.12.1959 a share capital of Rs. 58,414, of which Rs. 30,000 represented Government contribution. Its reserve fund and deposits amounted to Rs. 14,795 and Rs. 7,373 respectively. The society procures cotton as agent of the Andhra Co-operative Spinning Mills, Guntakkal and gets a commission of Rs. 2.25 per bale supplied. During 1958-59 it earned a commission of Rs. 6,896. The society procures cotton from its members and supplies it to the spinning mills which fixes the price and pays the members direct. The society gives loans to members on the pledge of produce to the extent of 60 per cent of the value of the goods pledged. Stocks are kept in rented godowns. One key is kept with the supervisor of the central bank. Stocks in villages are kept in pucca houses. The society insists upon insurance, if the amount of loans exceeds Rs. 1,000. The central bank has given a cash credit accommodation of Rs. 3 lakhs to the society for enabling it to provide produce loans. A sum of Rs. 43,507 was due to the society from members under produce loans. The society has been given a subsidy of Rs. 19,200 and a loan of Rs. 1,40,000 for the construction of godowns and for erecting a cotton ginning factory and a decorticator. Godowns have been constructed and the ginning factory and the decorticator are being erected. It was represented that if the marketing yard of the society was recognized as a regulated market, it would facilitate the members to dispose of their produce at the yard of the marketing society itself. The society has not attempted to establish a link between credit and marketing.

4. The Nilbagan Co-operative Credit Society (Assam) was registered as an unlimited liability society in August 1954. It was reorganized as a large-sized society in March, 1956, covering 13 villages, within a radius of 3 miles from the headquarter-village. The total population of these villages is about 10,000, mostly dependent on agriculture. Of the 2,000 families residing in these villages, about 1,400 own land ranging between 20 to 50 bighas; the rest are landless. Of the latter, nearly 200 families are agricultural labourers. The society has 311 members all of whom own lands. The society thus serves about 16 per cent of the population in the area. It has received Government contribution of Rs. 7,500 towards its share capital; members hold shares of Rs. 4,320. The society is being financed by the Nowgong Central Co-operative Banking Union Ltd. It had borrowed Rs. 3,800 during 1958-59 from the union. The society's total outstanding against members amounted to Rs. 0.83 lakh and were due from 192 members. Of them 23 were defaulters, the amount outstanding

against them being Rs. 0.07 lakh. The overdues worked out to 21 per cent of the outstandings. The society has a paid secretary. Though its maximum borrowing power is Rs. 1.18 lakhs, it had received only limited amounts from the Union as the latter, because of its overdues, was not able to borrow adequately from the apex bank. The society is, therefore, unable to meet the legitimate needs of its members and unless the Union is able to improve its position, there seems no prospect of the society increasing in business.

5. The Pubtukolai Co-operative Credit Society (Assam) is based on unlimited liability basis. It was registered in July 1958. It had a share capital of Rs. 315. Its membership was low at 24. Its borrowings from the central bank amounted to Rs. 3,000 and the entire amount had been advanced to its members. On account of its small paid-up share capital, the society's borrowing power was low and it was, therefore, not in a position to raise adequate loans to meet the requirements of its members. As the members formed a homogeneous group with little or no rivalry among themselves, they were able to work as a team.

6. The Hojai Co-operative Marketing Society Ltd. (Assam) was registered in November 1957. Its area of operations extends over 4 mouzas viz., Hojai, Jugijan, Nomati and Kapasbari, the population of which is estimated at 97,000. It has enrolled 34 societies and 415 individuals as members. Its paid-up share capital amounts to Rs. 28,950, including Rs. 20,000 contributed by the Government. The Government have also granted a loan of Rs. 15,000 and a subsidy of Rs. 5,000 for a godown, and Rs. 4,100 as subsidy for managerial expenses. Nowgong being one of the districts where Government procured paddy during 1958-59, the society purchased 2.90 lakh maunds of paddy valued at Rs. 25.99 lakhs at controlled prices. Of this, 2.73 lakh maunds, valued at Rs. 27.06 lakhs, were sold by it, yielding a gross profit of Rs. 1.06 lakhs and a net profit of Rs. 0.84 lakh. Although it faced much opposition from established traders, who suffered somewhat from monopoly procurement by the co-operatives, it could attract good business. It has also proposed to start a rice mill at Hojai for which it has secured the State Government's approval.

7. The Ramjichak Digha Large-sized Multi-purpose Co-operative Society Limited (Bihar) which was functioning since 1947 as a multi-purpose society was reorganized a large-sized society in 1957. Another society in a neighbouring village was later amalgamated with it. The society is in the non-block area. The share capital of the society at the end of December 1959 was Rs. 19,600 of which Rs. 10,000 represented contribution made by the State Government. Government have, however, not nominated their representatives on the Board. The society has constructed a godown out of Rs. 10,000 sanctioned by the State Government—Rs. 7,500 as loan and Rs. 2,500 as subsidy. It has so far repaid Rs. 3,000 towards the loan raised from the State Government. The maximum up to which an individual can borrow is fixed at Rs. 1,000 which includes both short-term and medium-term credit. The society has been advancing mostly short-term loans. Out of 400 borrowing members, about 99 members obtained loans exceeding Rs. 200 each. The society has received deposits from three members to the extent of Rs. 1,200. The overdues on 30.6.1959 amounted to Rs. 26,133 against the total outstandings of Rs. 39,373. The heavy overdues were attributed to failure of crops arising out of either untimely rains or drought. The overdues were reported to

have been brought down to Rs. 6,454 by 31st December 1959.

8. The Banskothi Digha Multi-purpose Co-operative Society Limited (Bihar) serves the Banskothi-Dighaghat village having a population of about 2,505 consisting of about 400 families. The working of the society had been considerably affected during the last two years due to widespread failure of crops. The society's overdues mounted up and consequently it could not obtain any finance from the central bank. Some of the shareholders had been repaid their share money and this had brought down the society's share capital from about Rs. 5,000 to Rs. 1,501. The loans outstanding against members on 30 June 1959 were Rs. 3,000, of which about Rs. 600 were overdue. The society is anxious to construct a godown and later provide, if possible, cold storage facilities for keeping seed potatoes. The society has started a fair price shop for supplying essential commodities such as kerosene oil, sugar, cloth, fertilizers, etc. For carrying on the work of the shop, the society has a paid employee who also writes the books of accounts.

9. The Kalod Group Co-operative Multi-purpose Society Limited (Bombay) was registered in 1953. The society functions in a pre-extension block area. Its area of operations is confined to two villages, namely, Kelod and Pipalia with a cultivating population of about 777, of whom about 100 families own three to four acres of land each. It has 605 members and has thus covered more than $\frac{3}{4}$ th of the population. Members are required to hold shares of the value of one-fifth of their borrowings. In addition to this, the society collects from members as share every year 5 per cent of the loans advanced to them. In view of this the society has enough share capital of its own and does not require Government contribution. Besides the society has introduced a compulsory savings scheme. A sum of Rs. 85,500 under short-term and Rs. 5,000 under medium-term are outstanding to the central bank. During 1958-59, the total advances of the society to its members amounted to Rs. 1.11 lakhs. There were no overdues. About 66 members of the society obtained more than Rs. 500 each as loan. Loans are also sanctioned to members who have taken lands on lease for cultivation. In such cases two sureties are obtained who are owners of land. The society pooled 567 *bhars* of cotton last year. Advances are made to members out of funds obtained from the marketing society. The society has established a link with the local marketing society. It also distributed during this period 12 tons of urea to members. It runs a fair price shop and has constructed a small-sized godown obtaining some financial assistance from Government. The society has appointed a secretary at Rs. 80 per month. The society worked at a profit of Rs. 1,791 during last year and was able to declare a dividend of $3\frac{1}{2}$ per cent.

10. The Vadagaon Group Vividh Karyakari Sahakari Society Limited (Bombay) was registered in 1954 and was included under the intensive scheme of Japanese method of paddy cultivation in 1957. The area of operations of the society extends to four villages with a population of 13,872. The society has covered only 142 out of 825 families residing in its area of operations. In Vadagaon village alone there are 528 families, of whom only 50 have joined the society. The paid-up share capital of the society on 30 November 1959 amounted to Rs. 0.04 lakh. The maximum borrowing power is fixed at 8 times the paid-up share capital, plus reserve fund and building fund minus accumulated losses. The outstandings to

the Poona Central Co-operative Bank stood at Rs. 0.72 lakh. Under the intensive paddy cultivation scheme, the scale of finance has been raised to Rs. 125 per acre as against Rs. 30 per acre advanced previously. 70 per cent of the limit is given in kind by generally distributing per acre one bag of ammonium sulphate (Rs. 38) and one bag of superphosphate (Rs. 14) and 20 seers of paddy seeds and oil cakes costing Rs. 18. The balance is given in cash for meeting labour charges. On 30 November 1959 the outstandings amounted to Rs. 0.15 lakh under paddy loans and Rs. 0.52 lakh under ordinary loans. The society also advances crop loans for raising other crops. The scale per acre of finance to be given to members is fixed at the annual Field Workers' Conference, and this is accepted by the central bank. The society has a paid Secretary. The reason for poor membership of the society is that many agriculturists had taken *taccavi* loans from Government, and had their lands mortgaged for the same. People preferred *taccavi* loans since the rate of interest was low as compared to the interest charged by the society, and as the period of repayment extended from 3 to 5 years. The *taccavi* loans were generally taken for the purchase of bullocks etc. Moreover, most agriculturists in the area engaged themselves in subsidiary occupation like supplying grass, dairying, etc. Some of them also worked in the nearby factories and mills. As a result, therefore, they carried on their cultivation operations without borrowing from the society.

11. The Ajas Multi-purpose Co-operative Society Ltd. (Jammu & Kashmir) covers one *Patwar Halqa* of four villages, in a block area. Out of a total of 1,054 families residing in its area of operations, the society had 846 members on March 31, 1959. The paid-up share capital of the society was Rs 5,733. The society had Rs 50 in its reserve fund. It had, however, undistributed profits of Rs 3,071. The society's deposits amounted to Rs 769 only. The society is affiliated to the Baramula Central Co-operative Bank. Its outstandings from the bank on 22 September 1959 amounted to Rs 28,627. It makes advances to its members against paddy, maize, waternuts, willow baskets and *kangris*. Loans are also advanced against anticipated crops. The central bank advances loans to the society at 3½ per cent. The society in turn charges interest to members at 6½ per cent. Loans are repaid by the borrowing members by marketing their produce through the society which undertakes the same through the marketing society to which it is affiliated. On 22 September 1959, Rs 30,731 were outstanding against the members of which Rs 4,200 were overdue. The overdues have declined from the level of Rs 12,400 at which they stood in 1958-59. Besides marketing the produce of its members, the society undertakes the distribution of consumers goods and fertilizers to its members. During 1958-59, the society marketed paddy to the extent of Rs 16,600 and maize for Rs 18,600. During 1959-60, baskets and *kangris* marketed were for Rs 1,600 and waternuts for Rs 7,400. Consumer goods worth Rs 17,300 were purchased and worth Rs 15,400 were sold, during 1959-60. The Board of Directors consisted of 9 members. The staff consists of an Accountant (Rs 50 per month), a Salesman (Rs 30 per month), and an Assistant Salesman (Rs 25 per month).

12. The Hawal Co-operative Marketing Society Ltd. (Jammu & Kashmir) was registered on April 25, 1957. Its area of operation extends to 12 *Patwar Halwas* with a population of 45,430. The membership of the society consists of 50 individuals and 9 societies. The total membership of 9 affiliated societies is 6,682. The managing committee of the society consists of 9 members all of whom represent the affiliated multi-purpose

societies. Its share capital on 31 March 1959 amounted to Rs 14,685 of which a sum of Rs 10,000 was contributed by the State Government. The contribution of the individuals amounted to Rs 2,235 and societies Rs 2,450. The organization of the society has gone a long way in fetching handsome price for the products marketed through it. To this end, the society had to overcome obstacles placed in its way by the traders in its area. Before the organization of the society, the producers had to sell walnuts at Rs 16 per maund and apples and pears at a price ranging from 3 to 5 per box. After the organization of the society the sold walnuts at Rs 24 to Rs 39 per maund and apples and pears from Rs 20 to Rs 52 per box. In addition to marketing the produce of its members, the society supplies consumers' goods on wholesale basis to affiliated societies. During 1957-58 and 1958-59 it handled consumer goods worth Rs 61,671 and Rs 96,129 respectively. It also distributed fertilizers. The society worked at a profit of Rs 1,572 during 1958-59.

13. The Vattiyorkavu Multi-purpose Co-operative Society Limited (Kerala) was registered in 1947. Its present membership is 348. The total population in the area of operation of the society is about 8,000 and the total number of families about 1,600. Of these about 1,200 families may be considered to be cultivating families. There are two other societies in the area of operations of this society, with a total membership of about 300. Thus, only half the possible membership in the area of operations has been brought within one or the other of these 3 societies. The society collects milk from members and supplies it to the Trivandrum Milk Union. It has not borrowed from the central bank, but has taken a loan of Rs 1,800 from the N.E.S. Development Block. 92 members have obtained short-term loans from the society. The rate of interest charged is 9 per cent per annum. The society is reluctant to borrow from the central bank and expanding its business because it is diffident about recovery of loans from members on due dates. The society earned a profit of about Rs 1,187 during 1958-59.

14. The North Malabar District Co-operative Marketing and Supply Society Ltd., Calicut (Kerala) was registered in 1936. Its area of operation extends to 5 taluks. It has 8,036 members of whom 9 are primary credit societies and the rest are individuals. The society has been recognised by the Coffee Board as an A class agent for the purchase of coffee from grower-members. It gets a commission $2\frac{1}{4}$ per cent from the Coffee Board. The society deals with about 1,600 tons of coffee per year and has installed a coffee curing plant. The society advances loans on the pledge of produce, mostly pepper, ginger paddy etc. On account of the sudden fall in the price of pepper, it incurred heavy losses since 1952-53. During the year 1955-56, the loss was the highest at Rs 61,586. The loss is expected to be wiped out by the end of the current year. The society was permitted by the Registrar, Madras to issue produce loans up to Rs 5,000, to pepper and coffee growers on the mortgage of their pepper and coffee plantations. It charges 7 per cent interest as against $9\frac{1}{4}$ per cent charged by the other agencies in the area.

15. The Bairagarh Large-sized Co-operative Society (Madhya Pradesh) functioning in a block area was organised in 1956 by amalgamating villages two primary credit societies. Its area of operations extends to 5 with about 240 families of whom about 150 are cultivating families. The membership of the society is 211, of whom 115 are cultivators and the

rest are sub-tenants and labourers. Its share capital is Rs 23,600, including Rs 10,000, contributed by Government. Interest charged by private money-lenders in the area ranged from Rs 2 to Rs 12 per Rs 100 per month. The society's lending rate is 9 per cent against its borrowing rate of $5\frac{1}{2}$ per cent from the central co-operative bank. It has advanced loans to 15 tenants for purchase of land and to 40 other members for trade purposes. The society deals in cement, fodder, etc. It also runs a fair price shop. The society has employed a full-time manager on a salary of Rs 90 per month.

16. The Shahpura Agricultural Co-operative Credit Society (Madhya Pradesh) was formed as a large-sized society in 1957 by converting the local primary credit society functioning in the village since 1955. Its area of operations extends to 11 villages with a population of about 5,500 of whom about 1,000 would be landless persons. The paid-up share capital consisted of Rs 7,785 from individuals, Rs 7,500 from Government and Rs 100 from the central bank. A sum of Rs 87,000 was outstanding to the central bank of which Rs 32,000 was under medium-term and Rs 55,000 under short-term. There were no overdues to the central bank. The members' overdues to the society amounted to Rs 18,400 the defaulting members totalling 65. There is a paid manager. No attempts have been made to collect deposits. The rate of interest charged by local private money-lenders is about 25 per cent. The society charges interest at 10 per cent on its loans and obtains funds from the central bank at 7 per cent.

17. The Kadambathur Co-operative Agricultural Bank Limited (Madras) was registered in November 1958. It was formed by amalgamation of two village societies. Its area of operation extends to four villages with a population of about 1000 families of whom about 300 are agricultural families. At the time of the formation of the bank, there were 117 members who had contributed Rs 1,353 to its share capital. The membership has since then risen to 241 and the paid-up share capital to Rs 12,301. The maximum borrowing power of the bank is fixed at 8 times the paid-up share capital plus reserve fund and works out to roughly Rs 1.20 lakhs. The actual borrowings were Rs 48,297. It held deposits from members and non-members to the extent of Rs 16,700. Loans outstanding to the central bank amounted to Rs 20,660 under short-term and Rs 5,459 under medium-term. There were no overdues to the bank. Of the total loans outstanding against members amounting to Rs 78,766, a sum of Rs 53,179 was outstanding against cultivators owning about 5 acres each. Rs 18,146 were outstanding against medium cultivators owning between 3 to 5 acres and Rs 7,081 against small cultivators owning less than 3 acres. A loan of Rs 360 was outstanding against fixed deposit of the borrower. Overdues amounted to Rs 15,834. A member is required to purchase one share of Rs 5 for a loan of Rs 50. Cultivating tenants are advanced loans provided the surety is a solvent person or a owner of land. There are A and B class members in the society. Persons who desire to take loans on the pledge of gold are admitted and allotted B class shares. Gold loans were popular and the outstandings of such loans amounted to Rs 45,546. Medium-term loans are given for the purchase of bullocks, land improvement purposes and discharge of prior debts. A sum of Rs 2,160 was outstanding under this head. 10 loans had been issued for purchase of bullocks against mortgage of land. The directors generally tried to satisfy themselves whether the members purchased bullocks out of the

loan sanctioned by the bank for the purpose. The society is hesitant to give loans to landless cultivators and feels that some guarantee against losses would be necessary if it has to undertake such financing on a large scale. The bank has undertaken distribution of chemical fertilizers, oil cakes etc. It runs a fair price shop for sale of rice and sugar to the public. Such sales amounted to about Rs 35,000. The bank earned a net profit of Rs 1,791 up to 31 October 1959. A supervisor deputed by the central bank is working as its secretary.

18. The Mulasur Co-operative Multi-purpose Rural Credit Society (Madras) was registered on unlimited liability basis on 15 August 1949. The area of operations of the society extends to two villages, Molasur and Elavalapakkam, with a population of about 2,000 and 400 respectively. The society is functioning in a block area. It has enrolled 177 members. Of the members, only 13 were from the Elavalapakkam village. The directors are unwilling to issue loans to members from Elavalapakkam village as they are away from the headquarters of the society and hence no loans are advanced to them. The maximum borrowing power of the society is Rs 30,000 and has been fixed at that figure although the net assets of the members amounted to Rs 4,10,400. The society has no deposits. It has borrowed a sum of Rs 16,222 from the district central bank of which a sum of Rs 6,625 has been overdue from 1 October 1959. 72 loans amounting to Rs 17,325 were outstanding against mortgage security and 47 loans for Rs 12,588 were against personal security. Mortgage loans were for a period of three years. Individual maximum borrowing power is Rs 500 according to the by-laws of the society. Short-term loans are given on personal security but the surety has to be a landowner. Rs 7,273 are overdue from 17 members, of which Rs 6,625 were overdue for less than one year. 29 Harijans from Molasur village were members of the society; 15 of them have been advanced loans aggregating Rs 3,200, the average loans is thus about Rs 200. Each of these Harijans own about 2 to 3 acres of dry land. There are about 40 cultivating tenant families in Molasur village. But very few had been admitted to membership and even those who were members had not been advanced loans as directors feared difficulties in recovery of loans advanced. There is no linking of credit with marketing. The society is housed in the premises of the President. A local person is employed by the society to maintain accounts etc. since March 1959 under the scheme of revitalization. He also serves as Post-master in the village Post Office. The society has undertaken distribution of fertilizers and has been sanctioned by the central co-operative bank a cash credit of Rs 2,000 for the purpose.

19. The Sivarakottai Multi-purpose Co-operative Society (Madras) was registered on 16.3.1919. Its area of operation is confined to the revenue village of Sivarakottai with a population of about 325 families. On 30.6.1959 it had a membership of 159 with a share capital of Rs 4,571. Its reserve fund stood at Rs 1,955. It had no deposits. A sum of Rs 16,182 (Rs 5,942 under short-term and Rs 10,240 under medium-term) was due by the society to the central bank. Of this Rs 12,422 were overdue from 22.11.1956. It was not advanced any loans by the central bank during the last two years. Loans are given only to those members who own lands, the individual maximum borrowing power being Rs 1,000. No loans were given during 1958-59. There are heavy overdues from members. Out of Rs 21,741 outstanding against members, Rs 20,681 have remained overdue since 16.11.1959. Of this Rs 14,290 were overdue for more than 3 years.

Owing to heavy overdues in the society, the managing committee had been superseded and the management had been entrusted to a supervisor of the central bank since 27.2.1953. The society incurred a loss of Rs 288 during 1958-59. Members have not been able to repay their loans due to failure of monsoon during the past three years. Members stated that the overdues would be fully cleared during this year as the prospects of crops were better owing to good rains. There is a general demand for providing for the repayment of prior debts over a period of 10 years and in the meantime the members should be provided with loans for cultivation purposes.

20. The Gajjalagere Sri Rama Co-operative Society, (Mysore) was registered on 10.7.1954. The area of operations of the society extends to four villages with a total agricultural population of 3,796 and non-agricultural population of 726. Out of 421 members, 336 had borrowed from the society. The paid-up share capital and reserve fund of the society stand at Rs 18,578 and Rs. 1,889 respectively. The borrowing power of the society is fixed at eight times the paid-up share capital and reserve fund and works out to Rs 1.64 lakhs. Rs 1.02 lakhs under short-term loans and Rs 10,400 under medium-term loans were outstanding against members, of which Rs 4,276 were overdue. Of the overdues, Rs. 3,000 were overdue for the past four years. The society has employed a Secretary on a pay of Rs 60 per mensem. It received Government assistance towards managerial cost to the extent of Rs 150 during the year 1958-59. Besides, Rs 300 per annum out of the profits or 15% of the net profits were paid as honorarium to the President. The society has been classified as 'B' in audit. It earned a net profit of Rs 3,247 in 1958-59 and declared a dividend of 6 per cent. Its purchases and sales of agricultural commodities amounted to Rs. 43,942 and Rs 43,993 respectively during the year 1958-59. None of the landless tenants or agricultural labourers was a member of the society.

21. The Hittenhalli Koppal Large-sized Co-operative Society Ltd., Malavalli Taluk (Mysore) was registered on 11.4.1949 as Circle Multi-purpose Co-operative Society and re-organized as a large-sized agricultural credit society in December 1957. The area of operations of the society extends to 9 villages. The total agricultural population covered by it is 8,479 of whom 1049 have been enrolled as members. The paid-up share capital of the society is Rs 30,294 including Government's contribution of Rs 10,000. It has a reserve fund of Rs 3,130. The society has no deposits. 883 members have been advanced loans amounting to Rs 1.34 lakhs. Loans overdue from 14 members amount to Rs 1,600. Medium-term loans for Rs 7,250 have been advanced to 11 members. The society has its own office building and godown constructed at a cost of Rs 7,305. The establishment consists of a secretary, a salesman, a peon and a watchman, and the cost works out to Rs 130 per month. The society worked at a profit of Rs 6,788 during the year 1957-58. The members are not selling their produce through the society or any marketing society. The society sells fertilisers etc. to members, the total purchases and sales during 1957-58 being Rs 0.98 lakh and Rs 1.17 lakhs respectively. The headquarters village, Hittanhalli, is one of the villages in the State where the Scheme of preparing agricultural production programmes for providing supplementary finance has been undertaken. The society has made some headway in preparing the programmes for which a separate village level worker has been deputed.

22. The Dodda Pramanada Prathamica Pattina Vyavasaya Sahakar Sangh, Byatarayanapura (Mysore) is a large-sized society functioning in a block area. Its area of operation extends to 15 villages with a population of about 12,000. There are about 1,225 agricultural families, of whom 851 persons have been enrolled as members of the society. Of the latter about 50 are tenant cultivators. 252 members have been advanced loans by the society. The society is not in a position to give credit to others as they have either no landed property or have mortgaged it to money-lenders. They have, however, become members as they can get cement, fertilizers, agricultural implements, improved seeds etc. The paid-up share capital of the society is Rs 29,350 including Government contribution of Rs 10,000. It has accepted fixed deposits to the extent of Rs 500. Its reserve fund investment in the central banks is Rs 2,777 and it has purchased shares of the central bank for Rs 22,868. Its total purchases and sales of agricultural requisites amounted to Rs 1.7 lakhs and Rs 1.9 lakhs respectively. It earned a profit of Rs 5,106 in 1958-59. During the current year 1959-60 it has so far issued short-term and medium-term loans to the extent of Rs. 1,01,150 and Rs 1,25,000 respectively. It has not defaulted to the central bank. Surety loans have been given to 48 members and the amount varies from Rs 250 to Rs 500 per member. The *panchayatdars* are prepared to finance tenants provided Government give some guarantee against losses. It is stated that the tenants would not be in a position to repay in time and if they default the entire society would be deprived of loans from the central bank, as the latter insist upon 100 per cent recovery from the society before it gives fresh loans. Kodigenhalli, one of the villages within the area of operation of the society, has been selected under the Pilot Project by the State Government for drawing up agricultural production plans, family-wise. One village level worker is allotted exclusively for this work and is collecting particulars with the help of the Agricultural Extension Officer, regarding holdings of each person, the requirements of manures and other agricultural requisites and the credit required.

23. The Biratung Large-sized Co-operative Society (Orissa) which is in a Block area was registered on 28.10.1956. Its area of operations covers 18 villages. On 31.12.1959 the society had 224 members. All the members of the society are land owners and there are no tenant cultivators or landless labourers as members. Among the owners of land who are members there are, however, some artisans. Its share capital amounted to Rs 14,127, of which Rs 10,000 were contributed by Government. Its reserve fund was very small being only Rs 10. Borrowings from the central banks were by way of medium-term loans and amounted to Rs 23,885, and deposits to only Rs 201. All the loans given by the society were against mortgage of land; no encumbrance certificates in respect of the lands mortgaged were, however, taken. Rs 31,493 were outstanding against the members. There were no overdues. The maximum borrowing power of an individual is Rs 600. Apart from contributing to the share capital, Government have given loans and subsidy amounting to Rs 10,000 for construction of a godown and also a subsidy on a graded scale, towards the cost of the paid secretary who receives Rs 50 per month. There are 10 small-sized credit societies in the area of operations of the society, all of which were indebted to the central bank. After the formation of the large-sized society, the central bank had advanced loan to three of these societies. No linking of credit with marketing is in vogue in the area. As paddy commands a good price in the market, members sell it in the

open market.

24. The Biranarsingapur Credit Society (Orissa) based on unlimited liability, started functioning from 12.7.1948. Its area of operation is confined to the Biranarasingapur village which is not in a block area. There are about 250 families in the village, only 32 of whom have become members of the society. The others are unwilling to join the society because of the unlimited liability. The society has borrowed Rs 7,079 from the central bank. The individual maximum borrowing power is fixed at Rs 600, and about 10 persons had borrowed upto the maximum. The society advances loans only against mortgage security and obtains continuity mortgage bonds. No encumbrance certificates are obtained. All the loans advanced by the society are by way of medium-term loans repayable in three annual instalments calculated at 40%, 30% and 30% of the total amount of the loan. Besides the above society, there is a large-size society with headquarters at Biranarasingapur, covering 15 villages with a population of 7000. The area of operations of the large-sized societies is coterminous with that of the *grampanchayat*. The unlimited liability credit society is not in favour of merging itself in the large-sized society. No person is a member in both the societies. There is in addition one graingola society for these 15 villages. The members seem to feel that in a large-sized society, the directors would not be in a position to judge properly the actual requirements of the borrowers.

25. The Danda Mukundapur Gram Panchayat Grain Gola (Orissa) was started on 4.9.1955. Its area of operations extends to the whole of Danda Mukundapur *gram panchayat* area, which has about 900 families. The society has 354 members. Its share capital amounts to 150 maunds of paddy. In 1955 the Government through the *gram panchayat* gave a loan of 1000 maunds of paddy to the grain gola to be repaid in 10 years. The society has not yet repaid any part of this so far. Its stock of paddy on 31.12.1959 was 832 maunds. It has no deposits. It issues loans to members for consumption purposes upto a maximum of 10 maunds per member. It has heavy overdues from members. All the members of the society are in default and hence are not given fresh loans, although the society has a stock of 832 maunds of paddy. The heavy overdues are reported to be due to failure of rains for the last three years. This year members expect a good harvest and hope to clear their arrears to the society. The grain gola acts as an agent of the regional marketing society for the distribution of fertilisers at a commission of Rs. 0.50 per bag. Fertilisers are sold to members on credit. The office of the society is located in the *gram panchayat* building. The stocks of paddy are kept in a godown belonging to Government for which no rent is collected by the Government.

26. The Gohlwar Co-operative Agricultural Service Society (Punjab) was registered in 1929. The society is functioning in a block area and serves one village with about 240 families of whom 130 are owner cultivators and 80 are labourers. The total cultivable area in the village is about 1100 acres, of which 1050 acres are irrigated. The village is facing a severe problem due to waterlogging and recurring floods. The farmers in the area are, therefore, taking to other means of livelihood e.g. cattle-breeding, for which purpose there is a great demand for medium-term loans. The membership of the society stands at 93 and its share capital and deposits at Rs. 4,216 and Rs. 1,375 respectively. In spite of about 30 years of working, the reserve fund of the society is low at Rs. 319. The society was

taken up for revitalization during 1957-58. Since then the membership registered an increase from 57 to 93. Since its conversion into a service co-operative, the society has taken up the supply of improved agricultural seeds, light agricultural implements, fertilizers and sugar. The society is not able to obtain its full requirements of funds from the central bank. As against the short-term borrowings of the society from the central bank amounting to Rs. 5,135, the outstandings of short-term loans against members amounted only to Rs. 1,317. The society was not aware of the period for which the loans were provided by the central co-operative bank and disbursed the same as medium-term loans to its members. Landless members are financed by the society upto one-fourth of their miscellaneous income. The society has a part-time trained secretary, who is paid Rs. 18 per month. He is an agriculturist owning 20 acres of land. The society is unable to expand its operations as the central bank is not in a position to provide adequate finance.

27. The Sathiala Co-operative Agricultural Service Society (Punjab) came into existence in November 1957 as a large-sized society by the amalgamation of three societies functioning since 1935 in the village with a population of 1100 families. Its area of operations was later extended to another village with a population of 100 families. It has 782 members and a share capital of Rs. 69,843 which includes Rs. 3,000 contributed by the State Government. It has covered about 70 per cent of the families in its area of operation. It has collected by way of deposits over Rs. 1 lakh. 85 per cent of which is from 272 of its members. It allows interest at 4 per cent on fixed deposits held by non-members and 5 per cent on those held by members. It has been declaring dividend to its members at 10 per cent for several years past. It has invested Rs. 16,454 on its building, for which purpose it has obtained a subsidy of Rs. 1,000 from the State Government. The maximum credit limit of a member is fixed at Rs. 1,000 and is stated to be on the low side. The society is, however, unable to raise this as the central co-operative bank is not in a position to meet even its existing requirements. A major part of the loans advanced by it is for medium-term agricultural purposes. Out of Rs. 1.37 lakhs advanced by it, Rs. 1.15 lakhs represent those given as medium-term loans for 2 years. Medium-term loans are generally advanced for purposes such as purchase of bullocks, additions to buildings, tube-wells and minor improvements to land. The land in the area is fertile. The average holdings of members are between 7-8 acres. Most of the members have taken up to some subsidiary occupation and thus supplement their income from agriculture. About 150 non-agriculturist members have been financed by the society to the extent of Rs. 0.57 lakh. As against 542 members indebted to it, 35 are defaulters. Only a sum of Rs. 83 is considered as bad, against which the society has a reserve of Rs. 577. The society is affiliated to the Amritsar Marketing Society, but as the produce of members is sold at Rayya, it has not been able to bring about an effective link between credit and marketing. There are no Government nominees on the board of the society. The paid staff of the society consists of a trained secretary, a treasurer, a peon and a *chowkidar*. The monthly establishment cost is of the order of Rs. 200. The society was granted a total subsidy of Rs. 1,650 for managerial staff during the last three years. It has also expanded its activities from one of merely providing credit to making arrangements for supply of agricultural implements, manure, seeds and certain requisites such as sugar, dalda-ghee, tea etc. and for storage and marketing of the agricultural produce of its members.

28. The Karar Co-operative Marketing Society (Punjab) was registered in November 1957. Since then the society has been making a steady progress and now it is in a position to handle about 25 per cent of the total marketable surplus which is received annually in the local *mandi*. During the year 1958-59 the value of agricultural produce handled by the society amounted to Rs. 2.97 lakhs. Its membership now stands at 227, inclusive of 14 agricultural societies which have been admitted with a view to establishing a link between credit and marketing. Its share capital stands at Rs 54,120 of which Rs 15,470 represents Government contribution. The society has made suitable arrangements for the storage of the members' produce. Apart from its own godown which has been constructed at a cost of Rs 16,000 having a storage capacity of 20,000 maunds, the society has hired one godown which has a storage capacity of 1,000 maunds. The society grants advances to members against the security of their produce to the extent of 65 per cent of the market value of the produce pledged. Such advances aggregated Rs 45,414 during the year 1958-59. Besides, the growers are also advanced clean loan for a maximum period of 6 months. Such loans according to the rules of business adopted by the society shall not exceed 20 per cent of the fluid capital (i.e. working capital minus investments in fixed assets) of the society. The maximum amount of such advances to individual members, has been placed at Rs 500. During the year 1958-59, such advances aggregated Rs 21,432. The society has been appointed as an agent for the distribution of fertilizers in the area by the district wholesale society, Rupar. It has also been appointed as agent by that society for the distribution of sugar, improved seeds, insecticides, improved implements, etc. The society was appointed as sole agent by the State Government for the procurement of foodgrains in the year 1958-59. It supplied foodgrains worth Rs 30,070 to Government during the last season. The society has a working capital of Rs 1.37 lakhs of which Rs 67,100 represent owned funds. The balance is mainly raised by way of deposits from members and non-members. The society has recently raised Rs 5,000 as loan from the central co-operative bank. It was stated that the *pucca adathias* were able to secure the loyalty of the *ryots* by providing loans, sometimes even without taking any promissory note or charging any interest. It was stated that if similar facilities were offered, it would be possible for the society to command the loyalty of the members. Link between credit and marketing has not been established by this society. The reason for this was the credit societies were not providing adequate credit to their members. This, therefore, forced the members to approach other agencies for their requirements and in doing so their loyalty to the marketing societies was disturbed. The produce handled by the marketing society is sold by public auction, and successful bidders are allowed one week's time for paying the purchase price.

29. The Rūpar Cold Store (Punjab) was registered in 1954 with a view to helping the *ryots* to store their seed potatoes for better price. Its paid-up share capital and working capital stand at Rs 1.39 lakhs and Rs 2.32 lakhs respectively. The Store raised in all a loan of Rs 1.39 lakhs for a period of 5 years from the Punjab State Co-operative Bank. The present outstandings in respect of these loans amount to Rs 44,478. The store has invested Rs 1.76 lakhs in its building and Rs 70,439 on machinery. The store has a capacity of 20,000 maunds. During the year 1958-59, it stored 12,202 maunds of potato seed and collected Rs 40,822 by way of storage charges as against 19,942 maunds and Rs 74,674 respectively during the previous year. It collects storage charges at Rs 3 per maund for the season,

about half of which is returned to the members in the form of rebate. Its annual expenditure on establishment, maintenance of plant etc. is estimated at Rs 39,000. Its annual expenditure on staff alone is Rs 10,000. It does not make advances to members on the stocks held with it, since it is not able to get funds from the central co-operative bank for the purpose.

30. The Bai Multipurpose Co-operative Credit Society (Rajasthan) Unlimited was formed only a year ago in a block area. It has 16 members on its roll out of a total population of 1,269 in the village, and has 27 applications for membership pending with it. Its share capital stands at Rs 690 of which Rs 650 has been invested in the shares of the central bank. The accounts are being maintained by an Assistant Inspector. The society borrows from the central co-operative bank at $5\frac{1}{2}$ per cent and lends to its members at $7\frac{1}{4}$ per cent. The *Saukhars* in the area charge interest ranging from 12 to 36 per cent depending upon the credit-worthiness of the borrower, the average rate being 20 per cent. It appears that although the society is in a desert area, it has ample scope for issue of medium-term loans for digging of wells. The cost of each well would be Rs 4,000, half of which will have to come as subsidy from the Government if the members are to take up digging of wells.

31. The Kukudi Service Co-operative Society (Uttar Pradesh) was registered on 30th September 1959 and is in the 'shadow block'. There are 157 families in the area of operations of the society comprising 99 agriculturists and 58 non-agriculturists. The society has 143 members consisting of 86 agriculturists and 57 non-agriculturists. The paid-up share capital of the society amounted to Rs 1,870. Loans outstanding against members aggregated Rs 12,430. The Chairman of the society is also the *sarpanch* of the *gram sabha*. There is a supervisor in charge of this society. It has appointed a great accountant on a remuneration of Rs 20 per month. There is a part-time demand for medium-term loans for purposes such as construction of bunds, purchase of bullocks etc. The members desire to have a godown constructed for the purpose of storing seeds.

32. The Midhakur Large-sized Co-operative Society (Uttar Pradesh) was registered on 23rd January 1958 by the amalgamation of 21 village credit societies. The area of operations of the society extends to 23 villages. There were 900 members in these 21 societies prior to their amalgamation. Since then 300 more members have been enrolled. The share capital of the society has also risen from about Rs 48,000 to Rs 71,708 by 31st January 1960. The deposits of the society had also registered more than two-fold increase from Rs 14,274 to Rs 31,679. The share capital of the society includes Rs 10,000 contributed by the State Government. The Government had not so far nominated its representatives on the board. The owned funds of the society are of the order of Rs 1.18 lakhs. Of the total membership, 200 belong to non-agriculturist class. These members have been advanced loans to the extent of Rs 40,000 for such purposes as purchase of milch cattle, boot making and other cottage industries. Of the total outstanding loans of Rs 2,25,692 against members, it was reported that only Rs 6 represented overdues. It was also reported that progress had been achieved in establishing a link between credit and marketing. During the last year, out of about Rs 1.10 lakhs lent for agricultural operations, as much as Rs 56,000 were recovered by sale of produce through the marketing society. The marketing society in the area which was started two years ago handled produce worth Rs. 1.28 lakhs during the last

year. The society has a paid secretary.

33. The Chirgaon Co-operative Marketing Society (Uttar Pradesh) was registered on 5-1-1958 with its area of operations extending to 163 villages. The society has a membership of 3,559 comprising 3,514 individuals, 5 large-sized societies, the Uttar Pradesh Government and 39 nominal members. The paid-up share capital of the society amounted to Rs. 60,386. The number of agricultural families in the area of operations of the society is about 7,510. The society is reported to have covered 46.8 per cent of these families. The arrival of agricultural produce in the Chirgaon market is estimated at 8 lakh maunds. The society handled 5,600 maunds of produce during the year 1957-58, 56,132 maunds during the following year and expects to handle 70,000 maunds during the current year. The amount of commission earned by the society during the year 1958-59 was Rs. 6,138. 109 members were given loans to the extent of Rs. 49,513 against the pledge of produce. The society earned a profit of Rs. 2,612 during the year 1957-58 and Rs. 6,225 during the year 1958-59. It declared a bonus of Rs. 500 during 1957-58 and Rs. 789 during the following year. It also makes outright purchases. Such purchases amounted to 1,263 maunds during 1957-58, 1,649 maunds during 1958-59 and 3,940 maunds during 1959-60 (upto 20-2-1960). It was reported that out of Rs. 4.79 lakhs disbursed by 5 large-sized societies during the year 1958-59, the marketing society recovered Rs. 0.20 lakh, roughly 4.1 per cent of the total loans. The recovery was the highest at 9.8 per cent in the case of the Chirgaon large-sized society and no recovery was effected in the case of two other societies. The society had appointed private dealers as agents for collecting the produce of members. On 30-6-1959 advances granted to *pucca ada'has* amounted to Rs. 70,119. Of this Rs. 69,577 had been recovered during the current year and the balance of Rs. 542 had still to be recovered. The value of produce purchased through the agents amounted to Rs. 15,569.

34. The Sankchura Union Co-operative Large-sized primary Agricultural Credit Society (West Bengal) which was registered on 23 February 1957, serves in a non-block area. The area of operations of the society covers 28 villages and 3 municipal wards with a total population of about 18,000. It has brought within its fold about one-fourth of the total population. The membership of the society, which was 93 on the date of registration, had risen to 894 by 31-12-1959. The share capital of the society on 31-12-1959 was of the order of Rs. 14,923, of which Rs. 10,000 represented contribution by the State Government. With a view to enabling the society to retire the share capital contributed by the State Government, the members make an additional contribution at the rate of 2 per cent of the loans as and when they raise loans from the society. The society has not been able to attract any appreciable deposits so far. The deposits on 31st December 1959 amounted only to Rs. 896. The society raised loans aggregating Rs. 1.10 lakhs from the central bank during the year 1959-60 (upto 31-12-1959) and disbursed loans to members to the extent of Rs. 1.17 lakhs. The outstanding of loans against members on 31-12-1959 amounted to Rs. 0.90 lakh. The overdues on 31-12-1959 amounted to Rs. 5,813 forming roughly about 6.5 per cent of the outstandings. One of the reasons for the overdues was stated to be that about 10-15 per cent of the members who had capacity to repay had not repaid as they were induced by some influential persons not to repay the loans. Loans were given only to those who owned lands. It has not been possible for the society to link credit with marketing. A marketing society has

recently been registered in the area and the work in regard to the construction of a godown (estimated to cost about Rs. 9,500) is in progress.

35. The Bongaon Central Co-operative Marketing Society Ltd. (West Bengal) was registered in February 1956, but started functioning effectively only during 1957-58. The share capital of the society on 30 November 1959, was Rs. 27,035 of which Rs. 13,500 represented Government contribution. The society has obtained a loan of Rs. 20,000 at 5 per cent repayable in 10 years from the Development Department for marketing operations. It was given a loan of Rs. 15,000 at $4\frac{1}{2}$ per cent for 15 years by State Government for the construction of a godown. It also received a sum of Rs. 14,050 as subsidy for the purpose. The society has been granted a cash credit limit of Rs. 2 lakhs by the State Bank of India for issue of pledge loans. On 30-11-1959, the outstandings against this account amounted to Rs. 11,811. Besides handling the produce of members, the society has been engaging itself in the distribution of rationed articles, wheat products on wholesale basis on trade account, soda ash, kerosene oil, sugar, fertilizers, manures, seeds, etc. to members as well as to the public. The society obtained a subsidy of Rs. 2,047 from the State Government for meeting the managerial cost. The staff of the society consists of a manager, one clerk, one weighman besides 2 watchmen for the branch godowns. The monthly establishment charges work out to Rs. 290. The society's investment in office building and two godowns is of the order of Rs. 41,491. Advances are granted for a maximum period of six months to the extent of 70 per cent of the market value of the produce pledged. The society's advances against the pledge of produce aggregated Rs. 10,709 during 1957-58, Rs. 22,075 during 1958-59 and Rs. 9,903 during 1959-60 (upto 30-11-1959). Jute is stored in the warehouse of the Warehousing Corporation. It was reported that the marketing society obtained only a small portion of the surplus produce of members since a large part of it had to be sold to moneylenders, who made advances on the basis of outright sale deeds of lands. The practice entails an interest rate varying from 40 per cent to 50 per cent. In these circumstances the only solution lay in the co-operative meeting the entire credit needs of agriculturists.

36. The Seliamedu Multi-purpose Co-operative Credit Society (Pondicherry) was registered as an unlimited liability society on 24-10-1955. The area of operations of the society extends to five villages with a total population of about 5,000. It has enrolled 99 members who have contributed Rs. 2,700 to its share capital. The society has borrowed from the Pondicherry State Co-operative Bank Rs. 20,709. The maximum borrowing power of the society has been fixed at Rs. 30,000. All loans to members have been issued on personal security. Members are given loans at Rs. 100 per acre for cultivation of paddy. There is a general demand for raising this to Rs. 200. Only one loan amounting to Rs. 200 has fallen overdue. Accounts of the society are written by its President. The society has appointed a clerk on a salary of Rs. 15 per month. The society distributed 500 bags of fertilizers during the year. There is no marketing society in the area.

APPENDIX IV

List of persons who gave evidence before the Committee

Uttar Pradesh

- 1) Shri Mohanlal Gautam, Minister for Co-operation.
- 2) Shri N.R. Kidwai, Vice-President, Uttar Pradesh Co-operative Bank.
- 3) Shri Sundarlal Sarma, Managing Director, Central Co-operative Bank, Roorke.
- 4) Shri Tej Pratap Singh, Managing Director, Hamirpur Dist. Central Co-operative Bank.
- 5) Shri Bharat Bhushan, General Manager, Uttar Pradesh Co-operative Bank.
- 6) Shri P.N. Sapru, Vice-President, Uttar Pradesh Co-operative Union.
- 7) Shri Brindabandas, Vice-President, Uttar Pradesh Co-operative and Marketing Federation.
- 8) Shri Iftikhar Hussain, Registrar of Co-operative Societies.
- 9) Shri G.S. Chooramani, Cane Commissioner.
- 10) Shri Satish Chandra, Development Commissioner.

Mysore

- 1) Shri Mali Mariappa, Minister for Co-operation.
- 2) Shri B. Beerappa, Secretary to Government, Agriculture Department.
- 3) Shri G.V.K. Rao, Secretary, Planning & Development and Additional Development Commissioner.
- 4) Shri A.V. Narasimha Reddy, Chairman, Mysore State Co-operative Apex Bank Ltd.
- 5) Shri Chandappa Patil of the Hassan Central Co-operative Bank.
- 6) Shri Bal Gowd of the Bijapur Central Co-operative Bank.
- 7) Shri Patil of the Raichur Central Co-operative Bank.
- 8) Shri R. Anantharaman of the Mysore Co-operative Central Land Mortgage Bank.
- 9) Shri Seetharaman, President, Mysore State Co-operative Union.

Madras

- 1) Shri R. Venkataraman, Minister for Co-operation, Madras.
- 2) Shri S.R. Kaiwar, Secretary to Government, Industries and Co-operation Department.
- 3) Shri R.A. Gopaldaswami, Development Commissioner.
- 4) Shri V. Balasundaram, Registrar of Co-operative Societies.
- 5) Shri C.V.S. Mani, Deputy Secretary to Government, Industries and Co-operation Department.
- 6) Dr. P. Natesan, Vice-President, Madras State Co-operative Bank.

- 7) Shri P.S. Rajagopal Naidu of the Central Co-operative Bank, Vellore.
- 8) Shri K. Subramania Gounder of the Central Co-operative Bank, Salem.
- 9) Shri M.D.K. Ramalingam of the Central Co-operative Bank, Tinnevely.
- 10) Shri T.S. Muthukumaraswami Pillai of the Central Co-operative Bank, Tiruchirapalli.
- 11) Shri V.V. Ramaswami, Director, Madras State Co-operative Bank.
- 12) Shri C.R.K. Chetty, Secretary, Madras State Co-operative Bank.

Kerala

- 1) Shri V. Sivaram Pillai, Registrar of Co-operative Societies.
- 2) Shri K.S. Menon, Planning Secretary and Development Commissioner.
- 3) Shri G. Parameswaran Pillai, President, Kerala State Co-operative Bank.
- 4) Shri Manmem Tharakan of the Kottayam District Central Co-operative Bank.
- 5) Shri V.R. Krishnan Ezhuthachan of the Cochin Central Co-operative Bank.
- 6) Shri C. Mukundan of the Malabar District Central Co-operative Bank.

Andhra Pradesh

- 1) Shri I.J. Naidu, Secretary to Government Agriculture and Co-operation.
- 2) Shri G. Viswanatham Chetty, Registrar of Co-operative Societies.
- 3) Shri Dasarath Rama Reddy, President, Andhra State Co-operative Bank.
- 4) Shri Narasimha Reddy, Vice-President, Hyderabad Co-operative Apex Bank.
- 5) Shri A.H. Venkat Rao, Director, Hyderabad Co-operative Apex Bank.
- 6) Shri Bikkani Venkataratnam, Director, Andhra State Co-operative Bank.
- 7) Shri Subba Rao, Director, Andhra State Co-operative Bank.
- 8) Shri Madhava Rao Anwari, President, Hyderabad Co-operative Union.
- 9) Shri Keshava Rao, President, Andhra Co-operative Union.

West Bengal

- 1) Shri Roy, Deputy Minister for Co-operation.
- 2) Shri Tarapado Chaudhary, Chairman, West Bengal Provincial Co-operative Bank.
- 3) Shri Nagendra Kumar Battacharjee and Prabodh Kumar Roy of the Murshidabad Central Co-operative Bank.
- 4) Shri Manindra Kumar Biswas of the Nadia Central Bank.
- 5) Shri Divendra Nath Bagchi of the Jalpaiguri Central Bank.
- 6) Shri Bishnu Pada Gosh of the Nalhati Central Bank.
- 7) Shri Kshitish Chandra Mittra of the Birbhum Central Bank.

- 8) Shri H. Bannerjee, Development Commissioner.
- 9) Shri A.K. Dutt, Registrar of Co-operative Societies.

Assam

- 1) Shri Sharma, Vice-Chairman, Assam State Co-operative Bank.
- 2) Shri De, Deputy Registrar of Co-operative Societies.
- 3) Shri Bhatnagar, Deputy Development Commissioner.

Bihar

- 1) Shri Narayan Lal, Minister for Co-operation.
- 2) Shri S.A.F. Abbas, Additional Secretary,
Department of Co-operation.
- 3) Shri L. Dayal, Registrar of Co-operative Societies.

Orissa

- 1) Shri Radhanath Rath, Minister for Co-operation.
- 2) Shri A.B. Das, Vice-President, Orissa State Co-operative Bank.
- 3) Shri Bali, Managing Director, Orissa State Co-operative Bank.
- 4) Shri Roy, Vice-Chairman, Orissa State Co-operative Union.
- 5) Shri N. Ramakrishna Rao, President, Berhampur Central Co-operative Bank.
- 6) Shri R.K. Das, President, Cuttack Central Co-operative Bank.
- 7) Shri Bandopadhyaya, Registrar of Co-operative Societies.

Bombay

- 1) Shri T.S. Bharde, Minister for Co-operation.
- 2) Shri R.G. Saraiya.
- 3) Prof. D.R. Gadgil.
- 4) Prof. D.G. Karve.
- 5) Shri J.C. Ryan, Chief Officer, Agricultural Credit Department,
Reserve Bank of India, Bombay.
- 6) Shri G.M. Laud, Managing Director, Bombay State Co-operative
Bank.
- 7) Shri S.G. Jani, Chairman, The Vidarbha Co-operative Bank.
- 8) Shri M.P. Kolhe, President, Yeotmal Central Bank.
- 9) Shri J.S. Subdehar, President, Bhandara Central Bank.
- 10) Shri G.C. Mukhtyar, Executive Officer, Bombay State Co-operative
Union.
- 11) Shri M.R. Yardi, Development Commissioner.
- 12) Dr. A.U. Shaikh, Registrar of Co-operative Societies.

Madhya Pradesh

- 1) Shri Ganeshram Anant, Minister for Social Welfare and Co-operation.
- 2) Shri K.P. Pande, Chairman, Madhya Pradesh Co-operative Bank.
- 3) Shri Kalyansingh Chauhan, Managing Director, Indore Premier
Co-operative Bank.
- 4) Shri V.M. Thakore, Hon. Secretary Madhya Pradesh State Co-operative
Union.
- 5) Shri Devindar Nath, Registrar of Co-operative Societies.

Punjab

- 1) Sardar Gurbanta Singh, Minister for Co-operation.
- 2) Shri Prem Swarup, Secretary to Government, Food and Co-operation.
- 3) Shri M.L. Battra, Registrar of Co-operative Societies.
- 4) Sardar Sohan Singh, Deputy Registrar of Co-operative Societies.
- 5) Sardar Amar Singh Harika, Director, Punjab State Co-operative Bank.

Rajasthan

- 1) Shri Niranjan Singh, Registrar of Co-operative Societies, Rajasthan.
- 2) Shri Chiranjilal Poddar, Vice-Chairman, Central Co-operative Bank, Bharatpur.
- 3) Shri Narain Chaturvedi, Chairman, Central Co-operative Bank, Jaipur.

APPENDIX V
COMMITTEE ON CO-OPERATIVE CREDIT

c/o Agricultural Credit Department
Reserve Bank of India
Post Box No. 1037
Bombay 1

No. CCC. 2891/Gen. 59
The Development Commissioner

27 October 1959

Dear Sir,

Agricultural Production Plans

You may be aware that in pursuance of a recommendation made at the last Conference of the State Ministers of Co-operation held at Mysore in July 1959, the Government of India, Ministry of Community Development and Co-operation, have constituted a Committee with Shri V.L. Mehta, Chairman, All-India Khadi and Village Industries Commission, as Chairman to examine and report on the question of providing adequate credit to cultivating families in the villages, in the light of production programmes and consistent with principles of co-operative finance. A copy of the Government's Notification No. F. 11-25/59-Coop. I dated 5 September 1959 is enclosed for your information as annexure to this letter. At the second meeting held on 16 October 1959, the Committee observed that adequate information was not readily available of how agricultural production plans were drawn up and implemented in each State for the State as a whole as well as for each district, N.E.S. or Community Development Block and each village. While it would be desirable to have relevant details in regard to the above, the Committee considered that it was more important, from the point of view of the terms of reference to them, to have full information about agricultural production plans for each family in the village; for such a plan would be one of the most important factors in determining the credit needs of an individual cultivator and the role which the co-operative credit structure, from the apex bank to the village credit society, would be called upon to play in meeting those needs. In view of the importance of the question, the Committee decided to address the Development Commissioners of all the States for eliciting information and their views on agricultural production plans with particular reference to individual families. As the Committee has been directed to submit its report as early as possible, we shall appreciate if the required information and your views on the following points are communicated to us at an early date, preferably by 21 November 1959 so as to enable the Committee to consider the question further at its Third meeting to be held on 3 December 1959.

- i) How is the target for production of different agricultural commo-

dities fixed for the State every year? Please indicate the targets, if any, fixed for the production of principal food and non-food crops in the State during 1958-59 and 1959-60. If an estimate of actual production of each crop during 1958-59 was made, please furnish details.

ii) Are any ancillary targets fixed for seeds, fertilizers, minor irrigation, compost pits, green manures, contour bunding, soil conservation etc. so that the different targets for agricultural production could be reached? If so, how are they fixed?

iii) How are the State targets for agricultural production as well as of the means of production allocated in the different districts, Blocks and villages in the State?

iv) What is the machinery for drawing up the plans, allocation of the targets and supervision over the implementation of the plans at the State, district, Block and village levels?

v) Is any attempt made in your State to draw up an agricultural production plan for each individual agriculturist taking into account his land and existing resources? How are his requirements for seed, fertilizers, irrigation facilities etc. being estimated? Is an attempt made to estimate the increased produce he might have as a result of proper planning of his production activities? Are his requirements of credit, short-term as well as medium-term, carefully assessed and is an attempt made to estimate his repaying capacity in respect of the loans that may be advanced to him? If agricultural production plans are being drawn up as indicated above, even in selected areas of your State, full details of the manner in which this is being done may please be given. Copies of forms etc. used for the purpose may also be sent.

vi) If such plans are at present being drawn up, who supervises the implementation of the plans? If special staff has been appointed for the purpose, what are their qualifications and what is the average charge of one such supervisor?

vii) If no such plans are being drawn up in your State, or if they are limited to a few Blocks or villages only and if it is decided to introduce them in all the villages and for all agricultural families, how will you proceed to do so? Can the plans be drawn up by a co-operative credit society in the village, or the Panchayat or by both jointly? Can they do the work without any technical assistance? If technical assistance will be necessary, from the Agriculture, Co-operative and other Departments of the Government, what will be the nature of such assistance? How many agricultural families could one expert attend to?

viii) Will the assistance be confined only to the drawal of the plans, or will it have to extend to actual supervision over the execution of the plans by the individuals? In that case, how many families can one expert attend to for drawal of the plans as well as for their supervision?

2. It is important to know the effect of the agricultural production plans on the actual production of food and non-food crops in the State, district, Block or a village. It will be still more valuable to know whether or not individual agricultural production plans drawn up for each family in a village have actually led to an increase in production. If they have, it will be highly important to ascertain the increase in production and the cost in terms of staff, subsidies etc. involved. You will recognize that reliable information about the actual effect of the plans can be given only if it is based on a scientific survey and investigation. The Committee,

therefore, decided to request you to furnish details of any scientific survey or study, that might have been made in your State, by you or any other agency, of the effects of agricultural production plans with particular reference to individual plans. We shall appreciate if you could furnish information on this subject also.

Yours faithfully,

C.D. Datey
for Member-Secretary.

APPENDIX VI

EXTRACTS FROM THE RESERVE BANK OF INDIA ACT

* * * *

2. *Definitions*

In this Act, unless there is anything repugnant in the subject or context,—

- (a) "the Bank" means the Reserve Bank of India constituted by this Act;
- (b) "the Central Board" means the Central Board of Directors of the Bank;
- (bb) "Co-operative credit society" means a society registered, or deemed to be registered, under the Co-operative Societies Act, 1912, or any other law relating to co-operative societies for the time being in force in any part of the territories to which this Act extends, the primary object of which is to provide financial accommodation to its members and includes a co-operative land mortgage bank;

* * * *

- (e) "scheduled bank" means a bank included in the Second Schedule;

* * * *

- (f) "State co-operative bank" means the principal society in a State which is registered or deemed to be registered under the Co-operative Societies Act, 1912 (2 of 1912), or any other law for the time being in force in India relating to co-operative societies and the primary object of which is the financing of the other societies in the State which are or are deemed to be so registered:

Provided that in addition to such principal society in a State or where there is no such principal society in a State the State Government may declare any one or more co-operative societies carrying on business in that State to be a State Co-operative bank or banks.

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17. *Business which the Bank may transact*

The Bank shall be authorized to carry on and transact the several kinds of business hereinafter specified, namely:—

- (1) the accepting of money on deposit without interest from, and the collection of money for the Central Government, the State Governments, local authorities, banks and any other persons;

(2) (a) the purchase, sale and rediscount of bills of exchange and promissory notes, drawn on and payable in India and arising out of bona fide commercial or trade transactions bearing two or more good signatures, one of which shall be that of a scheduled bank or a State co-operative bank and maturing within ninety days from the date of such purchase or rediscount, exclusive of days of grace;

(b) the purchase, sale and rediscount of bills of exchange and promissory notes, drawn and payable in India and bearing two or more good signatures, one of which shall be that of a scheduled bank, or a State co-operative bank and drawn or issued for the purpose of financing seasonal agricultural operations or the marketing of crops, and maturing within fifteen months from the date of such purchase or rediscount, exclusive of days of grace;

Explanation:—For the purpose of this sub-clause,—

- (i) the expression “agricultural operations” includes animal husbandry and allied activities jointly undertaken with agricultural operations;
- (ii) “crops” include products of agricultural operations;
- (iii) The expression “marketing of crops” includes the processing of crops prior to marketing by agricultural producers or any organisation of such producers.

(bb) the purchase, sale and rediscount of bills or exchange and promissory notes drawn and payable in India and bearing two or more good signatures, one of which shall be that of a State Co-operative Bank or a State Financial Corporation, and drawn or issued for the purpose of financing the production or marketing activities of cottage and small scale industries approved by the Bank and maturing within twelve months from the date of such purchase or rediscount, exclusive of days of grace; provided that the payment of the principal and interest of such bills of exchange or promissory notes is fully guaranteed by the State Government;

* * * *

(4) the making to local authorities, scheduled banks, State co-operative banks and State Financial Corporations established under the State Financial Corporation Act, 1951, of loans and advances, repayable on demand or on the expiry of fixed periods not exceeding ninety days, against the security of—

- (a) stocks, funds and securities (other than immovable property) in which a trustee is authorized to invest trust money by any Act of Parliament of the United Kingdom or by any law for the time being in force in India;

* * * *

- (c) such bills of exchange and promissory notes as are eligible for purchase or rediscount by the bank or as are fully guaranteed as to the repayment of the principal and payment of interest by a State Government;

- (d) promissory notes of any scheduled bank or State co-operative bank supported by documents of title to goods such documents having been transferred, assigned, or pledged to any such bank as security for a loan or advance made for bona fide commercial or trade transactions, or for the purpose of financing seasonal agricultural operations or the marketing of crops;
- (4A) the making of loans and advances out of the National Agricultural Credit (Long Term Operations) Fund and the National Agricultural Credit (Stabilisation) Fund established under section 46A and section 46B respectively for the purposes specified in the said sections;

* * * *

- (8) the purchase and sale of securities of the Central Government or a State Government of any maturity or of such securities of a local authority as may be specified in this behalf by the Central Government on the recommendation of the Central Board:

Provided that securities fully guaranteed as to principal and interest by any such Government or authority shall be deemed for the purposes of this clause to be securities of such Government or authority.

* * * *

46A. *National Agricultural Credit (Long Term Operations) Fund:—*

(1) The Bank shall establish and maintain a Fund to be known as the National Agricultural Credit (Long Term Operations) Fund to which shall be credited.—

- (a) an initial sum of ten crores of rupees by the Bank, and
 (b) such further sums of money as the Bank may contribute every year:

Provided that the annual contribution during each of the five years commencing with the year ending on the 30th day of June, 1956, shall not be less than five crores of rupees:

Provided further that the Central Government may, if the circumstances so require, authorize the Bank to increase or reduce the amount of its annual contribution in any year.

(2) The amount in the said Fund shall be applied by the Bank only to the following objects, namely:—

- (a) the making of loans and advances to State Governments for subscribing directly or indirectly to the share capital of a co-operative credit society and repayable on the expiry of fixed period not exceeding twenty years from the date of making such loan or advance;
- (b) the making to State co-operative banks of loans and advances, repayable on the expiry of fixed periods not being less than fifteen months and not exceeding five years from the date of making such loan or advance, against such securities as may be specified in this behalf by the Bank and such loans and

advances may be made for agricultural purposes or for such other purposes connected with the agricultural activities as the Central Board may, from time to time, by regulation or otherwise, determine :

Provided that such loans and advances are fully guaranteed as to the repayment of the principal and payment of interest by the State Government;

- (c) the making to Central Land Mortgage Banks of loans and advances repayable on the expiry of fixed periods not exceeding twenty years from the date of making such loan or advance :

Provided that such loans and advances are fully guaranteed as to the repayment of the principal and payment of interest by the State Government;

- (d) the purchase of debentures of Central Land Mortgage Banks :

Provided that such debentures are fully guaranteed as to the repayment of the principal and payment of interest by the State Government.

Explanation:—For the purposes of this section, a Central Land Mortgage Bank includes an institution engaged in the grant of loans on the mortgage of agricultural land and declared as such by the State Government in this behalf.

46B. *National Agricultural Credit Stabilization Fund:—*

- (1) The Bank shall establish and maintain a Fund to be known as the National Agricultural Credit (Stabilization) Fund to which shall be credited such sums of money as the Bank may contribute every year :

Provided that the annual contribution during each of the five years commencing with the year ending on the 30th day of June, 1956, shall not be less than one crore of rupees :

Provided further that the Central Government may, if the circumstances so require, authorize the Bank to increase or reduce the amount of its annual contribution in any year.

- (2) The amount in the said Fund shall be applied by the Bank only to the making to State co-operative banks of loans and advances repayable on the expiry of fixed periods not being less than fifteen months and not exceeding five years from the date of making such loan or advance and on such terms and conditions as may be specified in this behalf by the Bank :

Provided that no such loans or advances shall be made—

- (a) except for the purpose of enabling the State co-operative banks to pay any dues in respect of bills of exchange and promissory notes purchased or rediscounted by the Bank under clause (2) of section 17 or loans and advances made to them by the Bank under clause (4) of section 17 and unless, in the opinion of the Bank, the State co-operative banks are unable to pay such dues in time owing to drought, famine or other natural calamities; and
- (b) unless such loans and advances are fully guaranteed as to the repayment of the principal and payment of interest by the State Government.