

The Role of
The Reserve Bank of India
in the
Development of Credit Institutions

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The Role of the Reserve Bank of India in the Development of Credit Institutions

I am honoured by the invitation to talk to you this evening. The privilege is great and I am conscious of a corresponding obligation. It has seemed to me that I can best discharge it by choosing as my subject something with which I happen to have been associated during the last few years. My theme is the 'Role of the Reserve Bank of India in the Development of Credit Institutions'.

In what follows I shall speak not only of the setting-up of new institutions but of the reorganization of existing ones and, in either case, of the modification of older procedures. I shall look at these from the angle of an under-developed country, our own, which is desirous of achieving planned development. It is clear that in such a context, institutions, practices, attitudes, all these must be attuned to new needs and new requirements; for they are the instruments of change and may themselves have to be forged afresh to meet new conditions. In this process, and where credit is concerned, it is my thesis that the Central Bank of an economically under-developed country has a very special role to play. It is a role which includes, but goes much beyond, the functions of the Central Bank of an economically advanced country. I hope to show that in India, during the last decade or so, that is to say after independence, a great deal has been attempted by the Reserve Bank by way of promotion and development, that something has been achieved and much experience gained, and that there are useful lessons to be drawn from that experience. The experience pertains to more than one sphere of development. For the present purposes, however, I select three topics: first, agricultural credit; second, extension of banking; and third, the financing of small industries. I shall deal rather more fully with the first and treat the remaining two as, in the main, illustrative.

But, how is institutional development a matter of relevance to all the three? This is so for many reasons, but mainly, I think, because agriculture and small industry are, for the most part, in the hands of those whose resources are small. Take the farmer who owns, say, a couple of acres. For most of the time he is in the grip—I use the term without any moral implication—of a money-lender or a trader. He is paying a high interest or has sold in advance at not too favourable a price. He needed money to buy seed, let us say, or fertilizer, and, barring the money-lender and the trader, he had no one else to turn to. What would have been of

real help to him was the existence of an alternative, a proper one and not a paper one, a bank or a society which was capable of giving him an adequate loan for production or for marketing the crop when produced. Such an institution (along, of course, with a number of other things) would have served to provide him not only with increased means to produce, but also increased incentive to produce. Credit and marketing, in other words, would have to be such as to facilitate: in production, the maximum increase; and for producer, the maximum benefit. Only an institutional, and preferably a co-operative, agency could be relied upon to do this. The money-lender may have virtues; but they do not include a passion for larger production or a bias for lower interest rates.

There is another reason for the deliberate promotion of institutional credit, if necessary with State aid. A large part of the country is still relatively non-monetized. Moreover, agriculture in many areas is of the subsistence type rather than commercial in character. There is clearly no special incentive for commercial banks to extend their activities to such areas. Nevertheless, these are the very regions which are most in need of economic development, and many of them have economic potential but no financial resources. It would be correct to say that it is exactly this combination of need and potentiality that is taken into account in the branch expansion of the State Bank of India and in the planned reorganization and extension of state co-operative banks, district co-operative banks, and different types of credit societies.

One might put the same thing in a different way looking at it from the point of view of the Central Bank of the country, i.e., the Reserve Bank of India. One of the important functions of the Bank is to control and regulate credit. If, as happens in most under-developed countries, there are large areas in which institutional credit is lacking, it is precisely in those areas that the Central Bank is unable to fulfil its function. In India, it is particularly so in that large sector of the economy which is represented by agriculture in particular, as also by small industries, cottage industries and so forth. It is in this context that we have to explain the various efforts made by the Reserve Bank to extend the area of organized commercial banking or to help set up a co-operative credit system. In either case, the attempt is to effect a transition from the individual to the institutional, from the unorganized to the organized. Control implies organization, and it is obvious that credit regulation and monetary management must remain incomplete if, outside a rather restricted arena, there is nothing to regulate or manage.

There is another point one might add. By and large and till recently, our banks have derived their traditions and procedures from a phase of British banking which even in Britain is now becoming outdated. One

result has been that while our banking has, on the whole, given an excellent account of itself from the point of view of the depositor of money on the one hand and the distributor of goods on the other, it has hitherto had somewhat serious shortcomings from the point of view of the producer, especially the smaller producer. How then can banks and other financial institutions be made to conform to the needs of the developmental effort and, in so doing, not be made to feel that they are being imposed upon by Government or rendered less sound in their working? The problem is one for the banking structure as a whole, including the Central Bank of the country.

I should like to amplify this a little. In many advanced countries, the present trend is for the banker to regard himself not as a mere supplier of credit but as a financier and counsellor who in promoting the good of his client also promotes the development of the particular industry through an understanding of its technical and financial aspects. The outlook and the methods of working of commercial banks have thus undergone a great change. In India we have yet to make substantial progress in this direction. Even such co-operative banks as have been specially set up to meet the requirements of agriculture or of industrial co-operatives tend to take a predominantly traditional view. Thus they attach a somewhat disproportionate importance to land as security for loans and persuade themselves that it is right to confine their activities to a relatively small proportion of cultivators, handicraftsmen, and small entrepreneurs generally.

It is at the same time clear that any programme for the development, reorganization and modification of financial institutions and their procedures cannot be dealt with in isolation. They are intimately connected with programmes of production on the one hand and, on the other, with aspects such as the marketing or processing of the goods produced, their storage and distribution, the financial strength of the borrowing institutions and so on. Now these matters fall in the spheres of different institutions and different departments of the Governments, both Central and State, as also of course within the ambit of a very large number of private individuals and institutions. Accordingly, any programme of action on the part of the Central Bank of the country without reference to other bodies and organizations would clearly be futile. Indeed, in many cases the more important items of policy or action, where the State is concerned with these, will be related to one or another Government or Department rather than to the Central Bank; while in certain other matters the Central Bank will of course be more directly concerned. All this emphasizes the need for a genuine sharing of purpose, besides effective co-ordination in actual action. It implies that there will be proper definition of the functions and responsibilities of the particular institutions involved in the

scheme. This is an aspect which it would be of interest to keep in mind in reviewing the experience which I referred to at the start.

I now take up the first of the three topics I mentioned, namely, credit for agriculture. As is well known, the framers of the Reserve Bank of India Act provided at the very inception of the Bank that a special responsibility should vest in it for agricultural credit. It is true that at the start this meant the giving of advice on agricultural finance rather than agricultural finance itself. For this, however, the Reserve Bank could hardly be blamed. The finance could, by and large, be channelled only through state co-operative banks, and central co-operative banks. Few of these came up to the requisite standards, and even those few were not doing much business. There was therefore little that the Reserve Bank was called upon to do in the beginning. It was after World War II, and more especially, during the last decade that a very considerable change has taken place. I may quite simply illustrate this by a pair of figures. At the end of 1948-49, the state co-operative banks owed just about half a crore of rupees to the Reserve Bank. At the end of 1958-59, that is ten years later, the corresponding figure was Rs. 62 crores. I shall give you other figures later on to illustrate or emphasize particular points.* But this, I think, can be taken to be indicative of the very great transformation which has been effected during the last decade. How has this come to pass? The Reserve Bank remains by and large the same institution as in the original Act. A few amendments have been made here and there but, as I shall show presently, these are not fundamental in character. I think the most significant development has been the Reserve Bank's own changed conception of its role, a change rendered meaningful by the developmental effort as a whole including the new emphasis on agricultural production and co-operative credit. The alteration in attitude may perhaps be put as follows. It was open to the Bank to say in respect of loans for agriculture that it was prepared to make them to deserving state co-operative banks; it was at the same time no concern of the Reserve Bank to initiate practical steps (as distinguished from the giving of expert advice) with a view to ensuring that the borrowing bank did in fact render itself deserving according to the standards laid down. This broadly was the previous position. There is a change in that the Reserve Bank now regards it as its function not only to make agricultural loans available in the manner laid down in the statute, but also to collaborate with others, including the borrowing bank, in a programme for rendering the borrowing structure efficient and increasingly creditworthy. The reforms needed might be few and easy in some cases, or many and complicated in others. Nevertheless, in the new interpretation of its role, it would be for the Reserve Bank to take the initiative itself and, by a com-

* Please see tables given at the end.

bination of advice, incentive, and assistance, persuade the borrowing institution to put through an agreed scheme of reorganization.

It would be interesting to recall the two or three stages in which the Reserve Bank came to assume this role. It first took the most obvious step. This consisted in finding out from the more efficient among state co-operative banks what their particular difficulties were. At the end of 1949-50, the state co-operative banks of the composite Madras State and of Bombay were among the more successful apex banks in the country. Even so, their borrowings from the Reserve Bank for purposes of agricultural credit stood at relatively low levels, viz. just above three-fourths of a crore in the case of composite Madras, and just below a third of a crore in the case of Bombay. An examination of their difficulties showed that much more could be done if certain procedural changes were effected. Thus all loans were for nine months and were strictly payable at the end of September each year. This resulted in a difficult problem for many agricultural societies. The seasons differ in different regions, and the duration of the crop is different for different crops. Both loans and repayments would therefore have to be realistically phased in the light of actual requirements. The Reserve Bank accordingly agreed to a more flexible procedure; it also suggested to the Government that the Act might be amended so as to make the period longer than nine months. I mention this detail merely by way of illustration. In this and other respects, a number of changes were made. These had an almost immediate effect and much larger loans for agriculture started being drawn thereafter by co-operative banks throughout the country.

The second step was more comprehensive, and it is to this that I would particularly invite your attention. It consisted of a large country-wide survey to ascertain all significant facts concerning the operation of agricultural credit. The All-India Rural Credit Survey was the result. On the facts collected, the Committee in charge of this Survey made its recommendations towards the end of 1954. If those recommendations could be said to have one theme running through them it was the need for massive and co-ordinated action on many fronts for bringing about institutional development. The development would be possible only with the full support, financial and other, of the State, that is to say, the Central and State Governments, as well as powerful organs of the State, such as the Reserve Bank. For an explanation of the Committee's emphasis on this aspect one must turn to the data of the Survey. These revealed that over 70 per cent. of rural credit in India was supplied by money-lenders. *Taccavi* and similar loans from Government constituted only about three per cent. of the total borrowings of the cultivator. The co-operatives for their part accounted for just as little. The commercial banks came far

behind this. An institutional substitute for the money-lender was nevertheless an imperative necessity if production was to increase and the producer to benefit. Various proposals such as a large-scale increase in Government loans, the enhancement of agricultural financing by commercial banks, and the formation of Agricultural Credit Corporations — state-wise or all-India — were mooted, but considered inappropriate. Millions of cultivators had to be reached and, in the long run, nothing would work which was centralized, or bureaucratic, or in which the producer himself did not have a voice. Co-operation was the alternative. This had the serious disadvantage that it did not seem to work even in the short run. It had had a history of fifty years during which it was reviewed at frequent intervals and at each review found wanting. The Committee proceeded to analyse why this had been so. I shall not attempt to enumerate their findings on this point. These in fact form the core of the Rural Credit Survey Report. There were two aspects, however, which the Committee emphasized, and which I may mention. One is the wholly unequal competition with which, in Indian conditions, co-operatives are faced. The other is the wholly inadequate financial and technical resources with which they face that competition. Distinguishing between the rural and urban sectors, from which co-operatives and their competitors may be said respectively to have derived, the Committee said that the one was a federation of weakness from below, whereas the other was a projection of strength from above. It was against this background, and in the conviction that there was no alternative but to make co-operation a success, that the Committee formulated what they called an “integrated scheme of rural credit”. The main features, in so far as these affected co-operatives, were: (i) State partnership at different levels, to the extent needed, (ii) development, along with credit, of marketing, processing, warehousing, and storage, and (iii) extensive provision of training-facilities. The Committee emphasized that State partnership should not imply State interference.

I should like to dwell a little more on this concept of State partnership. This rests on the postulate that unless, at the very start, there is a minimum of financial resources at the disposal of the society, it would never get going, let alone become successful; and to the extent this minimum is lacking, the State should step in as partner and make up the gap. As the institution progresses, however, that is, as more members join and larger funds are collected by way of share capital, the Government part of the contribution can be retired. State partnership will last as long as necessary, but need not be permanent. The duration might be a few years in one case, or more than a decade or so in another. But all this will depend on how effectively the programme is pursued. The partnership will be required not only in the co-operative banks but also in marketing and processing organizations. If the development of credit institutions

in the co-operative sphere could be regarded as the appropriate special responsibility of the Reserve Bank and the State Governments, the programme of marketing, processing, warehousing and so on could be regarded as more especially the responsibility of the Central Government and the State Governments. The direct responsibility would be that of State Governments. This is as it should be for Co-operation is an item which falls in the State List of the Constitution. The State Governments would not only legislate, administer, supervise, and subsidize in this sphere, but would also, under the new conception, be 'partners' in the co-operatives. It was precisely in order to facilitate such partnership — which in financial terms, implies an investment of several crores by each State Government in the share capital of its co-operative credit, marketing and processing institutions — that provision was made in the new legislation that State Governments could borrow long-term loans from the Reserve Bank if they desired to take shares in a co-operative bank or society, or from the National Co-operative Development Board if they wished to partner marketing or processing societies. This was the broad framework. There was co-ordination in that the authorities of the Bank and the Board met in common committees. So far as the Reserve Bank was concerned, the Act was amended to provide for a Long-term Operations Fund, built up from part of the profits otherwise transferable to the Central Government. Out of this fund, loans could be made from time to time to State Governments. The loans would usually be for periods ranging from 12 to 20 years. They would be used by the State Governments for buying shares either direct in society, or bank, or where appropriate, indirectly through the apex bank. The Reserve Bank, it has to be borne in mind, is banker to the Central Government as well as to the State Governments. The change, far reaching as it is from the point of view of development, implies no more than a slight addition to this role in that, through the Long-term Operations Fund, the Reserve Bank now becomes a long-term financier for specific purposes to State Governments. The new role enables the Reserve Bank to keep an eye on the programme of development as a whole and to support the plans and efforts of State Governments by giving them financial accommodation in accordance with programmes previously agreed upon. For co-operative banks and societies throughout the country, to the extent that State Governments have so far contributed to their share capital, the Reserve Bank has sanctioned loans of the order of Rs. 18 crores up to 31 March 1960.

There is another and even more important aspect to which I must refer. This concerns short-term accommodation to co-operative banks. Under the Reserve Bank Act, this accommodation is available to the co-operative banking structure in much the same way as to commercial banks. In other words, the financing is in the nature of re-imbusement or re-financing rather than of direct financing. A bank lends to a person or in-

stitution and with the appropriate bill or security comes to the Reserve Bank for replenishing its resources should it so need. Essentially the same idea is applied to co-operative banks; it is the paper which they offer, e.g. bills endorsed by two sound co-operative banks, including the apex bank, on which the Reserve Bank provides accommodation. Only, it takes the guarantee of the State Government, in addition to the signature of the apex bank, in those cases where the co-operative central bank is presently weak but is in the process of strengthening and reorganization. Further, the volume of accommodation needed and made available is, bank for bank, much larger for the co-operative sector than for commercial banks. This is for the obvious reason that the latter are much better placed in regard to deposits whereas, by and large, the former have yet to do a number of things in order to achieve a comparable level of normal banking resources. Moreover, unlike commercial banks, they are geared to a programme of purposive lending and both purpose and lending are, in the bulk, related to a sphere which today is as poor as it is important, namely, agricultural production. In making loans to co-operative banks, therefore, the Reserve Bank applies rather special criteria all of which pertain to the present soundness and future programme of the particular institution. The share capital and owned resources generally are one important consideration. Sound lending, which avoids the extremes of laxity and rigidity, is another. An increasingly important item is supervision over the utilization of loans, that is to say method and machinery for ensuring that, by and large, the loans are used for the productive purposes for which they are intended. Performance in recovery of loans is yet another criterion. Briefly, the elements involved are structure, both financial and organizational, standard of operations, and degree of progress towards achievement of objectives. In making its assessment of individual banks, as also of the performance generally of individual States, the Reserve Bank is helped by three things. First, by co-operative audit, conducted by the State Government itself, which classifies banks into A, B and C and so forth on the basis of criteria which are broadly the same as I have just indicated. Second, the Agricultural Credit Department has instituted and is fast developing a machinery of inspection of its own, consisting of regional units which cover the whole country; and as part of the same system the Deputy Governor and senior officers of the Reserve Bank visit different States at intervals and hold consultations with State Governments and their Departments. Third, the Research Department of the Reserve Bank has Rural Economics and Rural Statistics Divisions which organize sample surveys each year to assess, in a selected number of districts, the degree and quality of the success achieved by the integrated scheme of rural credit, or to put it differently, the range and gravity of the shortcomings in its operation. It is on the basis of a combination of all these factors that the Reserve Bank decides how much assistance to make available to which State and on what terms. A substantial part of this assistance is

short-term accommodation to co-operative banks. It would be interesting to give some figures. The outstandings in respect of such accommodation amounted to Rs. 3.15 crores in 1950-51, that is to say just before the commencement of the First Five-Year Plan. During the last year of that Plan they stood at Rs. 12.98 crores. The latest year for which data are available is 1958-59, and the comparable figure for that year is Rs. 56.27 crores.

I am, however, not so much concerned to emphasize the quantitative aspects of credit as its implications in regard to institutional development. I should stress that it was the confidence that a substantial amount of credit would be available in this fashion from the Reserve Bank that led to a very great effort in setting up new societies, new banks, and other new institutions in different States. The process was greatly helped by the availability of these funds at a concessional rate of interest, viz. two per cent. below the Bank Rate. The concession is primarily intended for promoting the relevant credit institutions and, incidentally, for cheapening the loans to the cultivators. On a long-term view, it seems clear that our object has to be not the indefinite dependence of the co-operative credit structure on the Reserve Bank, but the re-fashioning of that structure in such a way that it increasingly commands its own resources and, with little or no help from outside, is able to give loans to cultivators at reasonably low rates of interest. This is essentially a long-range objective, and no one can say today when it is likely to be achieved. Meanwhile the structure has to be built up, and this is being done in a number of ways including State partnership, liberal short-term accommodation, a concessional rate of interest and other special types of assistance. The special assistance includes arrangements for making medium and long-term finance available to co-operative banks including land mortgage banks. These are important aspects with which, however, for want of time I do not propose to deal. Nor shall I deal with the handloom sector where, by a parallel development, the Reserve Bank is playing an increasingly important part in the financing of co-operatives and the building-up of a proper credit system.

Since it is a significant aspect of the developmental programme, I should like to say a few words about training. This is a function which the Reserve Bank has taken up for entirely practical reasons. It was discovered at a very early stage of the present effort, that is to say in 1951 or thereabouts, that in the larger part of India no progress at all would be possible unless very special efforts were made to train personnel at all the different levels for both Co-operative Departments and co-operative institutions. The Bank first collaborated with the Bombay State Co-operative Union to expand and reorganize its Co-operative Training College situated in Poona. Thereafter, it established training centres for other categories of staff at various places. Meanwhile, the Government of

India and the Bank together constituted a body known as the Central Committee for Co-operative Training. This Committee gets funds from the Reserve Bank for certain institutions and from the Central Government for others. Its administration, however, is unified in the sense that its activities are channelled through the Agricultural Credit Department of the Reserve Bank. A whole network of institutions has been set up. Besides the Senior Officers' course at Poona, there are five Regional Centres for executives at the intermediate level and eight Institutes for Co-operative Extension Officers. Today hardly any State is without one of these training centres. Various specialized courses, such as those in marketing, land mortgage banking, business management and so on have been introduced. All these courses are available to officers of the Co-operative Departments as also to the personnel of banks and societies. In regard to junior staff, the State Governments have steadily increased the number of their own training institutions. Here again, both form and cohesion have been imparted to the programme by a system of grant-in-aid operated through the Central Committee. The expenditure is partly borne by the State Government and the aid comes from the Central Government on the recommendation of the Central Committee. I need hardly add that the training programme as a whole constitutes one of the most important features of the Reserve Bank's role in institutional development, for there are few aspects as crucial for the success of its own financing operations as the provision of proper and suitable personnel for managing the institutions which borrow funds or, at a higher level, for supervising the work of these institutions.

It was the training programme that enabled many States to proceed with the structural, especially administrative, reorganization to which I have referred earlier. Finance and advice from the Reserve Bank helped. Naturally, the task as a whole has been complicated by the fact that the political re-drawing of the map of India, which independence together with the integration of States had made necessary, was not of course carried out all at once, but has been taking place by a series of steps, some small and some big. As you are aware, a major territorial readjustment was effected in 1956, i.e. shortly after the integrated scheme had been launched. The consequent structural changes, apart from the programme of reorganization as a whole, fell within the sphere of the States, and implied co-ordination not only between the concerned States but also between them and all-India institutions such as the Reserve Bank. By and large, such co-ordination has been amply secured. Indeed the Reserve Bank itself took the initiative in convening conferences of the concerned administrations and affected state co-operative banks, central land mortgage banks and so forth. Programmes were drawn up and in large part implemented; only a few steps have yet to be taken including those consequent on the last remaining instalments of territorial reorganization. In the main, how-

ever, the process is complete, though it has meant a certain amount of inevitable slowing down of the progress of the development plan. The basic structure is gradually taking shape: a State Co-operative Bank, and a Central Land Mortgage Bank for each State; a network of central co-operative banks on the scale normally of one bank for each administrative district; and at the primary level, a co-operative marketing society at each marketing centre, a primary land mortgage bank generally for one taluka, and a primary credit society for a village or convenient group of villages. As I have already said, the State Governments have made contributions to the share capital of these institutions, thereby adding to their financial strength, reinforcing public confidence in them, and increasing their borrowing power. Central co-operative banks have greatly gained by the amalgamation of smaller and weaker banks into stronger, district-wise units. Their number has been reduced from 505 in 1950-51 to 418 in 1957-58. During the same period their owned funds have increased from Rs. 9 crores to Rs. 25 crores. The corresponding increase for state co-operative banks is from Rs. 4 crores to Rs. 12 crores. Taking both categories together, deposits during this period increased from Rs. 60 crores to Rs. 112 crores.

Perhaps the most important aspect of structural reorganization is that which relates to the primary co-operative credit societies, for it is after all on these that the whole scheme of integrated credit rests. The main idea which the Rural Credit Survey Report had put forward in this respect was that the ultimate organization in the village, the one which lent direct to the cultivator, should not only be a co-operative, but also a business unit. If it had to deal with adequate amounts, and not the small funds that primaries had hitherto been accustomed to dole out; if its operations were to be such as to inspire confidence in the central co-operative bank from which it would have to borrow most of its working funds; if it was to meet diversified credit needs, short and medium, kind and cash, as and when these arose during the agricultural season; and if it was, in due course, to attract fixed deposits by having established itself in the eyes of the villager as a sound, safe and serviceable organization — if the primary society was to do all these things, it would have to have trained staff, the trained staff would have to be paid salaries, and the salaries could not be met indefinitely from subsidies. The Survey Committee therefore recommended a size that would simultaneously make for compactness and viability. In terms of area, number of villages and families covered, the society should not of course be unwieldy from either the co-operative or the administrative point of view. Subject to this, however, it should presently possess, or have in near prospect, enough business to enable it to pay its way; and all assistance from government would be directed to the object of enabling it to become self-supporting as early as possible. It was computed that the annual turnover in prospect should,

to make the society viable, be not less than about Rs. 1,50,000. A margin of two per cent. on this would enable the primary society to earn a gross profit of Rs. 3,000 per annum or Rs. 250 per mensem. This seemed a modest requirement to aim at. Societies designed to fulfil this requirement were called 'large size' societies and the Second Five-Year Plan made provision for slightly over 10,000 of these. About 7,000 such societies have been set up during the first three years of the Plan; and from their record during this short period, it would appear that many of them have shaped the way they had been envisaged; their progress in membership, loans and deposits, is much more satisfactory than that of small non-viable units. Meanwhile, certain differences in point of view have developed and some of those in authority appear to think that every single village should have a society, save in exceptional circumstances, and that even if two or more villages joined, the membership should not exceed 200. This is alleged to follow from co-operative ideology on the one hand and, on the other, from the twin concepts of village community and social cohesion. I do not wish to comment further on this topic.

What lessons may be drawn from our experience hitherto in this matter of an integrated scheme for the institutional development of agricultural credit? In reply to this question I shall make a few general observations. Any such programme, as I have already said, involves action on the part of many, including Governments, institutions, non-official bodies, communities, and individuals. It implies a sharing of purpose by official and non-official. This co-ordination, in objective as in operation, is not always easy to achieve. One temptation, which must be avoided at all cost, is to generalize on the basis of limited experience, and impose, deliberately or inadvertently, certain patterns on people and regions whose conditions and history are widely different. There has to be a readiness to see the other man's point of view and, if possible, accommodate it, provided this can be done within the framework of the larger purpose. A more difficult situation arises when there are conflicting but influential views on important or even fundamental aspects of the scheme. Briefly, the future success of the scheme will be gravely jeopardized if two things are not kept in mind: the need for flexibility in detail, and the need for consistency in policy.

A second set of problems arises from the fact that planning involves the fixing of goals and targets, which reflect aspirations, as also at the same time the formulation of realistic means of achieving those objectives on the basis of given resources in men, money, and material. In a programme of rural credit, the targets tend to be fixed in terms of number of societies, amount of credit to be distributed and so on from year to year. This has obvious dangers if the quantitative aims are taken not only seriously, but also literally or mechanically, regardless of the fact

that unlike a steel mill or an irrigation project, the programme here is primarily dependent on the conduct and behaviour of individual human beings and their organizations. A 'target mentality', unless corrected in time, may indeed lead to hasty organization of societies and indiscriminate stepping up of credit, which in the long run can do no good to either production or producer. There have to be built-in safeguards against such a tendency. So far as the basic programme is concerned I have described some of these, e.g., audit classification of banks, training of personnel, increase of owned resources and so on. It is nevertheless necessary for those concerned with the programme as a whole to be constantly on the alert against any tendency to sacrifice what is sound for what may be merely impressive for the time being.

Third, a number of difficult issues arise in connexion with the day to day operation of the credit structure. Some of these are centred in administration, e.g., the need to provide a sufficiently large body of staff for audit, supervision, general administration, and management. There are serious lacunae in all these which the training programme is seeking to fill. Another difficulty is concerned with the co-ordination of marketing with credit. In India, while co-operative credit has expanded fairly rapidly in recent years, co-operative marketing has lagged far behind. This constitutes a serious handicap to the effective functioning of the integrated scheme of rural credit.

Fourth, there are issues more immediately connected with the role of the Reserve Bank in rural credit. One of these is the question of the possibility of the inflationary pressures in the economy being increased as the result of a rapid expansion of co-operative credit based in large part on loans obtained from the Reserve Bank. Such a situation will arise if much more credit is pumped in than is utilized for production. It is at the same time necessary to remember that if, through undue caution, the Central Bank withholds assistance from the co-operative credit structure, the latter may never get really started at all and therefore never have the opportunity of being self-reliant in resources or competitive in operation. One might then as well give up the idea of building up an institutional alternative to the money-lender in thousands of villages. The problem nevertheless remains; it is that of constantly, and in fast-changing circumstances, reconciling two equally important aspects of the working of the Central Bank of the country: its developmental role of helping credit co-operatives towards a 'take-off', and its normal role as regulator of credit and lender of last resort.

One thing is clear. There is no routine way of administering and implementing the rural credit scheme, particularly on the part of the Central Bank whose role is indeed crucial in a programme such as I have

described. While not forgetting the main objectives, it has to watch for pitfalls all the time. While drawing on its own previous experience and that of other central banks, it has to adapt those lessons to the conditions and circumstances of the particular country and its economy as these change from time to time, and find solutions as best it can to the problems encountered. The approach cannot be dogmatic, rigid or isolated. It has to be enlightened, flexible and integrated.

I have dealt in some detail with agricultural credit and the Reserve Bank's functions in relation thereto. In the same context, i.e. the developmental role of the Bank, it remains for me to refer very briefly — and, as I said before, illustratively, rather than with any attempt at completeness — to the two other topics I have mentioned, namely, extension of banking, and finance for small industries. It is clear that the extension of banking is a matter of vital concern to both agriculture and small industries, since the issue involved is that of providing adequate banking services to areas, categories and purposes which are relatively devoid of such services and which at the same time are relatively important from the point of view of a development plan. I shall confine my illustration to the State Bank which, as it has shaped in recent years, is one of the greatest ventures in the extension of banking. Indeed, the establishment of the State Bank stemmed from the recommendations of the Rural Credit Survey Committee, which had conceived this new institution as organically connected with the whole programme of development devolving on the Reserve Bank and the commercial and co-operative credit structure generally; in other words, with the integrated rural credit scheme in its entirety. Moreover, the concept of State partnership entered as much into the Committee's proposals for a State Bank as it did into its recommendations for co-operative reorganization. Accordingly, the statute provides that not less than 55 per cent. of the share capital of the State Bank shall be held by the Reserve Bank. In actual fact a much larger part of the share capital is owned today by the Reserve Bank, which operates in close contact with the State Bank. The dividend due to the Reserve Bank on 55 per cent. of the share capital is, in accordance with the statute, placed in a fund called the Integration and Development Fund. This is available for meeting such losses as may accrue to the State Bank in respect of new branches opened by it in accordance with a programme previously settled with the Reserve Bank and the Government. Thus, from its inception in July 1955 up to the end of March 1960, the State Bank has opened as many as 374 branches and may be expected to reach the statutory target of 400 before the five-year period expires at the end of June 1960. Of these branches, 263 are at places with a population of 25,000 or less, that is to say, in rural and semi-urban areas which hitherto have been most lacking in banking services. The process of branch expansion will be further accelerated by the subsidiaries of the State Bank which have been

recently constituted out of what were called State-associated banks by the Rural Credit Survey Committee. These new affiliates of the State Bank are : the State Bank of Hyderabad, the Bank of Mysore, the Travancore Bank, the Bank of Indore, the Bank of Jaipur, the Bank of Bikaner and the Bank of Patiala. An eighth bank, namely the State Bank of Saurashtra will be shortly added to this list. It will be noticed that by and large these banks operate in areas which were not previously covered by the Imperial Bank, and which, by the same token, are outside its accustomed territory of expansion for the State Bank. In other words, the areas of the subsidiaries are complementary to those of the State Bank of India. In its totality, this structure, in the concept and building up of which the Reserve Bank has played a prominent part, may be said to be of the greatest possible significance for branch expansion and banking development in this country. This was exactly what the Rural Credit Survey Committee had envisaged when it said that the object of the recommendation was "the creation of one strong, integrated, State-sponsored, State-partnered commercial banking institution with an effective machinery of branches spread over the whole country, which, by further expansion, . . . can be put in a position to take over cash work from non-banking treasuries and sub-treasuries, provide vastly extended remittance facilities for co-operative and other banks, thus stimulating the further establishment of such banks, and, generally, in their loan operations, in so far as they have a bearing on rural credit, follow a policy which, while not deviating from the canons of sound business, will be in effective consonance with national policies as expressed through the Central Government and the Reserve Bank".

To turn now to small industries, it may be recalled that I made reference at the outset to banking traditions and practices, sound enough no doubt in their special context, which nevertheless have on the whole prevented our banks from meeting to any appreciable extent the requirements, short-term or long, of small industrial entrepreneurs. It is now about a decade since special arrangements started being made for long-term loans to medium and small industry. These have taken the shape of State Financial Corporations. The Reserve Bank not only collaborated in the promotion of the programme but is one of the principal shareholders in each of the 13 State Financial Corporations. Thus it holds Rs. 2.25 crores in these institutions; and its representatives are on the Boards of all the Corporations and, in some cases, in the Executive Committees of the Boards as well. The statute enables the Reserve Bank to inspect the Corporations; and the Bank has taken it upon itself to convene annual conferences of these institutions. The co-ordination between the Corporations on the one hand and the banking institutions, including the State Bank and the co-operative banks, on the other, has been one of the Reserve Bank's main pre-occupations in this sphere. The co-ordination

has had to be extended to the Industries Departments of the State Governments and the various organs of the Central Government, such as the Small Industries Service Institutes, the National Small Industries Corporation and so on. Quite early in the development of the State Bank of India, the Reserve Bank and the State Bank in collaboration formulated a Pilot Programme for the financing of small industries. This had two aspects: greater attention to small industries by each of the institutions, and greater co-ordination *inter se* so as to reduce the difficulties encountered by a borrower who has to go to one institution for short-term loans and another for medium or long-term. The Pilot Scheme has enabled the State Bank substantially to enlarge the portfolio of its loans to small industries. Within three years, viz. from the end of 1956 to the end of 1959, the number of small units accommodated went up from 25 to 1496 and the sanctioned credit limits from about Rs. 12 lakhs to about Rs. 5 crores. In terms of need and scope, however, this is very little, and no more than touches the fringe of the problem. Basically, the question is how to institutionalize a type of credit which today is unorganized, sporadic and individual. This was discussed at length in a Seminar conducted by the Reserve Bank some months ago at Hyderabad. As a result of those deliberations, a scheme has been drawn up for guaranteeing to a certain extent the losses that might accrue if a credit programme for small industries was actively pursued by banks. In return for a small charge, the guaranteeing authority will reimburse losses on a graded scale. But the bank must belong to a selected category and itself share part of the loss. The institutions so selected will be a manageable number of demonstrably good banks. But the scheme is not necessarily confined to them. Its facilities can be extended to any one of the numerous other banks, scheduled and non-scheduled, provided there is 'participation', in the particular loan between this and one of the selected banks. This idea of participation with a selected bank has great possibilities, since it will enable small outlying banks, some of which would be more in touch with the small entrepreneur than the bigger banks, to take advantage of the guarantee scheme and greatly extend their loans to small industries. There is reason to hope that the scheme will come into operation in the near future. It is expected that the guaranteeing authority will be the Reserve Bank, which will operate the scheme on behalf of the Central Government.

I must now conclude. I have attempted to tell you how during the last few years the Reserve Bank has begun to operate on a new conception of its own role in a developing economy. That conception is not only not in conflict with the normal functions of a Central Bank, but gives new meaning and new scope to those functions within the framework of planned development. The central bank of an economically advanced country is in a different position. It is likely to find little reason to depart from the more orthodox pattern of Central Banks. But in India that is

not the case. While strictly providing for all those services which a Central Bank ought to provide in any country, it is necessary for India to have in its Central Bank an institution which collaborates with commercial and co-operative banks and other financial institutions, with the many organs and boards of Governments, and with the Governments themselves, Central and State, for the promotion of credit institutions and practices which help planned development and, in that process, also and in particular help the small producer. This, in India, means millions of farmers and thousands of small industrial entrepreneurs. Helping them implies helping the country itself and helping the nation to fulfil, to some extent, the objectives it has laid before itself in its Constitution. In this task many have to participate. The objective and the purpose are one but the instruments are many and not until all these are made to work in accordance with a correlated pattern will there be chance of real success. It is too early to say whether in the sphere of credit we are anywhere near such an eventuality. But it can be said, I think, that the lines of approach adopted are broadly correct. They appear to hold promise for the future. The Reserve Bank has achieved partial – but only partial – success in its efforts to bring about institutional development in the sphere of agricultural credit, in that of finance for small industries, and in the context of providing banking services for relatively undeveloped areas. But what has been done only serves to emphasize the great deal that has yet to be accomplished.

Table 1: *Short-term loans from the Reserve Bank for seasonal agricultural operations and marketing of crops* (Rs. lacs)

Year (July-June)	Amount sanctioned	Amount outstanding
1948-49	180.25	57.01
1949-50	214.00	127.50
1950-51	762.00	315.00
1951-52	1240.00	645.29
1952-53	1242.39	679.62
1953-54	1632.15	856.54
1954-55	2120.55	811.16
1955-56	2963.50	1298.30
1956-57	3525.00	2332.39
1957-58	4824.35	4047.35
1958-59	6542.55	5626.81

Table 2: *Medium-term loans from the Reserve Bank for agricultural purposes* (Rs. lakhs)

<i>Year</i> <i>(July-June)</i>	<i>Amount</i> <i>sanctioned</i>	<i>Amount</i> <i>outstanding</i>
1954-55	121.86	22.18
1955-56	139.67	98.82
1956-57	167.00	158.22
1957-58	772.00	342.47
1958-59	452.05	577.19

Table 3: *Long-term loans from the Reserve Bank to State Governments for contribution to the share capital of co-operative credit institutions* (Rs. lakhs)

<i>Year</i> <i>(April-March)</i>	<i>Amount</i> <i>sanctioned</i>	<i>Amount</i> <i>drawn</i>
1956-57	268.20	160.45
1957-58	606.98	583.39
1958-59	604.57	574.49
1959-60	494.34	493.34

Table 4: *Loan operations of primary agricultural credit societies in India* (Rs lakhs)

<i>Year</i>	<i>Amount of loans</i> <i>advanced during</i> <i>the year</i>	<i>Amount of loans</i> <i>outstanding at</i> <i>the end of the</i> <i>year</i>	<i>Percentage of</i> <i>overdues to loans</i> <i>outstanding</i>
1951-52	2420.94	8365.97	25.3
1952-53	2569.13	8768.25	28
1953-54	2964.36	4156.43	29
1954-55	3547.61	4853.16	30.3
1955-56	4961.72	5983.87	25
1956-57	6732.72	7682.14	22
1957-58	9608.34	10710.38	21.3

Table 5: *Loans advanced by Central Land Mortgage Banks (Rs. lakhs)*

<i>Year</i>	<i>Amount of loans advanced during the year</i>	<i>Amount of loans outstanding at the end of the year</i>
1951-52	250.65	805.33
1952-53	170.57	937.71
1953-54	192.40	1035.16
1954-55	243.49	1162.20
1955-56	283.04	1308.21
1956-57	380.22	1493.59
1957-58	462.43	1982.23

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39	<i>Planning and Economic Policy in India</i> Gadgil D. R.	
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