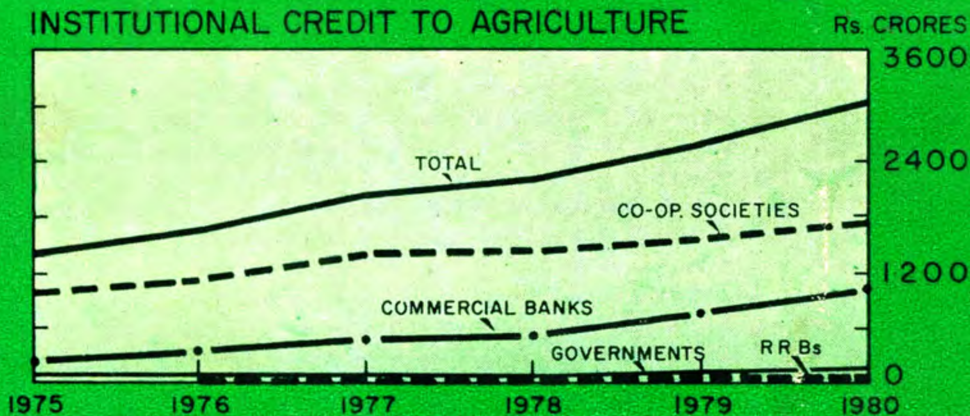
REPORT OF THE COMMITTEE TO REVIEW ARRANGEMENTS FOR INSTITUTIONAL CREDIT FOR AGRICULTURE AND RURAL DEVELOPMENT (CRAFICARD)

RESERVE BANK OF INDIA
BOMBAY



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RESERVE BANK OF INDIA
BOMBAY
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ABBREVIATIONS

AAP	–	Annual Action Plan
ACB	–	Agricultural Credit Board
ACD	–	Agricultural Credit Department
ADB	–	Agricultural Development Branch
ADBI	–	Agricultural Development Bank of India
AFC	–	Agricultural Finance Corporation
AIDIS	–	All India Debt and Investment Survey
AIRCS	–	All India Rural Credit Survey
APPBO	–	Average Population per Bank Office
APPR/SUBO	–	Average Population per Rural/Semi-Urban Bank Office
ARC	–	Administrative Reforms Commission
ARDC	–	Agricultural Refinance and Development Corporation
BR Act, 1949	–	Banking Regulation Act, 1949
BTC	–	Bankers Training College
CAB	–	College of Agricultural Banking
CADA	–	Comprehensive Area Development Authority
CADP	–	Command Area Development Programme
CAS	–	Credit Authorisation Scheme
CCB	–	Central Co-operative Bank
CD Block	–	Community Development Block
CD Ratio	–	Credit Deposit Ratio
CRAFICARD	–	Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development
DBDI	–	Development Bank for Decentralised Industries
DBOD	–	Department of Banking Operations and Development
DCC	–	District Consultative Committee
DCP	–	District Credit Plan
DICGC	–	Deposit Insurance and Credit Guarantee Corporation
DRI	–	Differential Rates of Interest
DPAP	–	Drought Prone Area Programme
FSS	–	Farmers Service Societies
GOI	–	Government of India
GVK	–	*Gram Vikas Kendra*
HPC	–	High Power Committee of Reserve Bank of India
IBA	–	Indian Banks' Association
IDA	–	International Development Association
IDBI	–	Industrial Development Bank of India
IFCI	–	Industrial Finance Corporation of India
IRDP	–	Integrated Rural Development Programme
KVIB	–	Khadi and Village Industries Board
KVIC	–	Khadi and Village Industries Commission
LAMPS	–	Large-Sized Adivasi Multipurpose Society/Societies
LBO	–	Lead Bank Officer
LDO	–	Lead District Officer
LBS	–	Lead Bank Scheme
LDB	–	Land Development Bank
LIC	–	Life Insurance Corportion
LT	–	Long-term
MFAL	–	Marginal Farmers and Agricultural Labourers

MT	—	Medium-term
NABARD	—	National Bank for Agriculture and Rural Development
NCA	—	National Commission on Agriculture
NCDC	—	National Co-operative Development Corporation
NCUI	—	National Co-operative Union of India
NAC (LTO) Fund	—	National Agricultural Credit (Long Term Operations) Fund
NAC (Stabilisation) Fund	—	National Agricultural Credit (Stabilisation) Fund
NIBM	—	National Institute of Bank Management
NIC (LTO) Fund	—	National Industrial Credit (Long Term Operations) Fund
NRC (LTO) Fund	—	National Rural Credit (Long Term Operations) Fund
NRC (Stabilisation) Fund	—	National Rural Credit (Stabilisation) Fund
PACS	—	Primary Agricultural Credit Societies
PLDB	—	Primary Land Development Bank
RBI	—	Reserve Bank of India
RCS	—	Registrar of Co-operative Societies
RCRC	—	All India Rural Credit Review Committee
RDO	—	Rural Development Officer
RPCC	—	Rural Planning and Credit Cell
RSC	—	Rural Service Centre
RRB	—	Regional Rural Bank
SBI	-	State Bank of India
SCB	-	State Co-operative Bank
SC/ST	-	Scheduled Caste/Scheduled Tribes
SCU	-	State Co-operative Union
SFCs	-	State Financial Corporations
SFDA	-	Small Farmers' Development Agency
SLDB	-	State Land Development Bank
ST	-	Short-term
TDA	-	Tribal Development Authority
UCB	-	Urban Co-operative Bank
UTI	-	Unit Trust of India
VAS	-	Village Adoption Scheme
VLW	-	Village Level Worker

PART I

BACKGROUND AND COMMITTEE'S APPROACH

CHAPTER 1

INTRODUCTION

AT the instance of the Government of India, the Reserve Bank of India (RBI) appointed, on March 30, 1979, a Committee under the Chairmanship of Shri B. Sivaraman, to review the arrangements for institutional credit for agriculture and rural development (CRAFICARD). The memorandum on the appointment of the Committee is reproduced in Appendix I of this Report.

1.2 The composition of the Committee was as under:

Shri B. Sivaraman
(*Chairman*)

Dr. G. V. K. Rao (*Member*)	Shri M. Ramakrishnayya (*Member*)
Shri M. R. Shroff (*Member*)	Shri R. K. Kaul* (*Member*)
Smt. S. Satyabhama (*Member*)	Shri L. C. Jain (*Member*)
Shri K. B. Chore (*Member*)	Dr. H. B. Shivamaggi (*Member-Secretary*)

1.3 The terms of reference of the Committee were as follows:

"(*i*) To review the structure and operations of the Agricultural Refinance and Development Corporation in the light of the growing need for term loans for agricultural and allied purposes including village industries, marketing, processing and other services relevant to integrated rural development;

(*ii*) To examine the need for and the feasibility of integrating short-term and medium-term credit structure with long-term

* In November 1980, Shri R. K. Kaul became a member of the Committee when he succeeded Shri S. V. S. Juneja as Additional Secretary, Ministry of Finance, Department of Economic Affrairs, Division of Banking, Government of India. Shri S. V. S. Juneja was a member of the Committee from April 1980 to October 1980.

credit structure at national, state, district and village levels in the context of the intensification of rural development programmes;

(*iii*) To consider the relative merits of three-tier and two-tier structures for cooperative financing institutions and suggest improvements, if any;

(*iv*) To study the consultancy services provided by the Agricultural Finance Corporation and suggest improvements for achieving satisfactory coordination between it and financing institutions;

(*v*) To review the role of the Reserve Bank of India in the field of rural credit having due regard to its central banking functions; and

(*vi*) To make recommendations on the above issues and other related matters".

1.4 The Committee was asked to submit its Report on or before 31st December 1979.

1.5 In the inaugural meeting held in Bombay on May 7, 1979, discussions were held with Dr. I. G. Patel, Governor of the RBI, who drew our attention to the need for ensuring that different constituents of the rural credit system grow harmoniously and function in a co-ordinated and complementary manner, avoiding unnecessary duplication of efforts and above all keeping in mind their primary purpose of promoting all-round higher production in the rural areas. Further, he requested the Committee to quickly appraise the problems referred to it and tender its advice early. Responding to the Governor's request, the Committee decided that though its comprehensive terms of reference may necessitate it to take more than the stipulated time, it may submit interim reports on any specific issues requiring immediate attention.

1.6 Following this, we decided to divide our assignment into two parts. The first pertains to the examination of the credit delivery system at the field level with a view to finding out the present position regarding the tie-up between credit and plan programmes and what further improvements are necessary. The second part is the study of national level insitutions. While a consensus has gradually emerged on the need to establish an integrated rural credit system at the primary level and provide a single contact point for the farmer to meet his multi-purpose and multi-term credit requirements, divergent views have been expressed on the question of bringing about similar integration at higher levels. It was imperative for the Committee, therefore, to study both the delivery system in the field and the set-up at the national level, in the context of the integrated rural development approach which was the strategy laid down, in the then available Draft Five Year Plan (1978-83), for development of rural areas. The Plan Document put it as follows:

> "experience of various rural development programmes in the earlier plans has shown that a mere project approach or a sectoral approach is not adequate to lead to an overall development of the area and distribution of benefits to local population, particularly the weaker sections of the society. The distribution of unemployment and poverty and the potential for development of agriculture and related activities vary widely from region to region and also within regions. Different areas in the country are at different levels of development and have varying degrees of potential depending on local endowments. The efforts now will be to make the programmes area specific and utilise the local endowments for growth for social justice and full employment. It will, therefore, be necessary to plan for integration of various programmes and establish appropriate linkages for optimal utilisation of local endowments consistent with the plan objectives, local needs and environmental balance".*

1.7 The new approach aims at integrating field programmes reflecting the economic activity of the rural target group comprising small and marginal farmers, agricultural labourers and rural artisans. This is to be brought about by developing the primary, secondary and tertiary sectors. Explaining this, the plan document stated that "in the primary sector, programmes for agriculture, animal husbandry, fisheries and forestry development will be intensified. In the secondary sector, programmes for village and cottage industries as well as small-scale industries, skill formation and supporting services will be substantially enlarged and strengthened. Tertiary sector will be developed by creating facilities for organised marketing, processing and allied activities so as to absorb increasing number of local people".* From October 2, 1980 *i.e.* the Gandhi Jayanthi day, the integrated

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* Draft Five Year Plan (1978-83), p. 154.

rural development approach has been extended to all the development blocks in the country with the target of assisting, on an average, 600 families in every block in a year and to assist at least 3,000 families under this programme during the current plan period (1980-85).

Field Visits

1.8 We started our work with field visits in five states with a view to examining the actual field level conditions bearing on the implementation of the integrated rural development. We also held discussions with officials and non-officials, and co-operative and commercial bankers, at the block, district and state levels. These field visits and discussions revealed, first, lack of satisfactory tie-up between credit and rural development programmes. Secondly, there were lacunae in evolving a reasonably effective plan of identifying beneficiaries programme-wise and monitoring its implementation. Thirdly, arrangements to tie-up technical expertise with supply of inputs pointed to the need for improvement. Fourthly, while co-operatives continued to be pre-occupied with agriculture and land-based activities, due in part to statutory constraints, commercial banks also had not made their credit either multi-purpose or multi-term in many cases, area-wise and family-wise. Finally, though the co-operatives were expected to avail of technical assistance for their lending from the concerned government departments, there was actually no systematic and effective tie-up; on the other hand, the limited technical expertise available with the commercial banks was not always fully or profitably deployed. This appreciation of field situation by the Committee necessitated the organisation of a few field checks in select locales to identify the reasons for the prevalent conditions. It was clear that these checks would take some time to be completed and the Committee would not be able to formulate its recommendations on the first part of the assignment, as described in para 1.6, before the end of December 1979.

Interim Report

1.9 Pending the completion of field checks, we thought we could turn our attention to the second part of our assignment and submit, if possible, an interim report on the set-up at the national level within the stipulated time limit. In this, we were influenced by two considerations. First, the effective implementation of the concept of integrated rural development requires a much greater measure of direction and guidance and greater degree of co-ordination at the highest level than is visible at present. Secondly, we felt that reactions, if any, of the concerned authorities to our interim report would provide useful guidance for the remaining work of the Committee. Accordingly, the Committee held discussions with the national level institutions concerned with credit disbursement for rural development programmes. The main aim of these discussions was to obtain their assessment as to how they could improve their involvement in integrated rural development, how best the constraints in this regard could be overcome, and above all, whether, a new arrangement or set-up at the national level would be necessary for achieving the desired focus on and thrust towards integration of credit activities. In essence, this meant examining part of items (*i*) and (*ii*) of the terms of reference and also item (*v*).

1.10 The Interim Report recommending the establishment of National Bank for Agriculture and Rural Development (NABARD) was submitted by us to the Governor, Reserve Bank of India on November 28, 1979 with the request, as stated earlier, that the reaction of the RBI and that of other concerned authorities to the recommendations made therein, might be made availabe to the Committee. Chapters 10, 11 and 12, included in Part Three of this Report are reproduced from the Interim Report.

1.11 The Committee was informed by the Governor of the Reserve Bank, in January 1980, that the Government of India (GOI) had, in consultation with the Reserve Bank, accepted in principle, the setting up of NABARD as recommended by the Committee in its Interim Report and welcomed the proposal of the Committee to prepare details of NABARD including the draft legislation. Besides, the Governor sought the advice of the Committee on the consequential changes in the other related enactments such as the RBI Act and the Banking Regulation Act. Further, the Governor also invited the Committee to share its thoughts on the relation between the NABARD, on the one hand and the RBI and other institutions, on the other. These were additional items of work which the Committee willingly undertook as it provided an opportunity to it to give concrete shape to its ideas about NABARD, which could only be briefly described in the Interim Report.

Draft Bill on NABARD

1.12 To assist the Committee in the preparation of the Bill, a Working Group was set up in the RBI with the Member-Secretary, CRAFICARD, as its Convenor and representatives of ARDC and concerned departments of the RBI as its other members. Based on the suggestions of the Working Group and deliberations of the committee thereon, the Draft Bill on NABARD was finalised and submitted to the Governor, Reserve Bank of India in April 1980. The Draft Bill recommended by the Committee is reproduced in Appendix II of this Report.

1.13 We would like to draw attention to the fact that while preparing the Draft Bill on NABARD, we reconsidered one of our recommendations in the Interim Report and thought it desirable to transfer the RBI's National Agricultural Credit (Long Term Operations) Fund and the National Agricultural Credit (Stabilisation) Fund to NABARD to form part of the National Rural Credit (Long Term Operations) Fund and National Rural Credit (Stabilisation) Fund, respectively, to be constituted in, and, maintained by NABARD. We felt that no particular purpose would be served by keeping these Funds with the RBI and asking NABARD to present its drawal proposals every time which may lead to avoidable delays, inconvenience and confusion of roles. We have also recommended that the RBI may make annual contributions to the two Funds to be constituted by NABARD. Besides, NABARD would also make such annual contributions to these two Funds as it may be in a position to do.

1.14 Further, while drafting amendments to the Banking Regulation Act, 1949, (*vide* Second Schedule, Part II of the Bill), the Committee thought it more appropriate to exclude the primary co-operative banks (*i.e.* urban co-operative banks) from the jurisdiction of NABARD as these banks do not play a significant role in rural credit.

1.15 In response to the second request of the Governor, RBI, the Committee submitted, in May 1980, a note indicating broadly the lines on which NABARD's relations with the Reserve Bank of India and other institutions should develop. This is reproduced in Appendix III of this Report.

Visits to States

1.16 After the submission of the Interim Report and the Draft Bill, the Committee resumed its visits to states and discussions with the state governments and others. This programme was interrupted to some extent by the elections to State Assemblies in May—June 1980. In all, we visited 14 states.

Questionnaires, Field Checks

1.17 For the field level discussions, the Committee issued a check list of points for discussions at the block, district and state levels. This was followed up by separate questionnaires, one on the national level institutions and the second on the field level credit delivery system to scheduled commercial banks, state co-operative banks, state co-operative land development banks and their national level organisations. These have been included in Appendix IV.

1.18 The field checks organised by the Committee included, among other things, ascertaining reasons for borrowers of LDBs not lifting the second/subsequent instalment of loans, reasons for non-recovery of short-term loans in irrigated/unirrigated areas, extent of co-ordination between short-term and term credit in co-operatives and commercial banks in regard to provision of supporting short-term credit and the extent to which investments made with borrowed funds fructified.

Committee Meetings

1.19 Besides meeting for field level discussions, the Committee met 19 times, 12 times in Bombay, 5 times in New Delhi and twice in Madras, to appraise the various issues and prepare its Report.

Design of the Report

1.20 This Report is divided into four parts. Part One, including this introductory chapter which explains the background and the Committee's approach to the task entrusted to it, is divided into four chapters. Chapter 2 is devoted to the identification of the rural poor, their magnitude and characteristics and a broad review of the approach of banks to reach credit to them. In Chapter 3, we discuss the need for and the nature of developmental orientation of the credit institutions. Chapter 4 reviews the working of the existing credit institutions and identifies the major structural and operational problems faced by them in the context of integrated rural development.

1.21 Part Two deals with the credit delivery system at the ground level and consists of five chapters. We have tried to analyse the problems identified in Chapter 4 with special reference to the coverage of weaker sections, and make our recommendations thereon. One chapter each is devoted to Co-operatives (Chapter 5), Commercial banks (Chapter 6) and Regional Rural Banks (Chapter 7). Chapter 8 examines the issues relating to the field level co-ordination needed under the multi-agency system for implementing the District Credit Plan (DCP). To make the arrangements for field level co-ordination efficient and strong, higher level support from the state government is crucial. The measures which the state governments have to take to support a successful rural lending programme are highlighted in Chapter 9.

1.22 Part Three, as stated earlier, reproduces the chapters from the Interim Report of the Committee. After reviewing the working of the Agricultural Refinance and Development Corporation (ARDC) in Chapter 10 and the role of the RBI in rural credit in Chapter 11, our recommendations on the national level arrangements for rural credit and on NABARD are made in Chapter 12. In addition, the place of the Agricultural Finance Corporation (AFC) in the proposed national set-up is detailed in Chapter 13.

1.23 In Part Four, divided into three chapters, we discuss some important structural and operational aspects of the co-operative credit institutions that form part of our terms of reference. Chapter 14 contains our recommendations on the merits of the two-tier and three-tier structures of the short-term co-operative credit institutions and the question of integration of the short-term and long-term co-operative credit structures. Some of the important problems confronting the higher level bodies in the short-term co-operative credit structure and our recommendations thereon form the subject of Chapter 15. Chapter 16, which is the last chapter of the Report, discusses the main problems faced by the long-term co-operative credit structure in providing investment credit to agriculturists and other rural producers such as rural artisans and gives our recommendations thereon.

Acknowledgements

1.24 The Committee is grateful to Dr. I. G. Patel, Governor, RBI, for sparing his precious time for the Committee first at its inaugural meeting and later for another discussion session and also for providing excellent secretariat arrangement. We are also thankful to Dr. K. S. Krishnaswamy, Deputy Governor, Shri W. S. Tambe and Dr. M.V. Hate, Executive Directors, RBI, Shri M. A. Chidambaram, former Managing Director, ARDC, and other officials of the RBI and the ARDC for meeting the Committee and giving their views on various matters relating to rural credit.

1.25 We also wish to express our gratitude to the Chairmen and Managing Directors of scheduled commercial banks, Chairmen of State Co-operative Banks and State Co-operative Land Development Banks and their Federations for furnishing exhaustive replies to our questionnaires and meeting us for discussions. Our thanks are due to the Chairman and the Managing Director of the Agricultural Finance Corporation Ltd., for the valuable discussions which they had with the Committee and for providing the necessary material on the AFC.

1.26 We are also indebted to the State Governments of Andhra Pradesh, Bihar, Gujarat, Haryana, Himachal Pradesh, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Punjab, Tamil Nadu, Uttar Pradesh and West Bengal for organising our field visits/state level discussions. The readiness with which the Chief Ministers, the concerned Ministers and senior officials in the state governments agreed to discuss with the Committee and the excellent arrangements made for our field visits are gratefully acknowledged. The officials of the RBI and the ARDC covering these States planned our programmes meticulously and spared no efforts in completing quickly the field checks which we had requested them to carry out.

1.27 In the course of its work, the Committee met a few experts in the field of agriculture and rural credit and sought the benefit of their advice. We place on record our grateful thanks to Dr. B. Venkatappiah, Prof. M. L. Dantwala, Shri V. S. Page, Dr. V. S. Vyas, Dr. A. S. Kahlon and Dr. V. A. Pai Panandikar.

1.28 We express our thanks to the members of the Working Group on NABARD Bill convened by our Member-Secretary and consisting of Sarvashri H. C. Agarwal, R. Krishnan, H. R. Karnik, J. R. Prabhu, T. K. Velayudham, R. Sundaravaradan and M. S. Deosthali who helped us in the preparation of the Draft Bill on NABARD.

1.29 Finally, we wish to place on record our high appreciation of the competent assistance rendered by the officers and staff of the Rural Planning and Credit Cell (RPCC) of the RBI under the leadership of Dr. H. B. Shivamaggi, Member-Secretary, who enthusiastically shouldered the burden of the Committee's strenuous work in addition to his regular duties in the Bank. Special mention may be made of Sarvashri T. K. Velayudham, T. V. Ramachandran, M. S. Deosthali, G. B. Bhooshanan, G. S. Oka, K. G. Menon and G. R. Padmaras who constituted the Secretariat of the Committee. We owe a great deal to their untiring and detailed work of excellent quality in the preparation of background papers, record of discussions, design of field checks and the drafting of the Report.

Chapter 2

REACHING THE RURAL POOR

OUR objective is to support integrated rural development with the necessary credit from the institutional sector. It is the national policy that while striving for this objective, the approach should be to ensure growth with social justice. This means that credit should be sufficiently widespread so as to cover the poorer sections of the population. These sections have so far not got a fair deal in the matter of credit. Often, they have not been considered a reasonable risk for institutional credit, despite the exhortation of the All-India Rural Credit Survey Committee, 1954 (AIRCS) more than two decades ago, that the co-operative system should accept the concept of a credit-worthy purpose. In recent years, modern technology has shown that many families earlier considered credit risks can be effectively brought into the pool of credit-worthy families through a judicious use of credit for improvement of the base of production and for production itself, with the supply of the necessary inputs and supporting infrastructure. It is necessary, therefore, to bring into the credit fold all those rural households who can be given a credit-worthy programme of development with the necessary infrastructure and input supplies and marketing cover. The first major attempt was made in this direction when the Small Farmers Development Agencies (SFDA) and the Marginal Farmers and Agricultural Labourers Agencies (MFAL) were set up in the early seventies. They have, at their base, this concept of growth through credit coupled with the new technology. For growth with social justice, integrated rural development must embrace all those households who can be given credit-worthy programmes of development. The normal criterion of banking that a family of the poor is not credit-worthy will have to give place to the concept that many of the poor can be brought into the mainstream of economic development through credit-worthy programmes. The purpose of this chapter is to indicate the magnitude and characteristics of the poor groups in the rural areas and to take note of the approach adopted so far, to assist the rural poor.

Rural Poverty

2.2 It is difficult to assess the precise dimensions of rural poverty. According to the Agricultural Census 1976-77, the total number of operational holdings was 81.5 million. Of these, marginal farmers with less than one hectare of land accounted for 44.5 million or 54.5 per cent of the holdings and 11 per cent of the area operated, while the small farmers having land between 1 and 2 hectares formed 14.7 million or 18 per cent of the holdings and 13 per cent of the area operated. Thus, the proportion of holdings of these two groups was 72.6 per cent of the total operational holdings in the country (*vide* Statement 2.1). Between 1970-71 and 1976-77, as is evident from the following figures, the semi-medium and small holdings increased by 9 per cent each and the marginal holdings by as much as 23 per cent.

NUMBER OF OPERATIONAL HOLDINGS BY MAJOR SIZE CLASSES—ALL INDIA

(No. in '000)
(Area '000 Ha.)

Class	Size	1970-71		1976-77		Percentage change	
	(hectares)	No.	Area	No.	Area	No.	Area
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Large	..(10 and above)	2,767	50,060	2,437	42,821	—12·0	—14·5
Medium	..(4-10)	8,099	48,234	8,207	49,597	1·3	2·8
Semi-medium	(2-4)	10,681	30,000	11,643	32,356	9·0	7·9
Small	(1-2)	13,432	19,283	14,705	20,862	9·4	8·2
Marginal	..(Less than 1)	36,200	14,558	44,532	17,496	23·0	20·2
		71,012	162,138	81,524	163,141	14·8	0·6

Source : All India Agricultural Census, 1976-77, GOI

2.3 The operational holding as defined in the Agricultural Census might be located in a compact block or divided into many scattered fragments. In the case of small and marginal farmers, the latter compounds the problem. Even within this broad classification of small/marginal farmers on the one hand and medium/large on the other, the cultivator may be owner, tenant or share-cropper, wholly or partly. All these facts clearly indicate that landholdings and land rights are characterised by extreme inequalities.

2.4 According to the Rural Labour Enquiry, 1974-75*, the number of rural households rose from 70.4 million in 1964-65 to 82.1 million in 1974-75 *i.e.*, an increase of 11.7 million. The number of rural

*The GOI have so far conducted four enquiries into the conditions of agricultural/rural labourers. The first and second were conducted in 1950-51and 1956-57, respectively, the third in two phases during 1963-65 and the fourth in 1974-75, the results of which were published in December 1978.

labour households increased from 17.8 million in 1964-65 to 24.8 million in 1974-75. Among these, the number of labour households with land rose from 7.8 million to 12.1 million between 1964-65 and 1974-75, while those without land rose from 10 million to 12.7 million. Of the rural labour households, those of scheduled castes and scheduled tribes rose from 8.7 million in 1964-65 to 11.7 million in 1974-75. Regionwise details of the rural labour households are given in Statement 2.2. The above data show that over the period 1964-65 to 1974-75, while all rural households have increased by 16.6 per cent, labour households with land increased by as much as 55.1 per cent and those without land by 27.0 per cent. More and more farmers are losing their lands and are reduced to the status of farm labourers. Scheduled caste and scheduled tribe (SC/ST) labour households also rose by 34.5 per cent. This suggests that there has been a rise in the number of marginal farmers and this inference is corroborated by the agricultural census data referred to earlier. The situation appears to have deteriorated after 1974-75.

2.5 The rural labour households form the hard core of rural poverty and most of the socially backward classes such as scheduled castes and scheduled tribes fall in this category. The incidence and extent of indebtedness among these households will throw some light on the dimensions of rural poverty. According to the Rural Labour Enquiry Report, the proportion of indebted rural labour households increased from 59 per cent in 1964-65 to 65.4 per cent in 1974-75. The respective proportions for scheduled caste and scheduled tribe households were 65 per cent and 46 per cent in 1964-65 and 70 per cent and 49 per cent in 1974-75 (Statement 2.3).

2.6 The more important features of indebtedness* of these households are as follows :

(*a*) Average debt per rural labour household rose from Rs. 148 in 1964-65 to Rs. 395 in 1974-75 ; the figures per indebted household are much higher at Rs. 251 and Rs. 605 respectively. In the case of scheduled castes and scheduled tribes, average debt per indebted household was Rs. 251 and Rs. 172 respectively in 1964-65. The corresponding figures for 1974-75 were Rs. 566 and Rs. 379 respectively.

(*b*) Inherited loan per indebted rural household increased from Rs. 14 in 1964-65 to Rs. 31 in 1974-75 whereas the contracted loan rose from Rs. 236 to Rs. 574 between 1964-65 and 1974-75.

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*All the figures in this para are at current prices in the respective years.

(*c*) Debt incurred for consumption purposes accounted for 48.2 per cent of the indebtedness in 1974-75 compared to 53.3 per cent in 1964-65. However, the average amount of debt per labour household for this purpose increased from Rs. 130 in 1964-65 to Rs. 281 in 1974-75.

(*d*) In 1974-75, the share of ceremonial expenses at 18.8 per cent was somewhat lower and of productive purposes at 12.7 per cent *i.e.* fractionally higher than in 1964-65.

(*e*) Of the debt incurred in 1974-75, 47.9 per cent was borrowed from moneylenders as against 30.6 per cent in 1964-65. Co-operative societies and commercial banks accounted for 5.3 per cent and 4 per cent respectively ; compared to 1964-65 the share of co-operatives had only fractionally improved. Other sources comprising employers, shop-keepers and others provided another 43.4 per cent.

2.7 As regards indebtedness among the small farmers and rural artisans, the latest available all-India data relate to 1970-71 (All-India Debt and Investment Survey, 1971-72 (AIDIS) conducted by the Reserve Bank of India). According to these data, 40 per cent of the small farmers and 38.5 per cent of the rural artisans reported outstanding debt of Rs. 380 and Rs. 450 per household respectively. It is important to note that household (consumption) expenditure accounted for about 70 per cent of the total cash debt* in the case of small farmers and 64 per cent in the case of artisans. The AIDIS analysis has also revealed that between 50 and 60 per cent of the total outstanding debt of the poorest cultivating households (*i.e.* asset groups of upto Rs. 2,500) was availed at relatively high rates of interest *i.e.* above 18 per cent. As against this, in the case of higher asset groups, larger was the proportion of outstanding debt of households at interest rates below 12.5 per cent.

2.8 As regards consumption as an indicator of poverty, we may quote the Draft Plan 1978-83 (revised).

"Various ways of measuring absolute poverty have been suggested under Indian conditions and depending on the norms used,

*Liabilities for the purpose of this Survey have been defined to cover all claims against the households as on June 30, 1971 held by others both in 'cash and kind'. Kind loans covered all grain and other commodity dues payable by the households on the reference date, *i. e.*, June 30, 1971 and their value was worked out using the average prices prevailing in the locality on that date. Cash loans included, among others, all loans taken in cash whether subsequently repaid or contracted to be repaid in 'cash or in kind' including loans free of interest taken from friends and relatives for short periods.

40 to 60 per cent of the population fall below the minimum acceptable standard. For the purposes of this plan the 'poverty line' is assumed to be consumption of Rs. 65 per capita per month in rural areas and Rs. 75 in urban areas at 1977-78 prices. (These levels have been derived from NSS income and consumption studies and assume minimum necessary daily calorie consumption levels of 2,400 per person in rural areas and 2,100 in urban areas). On this basis in 1977-78, 306 million people in India were living below the poverty line, of whom 249 million were in rural areas and 57 million in urban areas"......... "Gross inequalities continue to persist in the distribution of both incomes and wealth. Using consumption as a proxy for income, it may be noted that according to the National Sample Survey (28th Round) in 1973-74 the consumption of the two lowest deciles was 9.5 per cent of the total consumption in rural areas and 9.2 per cent in urban areas, while the two highest deciles accounted for 38 per cent and 40 per cent, respectively." (P. 4)

2.9 Another significant indicator of poverty is the poor resource base or capital base of the rural poor. Inequalities in the ownership of income-earning assets (*i.e.* land, livestock, tools, equipment and skills), which are the result of certain social and economic processes, have acted as serious constraints on the rural poor. According to the AIDIS, 20 per cent of the rural households, each having assets of less than Rs. 1,000, account for less than 1 per cent of all rural assets, while 4 per cent of the households with asset value of Rs. 50,000 or more, own 31.2 per cent of the total. Generally speaking, in the rural areas, where a large proportion of households is engaged in cultivation, a large part of the value of assets is accounted for by land. In the case of marginal farmers, the income from land is small or negligible and wages from casual labour is an important source of income. Similarly, agricultural labourers and artisans who have very little of productive assets, derive their meagre incomes from casual employment. These three categories of rural households constituted the lowest asset groups. The number of rural households owning assets valued at less than Rs. 2,500 each was 27.1 million or 35.1 per cent of the total rural households. Of these, cultivator households accounted for 38.1 per cent, agricultural labourers 37.3 per cent and artisans 5.0 per cent. In terms of actual numbers in each of these classes, one-fifth of the total number of cultivators, nine-tenths of agricultural labourers and more than seven-tenths of artisans owned assets below Rs. 2,500 each. Even within this group of poor households, nearly one-third were owning assets below Rs. 500 each, about one-fourth between Rs. 500 and Rs. 1,000 and over two-fifths between Rs. 1,000 and Rs. 2,500. The AIDIS analysed the data on average debt per household and debt burden according to purpose of debt and stated that debt was the lowest in the case of lower asset groups, thereby emphasising the close link between the level of debt and level of assets. The state-wise distribution of assets reveals significant disparities as between different parts of the country. The details are given in Statement 2.4.

RURAL POOR : THEIR CHARACTERISTICS

2.10 The broad contours of rural poverty outlined in the preceding paragraphs clearly indicate that the poorest sections of the rural population belong to the families of small and marginal farmers, agricultural labourers, rural artisans, scheduled castes and scheduled tribes. These categories of rural poor have to be the target groups for purposes of policy ; and for a successful implementation of the programmes for the rural poor, it is necessary to focus attention on the special nature of their problems.

Small and Marginal Farmers

2.11 It is difficult to define the small and marginal farmer precisely and uniformly for all purposes and for all areas. The All-India Rural Credit Review Committee, 1969 (RCRC), which originated the concept of SFDA/MFAL, did not give any specific definition of small farmers either in terms of income or in terms of acreage. Hence, different agencies follow different definitions depending upon their objectives and purposes. Besides, these different definitions are revised from time to time. Thus, the Government of India definition, adopted for purposes of subsidy to SFDAs, treats all those cultivators with land holdings below 5 acres (2.5 acres in the case of irrigated land), as small farmers.* Somewhat higher figures have been adopted

*Later in 1973 the following additional criteria to be adoped to avoid the diversion of the resources of the agencies to those farmers who cannot really be deemed to be small and marginal farmers, were added.

(*i*) Such farmers as can be identified on the basis of land holding but have income from non-agricultural sources exceeding the income from the land may be excluded from the purview of SFDA/MFAL programme.

(*ii*) Farmers who have a steady income of Rs. 200 and above per month from non-agricultural sources may not be considered for any assistance in the programme.

(*iii*) Such of the farmers who have not engaged in cultivation themselves (partly or fully) may also be excluded from the programmes, even if found eligible on the basis of land holding limits.

in some drought prone areas where land productivity is especially low. The ARDC, for purposes of lending under IDA Projects and otherwise, defines small farmers in terms of pre-development net farm income of Rs. 2,000 based on 1972 prices. Besides the size of landholding or income, there are other characteristics of small farmers which have also to be taken note of. The more important of these are : (*a*) utilisation of higher proportion of land for growing food crops for subsistence ; (*b*) lower proportion of marketable surplus; (*c*) inability to take risks ; (*d*) borrowing more for consumption than for production ; (*e*) predominance of labour among inputs and (*f*) inability to offer security first, due to smallness of the holdings and, secondly, due to lack of proper recording of their rights.

2.12 Despite all these inhibiting characteristics, as stated earlier, a sufficient number of these poor groups, if included in development through credit-worthy programmes based on modern technology, inputs, services and guidance, do promise the possibility of higher productivity. The problem is one of obtaining credit in the right quantum, on the right terms and at the right time. The question really is whether it is practicable or necessary to have a uniform definition of small farmer and if so, whether it should be in terms of income or acreage. While it may not be possible to have a definition uniformly applicable to all the regions in the country, some uniformity on essential aspects seems necessary for purposes of financing institutions and programmes. The Committee is of the view that the ARDC definition of small farmer based on income criterion is precise and workable, while the GOI definition, based on acreage, aims to restrict subsidy, as a matter of policy, to a smaller number among them on the principle of '*Antyodaya*'. The credit institutions must ensure that those coming under the GOI definition are given absolute priority.

Agricultural Labour

2.13 Agricultural labour accounts for one-fifth of the rural work force and 50 per cent of agricultural labour is landless. The more important characteristics of them are that they have very little or no productive assets and their meagre incomes are derived from casual or irregular employment available in villages. Consequently, they have to rely entirely on wage-employment both on the farm and outside. They require credit for acquisition of productive assets such as dairy animals and for self-employment, particularly in such activities as forestry, animal husbandry, fisheries, processing, etc. It is only by financing these activities that the credit institutions can promote the interests of the agricultural labourers. The need of this group for institutional support has increased of late with the drying up of traditional source of credit as a result of the progressive release of bonded labourers from their bonds and the resort to debt relief through state action.

Rural Artisans

2.14 As per the Draft Plan 1978-83 (revised), the traditional rural industries like *khadi*, village industries, handlooms, sericulture, coir and handicrafts provided employment to 14 million persons in 1977-78 and the value of their production aggregated Rs. 2,125 crores. They accounted for about 5.5 per cent of the total contribution by the manufacturing sector to the net domestic product. The present position is that like the agricultural labourers, the rural artisans also lack improved or modern productive assets, though they possess some basic skills. An additional factor is the lack of an assured market for their goods. Consequently, the rural artisans have to rely on wage employment to some extent. Though they may require consumption credit initially and during some periods, their real need is for investment credit (*i.e.* credit for acquiring modern productive assets) supported by input supplies and marketing facilities. In addition, they are in need of some services the provision of which is the responsibility of Governments, both Central and State. The major task consists of (*i*) supply of raw materials, (*ii*) introduction of designs based on market preferences and consumer research, (*iii*) introduction of improved tools, (*iv*) upgrading of skills through training and (*v*) marketing arrangements and export promotion.

Credit for the Rural Poor

2.15 The pattern of indebtedness shows that consumption loans form a large part of the debt of the rural poor. Loans for medical and educational expenses and ceremonial demands account for a substantial portion of the debt. Production loans are often a small fraction of the indebtedness. It has to be remembered that these classes depend for their credit substantially on the money-lender and the rich farmer. Consumption credit is usually taken by the small and marginal farmer to meet the cost of foodgrains for personal consumption and for payment of kind wages, till the harvest comes in. The money-lender/rich farmer exploits this necessity by paying low for the produce at harvest and by collecting a large part of it through exorbitant interest charges. In the case of agricultural labour, this leads to the bonded labour system which still defies solution. We have indicated earlier that the number of marginal farmers and of agricultural labourers is fast increasing. One significant feature of this situation is that, over time, consumption credit and credit for non-productive purposes accumulate and productive loans disappear, till in the case of farmers, the land is ultimately taken over, and in the case of labour the family is bonded to perpetuity. We cannot wish away the present indebtedness of the class we are seeking to bring within the rural development process. The credit-worthiness of the programme by itself is not sufficient unless the growth of income generated by the programme, over time, takes care of the initial non-productive indebtedness and puts the family on its feet. As we shall explain further on, failure to realise this has led to frustration even with well organised lending programmes. The growth is absorbed by the ubiquitous money-lender and the credit institution is faced with mounting overdues.

2.16 The lack of assets coupled with lending policies based on assets, leads to reduced opportunities of the rural poor to avail of credit facilities for improving their incomes. Thus rural poverty is also the result of an inequitable access to resources and lack of institutional backing. The former requires transfer of capital resources to give them a better base for production and the latter requires a more realistic credit policy and comprehensive institutional infrastructure. Thus, a landless labour household has only labour as its resource but it can be used productively only if complementary resources are available. Similarly, the small farmers have assets in the form of their landholdings but these can generate increased incomes with the application of new farm technology provided there is access to other resources ; so also is the case of rural artisans who have the skill but not the capital (in the form of modern tools) or other resources. The capital base and the productive capacity of the rural poor (*i.e.* land, water, inputs, skills) will have to be improved and strengthened with the aid of institutional support.

2.17 The basic cause of exploitation of the rural poor today is the heavy under-employment and unemployment in this sector. As a result, labour is in a buyers' market and the wages are very low. Labour being the most important resource of this class, it has to be given a fair price. This cannot happen without a pressure being created on the labour market. The National Commission on Agriculture (NCA) has pointed out in its Chapter on 'Employment' that even with a 4 to 4.5 per cent growth in the comprehensive agricultural sector, by 2000 A.D. there will still be more than 50 million persons seeking employment opportunities. So, the NCA has suggested exploiting in full the secondary and tertiary sectors of growth in the rural sector. This is the background and the justification for the emphasis on employment promotion programmes, the village and small industries and the services and supply sectors in the five year plans. The role of the State Development Administration is paramount in this area. Unless state support is complete and adequate, efforts to solve this problem purely by credit methods are bound to fail. The Committee will specially emphasise this aspect as one is apt to forget relative responsibilities in the wrangle on who is responsible.

2.18 The State is investing considerable resources for providing the infrastructure for technical support to the development programme. It is also providing a large administrative organisation to see that the structure delivers the goods. But the poor have little access to the benefits of this system. Our field visits showed that the structure is rickety and works without co-ordination or purpose most of the time. Unless the investment in this huge organisation of State Development Administration is made to yeild results by more effective co-ordination and made to look after the needs of the poor, by stringent supervision and penalties, the attack on the problem will remain cosmetic. The Committee emphasises this basic role of the State Administration.

2.19 The Banking Commission, 1972, had emphasised the responsibility of the banker to support his lending for production by also lending to the necessary infrastructure, supply structure and marketing structure without which credit for production by itself may be self-defeating. It was thinking more of the organised sector of production. The NCA followed this up, emphasising a similar role in the rural sector for credit institutions. No doubt, the latter is much more difficult than the former. Yet, whatever the credit institutions can do to support their production, lending has to be done without waiting for perfect conditions. The developmental role of banking has to come into effective play in identifying the items of support and the methods to exploit them. What the state is already providing through its administrative and technical organisations can to some extent be augmented and furthered by the private sector through credit. In the field, we have seen cases of the poorer sections making good with the application of modern technology but with the help of the money-lenders' loans. We cannot, therefore, lightly deny, on ideological grounds, the facility that the private sector may offer in certain circumstances.

2.20 The household will remain the basic unit of poverty eradication programme oriented to target groups. Hence each household below the poverty line will have to be assisted through an appropriate package of technologies, services and asset transfer programmes. The creation of productive assets (both physical assets and skills) for the rural poor, has to be achieved through capital transfers and credit, and in this, the credit institutions have an important role to play. The rural poor are not one mass. They have to be categorised into distinct groups if they are to be served effectively. While the broad categorisation of the rural poor into landholding and non-landholding classes may be valid, from the point of view of credit institutions, it will be useful to classify rural poor households on the basis of their assets and skills, actual or potential : (*a*) those who can become viable with loan assistance, (*b*) those who may require some capital-subsidy, in addition to loan assistance, to become viable ; and (*c*) those who are non-viable and require special assistance from the state, more or less in the nature of social security. This manner of identification of the right target groups would enable the financing institutions to avoid diffusion of efforts and concentrate their attention so that lending becomes purposive and fruitful. Thus viewed, the first two categories are within the purview of institutional finance while the third will have to be dealt with separately outside the purview of credit institutions.

2.21 The rural poor consists of disparate groups (*i.e.* small and marginal farmers, tenants, landless labourers, rural artisans) and are engaged in diverse activities in different sectors of the rural economy. Because of the difficulties in dealing with these groups as one mass, it may be necessary to organise them into functional groups for purposes of financing them. Such a "group approach" may minimise the difficulties for the lending institutions in reaching the various categories of the poor. For instance, the location of the rural poor differs from district to district and even within the same district, which raises the question of distance and costs involved for the lending agency in reaching the poor. Besides, there are such problems as the coverage of the rural poor by the lending agency, supervision over credit utilisation, monitoring etc., all of which have a bearing on the economies of scale and the efficiency of operations of the lending institutions. In other words, different methods of reaching the poor need to be evolved. Some sections of the poor may have to be approached as well-organised groups such as co-operative societies, some others have to be dealt with as informal groups so as to facilitate group activity and group lending and yet others have to be approached individually.

This underlines the need for a multiagency approach to rural lending and a better and more purposeful spread of credit agencies at the ground level.

Approach to Rural Poor

2.22 It is appropriate for us to make a brief reference to the approach adopted so far to assist the rural poor for improving their assets and income position.

2.23 A perusal of the agricultural/rural development programmes makes it clear that upto 1969 the primary emphasis, by and large, was on the growth of agricultural production, particularly of foodgrains. This was perhaps natural as the country was plagued with chronic food shortages. Since 1969, with food shortage behind, the focus shifted to growth with social justice. In fact, a timely warning was sounded in the RCRC Report (1969) that "if the fruits of development continued to be denied to large sections of rural community while prosperity accrues to some, the resulting tensions, social and economic, may not only upset but even frustrate the national efforts to step up agricultural production". It was in this context, the SFDA and MFAL programmes were launched.

2.24 As a part of the overall approach to the problem of the poor, besides the emphasis on land reforms, the programmes for credit, minor irrigation, animal husbandry, etc., have been reoriented to benefit the vulnerable groups. One of the objectives of bank nationalisation in 1969 was to make the banking sector serve the smaller people. However, the various rural development programmes tried in the past, though unexceptionable in regard to their objectives, have met with limited success, measured either in terms of coverage of the rural population they intended to serve, or in terms of the flow of credit which they were expected to facilitate. A number of factors contributed to this situation. The programmes drawn up earlier proved inadequate from the point of view of overall development of the rural areas. Besides, these programmes did not reflect any attempt to look upon the rural poor as entities to be developed on the basis of *total approach* to their problems. An equally important factor contributing to the very limited success of the earlier programmes was the inability or failure on the part of the concerned agencies to identify the rural poor, to recognise their characteristics and to appreciate the special nature of their problems. This is because, in development projects, the very poor were lumped along with the relatively better off sections of the community and this hampered the percolation of benefits to the most deprived sections of the rural population. The strategy of integrated rural development seeks to improve this position. The thrust, as spelt out in the plan documents, is on growth *for* social justice where proper tie-up with institutional credit has an important role to play. The FRAMEWORK for the Sixth Plan (1980-85) has outlined the following approach for this purpose:

> "34. Experience has shown that unco-ordinated efforts by a multiplicity of agencies do not lead to the desired results. The unexceptionable concepts underlying many of these programmes have often tended to remain unrealised. It has, therefore, become obvious that the goal of rural development designed to minimise rural proverty can be achieved to any satisfactory extent only through a multi-disciplinary apparatus at the local level. The infusion of extra funds alone may not carry us far, if all overlapping programmes are not made to coalesce functionally and generate a mass flow of developmental activity".

2.25 The Committee views the integration inherent in rural development in four dimensions. The first is the concept of "overall development of all" with a focus on specified target groups. This means multi-purpose and multi-term credit to a family. The second, which is an elaboration of the first, would refer to credit being integrated with technical services so that productive deployment of credit leads to its prompt repayment out of additional income generated. That is, from whichever primary level institution the rural producer opts to borrow under the multi-agency system, it should be in a position to take a total view of his requirements and to provide integrated service, backed by appropriate higher level institutions. The third dimension implies the integration of economic activities inherent in rural development to ensure balanced growth. This means intensification of the primary sector programmes of agriculture and enlarging and strengthening of the secondary sector of village, cottage and other small-scale industries in rural areas coupled with creation of facilities for organised marketing, processing and allied activities in the tertiary sector to create larger employment opportunities so as to absorb the increasing number of rural population. The last dimension is one of so integrating the credit disbursing activities under the multi-agency approach as to avoid duplication of efforts in extending credit or technical expertise. Based on these lines, integrated development aims at assisting the rural poor by combining credit and programmes for (*a*) comprehensive agriculture, (*b*) tiny, village and cottage industries, (*c*) rural services including marketing and (*d*) infrastructure for production and supporting services. We hope that the Sixth Plan will take care of these aspects.

2.26 To sum up: in our view the main objective should be to ensure that adequate term and production credit in a package flows in time and in an uninterrupted manner, from any agency in the multi-agency system, to the target groups, in accordance with a carefully worked out and integrated development programme. This aspect has not received sufficient attention, though several measures were taken by the government and the concerned agencies to uplift the poor. The methods by which the flow of institutional credit to the weaker sections could be facilitated are: quicker and simpler method of identification of the target groups; simplification of procedures and terms; updating of land records; project-based lending in place of security-based lending; creation of the requisite infrastructure for ensuring supply of inputs and services; and other similar methods which would enable the credit institutions to promptly deliver credit to the target groups.

CHAPTER 3

DEVELOPMENTAL ROLE OF CREDIT INSTITUTIONS IN THE INDIAN RURAL CONTEXT

HISTORICALLY, one of the purposes of establishing the co-operative credit system was to bring together people of small means for promoting thrift and mutual help for development. Commercial banking in India, on the other hand, came up on the traditional lines and was not tuned to rural lending (except lending to plantations) even within the framework of their adherence to security-oriented lending. The leadership and ethos in commercial banks were urban. However, gradual change started following the recommendations of the All-India Rural Credit Survey Committee in 1954. The conversion of the Imperial Bank of India into the State Bank of India in 1955, introduction of social control over banks in 1967, and the subsequent nationalisation of the major banks in 1969 had one important aim, namely, to ensure that the banks do play a dynamic role in the development process of rural and backward areas and for the uplift of the poorer sections of society.

3.2 Although the emphasis was thus laid on development-oriented lending, the institutional credit system continued to suffer from certain basic shortcomings *viz.*, emphasis on credit-worthiness of borrowers instead of credit-worthiness of purposes for which loans are required, ad-hoc or scattered lending to individuals without a project or area approach for the lending, lack of the much needed bias in favour of small farmers and other weaker groups whose need for credit is greater and more urgent. Over the years, the co-operatives, which had an earlier start in this field, have tended to go the way of private commercial banks with the result that priority purposes, needy groups of borrowers and backward and tribal areas have come to be neglected. In this sense, the lending operations of commercial and co-operative banks have tended, by and large, to be mere money-lending, institutional only in form, but without satisfactory organisational, procedural and operational arrangements for planned and systematic dovetailing with the overall national development policies and objectives. It is in this context that the Committee felt that, at the very outset, it should emphasise the need for imparting development orientation to banking in the rural sector.

Development Banking

3.3 The basic concept of development banking is that credit is consciously used as a lever of development. It is different from lending against individual applications as and when they come. Development banking assumes anticipation and adoption of a plan of action. It calls for initiative and energetic involvement on the part of the bank in developing the potential opportunities of the undeveloped or under-developed sections or sectors, through selective and strategic input of credit.

3.4 As pointed out in the previous chapter, the characteristics of one group of poor differ from those of another group. The role of credit institutions has, therefore, to be tuned to meet the requirements of specific areas and specific target groups. This point has also been emphasised in the Sixth Five Year Plan 1980-85 : A Framework, as under :

> "37. Given the diversity in resource endowments, agro-ecological conditions and socio-cultural milieu of different areas in the country, it is obvious that no uniform model of rural development would be adequate. However, if the basic aim, namely that the real benefit to be derived by the poorest person should be the primary yardstick for measuring the utility of plan proposals and investment decisions is rigorously adhered to, we would have taken the first step essential for an accelerated rural regeneration movement."

3.5 The development banker has to ensure (*i*) that his credit institution will have tailor-made loans according to the needs of specific areas and specific target groups ; (*ii*) that the loans are linked to the credit-worthiness of the purpose rather than to credit-worthiness of the person ; (*iii*) that the loans will be disbursed as part of an overall integrated programme which provides the necessary backward and forward linkages; and (*iv*) the loans are disbursed in kind to the extent possible towards the agreed package of inputs and extension service.

3.6 The above implies that all the development agencies including the credit institutions have to plan and progress together. The credit institutions have to ensure that credit is tied up with development programmes and supported by appropriate backward and forward non-credit linkages. The essence of an integrated plan is, first, a specific time-frame, and, secondly, implementation of all its components within the time span. The components are integrated in the sense that the success of one component is conditioned by another one at an earlier stage, and is itself a condition for a subsequent one. In the words of Prof. Dantwala,

> "a plan becomes integrated when forward and backward linkages are thoroughly analysed and their implications in terms of organization and investment are incorporated in the plan."*

3.7 Throughout our field visits to the various States, we found that this kind of approach to development was uniformly absent ; even at the district level discussions, it was admitted to be so. Though there is a forum where governmental agencies and credit institutions meet, co-ordination in programming and in implementing the programme is generally lacking. Within the credit structures themselves, we noticed a general indifference towards ensuring that the loan disbursed led to the contemplated production. Regular monitoring of the use of loans was generally absent. The institutions have, by and large, failed to understand the lacunae in the forward and backward linkages and initiate dialogues with the concerned agencies for corrective action. The co-operative system uniformly admitted that they are not investing in the follow-up of programmes. Lack of finance is the plea for inaction ; and yet, even the district and apex co-operative banks that earned profits have not considered this an essential expenditure. On the other hand, we found that the state officials at different levels have not shown sufficient understanding of the responsibilities which banks and their branch managers have for the sound management of depositors' funds and their duties as bankers. In regard to their own responsibility for co-ordination between the state administrative agencies and banks, there is considerable scope for improvement in the appreciation of their roles and in actual implementation. All these aspects need correction.

3.8 Minor irrigation through private investment is claimed to be the most effective single programme in support of the 'Green Revolution'. When we checked the performance in a couple of states, on a sample basis, we were left with a sense of dissatisfaction. A minor irrigation loan can be considered productive only when the irrigation source is complete and is working efficiently. Further,

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*Block Level Planning Revisited, Economic and Political Weekly, July 26, 1980 (Page 1281) water by itself does not give the expected boost to production without the supporting loans for acquiring inputs for production in accordance with the new technology. For example, in Karnataka, out of 90 cases of borrowers of long-term loans for developing minor irrigation sources, it was found that even after stipulated periods, all of them had not drawn all the instalments of their loans from the primary co-operative land development bank (PLDB). Of these, 56 had struck water; 46 of them had availed the first and second instalments of the loan and the remaining 10 had drawn only the first instalment. These wells were technically incomplete because steining, rivetting, etc., had not been done and as such may not have the expected life. In the cases where the wells had not come into being, and, therefore, the borrowers had not lifted the second and subsequent loan instalments, it was found that the reasons were infructuous investment and misuse of loans. Such a situation was due to lack of arrangements for supervision and follow-up, besides the absence of technical guidance. In the second instance, from Andhra Pradesh, it was found that the farmers who had acquired a fresh irrigation source with loans from the PLDB had to be on their own to devise an appropriate cropping pattern with the advent of irrigation. Further, they had not reported additional loans for crop production purposes, though there was an arrangement under which the PLDB furnished a list of its borrowers to the primary agricultural co-operative credit society (PACS), so that the latter could extend short-term loans. Similarly, in the case of commercial banks, even though they are capable of providing multi-term credit, there are instances where investment credit is not backed up by production credit. For example, in two random checks made in Andhra Pradesh and West Bengal it was found that four out of ten term loan borrowers in the former and four out of eight such borrowers in the latter, had resorted to outside borrowings to meet the short-term credit needs.

3.9 Two other instances that the Committee came across during the field visits illustrate how lack of attention on the part of credit institutions and the administration to ensure that credit contributed to increased production, resulted in frustration. First was the case of a bank that lent small amounts of Rs. 50 each to basket makers belonging to the weaker sections in Krishna district in Andhra Pradesh. The loans, however, were not repaid in time, and therefore, notices were issued to the borrowers, some of whom were not traceable. Enquiries revealed that among the loanees, there were a few who were not engaged in the activity. This is one of the pitfalls of mass lending without proper identification and in a facile manner. But the more significant point to be noted was that the failure of the traditional basket makers to repay the loans was due to the difficulties of procurement of raw materials, in this case, bamboo, from the forest contractor. In the absence of adequate arrangements for raw material supplies, the pangs of hunger forced them to appropriate the credit for consumption. Would it have been difficult for the credit institutions in such cases to extend their function beyond credit purveyance and look into the arrangements available for input supplies, if only in the interest of their credit being used properly? The second example, more poignant, related to a small farmer in Bangalore district in Karnataka State, who obtained a loan from a credit institution for digging a well, which, however, failed. Nevertheless, he repaid the bank loan from out of his and family's wages. The credit institution was blissfully unaware of the event and perhaps content that the loan had been repaid in full. Is it not reasonable to expect the credit institution to ascertain about the completion of the investment and ensure that repayments of its loan are from out of the incremental income? With appropriate guidance from the bank, the small farmer could have approached the government for relief in respect of his failed well.

3.10 The co-operative system has shown a steady increase in its short-term lending over the years, even when allowance is made for the increase in the scales of co-operative finance following the rise in prices. However, there is need for co-ordination of long-term finance provided by the land development banks with the production credit given by the short-term credit structure. Without close co-ordination between the two, lending cannot lead to optimum gains. During the field visits, though it was claimed that some form of co-ordination exists, the Committee came across an extraordinary case where the short-term structure was giving crop loans to farmers without noticing that they had turned the land over to horticulture and taken loans from the term loan structure for the same. Not surprisingly the crop loans were not repaid.

3.11 These and other such examples underline the need for proper identification of beneficiaries, activity-wise and area-wise and then proceeding to meet their credit deeds. Without these practices, lending may become facile, burdening the borrower with debt, and the institution with overdues. More importantly, this will lead to hesitancy in regard to lending in the future even if the demands be more deserving. Secondly, credit has to be accompanied by arrangements for input supplies and technical guidance. Thirdly, credit has to be adequate, neither more nor less. In the case of the poorer groups, there has to be a provision for consumption component in the loan to enable them to meet their family needs till the sale of crops/ products. Fourthly, there is need for closer supervision and follow-up to ensure proper end-use of credit and the completion of the investment and the physical facility. Finally, the asset acquired with the loan should generate incremental income sufficient to repay the loan instalment and leave some surplus with the borrower for improving his level of living.

3.12 Besides, fragmented approach to lending (individual, *ad-hoc* or scattered) without dovetailing it into an overall area plan and linking it with appropriate infrastructural development, will result only in the misuse of available scarce resources, and, more often in the accumulation of bad debts. Thus facile credit results not only in the locking up of funds and stagnation of lending agencies, but the borrowers also suffer in the process as a result of increased burden of unproductive debt which prevents them from borrowing again. The danger of credit becoming a burden, instead of an instrument for uplift, is greater in the case of loans to the vulnerable sections of the rural community. Experience so far and mounting overdues are proof enough of the dangerous consequences of lending without a programme or lending outside the programme even when one exists. All these factors underline the importance of imparting development orientation to the credit delivery system and bringing about functional co-ordination for realisation of fuller benefits.

Credit Delivery System

3.13 Banking in the rural sector for the benefit of the rural households has to be in tune, to the maximum extent, with the social and economic environment in which the rural people live. Credit institutions engaged in providing credit to poorer sections in the rural areas have, therefore, to recognise the following facts and factors relating to rural India.

(1) The rural sector is still a traditional sector where a large majority of farmers grow food crops for home consumption ; households particularly in tribal areas practise barter and many rural families are unaccustomed to modern ways of business.

(2) A large majority of rural people are not literate enough for the purpose of dealing with the credit institutions.

(3) The poor do not possess productive assets worth mentioning.

(4) A large percentage of them are in dire need of employment; however, due to poverty, they are not venturesome enough to start economic activity on their own with all the risks it entails.

3.14 These factors point to the need for credit institutions to be innovative and they have to devise their policies, procedures and overall approach accordingly. In brief, banking for the vast majority of rural people has to become a supervised and personalised service.

3.15 While commercial banks are not fully accustomed to deal with rural households, the latter are also not familiar with the ways of banks. Based on the above considerations, it is imperative that the bank staff dealing with rural sector are rural-oriented, preferably recruited locally, so that they identify themselves with local needs and aspirations. As Shri B. K. Dutt, long-time Chairman of the United Bank of India, puts it :

> "The so-called neglected sector requires complete understanding of not only its need for finance but also of its problems and potentialities. Plenty of zeal and attention, innovation, and development is required of the bank staff in this area."†

3.16 It was in this context that earlier, a proposal was made for the commercial banks to have a separate rural cadre for manning their rural branches. The All-India Rural Credit Review Committee (1969) referred to the problem of the reluctance of bank staff to work in the rural areas and suggested that the problem "be tackled by recruiting persons who are residing in rural areas, by building up a cadre of staff exclusively to man rural branches with provision for promotion or transfer to urban cadres in due course, or by making it obligatory on the staff who are newly recruited to serve for a minimum number of years in the rural areas before they are confirmed in service."* Notwithstanding subsequent developments even today the need is to give greater attention to the selection of bank staff meant for the rural branches. One reason for the reluctance of bank staff to work in the rural centres is that these centres do not have satisfactory facilities in respect of housing, education and medical care. Here, the role of the state governments in providing the minimum facilities becomes evident.

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† Report appended to the Report of Committee to Study Functioning of Public Sector Banks (1978), p. 145.

*RCRC Report, p. 617.

3.17 The second point is that since the poorer among the rural households are not literate enough to deal with banks the forms and procedures adopted by banks whether for lending or for deposit mobilisation, have to be as simple as possible. While, over the years, considerable progress in simplification of forms and procedures has been made both in the co-operative and commercial banks, the need for continued endeavour in this regard cannot be overemphasised. We refer to this in a subsequent chapter.

3.18 When the Committee started its field visits with Karnataka and Andhra Pradesh in 1979, it was found that in rural development, there was very little inter-institutional understanding and insufficient rapport between the credit institutions and the state administration. The district credit plans were prepared without reference to the administration's capacity to support such programmes at the field level. The Committee made it a point to discuss in detail at the block level, at the district level and at the State level during its visits to the States, the existing co-ordination, the scope to improve it and the complementary roles of the credit system and the administrative-cum-planning system in ensuring the fruitfulness of credit. The Committee also found in the initial stages that the Reserve Bank's field organisation and the commercial banks' trouble-shooters did not receive much attention or help from the state administration. Perhaps as a result of these continuous dialogues and similar efforts by the RBI and others, we found an increased awareness of these problems at the time of our final round of discussions in several states. There was a general willingness to examine the relevant roles of the parties in ensuring performance. Similarly, district credit planning is now acquiring a more rational basis with some support from the state planning organisation.

3.19 While all this is encouraging, there is much more to be done by way of organisation both in the state administration and in the banking structure for ensuring effective co-ordination as a rule and not merely as a result of efforts of a few conscientious and dedicated individuals. The structure will start functioning effectively only when the machinery is stabilised, the methodology is systematised and formalised and clearly enforced.

3.20 The Committee received encouraging response during its final discussion with the state governments about the part to be played by the state administration in making credit effective. Uniformly, at the political level from the Chief Minister downwards and in the administration, it was accepted that the major role for initiating and ensuring the development process in the rural sector is that of the state administration, and the role of credit institutions is to support viable programmes without too meticulous a concern for the security that the individuals participating in the programmes can put up. On this approach, there was a broad agreement among the states and the credit institutions.

3.21 At the official level in the state governments, it was conceded that both the administration and the local politicians tended to prefer infrastructure and welfare schemes like rural roads, rural electrification and rural housing as such schemes were easy to formulate. But bankable schemes such as poultry and fisheries schemes which directly assist the development of target groups, were difficult to work out and implement and hence neglected. There was also absence of systematic approach in regard to such schemes and those that were taken up were pursued in isolation without the necessary linkages.

3.22 There are bright spots, however, which are worthy of emulation on a mass scale elsewhere. We refer in this context to the Somangalam and Uttiramerur projects in Tamil Nadu. Under these, a family-wise approach to identify the needs and attend to them has been attempted with considerable success. Admittedly, the family-wise approach at identification of needs is time-consuming. This could, however, be undertaken village by village, as in Somangalam so that the basic work of rural development can be carried out in a phased manner.

3.23 In West Bengal, reference was made to the surveys undertaken to ascertain the needs of households and the staff needed for such efforts. Our attention has also been drawn to the experiments carried out by several voluntary agencies, for example, the Tagore Society and Lutheran World Service which assigned programmes of development to each household, procured inputs, marketed the output and distributed the profit to be spent by each household according to a spartan budget.

3.24 While such intensive attention to households may not be capable of replication all over, these experiments reinforce our conviction that the individual household approach with the necessary linkages and continuous monitoring is needed to ensure the success of programmes of development for improving the living conditions of the rural poor.

3.25 District credit planning by banks in the last few years has shown that the capability of state administrative machinery to provide the requisite leadership in rural development work varied inter-state and intra-state. Depending, therefore, on the stage of development of, and administrative capacities available in the states, credit institutions have to modulate their role. Where the development machinery of the state, particularly at the field level, is not adequate, the credit institutions may have to play a wider role to shoulder the task of planning rural development. In such areas, the credit institutions have to supplement the work of the state machinery and undertake additional responsibility for rural development programming besides lending. The credit institutions will be able to do this in the measure that states give active policy level support and commitment to their efforts. Thus, the role of credit institutions in rural development in different areas has to be defined in a varying manner, according to the local conditions, and the capabilities of the state machinery in those areas, and the support available from the state at the policy level.

3.26 Following from the above, the credit institutions will have to arrange for staffing pattern and lending procedure differently for different areas. In backward districts, the bigger role that awaits them necessitates their equipping themselves with technical staff. In advanced areas, on the other hand, the complement of technical staff required for development lending will be less because credit institutions can depend on the state machinery for the requisite technical support.

3.27 One question that is often raised is regarding the cost of rural lending. Since rural lending based on a development programme needs to be monitored, the staff needs will be larger with consequent higher operational costs. At the same time, most of the beneficiaries belong to the weaker sections, and are currently being charged interest at a rate that does not cover all the costs. This means that branches operating in the rural areas will have the problem of recovering their costs. In the cases where the rural branches belong to larger banks having multifarious lending activities, the loss incurred in rural lending can be made good through cross subsidisation, less costly but high-interest bearing loan business compensating for high cost but low-interest bearing rural loans. However, in the case of co-operative credit societies and RRBs, their field of lending is confined largely to the rural areas and to the weaker sections. Hence the scope for cross subsidisation in their case is limited. On the other hand, their establishment costs per borrower are lower than those in the case of commercial banks. It is expected that by their capacity to enlarge the clientele, they can meet their costs. Further, concessional finance is also made available to them. But once it is recognised that rural lending is a social obligation and a plan priority, a way has to be found to subsidise it wherever necessary.

3.28 Another question is regarding the attitude of bank officials and the need for decentralisation of lending powers. Bankers tend to be overcautious, play for safety and are reluctant to venture out to help the vulnerable sections. Criteria for assessing performance of bank staff have to be radically changed so that a bank official is judged on the basis of his efforts towards meeting development objectives. The RRBs which have been set up in some districts of India are an indication of how the need for decentralised banking for rural development is met by the establishment of district banks. The public sector banks have also been meeting this problem by establishing regional and divisional offices equipped with requisite staff and armed with necessary authority. Nevertheless, these problems cannot be considered as solved and changes may have to be made to suit the needs of rural development. This calls for proper development orientation of credit institutions at the retail level while the national level set-up is expected to provide the necessary leadership. The job on hand is stupendous and urgent; it cannot be pursued on an ad-hoc basis. A long-term rural development policy of which rural banking policy has to be an integral part needs to be evolved to ensure both quantitative and qualitative progress.

3.29 The Committee, during the field visits at the beginning and at the end of their travels, noticed a gradual change in the ethos of both commercial banks and co-operatives in their determination to tackle the problems of rural credit. This realisation by itself will not be sufficient unless this new direction to rural credit becomes the objective of the hierarchies in both the co-operative system and the commercial banking system right down to the field level. Reorientation of the entire approach to banking is obviously necessary. To accelerate this process, necessary training programmes and reorientation programmes will have to be started and expanded rapidly.

3.30 Meanwhile, the state administration will have to equip itself on its part to play its due role. The Committee has noticed a willingness on the part of the state political leadership and the administration to discharge their overall responsibility for rural development and play an effective role to enable credit to be given to the poorer sections. Here again, reorientation of approach, learning the art of co-ordination and bringing in cohesion between the administration and the credit institutions are all long-term efforts. The start has to be made quickly if we are to get effective results within the next decade.

3.31 The foregoing paragraphs bring out the Committee's broad views on the role of credit institutions in rural development in the present Indian context. In this connection, the questions upper most in our mind are :

(*a*) What improvements should be made in the operational arrangements between lending agencies on the one side and planning and development administration on the other ?

(*b*) What should be the field level arrangements of banks to enable them to play their due role ?

(*c*) How to avoid duplication of efforts by different agencies without imparing the concept of multi-agency approach to rural credit ?

(*d*) What kind of staff and operational arrangements each lending agency should have in order to play its role as a development institution ?

These questions are dealt with in the chapters that follow.

CHAPTER 4

EXISTING INSTITUTIONAL RURAL CREDIT STRUCTURE AND TRENDS IN RURAL CREDIT

INSTITUTIONAL credit system for the rural sector started with the organisation of co-operative credit societies at the beginning of the century to emphasise thrift and mutual help. The co-operative credit system was refurbished in the mid-fifties in the wake of the recommendations of the AIRCS Report. Following it, the GOI, the RBI and the state governments made special efforts to foster the growth of the co-operative movement. However, co-operative credit could not be developed uniformly in all parts of the country. *Pari passu*, the credit needs of the agricultural sector, which were the primary concern of co-operatives, increased rapidly due principally to the biological and technological developments in crop and animal husbandry. Commercial banks were, therefore, inducted into the field of agricultural credit under the policy of 'social control' over banks in 1967. Subsequent nationalisation of the 14 major scheduled commercial banks, in 1969, carried this process further. As the RCRC report put it in 1969:

> "At the same time, effort in the sphere of rural credit should not be solely concentrated in the co-operative sector. Co-operatives should be strengthened, but they would be all the better — and the farmer better served — if other institutions co-existed with them in healthy competition."

(P. 411)

This approach which has come to be known as the 'multi-agency approach' provides for commercial banks serving as an additional source of credit to the rural sector. A later innovation (1975) was the organisation of Regional Rural Banks (RRBs) in select areas with their focus exclusively on the small/marginal farmers, agricultural labourers and rural artisans.

I. OVERALL SET-UP

4.2 Under the multi-agency approach to rural credit, both the co-operative and commercial banking sectors receive active financial and non-financial support from the Central and State Governments and national level institutions such as the Reserve Bank of India, the Agricultural Refinance and Development Corporation, the Industrial Development Bank of India (IDBI), the National Co-operative Development Corporation (NCDC), etc. Chart 4.1 alongside presents the existing institutional channels for rural credit. The field level institutions which provide credit to individual borrowers consist of (*i*) primary agricultural co-operative credit societies providing both short-term and medium-term credit to their members, (*ii*) primary co-operative land development banks or branches of state co-operative land development banks (SLDBs) dispensing long-term credit to their members, (*iii*) branches of commercial banks and (*iv*) branches of regional rural banks. While the institutions at (*iii*) provide multi-purpose and multi-term credit to all categories of persons engaged in agriculture and other rural economic activities, those at (*iv*) serve, at present, a restricted clientele, as a deliberate policy.

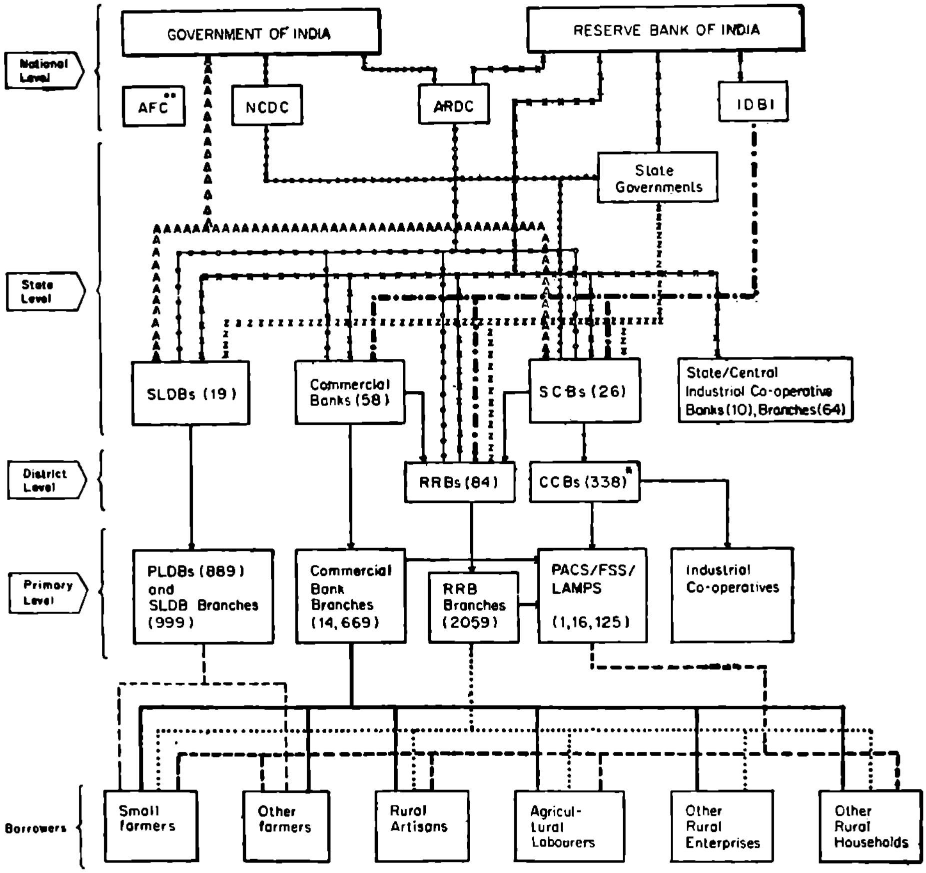
4.3 As explained in Chapter 1, the Committee reviewed, in the first instance, the national level credit institutions and made its recommendations which are reproduced in Part III of this Report. In this chapter, the Committee reviews the working of the existing rural credit institutions in the context of the integrated rural development approach described in Chapter 3.

II. Overall Progress

4.4 At the outset, it is necessary to note that complete data on the total institutional credit advanced in the rural sector for all years on a comprehensive basis are not available. We shall therefore confine our review to credit for agriculture for which the data are available. Loans outstanding increased from Rs. 1,075 crores in June 1969 to Rs. 6,325 crores in June 1980 (Statement 4.1). Of the total agricultural credit outstanding at the end of June 1980, co-operatives accounted for 59.4 per cent, commercial banks for 38.8 per cent and RRBs for 1.8 per cent (Chart 4.2). Investment credit, which amounted to Rs. 499 crores or 46 per cent of the total outstanding in 1969 increased to Rs. 3,563 crores or 56.3 per cent in 1980. The sizeable increase in the quantum of investment credit as also its share in the total credit is attributable to the efforts of the ARDC. Both co-operatives and commercial banks contributed to this increase. In the total investment credit outstanding at the end of June 1980, the share of co-operatives was 59 per cent, that of commercial banks 39 per cent and RRBs 2 per cent.

CHART 4·1

EXISTING INSTITUTIONAL SET-UP FOR RURAL FINANCE

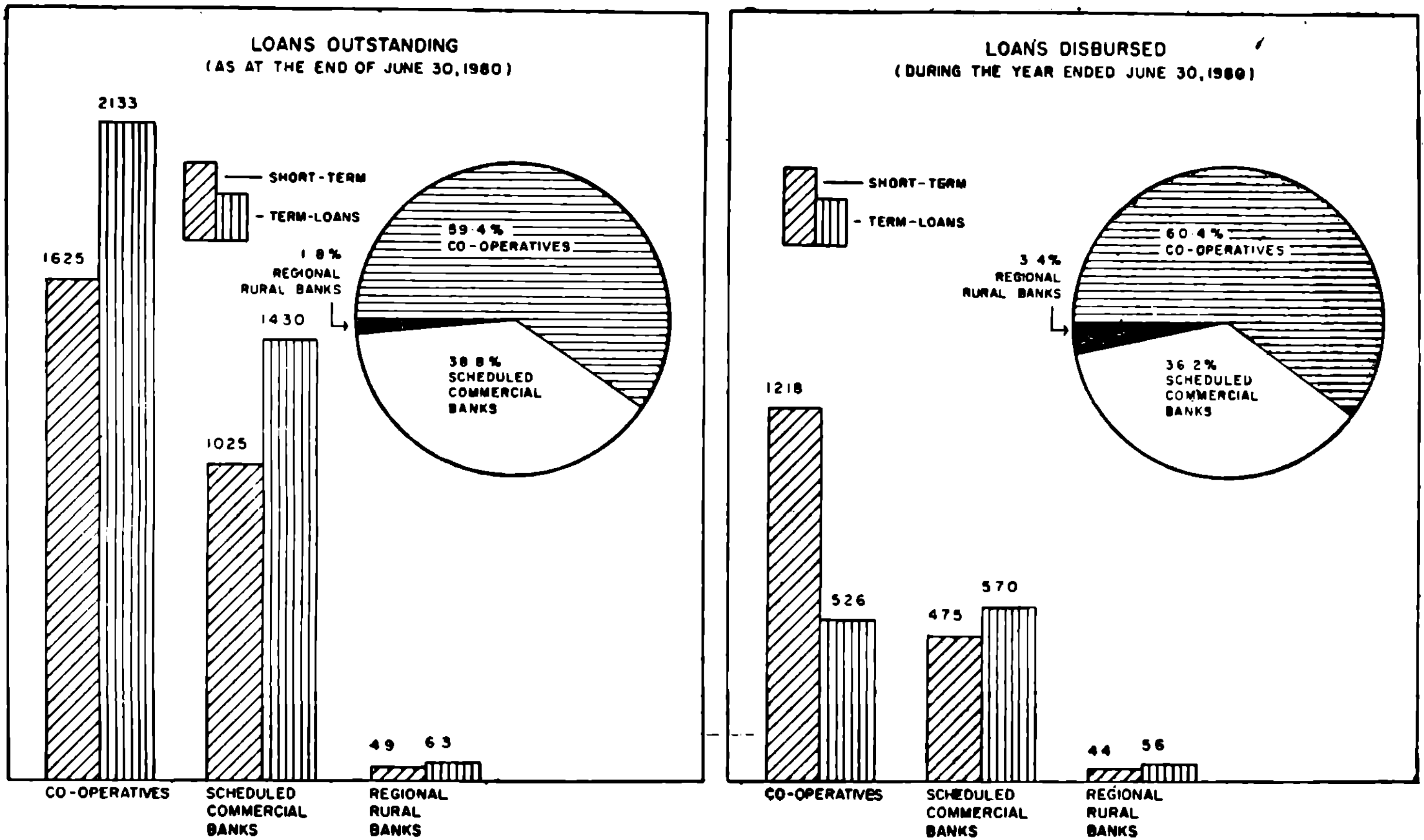


NOTE: (1) Figures in brackets indicate the latest available number.
(2) Some functional societies also advance loans to their respective groups.
** Agricultural Finance Corporation provides cosultancy assistance to other rural financing agencies and Governments
* In the smaller States/Union Territories the SCBs directly finance the PACS

CHART 4.2

DIRECT INSTITUTIONAL FINANCE FOR AGRICULTURE

(CRORES OF RUPEES)



4.5 The data on loans issued during the year are presented in Statement 4.1. In the case of commercial banks, these data are available only from 1974-75. Loans issued by co-operatives during the year, for short-term and term purposes, which amounted to Rs. 1,039 crores in 1974-75 increased to Rs. 1,744 crores in 1979-80. The annual average increase was Rs. 141 crores or 10.8 per cent. In the case of commercial banks, total loans issued increased, over the same period, from Rs. 274 crores to Rs. 1,045 crores, yielding an annual average increase of Rs. 154 crores or 31.3 per cent. The share of commercial banks in the total loans issued by co-operatives and commercial banks which was 21 per cent in 1974-75 increased to 36 per cent in 1979-80. In terms of the type of credit, the share of commercial banks in term credit increased from 31 per cent in 1974-75 to 50 per cent in 1979-80. Co-operatives, on the other hand, continued to dominate the short-term credit scene, although, their share declined from 84 per cent in 1974-75 to 70 per cent in 1979-80. The third type of credit institution *viz.*, RRB is of recent origin ; their share of the total in 1979-80 amounted to 3 per cent in short-term loans and 5 per cent in term loans.

4.6 The National Commission on Agriculture (1976) had estimated the credit requirement for full programme coverage by 1985 a, Rs. 16,549 crores. The more comprehensive integrated rural credit approach and the accelerated rural development visualised in the Sixth Plan are bound to create additional demand for credit and therefore, the total demand for credit would be of a far higher order than that estimated by the NCA. As against this expected large need of rural credit, an attempt has been made below to project the likely supply of credit based on the present trends and the likely performance of rural credit institutions in the current decade.

4.7 Between 1975 and 1980, short-term loans issued by co-operatives increased at an average annual rate of Rs. 94 crores or about 10 per cent. In the case of commercial banks, the increase was of the order of Rs. 65 crores or about 27 per cent. In respect of investment credit, the average annual rate of growth of advances, over the same period worked out to Rs. 47 crores or 13 per cent in the case of co-operatives and Rs. 89 crores or 36 per cent in the case of commercial banks. As regards RRBs, though separate data for loans issued during each year are not uniformly available, we have to note that during the short period of their working, they have made considerable progress. As a good number of RRBs are expected to be set up during the next few years, this agency may be able to increase its lending sizeably in the next decade.

4.8 The aggregate loans issued by all these agencies in 1979-80 amounted to Rs. 2,889 crores. Based on the rate of increase in credit disbursal during the last five years, an attempt has been made to project the level of credit likely to be reached by co-operatives and commercial banks in 1989-90 on a linear basis. In regard to RRBs, however, the estimate is based on an informed judgement on the progress of RRBs that are already in the field, the number likely to be organised in the next five years and the viability norms evolved for them.

ESTIMATES OF AGRICULTURAL CREDIT DISBURSAL IN 1989-90

(Rs. crores)

Credit Institutions	Short-Term		Term		Total	
	1979-80	1989-90 (Projection)	1979-80	1989-90 (Projection)	1979-80	1989-90 (Projection)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Co-operatives ..	1,218	2,100	526	960	1,744	3,060
Commercial banks ..	470	1,050	575	1,370	1,045	2,420
RRBs	44	350	56	350	100	700
TOTAL	1,732	3,500	1,157	2,680	2,889	6,180

Thus the disbursement of credit by the rural credit institutions is expected to reach the level of about Rs. 6,180 crores in 1989-90. While these rough projections indicate the progress likely to be made by institutional lending agencies by 1989-90, the real problem is to meet the credit requirements of integrated rural development with special attention to vulnerable groups and backward areas.

Regional Variations in Credit Disbursal

4.9 Some idea of the spatial distribution of credit for agriculture can be had by working out the quantum of loans per hectare of gross cropped area by all credit institutions in each state. Though subject to limitations arising from the wide diversity in regard to natural endowments, input supplies and the need for credit, this, nonetheless, provides a rough indicator of the disparities in credit distribution.

4.10 In Statement 4.2, the states are ranked in a descending order of total agricultural loans *issued* per hectare of gross cropped area in 1977-78. Alongside, per hectare data on loans issued during 1974-75 and 1977-78 and outstanding at the end of 1974-75 and 1977-78 are given. Loans issued by all credit institutions in the whole of India increased from Rs. 112 per hectare in 1974-75 to Rs. 134 per hectare in 1977-78. Similarly, outstanding credit also increased from Rs. 158 per hectare at end 1974-75 to Rs. 255 per hectare at end 1977-78.

4.11 In the ranking of states according to loans isued in 1977-78, Kerala came first with Rs. 343 per hectare of gross cropped area followed by Tamil Nadu (Rs. 341), Punjab (Rs. 273) and Haryana (Rs. 234). In Andhra Pradesh, Gujarat, Karnataka, Maharashtra, Uttar Pradesh and West Bengal, credit per hectare ranged between Rs. 110 and Rs. 178. In the other states, credit per hectare was less than Rs. 75, the lowest being in Assam at Rs. 6 (Charts 4.3 and 4.4).

4.12 In four states viz., Himachal Pradesh, Jammu and Kashmir, Maharashtra and Gujarat, loans issued per hectare in 1977-78 represented a decline compared to 1974-75, but the fact that credit outstanding per hectare had increased during this period implied that the overdues have risen.

4.13 In Statement 4.3, the major states are ranked according to percentage distribution of agricultural loans issued by co-operatives (including LDBs) and commercial banks separately during 1974-75 and 1977-78. These data reveal that in terms of percentage, agricultural loans issued by the two credit agencies in both the years broadly correspond in many of the states. The significant exceptions are Maharashtra and Gujarat where co-operatives have a larger share compared to commercial banks. In Kerala, the proportion of agricultural credit issued by commercial banks is larger than that of co-operatives. The same position emerges even when states are ranked on the basis of loans outstanding at the end of each of the two years.

4.14 To indicate the degree of association between these two series of data, the method of rank correlation was employed. The coefficient of correlation worked out to + 0.8. This broadly confirms the observation that the percentage share of loans by co-operatives and commercial banks in different states was more or less the same. Thus, as the Dantwala Committee on RRBs concluded, commercial banks' agricultural credit has been additive and has not helped to fill the geographical gaps in the availability of credit not covered by co-operatives.*

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*Page 32 of the Report.

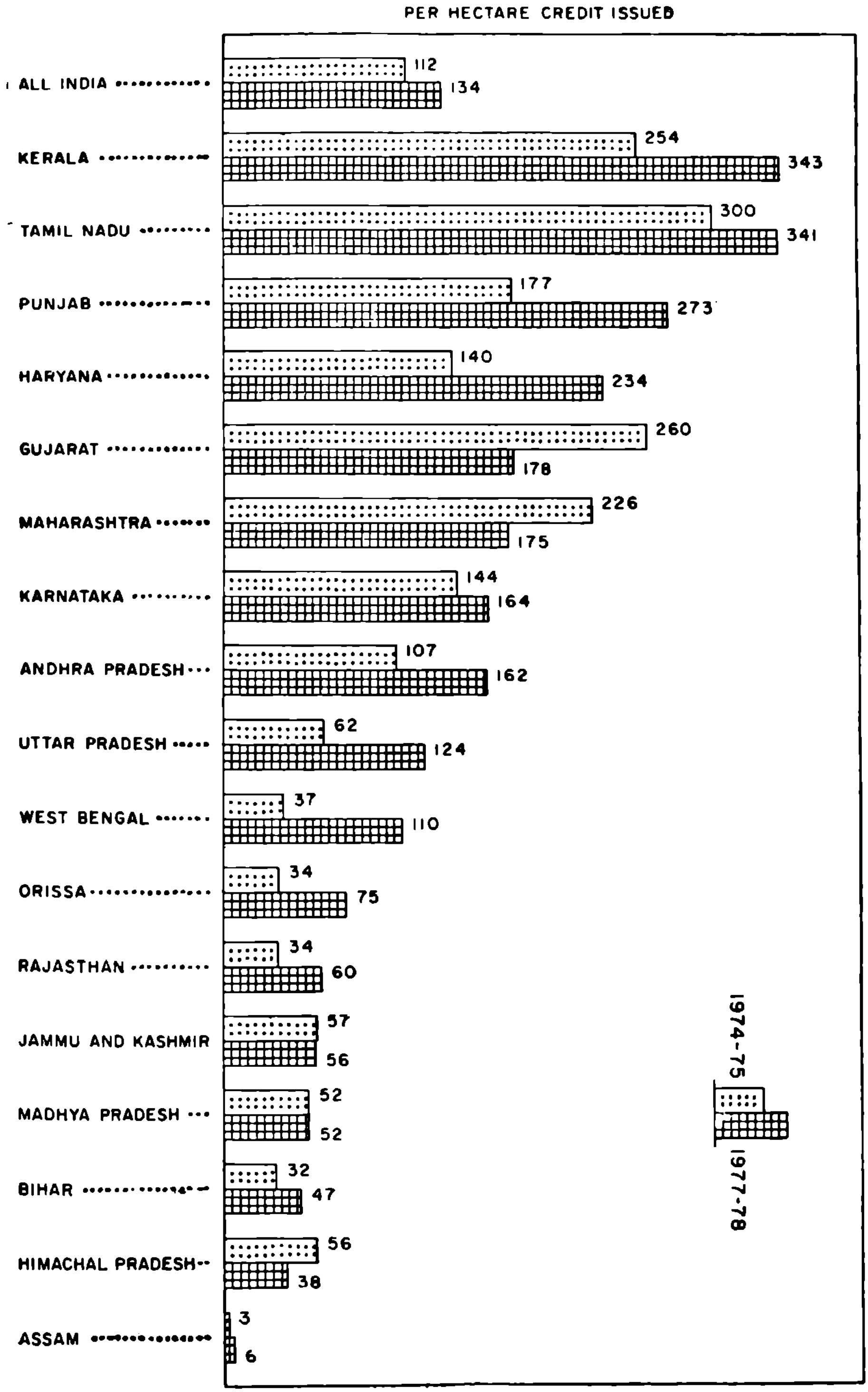


CHART 4.3

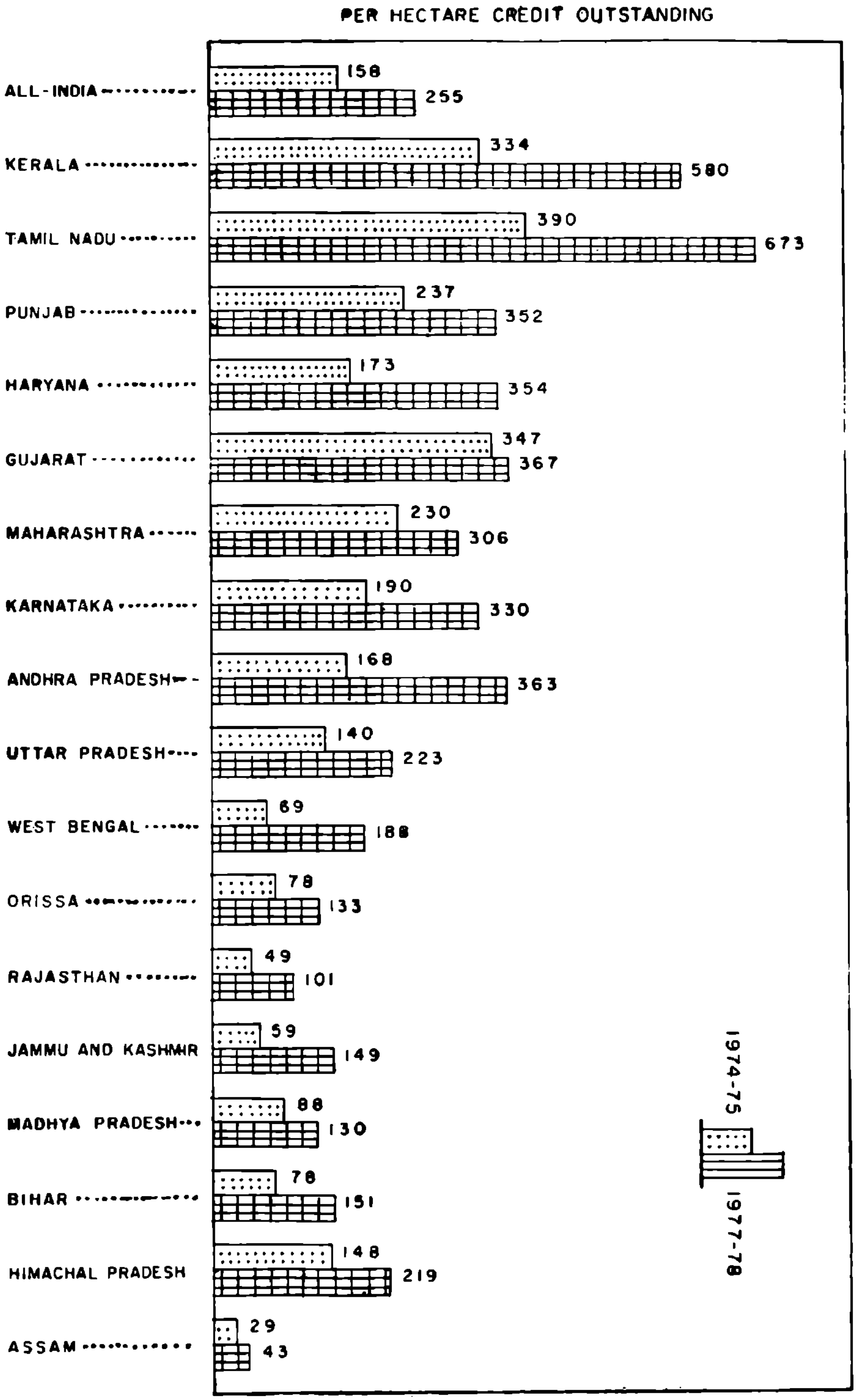
PER HECTARE AGRICULTURAL CREDIT ISSUED DURING 1974-75 AND 1977-78

(RUPEES)

CHART 4.4

PER HECTARE AGRICULTURAL CREDIT OUTSTANDING AS AT END OF THE YEAR 1974-75 AND 1977-78

(RUPEES)



Coverage of Weaker Sections

4.15 Loans to small farmers (less than two acres) and other weaker sections accounted for 31.5 per cent of the outstanding credit as at the end of June 1978 and 38.5 per cent of the loans issued in 1977-78 by scheduled commercial banks and co-operatives (Chart 4.5). In the case of both these types of institutions, credit purveyed to this class of borrowers recorded an increase over the period. Thus, in the case of co-operatives, loans to this class formed 30 per cent of credit extended in 1974-75 and the proportion increased to 39.3 per cent in 1977-78. In the case of commercial banks, the corresponding proportions were 36 per cent and 39 per cent respectively. Co-operative credit to scheduled castes and tribes formed about 10 per cent of the total credit in 1977-78.

4.16 Against this overall background, the performance of these three credit institutions in the field of rural credit is reviewed and their major problems identified, in the following sections.

III. Co-operative Credit

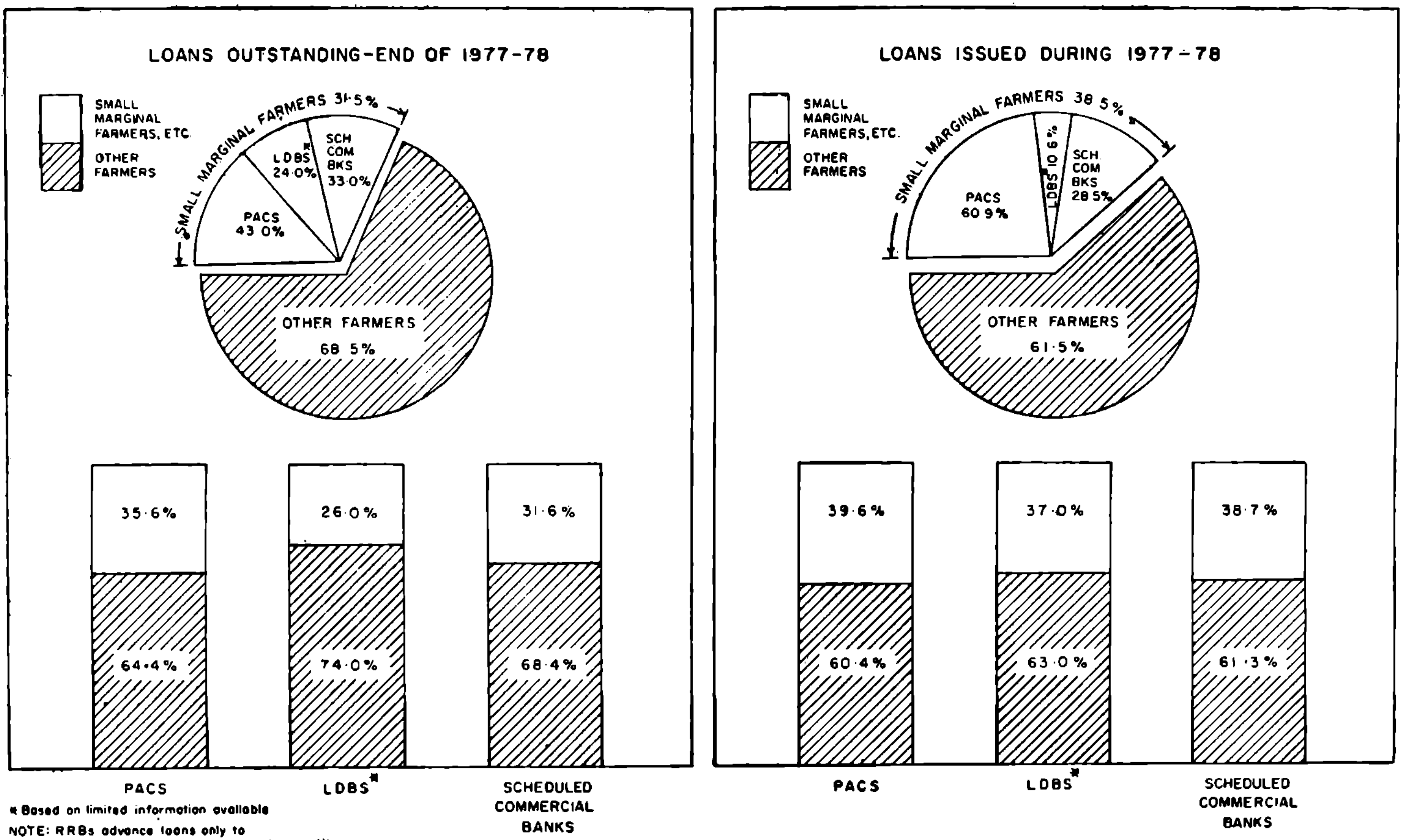
4.17 The primary agricultural credit societies functioning at the base of the co-operative credit system constitute the major retail outlet of short and medium-term credit to the rural sector. Attempts have been made to strengthen them through structural reorganization and rationalisation of their operations, particularly in respect of financing seasonal farm activities, through a production-oriented system of lending called the crop loan system.

Reorganization of Societies

4.18 The structural reform has been in the direction of determining the optimum size and nature of functions of the society so as to make it economically viable and managerially efficient. The official policy as to the size of the society crystallized around the mid-sixties. At the Conference of the State Ministers for Co-operation held in 1964 at Hyderabad, it was decided, inter-alia, that, for attaining the minimum criteria of viability such as ability to appoint a full-time paid secretary, to set up a regular office, to contribute to reserves and to pay dividend, areawise standards of the quantum of business necessary for the society should be worked out and that a survey should be carried out for the purpose of drawing up programmes of reorganization through amalgamation of non-viable units and liquidation of defunct ones. Reorganization on this basis was expected to be completed by

CHART 4 B

LOANS TO SMALL / MARGINAL AND OTHER FARMERS 1977-78



* Based on limited information available

NOTE: RRBs advance loans only to small / marginal farmers and weaker sections.

1966-67, resulting in a reduction of the total number of societies to 1.20 lakhs. However, even at the end of 1967-68, the number of societies remained at 1.75 lakhs. In 1973, the Working Group on Co-operation for the Fifth Five Year Plan recommended that a PACS might be treated as viable only when it reached a minimum short-term agricultural credit business of Rs. 2 lakhs. Again, at a meeting of the Registrars of Co-operative Societies convened by the RBI in May 1976, it was decided that, for the purpose of viability, a normal cropped area of 2,000 hectares might be considered adequate to provide a minimum short-term credit potential of Rs. 2 lakhs. Further, in order to remove the existing lacunae in legal procedures which were responsible to some extent for the delays in implementing the reorganization programme, it was suggested to amend the State Co-operative Societies Acts to provide for compulsory amalgamation of societies.

Progress of Reorganization

4.19 Thanks to continuous efforts for more than a decade to push through the reorganization programme, the number of PACS declined to 1,16,125 in 1977-78 and further to 94,503 at the end of June 1979* as against 90,000 estimated to remain ultimately in the field. Out of 1,16,125 societies as on 30 June 1978, only 49,453 societies were considered as viable as per the business norm mentioned above. According to information available, the process of reorganization is either complete or in progress in all the states except Jammu & Kashmir, Gujarat and Maharashtra. In Gujarat, the Co-operative Societies Act needs to be amended to provide for compulsory amalgamation of societies. In Maharashtra, the State Government has reservations about the prescribed norms of viability. As a result, the number of societies in Maharashtra continues to be more than 18,000 as against 10,000 viable units that the state government had decided upon at one stage in September 1975.

Performance of PACS

4.20 The latest published data on the performance of PACS relate to 1977-78. Statement 4.4 shows the salient features of the societies in 1970-71 and 1977-78. In Statement 4.5, provisional data relating to their operations during 1978-79 are presented. Excluding 8,994 dormant societies which were to be liquidated or merged in the process of reorganization, there were 1.07 lakhs active societies at the end of

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*Data on co-operative credit for 1978-79 used in this chapter are provisional.

June 1978 which covered 5.28 lakhs villages or 90.9 per cent of the total number of villages in the country, the average coverage per active society being about 5 villages. The population of the villages covered accounted for 88.6 per cent of the total rural population in the country.

Area coverage and Membership

4.21 The total membership of PACS increased from 31 million in 1970-71 to 47.9 million in 1977-78 and further to 51.8 million in 1978-79 registering an increase of 67.1 per cent over 1970-71. Of the 47.9 million members, as on 30 June 1978, 36.8 million were cultivators, 4.3 million were agricultural labourers and 0.8 million were rural artisans. The membership of weaker sections comprising small farmers (having operational holdings of not more than 2 hectares each), agricultural labourers and rural artisans totalled 26.3 million, constituting 54.9 per cent of the aggregate membership as on 30 June 1978.

Borrowing Membership

4.22 Notwithstanding the increase in membership and in also those borrowing amongst them, the borrowing membership, expressed as a percentage to total membership, declined from 36.0 per cent in 1970-71 to 34.4 per cent in 1977-78. According to the provisional data for 1978-79, the proportion of borrowing members to total membership has recorded only a marginal increase to 36.5 per cent. In 1977-78, borrowing membership as a proportion of total membership was below the all-India percentage of 34.4 in several states as may be seen from the following :

States where the Percentage of Borrowing Membership was below the All-India Percentage

State	Percentage of borrowing membership to total membership in 1977-78	State	Percentage of borrowing membership to total membership in 1977-78
(1)	(2)	(1)	(2)
1. Andhra Pradesh ..	28·1	7. Madhya Pradesh	30·2
2. Assam	0·7	8. Maharashtra	27·0
3. Bihar	26·2	9. Manipur	5·7
4. Himachal Pradesh ..	31·2	10. Meghalaya	28·8
5. Jammu & Kashmir	24·7	11. Nagaland	15·4
6. Karnataka	24·5	12. Orissa	21·8
		13. Tripura	11·8

Source : Statistical Statements Relating to the Co-operative Movement in India, 1977-78.

The indebted membership (22.8 million) of societies at the end of 1977-78 formed 47.6 per cent of the total membership.

4.23 The position of borrowing membership of weaker sections and others as on 30 June 1978 was as shown below :

Group	No. of members (in million)	Percentage of membership to total households in the group	No. of borrowers (in million)	Percentage of borrowing membership in the group
(1)	(2)	(3)	(4)	(5)
1. Small Farmers (*i. e.* those whose holdings do not exceed 2 hectares) ..	21·2	43	7·7	36·3
2. Other farmers ..	15·6	68	8·0	51·3
3. Tenants, agricultural labourers and others	11·1	52	0·8	7·2
	47·9		16·5	

Sources : (*i*) Statistical Statements Relating to the Co-operative Movement in India.
(*ii*) For groups 1 and 2 :—Agricultural Census 1971.
(*iii*) For group 3 :—All India Debt and Investment Survey, 1971-72.

Scheduled castes and scheduled tribes together accounted for 21.3 per cent of the total membership ; amongst them, those borrowed in 1977-78 and those indebted at the end of the year were 30.4 per cent and 42.1 per cent, respectively, of their total membership.

Financial Position

4.24 The paid-up share capital of societies increased from Rs. 205.74 crores in 1970-71 to Rs. 420.69 crores in 1977-78 and further to Rs. 455.47 crores in 1978-79, raising the average share capital per society to Rs. 48 thousands in 1978-79 from Rs. 13 thousands in 1970-71. In the matter of deposit mobilisation, the deposits held by all the PACS were only Rs. 211.44 crores as on 30 June 1979, as against Rs. 69.46 crores as at end June 1971. Deposits accounted for 7.1 per cent of their working capital at end June 1979. The societies in Kerala and Punjab held sizeable deposits, the former with Rs. 92 crores and the latter with Rs. 25 crores as on 30 June 1979. Both these States together accounted for 55.4 per cent of the deposits mobilised by all PACS in the country as on that date. Borrowings from higher financing agencies increased from Rs. 675 crores at end-June 1971 to Rs. 1,727 crores at end-June 1979, accounting for 58.4 per cent of the working funds of societies and signifying their continued heavy dependence on borrowed funds.

Loan Business

4.25 The proportion of societies which issued loans to their members increased from 73 per cent in 1970-71 to 77 per cent of total during 1977-78. The loans issued increased from Rs. 578 crores in 1970-71 to Rs. 1,270 crores in 1977-78 and further to Rs. 1,409 crores in 1978-79. Of the total short-term loans and advances of Rs. 1,111 crores in 1977-78, crop production finance amounted to Rs. 1,033 crores, consisting of Rs. 581 crores in cash and Rs. 452 crores in kind by way of seeds, fertilisers and pesticides. Credit disbursed in kind formed 43.8 per cent of the crop loans issued in 1977-78 as against only 11.1 per cent in 1973-74.* Out of medium-term (excluding conversions) advances of Rs. 98 crores in 1977-78 (as against Rs. 58.54 crores of such advances in 1970-71), those for minor irrigation programmes were Rs. 23 crores followed by those for dairying activities amounting to Rs. 22 crores. The volume of short and medium-term loans issued during 1978-79 by the societies in 5 states *viz*., Gujarat, Kerala, Maharashtra, Punjab and Tamil Nadu adding to Rs. 673 crores, accounted for 47.8 per cent of the total advances of PACS in the country. On the other hand, the loan business of societies in states like Assam, Bihar, Himachal Pradesh, Jammu & Kashmir, Manipur, Meghalaya, Nagaland and Tripura was relatively low. The total outstanding loans of PACS increased from Rs. 784.48 crores at end June 1971 to Rs. 1,798.07 crores as on 30 June 1978 and further to about Rs. 2,008 crores at end June 1979, comprising Rs. 1,513 crores of short-term loans and Rs. 494 crores of medium-term loans.

Appraisal of Performance

4.26 Over the period 1970-71 to 1977-78, the average share capital and deposit held per member increased from Rs. 61 and Rs. 15 to Rs. 76 and Rs. 24, respectively, (Statement 4.4). The average loan amount per borrowing member rose to Rs. 772 from Rs. 514 during the same period. The average amount of loans outstanding per society at Rs. 0.49 lakh as at end June 1971, had moved upto Rs. 1.55 lakhs by June 1978 and further to Rs. 2.12 lakhs by June 1979. However, in terms of outstanding short-term agricultural loans, the average per society was only Rs. 1.16 lakhs on 30 June 1978 and Rs. 1.60 lakhs as on

*Information relating to years prior to 1973-74 is not available

30 June 1979. This was below the prescribed viability standard of Rs. 2 lakhs. While the total advances of societies increased by 119.7 per cent between 1970-71 and 1977-78, the number of borrowing members increased by only 46.7 per cent. It will be seen from Statement 4.6 that in Bihar, Himachal Pradesh, Jammu & Kashmir, Madhya Pradesh and Punjab the number of borrowing members had decreased over the period 1970-71 to 1977-78 ; but the loans issued had recorded an increase. In Andhra Pradesh, Haryana, Orissa, Rajasthan, and West Bengal, both the magnitude of lendings and the borrowing membership increased ; but the percentage increase of the former was sharper than the latter. It has, therefore, to be inferred that the increased credit had not benefited a larger number of members in these states.

4.27 The state-wise position of PACS considered as viable, those working at profit/loss as on 30 June 1978, etc., is indicated in Statement 4.7. Statement 4.8 presents the averages per society in respect of membership, borrowing membership, share capital, working capital, deposits, loans, etc., in each state for 1970-71 and 1977-78. It is observed from these data that in the matter of increasing effective coverage, deposits and loan business, Kerala has done relatively better.

Co-operative Credit to the Rural Poor

4.28 Since the beginning of this decade, a significant shift has been effected in the loan policies of co-operatives for meeting the credit needs of the small/marginal farmers and other weaker sections of the rural community. The Reserve Bank stipulated in 1970-71, that 10 per cent of the drawals on its short-term credit limits granted to Central Co-operative Banks (CCBs) should be for financing small and marginal farmers defined for this purpose as those having operational holdings of 1.2 hectares (3 acres) or less. This percentage was raised to 20 from 1971-72. In 1975-76, this norm was linked to the loans issued to small farmers during the year instead of loans outstanding (which was the norm till then). In 1976-77, the parameters for identification of small farmers for this purpose were revised so as to range from 1 hectare to 3.2 hectares (2.5 acres to 8 acres), taking note of the geo-physical and agro-climatic conditions of each district in the country. To ensure compliance with this condition, drawals on the RBI's short-term credit limits in excess of 70 per cent are permitted only if 20 per cent of the loans advanced in the year have gone to small farmers. Thus, the flow of credit to the weaker sections increased from Rs. 213 crores in 1973-74 to about Rs. 490 crores in 1977-78. Of the total advances of the societies during 1977-78, loans to members holding land upto 1 hectare amounted to Rs. 198 crores and to those having more than one hectare but not exceeding 2 hectares, Rs. 246 crores, *i.e.* 15.5 per cent and 19.3 per cent, respectively, of the total advances, The share of tenant-cultivators was Rs. 30.90 crores or 2.4 per cent of the total and of agricultural labourers, a little over one per cent. The landless labourers, rural artisans and marginal farmers holding lands of not more than 0.2 hectare (0.5 acre) each, numbering 2.91 lakhs in all, were assisted with consumption credit by 10,326 PACS (out of the total of 1.16 lakh PACS) to the extent of Rs. 8.47 crores in 1977-78.

4.29 In regard to long-term credit for which fragmentary data are available in respect of 13 states and one Union Territory for 1977-78, disbursements to 3.70 lakh farmers amounted to Rs. 179 crores; of this, Rs.67 crores or 37.4 per cent had gone to 1.71 lakh cultivators with land holdings upto 2 hectares each.

4.30 The weaker sections were also given the benefit of a lower rate of interest on loans. Besides, they are to contribute at a concessional rate of 5 per cent of the loans to be advanced to them as share capital as against the usual 10 per cent of the loan amount to be held as shares by other members. With a view to enabling even the relatively weak PACS to serve as channels of credit, particularly in the special scheme areas or co-operatively underdeveloped or weak states, the Reserve Bank has liberalised its norms of eligibility of credit institutions in regard to overdues percentage for purpose of share capital contribution by state governments from loans out of its Long Term Operations Fund. The SFDAs and also some of the state governments provide, wherever necessary, loans to small farmers*/agricultural labourers to enable them to contribute the initial share capital required for enrolment in co-operatives. The ARDC has committed itself to ensuring that at least 60 per cent of its disbursements are utilised for meeting the investment needs of small farmers. Small farmers, for this purpose, are defined as those cultivating land, providing a pre-development net return to family resources to such farmers, not exceeding Rs. 2,000 per annum at 1972 prices. They are also entitled to other concessional terms like 5 per cent down payment as compared to 10 to 15 per cent stipulated for medium and large farmers

*Small farmers for this purpose are generally defined as those having operational holding of not more than 1 hectare of irrigated land and 2 hectares of dry land.

besides longer repayment schedule, running upto 15 years, especially for minor irrigation investments.

4.31 Although the provision of outright grants to the Special Bad Debt Reserve of PACS and CCBs under a Central Sector Plan Scheme to serve as an incentive for financing small and economically weak farmers ceased with the Third Five Year Plan, the SFDAs have been contributing to the "Risk Fund" of the lending agencies for encouraging them to finance the identified small farmers, in an increasing measure. Such contributions in respect of short-term loans are made at the rate of 4 per cent and 2 per cent of the additional quantum of advances made in a year by PACS and CCBs, respectively. In the case of medium-term credit, the rate of contribution is 4 per cent and 2 per cent to PACS and CCBs, respectively, on the total quantum of loans advanced to the identified small farmers. Primary land development banks are given "risk fund contribution" at 2 per cent of the total long-term advances made to the identified farmers. As on 30 June 1978, the risk funds (including the special bad debt reserve created earlier) to the credit of both PACS and CCBs aggregated Rs. 61.88 crores. Complete and precise information regarding the utilisation of these Funds for writing off irrecoverable dues of small and marginal farmers is not available. A sample study of the utilisation of risk fund by PACS, conducted during November 1980 by the Co-operative Department of the Government of Kerala, in 4 SFDA districts *i.e.*, Trivandrum, Quilon, Trichur and Cannanore, revealed that many of the societies had invested the risk fund in term deposits with the CCB. This was because of the absence of specific instructions from the Registrar of Co-operative Societies and the SFDAs concerned regarding the manner of utilisation of the fund for write off purposes. In terms of SFDA's instructions, the Registrar of Co-operative Societies is vested with the power to accord sanction to write off irrecoverable dues. However, there seems to have been no attempt so far to make an assessment of the irrecoverable dues of small and marginal farmer-borrowers. Thus the non-utilisation of the fund, for the purpose for which it was intended, was due to the lethargy of the bureaucracy in the matter of issuing suitable guidelines, spelling out the modalities of assessment of bad debts and their write off. PACS were afraid of opening the issue on their own. In fact, they have been shying off from the issue. The procedure laid down for this purpose also seems to be cumbersome. All this needs to be looked into.

4.32 To ensure that non-wilful, small farmer-defaulters to the co-operatives are not handicapped for want of credit to carry on their production and investment programmes, co-operatives were advised by the Reserve Bank, in pursuance of the decision taken by its Agricultural Credit Board in December 1979, that cultivators holding 1 hectare of irrigated land or 2 hectares of dry land and whose defaults involve small amounts, not exceeding 10 per cent of their eligibility under short-term agricultural loans, could be given fresh finance by the concerned society at its own discretion out of its own funds by rescheduling the old default for a period upto 5 years, provided this facility is treated as a one-shot operation. Such category of defaulters are also eligible for fresh investment credit (long-term loan) if the amount of default together with the fresh long-term credit are well within their assessed repaying capacity.

4.33 As regards financing of rural artisans and village craftsmen, the RBI recognised, as far back as in 1968, the industrial co-operatives formed by such categories engaged in 22 broad groups of cottage and small-scale industries as eligible for its concessionary refinance assistance for working capital purposes. As the progress in the formation of industrial co-operatives was not encouraging, the NCA suggested that credit requirements of rural artisans, and craftsmen should be met by Farmers Service Societies (FSS) envisaged by it. In August 1977, the Reserve Bank extended its refinance facilities through PACS to individual artisans and craftsmen who, being scattered, are not able to form their own co-operatives. Recently, some of the State Co-operative Banks (SCBs) have initiated steps to provide credit facilities to the artisans through PACS. For instance, the Haryana and Orissa SCBs had secured credit limits amounting to Rs. 23.27 lakhs and Rs. 31.91 lakhs from the RBI for this purpose in 1979-80.

4.34 As regards term credit, since there is a legal constraint on the RBI in providing refinance to CCBs for this purpose, it advised them in February 1980 that they could provide, from out of their own resources, loans for periods not exceeding 10 years to PACS for meeting such credit needs of rural artisans provided that the aggregate of such credit does not go beyond 15 per cent of their long-term disposable resources or 5 per cent of their total deposits whichever is more. We have been informed that the IDBI is exploring the possibility of extending its refinance assistance to selected CCBs for meeting the term credit needs of this sector. Meanwhile, governmental agencies such as Khadi and Village Industries Boards meet to some extent the term credit needs of rural artisans.

Recovery of Loans

4.35 Over the period 1970-71 to 1978-79, the recovery performance of PACS showed a deteriorating trend. As on 30 June 1978, there were 12 million defaulting members accounting for 53 per cent of the indebted membership. The overdues increased from Rs. 322.40 crores in 1970-71 to Rs. 809.62 crores in 1977-78 (Statement 4.9), constituting 43.3 per cent and 45 per cent of the demand and outstanding loans, respectively, at end June 1978. The overdues further rose to Rs. 908 crores at end June 1979, forming 45.2 per cent of the total loans outstanding.

4.36 Overdues under short-term loans increased from Rs. 283 crores on 30 June 1971 to Rs. 660 crores at end June 1978 and further to Rs. 733 crores on 30 June 1979. Of the total overdues of Rs. 809.62 crores at end June 1978, those for over 3 years amounted to Rs. 170 crores or 21 per cent of the total. State-wise, recoveries during 1977-78 in relation to the demand for the year were below the all-India average in Assam, Bihar, Himachal Pradesh, Jammu & Kashmir, Karnataka, Madhya Pradesh, Maharashtra, Manipur, Meghalaya, Tripura, Orissa and West Bengal. In a few states, *viz.*, Haryana and Kerala, the recovery efforts had shown signs of improvement. It will be seen from Statement 4.5 that as on 30 June 1979, the position of overdues was particularly disquieting in Bihar, Karnataka, Maharashtra, Madhya Pradesh, West Bengal and Tamil Nadu. The prevalence of large-scale overdues constitute a major obstacle to uninterrupted flow of co-operative credit to the needy rural households.

4.37 The RBI's Study Team on Overdues of Co-operative Credit Institutions (1974) had come to the conclusion that defaults were, by and large, wilful and that lack of will and discipline among cultivators to repay and the unhelpful attitude of state governments in creating a favourable climate for recovery were the primary factors responsible for the prevalence of overdues. It had further observed that there was no positive relationship between the level of overdues and the extent and frequency of natural calamities. It, therefore, recommended that state governments should not condone wilful non-repayment and that coercive steps should be instituted for recovery of overdues. Some of its major recommendations were : automatic supersession of managing committees/Boards of Directors if and when the overdues exceeded a specified level, denial of fresh credit and voting rights to defaulters and their sureties, amendments to the Co-operative Societies Acts empowering the Registrar of Co-operative Societies to issue orders *suo moto* for recovery of co-operative dues as arrears of land revenue and strengthening of the government machinery concerned with the recovery of dues. Yet another important recommendation was in regard to grant of relief to small farmer-defaulters (whose gross agricultural income did not exceed Rs. 5,000 per annum) affected by successive or frequent natural calamities. The various types of relief suggested by it in this regard were :

(*i*) For two successive failures of crops, the aggregate of two short-term conversion loans should be rescheduled as a five year loan;

(*ii*) For three successive failures, write off of the short-term (conversion) loan and the interest thereon and spreading over of the other loans as a rescheduled loan for five years;

(*iii*) If, in addition to the short-term loans, the borrower has to repay a normal medium-term loan, the repayment period of the rescheduled loan might be spread over six years in the case of one crop failure; for two successive failures, one short-term (conversion) loan and interest thereon might be written off, spreading over of the remaining loans as a rescheduled loan for seven years; for three successive failures, two short-term (conversion) loans might be written off spreading over of the remaining loans as a rescheduled loan for seven years.

The Study Team had also recommended that all non-wilful small defaulters with cultivated holdings in villages affected by natural calamities in one or more years during the period 1970-71 to 1972-73 should be rehabilitated by converting their short-term loan overdues into medium-term or even long-term (7 years) loans and that state governments might extend financial assistance to CCBs for enabling the latter to grant such rehabilitation loans to the primaries. These recommendations have, by and large, remained unimplemented in most of the states. On the other hand, some of the state governments *viz.*, Andhra Pradesh, Karnataka, Maharashtra, Madhya Pradesh, Rajasthan and Tamil Nadu have issued, from time to time, blanket stay orders on or banned coercive action for recovery of co-operative dues.

Reasons for Overdues

4.38 According to the RBI's study reports and our own observations in the field, the principal reasons for overdues are : (*i*) failure to tie-up lending with development programmes, (*ii*) defective loaning policies, including untimely loan disbursements, under-financing/over-financing and unrealistic scheduling of loan repayment, (*iii*) neglect of/or absence of efforts for marketing arrangements and linkage of credit recovery with sale of produce, (*iv*) ineffective supervision, (*v*) misapplication of loans, (*vi*) apathy and indifference of management of societies to taking coercive measures for recovery and (*vii*) foremost of all, want of a sense of discipline and responsibility among the loanees in regard to prompt repayment of debts. While unforseeen natural calamities such as drought, floods, etc., have contributed in some measure to non-payment of dues, steps taken by state governments in the name of these calamities have adversely affected the climate for recovery and accelerated the accumulation of overdues.

Credit Stabilisation Arrangements

4.39 It should be ovserved that the rise in overdues has been quite steep despite large conversion facilities channelised through the co-operative credit system. Conversion facilities were resorted to frequently and on a large scale in recent years as may be seen from the details given below :

Year (July-June)	Drawals from the National Agricultural Credit (Stabilisation) Fund
	(Rs. crores)
1970-71	14
1971-72	24
1972-73	68
1973-74	41
1974-75	55
1975-76	41
1976-77	78
1977-78	103
1978-79	32
1979-80	88

Source : Report on Currency and Finance, RBI.

At the level of PACS, the amount of medium-term conversion loans outstanding against members was as high as Rs. 200 crores at end-June 1978. Of this, as much as Rs. 184 crores or 92 per cent were accounted for by six states *viz.*, Andhra Pradesh (Rs. 25 crores), Gujarat (Rs. 60 crores), Karnataka (Rs. 16 crores), Madhya Pradesh (Rs. 10 crores), Maharashtra (Rs. 28 crores) and Tamil Nadu (Rs. 45 crores). The studies conducted from time to time by the Reserve Bank into the actual utilisasion of conversion facilities have, *inter alia*, revealed that conversions were allowed uniformly to all the borrowers in the affected areas irrespective of their need therefor and that, very often, even overdues of short-term loans relating to crops not damaged by natural calamity were also converted.

4.40 In Gujarat, Maharashtra and Tamil Nadu which accounted for over 85 per cent of the total drawals from the National Agricultural Credit (Stabilisation) Fund during the three years ended 1975-76, *annewari* was found to have been declared not crop-wise, but on the basis of average yield of all the crops taken together. Under this system, the yield of one or two principal crops tilts the aggregate *annewari* of all the crops. In Maharashtra, for example, the normal yield is arrived at by averaging the yield over a period of 10 years and this is valued at 9 annas instead of 12 annas as envisaged under the stabilisation arrangements. It was found that the figures of *annewari* did not bear any logical relation to those of foodgrain production for the State as could be seen from the following table :

Year		Total No. of villages	No. of villages having *annewari* below 6 annas	Foodgrains production (In lakh tonnes)	
				Ten year moving average of production	Actual estimated production
(1)		(2)	(3)	(4)	(5)
1973-74	..	38,832	10,672	57·67	70·45
1974-75	..	38,839	5,972	58·82	79·00
1975-76	..	38,870	17,483	63·25	91·19
1976-77	..	38,870	9,834	67·00	96·98

Source: Report of the Crop Loan Evaluation Committee of the Government of Maharashtra, 1978.

In Tamil Nadu, dual standards were adopted for declaration of *annewari*—one for obtaining stabilisation assistance from the RBI and another for grant of relief by the State Government itself, by way of suspension or remission of land revenue.

4.41 The Study Team on Overdues had recommended that certification of *annewari* by the District Collector should be considered adequate for the use of stablisation arrangements, provided the *annewari* was determined on a scientific basis, by undertaking crop cutting experiments in plots selected on a random sampling basis, preferably by the Statistics Department of the state government. While the Reserve Bank has accepted the certification of *annewari* by the Collector, state governments have not taken action to introduce scientific methods for determination of *annewari*.

4.42 Quite a large number of PACS continue to remain only as credit-disbursing agencies without providing complementary services to members. The number of societies distributing farm inputs was less than 10 per cent of the total number of societies in Andhra Pradesh, Assam and Bihar. The aggregate value of farm requisites supplied by 43,605 societies (38 per cent of the total) in 1977-78 was about Rs. 488 crores, of which the major component was fertilisers worth Rs. 425 crores. About a third of the societies (37,704) sold essential consumer articles like foodgrains, kerosene, sugar, etc., of the value of about Rs. 278 crores, during 1977-78. In 1977-78, 18,449 societies (16 per cent of the total) spread over 12 states, recovered from 2.7 million borrowers, a sum of Rs. 127 crores from out of the sale proceeds of produce. This was roughly 12 per cent of the total recoveries effected during this year. A much smaller number of societies (1,309) undertook sale of members' produce during 1977-78. 39 societies in Andhra Pradesh, Bihar, Gujarat, Kerala, Maharashtra and West Bengal had made a beginning with processing activities.

Non-credit Functions

Farmers Service Societies (FSS)

4.43 The Farmers Service Society was conceived by the NCA in 1971 with the following basic objectives :

(*i*) To provide all types of credit and a full package of services and technical guidance to farmers, particularly small farmers, for enhancing production, and for diversification of activities on the farm in an integrated manner and at one contact point;

(*ii*) To cover effectively a large area of operation, say a block or population of 10,000, so that it can maintain technical experts and well-trained managerial staff and simultaneously function as a viable unit; and

(*iii*) To enable the weaker sections to control the society while servicing all categories of farmers, for which purpose, its constitution should provide for a two-third representation to such class of people on its elected board of management.

Such type of societies could be sponsored by and affiliated to commercial banks or could form part of the co-operative credit system. It was envisaged that there would be two types, *viz.*, (*a*) at block level—with jurisdiction over the entire block and with 20 branches (minimum) and loan business of Rs. 1 crore within a period of five years and (*b*) a smaller model covering a gross cropped area of 10,000 hectares to command a loan business of Rs. 10 lakhs within 5 years. Except in Bihar, Jammu & Kashmir, Goa, Manipur, Nagaland, Tripura and the tribal area of Gujarat, the FSS registered are generally of the smaller type.

4.44 Starting with 30 FSS in 1973-74 in SFDA areas, the number of FSS in the country increased to 1,577 (inclusive of 665 *gram-panchayat* societies in Assam and 113 Sericulturists-cum-Farmers Service Societies in Karnataka) by the end of June 1978, as against 2,520 envisaged by the NCA to be set up over a period of 6 years. Assam had the largest number of FSS (665) followed by Uttar Pradesh (381), Karnataka (215), Madhya Pradesh (92) and Pondicherry (62). Haryana, Jammu and Kashmir, Nagaland, Orissa, Rajasthan, Maharashtra and Tamil Nadu had only a few FSS. No FSS had been organised in Arunachal Pradesh, Meghalaya and Mizoram in the North-east region and in Punjab and Himachal Pradesh in the northern region. The progress made by FSS in 1977-78 can be seen from the following data :

		All FSS (Rs. crores)	Averrge per FSS (Rs. lakhs)
1. Number of Societies (including Sericulturists-cum-FSS)		1,577	
2. Membership ('000)		3,276	2·10
3. Borrowing membership	('000)	611	0·40
4. Paid-up capital	(Rs.)	17·30	1·10
5. Deposits	(,,)	6·86	0·40
6. Other borrowings	(,,)	59·34	3·76
7. Loans issued	(,,)	55·91	3·55
8. Loans Outstanding	(,,)	69·03	4·38
9. Overdues	(,,)	26·19	1·66

Source: Statistical Statements Relating to the Co-operative Movement in India.

Sixty per cent of FSS membership comprised of small farmers with holdings upto 2 hectares. Effective coverage in terms of borrowing members was only 19 per cent in 1977-78. In the outstanding advances at Rs. 69.03 crores, medium-term loans at Rs. 14.70 crores worked out to 21.3 per cent. Recovery performance did not materially differ from that of the PACS inasmuch as the percentage of overdues to outstanding loans on 30 June 1978 was about 38. The value of farm requisites distributed by the FSS during 1977-78 was Rs. 30.88 crores and the marketing operations undertaken were of the order of Rs. 4.44 crores. Nearly 34 per cent of the FSS (533 societies) had incurred losses in 1977-78.

4.45 A study of the working of 788 FSS, which were in business for more than one year as on 1 January 1979, (excluding the *gram-panchayat* societies in Assam and the sericulturists-cum-FSS in Karnataka) undertaken by the RBI in January-March 1980, revealed the following position :

(*i*) A number of PACS co-existed in the jurisdiction of FSS in Gujarat, Bihar, Maharashtra and Andhra Pradesh and they continued to disburse credit resulting in overlap of jurisdiction.

(*ii*) Large cultivators continued to wield influence over FSS management. In Jammu and Kashmir and Uttar Pradesh, the bylaws of FSS provided for only 50 per cent representation to weaker sections on the managing committee as against two-thirds representation envisaged in the model bylaws.

(*iii*) The nominees of state governments and sponsor banks hardly evinced adequate interest in the working of FSS.

(*iv*) The Managing Directors of a number of FSS, sponsored by co-operative banks, were not well qualified and experienced to handle efficiently the complex functions of these societies. In Andhra Pradesh, Goa and Tamil Nadu the Managing Directors of FSS, being employees of the state government/financing bank, on deputation, were frequently transferred, depriving the societies of continuity of their service.

(*v*) Some of the FSS in Gujarat, Maharashtra, Orissa and Rajasthan functioned without technical staff. In Andhra Pradesh and Karnataka the technical personnel deputed by the State Governmen- were withdrawn after sometime.

(*vi*) Only 39 out of 531 FSS, for which data were received, achieved a loan business of more than Rs. 10 lakhs each by 1978-79. Long-term credit disbursal was still negligible, being limited to a small number of 19 FSS.

(*vii*) In Gujarat, Jammu and Kashmir, Madhya Pradesh and Tamil Nadu, the share of weaker sections in short-term loans advanced by FSS was relatively small, as indicated below :

(Rs. lakhs)

State	Total loans disbursed in 1978-79	Of which to weaker sections	Percentage of (3) to (2)
(1)	(2)	(3)	(4)
Gujarat	87·53	29·56	34
Jammu & Kashmir	19·59	5·44	28
Madhya Pradesh	72·58	6·32	9
Tamil Nadu	153·83	41·72	27

(*viii*) Except in Gujarat and Kerala, where the overdues in FSS ranged between 20 and 40 per cent and 20 to 30 per cent of demand respectively, the level of overdues in other states was quite high, at about 50 to 60 per cent of demand as on 30 June 1979.

(*ix*) The limited range of non-credit functions related to supply of farm inputs as also distribution of consumer goods.

(*x*) Marketing of farm produce was not arranged by many of the FSS except a few in Andhra Pradesh and Kerala. Some FSS in Maharashtra, Karnataka and Andhra Pradesh, however, collected milk produced by their loanees and supplied it to government dairies.

(*xi*) Only in Kerala, FSS had sizeable deposits; 10 out of 13 FSS studied had deposits of more than Rs. 10 lakhs each. In Tamil Nadu, 10 FSS had deposits of more than Rs. 3 lakhs each. A number of FSS in Andhra Pradesh, Orissa and Maharashtra held no deposits. In Haryana, the average deposit per FSS ranged around Rs. 0.60 lakh, while in Rajasthan, it was about Rs. 10,000.

4.46 The above findings point to the lack of enthusiasm on the part of state governments and sponsor banks in giving the scheme of FSS a fair trial. The commercial banks which sponsored them hardly made use of them for deposit mop-up and lendings under the Differential Rates of Interest (DRI) Scheme; instead, they preferred to operate through their own branches. It was observed during our field visits that, more often than not, the operations of these societies failed to take off for want of a minimum infrastructure and a higher degree of managerial skill and competence. Illustratively, we cite the case of a FSS in West Bengal, sponsored by one of the nationalised banks. This society which started functioning from May 1975 had issued loans to the tune of Rs. 14 lakhs over a period of 4 years, undertaken input supplies and provided storage facilities to members. But, beyond these, it could not perform well owing to (*a*) absence of a compact and contiguous area coverage, (*b*) non-availability of technical staff from government for animal husbandry activities, (*c*) non-supply by the Marketing Federation of hybrid seeds, (*d*) inadequacy of margin in fertiliser supplies which landed the society in loss and (*e*) delay in ground water survey to assess the potential for term lending for minor irrigation programmes. On the other hand, the example of FSS (including sericulturists-cum-FSS) in Karnataka amply demonstrates that, given proper assistance and infrastructural facilities, these societies can certainly render a good account of themselves. The average lendings of FSS in this State worked out to Rs. 8.5 lakhs per society in 1978-79, although the advances of some of the societies in Bangalore district had touched the level of Rs. 30 to 40 lakhs. The sericulturists-cum-FSS in this state had formulated 88 schematic lending projects, of which 42 had been cleared by the ARDC for its refinance assistance. Of the 113 societies, 82 had lent nearly Rs. 8 crores during 1978-79; of this, the amount advanced for sericultural programme alone was of the order of Rs. 2.32 crores. The societies, however, reportedly faced stiff competition from their own sponsoring commercial banks in increasing their loaning, because, the latter were directly lending to individuals in their area of operations. All aspects considered, it is too premature to hazard any judgement on the performance of FSS; but, one thing is clear, that, although, they are structurally sound, they have not been given the requisite aid and opportunities to work on the lines desired.

Large-sized Adivasi Multi-Purpose Co-operative Societies (LAMPS)

4.47 In pursuance of the recommendations of the Study (Bawa) Team appointed by the Government of India in December 1971, LAMPS were organised in tribal areas with the objects of (*i*) providing under a single roof, all types of credit including those for meeting social obligations and consumer requisites, (*ii*) technical guidance in the intensification and modernization of agriculture, and (*iii*) arranging for the marketing of agricultural and minor forest produce besides the products of other subsidiary occupations of the tribals. Like the FSS, these societies were expected to cover larger areas of operation than the PACS. At the end of June 1978, there were 1,424 LAMPS, largely concentrated in the tribal areas of Madhya Pradesh, Maharashtra and Orissa. The progress of these societies in 1977-78 is indicated as under:

		All LAMPS (Rs Crores)	Average per LAMP (Rs. lakhs)
1. Number of LAMPS		14.24	
2. Membership ('000)		15.42	1·1
3. Borrowing membership	('000)	3·92	0·3
4. Paid-up share capital	(Rs.)	15.68	1·1
5. Deposits	(,,)	2·52	0·2
6. Other borrowings	(,,)	42·39	2·9
7. Loans issued	(,,)	25·21	1·8
8. Loans outstanding	(,,)	43·66	3·1
9. Overdues	(,,)	23·23	1·6

Source: Statistical Statements Relating to the Co-operative Movement in India.

4.48 Of their total membership at 15.42 lakhs, 56.9 per cent were scheduled tribes and the rest were scheduled castes and others inhabiting the tribal areas. Members who borrowed during 1977-78 formed 25.4 per cent of the total membership. The average membership and effective coverage in terms of borrowing membership per society were 1,082 and 275 respectively. The working capital of the societies amounted to Rs. 80.09 crores as on 30 June 1978 giving an average of Rs. 5.6 lakhs per society. Loans issued per society were Rs. 1.8 lakhs, preponderantly as short-term credit while medium-term and long-term loans formed only 27 per cent. Recoveries were poor and overdues were mounting up alarmingly. At end June 1978, the quantum of overdues was as high as Rs. 23.23 crores, constituting 53.2 per cent of the outstandings. As many as 519 societies, forming 36.4 per cent of the total number of societies incurred losses in 1977-78.

4.49 Several problems seem to endanger the financial viability of LAMPS. During our visit to Kunduli and Nandapur LAMPS in Koraput district of Orissa and our subsequent discussions with the concerned authorities of the State Government in December 1979, the following problems were raised in regard to the viable functioning of LAMPS:

(*i*) Only 10 out of 56 LAMPS in the district had taken the initiative for collection of forest produce. The other LAMPS in the area acted as agents of the lessee LAMPS. The agency commission paid to them was insufficient to cover storage losses, damages and cost of staff employed for the work.

(*ii*) Transportation charges were not being provided by the Government in respect of consumer goods moved to outstations under the scheme for distribution of controlled commodities. Added to this was the absence of a realistic pricing policy for sale of old stock.

(*iii*) The monopoly enjoyed by LAMPS for collection of all minor forest produce was not enforced effectively. The *sahukars* purchased some trees at low price and smuggled out the produce of other trees as well. The Government was slack in enforcing the monopoly.

(*iv*) The societies had not taken up long-term investment lending aggressively. Financing of programmes of horticulture, sericulture, cashew and coffee plantations, was yet to be actively pursued. The Village Level Workers (VLWs) were not attending to agricultural extension work properly.

(*v*) The LAMPS sustained losses in fertiliser distribution as transport expenses were not reimbursed to them.

(*vi*) There was lack of managerial expertise.

(*vii*) The State Government did not provide adequate margins in distribution arrangements entrusted to them.

4.50 Besides these reasons, due to frequent increases in royalties payable on forest products, unhealthy competition faced from private traders, absence of effective marketing organisation and market intelligence service, lack of infrastructural arrangements for storage, transportation and processing of forest products, resulting in underselling of the collections of these products from members, insistence on landed security from loanees in areas like Manipur where individual rights in land do not exist etc., many of the LAMPS are finding it difficult to show progress.

Credit Activity of Non-Credit Societies

4.51 Besides PACS, some of the non-credit co-operatives, such as those undertaking marketing and processing of agricultural commodities and functional societies which are activity-specific like dairy co-operatives, poultry farming societies, fisheries' societies, etc., have also assumed the credit-purveying role (Statement 4.10). Loans disbursed by the marketing and processing societies were, by and large, against pledge of agricultural produce and the bulk of such advances was by the societies in Gujarat, Karnataka and Uttar Pradesh.

4.52 The functional societies which symbolise the group approach or market-segment approach, are commodity-specific. Their main aim is to assist their members to improve their bargaining power *vis-a-vis* the suppliers of inputs and purchasers of their output. Credit is only one of the items in their total operations. The available data on the working of these societies presented in Statement 4.11 reveal that their operations have significantly expanded over the last seven years, *viz.*, 1970-71 to 1977-78. Even though the general policy has been to ensure channelling all the credit needs of rural households only through PACS, some of these societies have continued to advance loans to their members. Their trump card lies in meeting the non-credit services needed by their members without, at the same time, losing sight of their credit needs.

Central Co-operative Banks (CCBs)

4.53 At the middle (district) level of the co-operative credit structure, there were 338* CCBs with 6,835 offices at the end of June 1979. The

* Excluding data relating to 6 banks in Assam which were under process of amalgamation and later merged with the Assam Co-operative Apex Bank Ltd.

following table shows that, out of 338 CCBs as on 30 June 1978, 74 or 22 per cent had loan business of less than Rs. 2 crores each.

Size	Number of banks as on 30 June 1978		
	Deposits	Loans and advances outstanding	Working capital
(1)	(2)	(3)	(4)
1. Below Rs. 50 lakhs ..	23	1	—
2. Between Rs. 50 lakhs and Rs. 1 crore	54	16	1
3. Between Rs. 1 crore and Rs. 2 crores	88	57	24
4. Between Rs. 2 crores and Rs. 3 crores	43	62	46
5. Between Rs. 3 crores and Rs. 4 crores	30	37	50
6. Between Rs. 4 crores and Rs. 5 crores	19	33	25
7. Above Rs. 5 crores	81	132	192
Average per bank (Rs. crores) ..	4·0	6·15	8·59

Source: Statistical Statements Relating to the Co-operative Movement in India

Branch Expansion

4.54 Generally, the jurisdiction of a CCB is confined to a district. With a view to improve their contacts with and supervision over PACS and also to mop up the savings of the rural community through deposits, the CCBs have been encouraged to open branches in different parts of the district. As a result, the number of branches increased from 3,434 in 1970-71 to nearly 6,500 in 1978-79. However, from the point of view of intensive supervision over the affiliated units, per-branch coverage of societies was too wide in Assam and Bihar as may be seen from the following data :

(As on 30 June 1979)

State	No. of branches of CCBs	Coverage of societies per branch	State	No. of branches of CCBs	Coverage of societies per branch
(1)	(2)	(3)	(1)	(2)	(3)
Andhra Pradesh ..	292	64	Kerala	217	19
Assam	6	100	Madhya Pradesh	662	15
Bihar	194	144	Maharashtra ..	1498	23
Gujarat	699	27	Orissa	118	42
Haryana	160	48	Punjab	511	32
Himachal Pradesh ..	53	42	Rajasthan ..	214	47
Jammu and Kashmir	47	54	Tamil Nadu ..	356	33
Karnataka	453	27	Uttar Pradesh ..	863	19
			West Bengal ..	154	62

Source: Reserve Bank of India.

4.55 Over the period 1970-71 to 1977-78, the owned funds of CCBs rose by 2½ times from Rs. 199 crores to Rs. 484 crores and further to Rs. 533 crores at end June 1979. The state governments' contribution to the share capital of these banks amounted to Rs. 88 crores or about 30 per cent of the total as on 30 June 1978. Owned funds as a percentage of working capital, however, dropped to 16.4 in 1977-78 from 18.4 in 1970-71.

Owned Funds

4.56 The deposits held by CCBs increased from Rs. 438 crores at end June 1971 to Rs. 1,377 crores at end June 1978. The co-operatives accounted for 37 per cent of the deposits as on 30 June 1978. Nearly 60 per cent of the deposits amounting to Rs. 825 crores were accounted by the banks in Maharashtra, Tamil Nadu, Gujarat and Uttar Pradesh. Deposits increased further to Rs. 1,654 crores at end June 1979. In relation to working capital, the growth of deposits was steady from 40.6 per cent in 1970-71 to 46.6 per cent in 1977-78 and to above 50 per cent in 1978-79. The rate of deposit growth was 20.1 per cent (1978-79) which compared favourably with that of scheduled commercial banks at 19.5 per cent. The spurt in deposits was largely due to concerted and sustained efforts made by CCBs in the wake of the Reserve Bank's scheme for linking its refinance assistance to the deposit mobilisation efforts of the banks. An extra ½ per cent interest offered by them (over and above the ceiling rates of interest applicable to commercial banks), as allowed by the RBI, also helped. The benefit of insurance cover for deposits of co-operative banks has been availed of only in 13 states and 3 Union Territories.

Deposits

4.57 The borrowings of CCBs increased from Rs. 393 crores at the end of June 1971 to Rs. 928 crores at the end of June 1978 and to Rs. 947 crores on 30 June 1979; but as a percentage of working funds, they decreased from 36.4 per cent in 1970-71 to 28.7 in 1978-79. Loans and advances issued by the banks rose substantially from Rs. 894 crores in 1970-71 to Rs. 2,116 crores in 1977-78 and further to Rs. 2,407 crores in 1978-79. Agricultural purposes continued to account for the bulk (73.4 per cent) of their loan business as shown on the next page.

Borrowings and Advances

4.58 The studies on utilisation of medium-term loans conducted by the Reserve Bank, in 1979-80, brought to light that the loaning in several cases was not preceded by proper appraisal as to the economic viability of the investment programme, that there was no verification of end-use by the lending agency, that there was no arrangement for

LOAN BUSINESS OF CCBs

(Rs. crores)

Type of Credit	Agricultural purposes		Non-agricultural purposes	
	Issued in 1977-78	Outstanding at end June 1978	Issued in 1977-78	Outstanding at end June 1978
(1)	(2)	(3)	(4)	(5)
Short-term ..	1,349	1,247	517 (90)	335 (64)
Medium-term ..	204	454	46 (1)	79 (4)
TOTAL ..	1,553	1,701	563	414

Figures in bracket indicate advances for industrial purposes.

Source: Statistical Statements Relating to the Co-operative Movement in India.

post-disbursement follow-up and that the availability of infrastructural facilities like assured supply of quality breeds of livestock, marketing tie-up arrangements etc., was not ensured, as a result of which, the borrowers tended to divert the loans for other purposes and misutilised them. This underlines the need for greater vigilance and supervision on the part of the banks.

Industrial Advances

4.59 In the matter of industrial financing, the advances of CCBs for working capital purposes of industrial co-operatives increased from Rs. 20 crores in 1970-71 to Rs. 90 crores in 1977-78. Their lendings for block capital needs were negligible at only Rs. 1.37 crores in 1977-78 as against Rs. 0.82 crores in 1970-71. This was partly due to the non-availability of long-term refinance assistance from the Reserve Bank which is not legally permitted to provide such assistance to co-operative banks for the purpose of acquiring block assets such as plant and machinery, work sheds etc., by cottage and small-scale industrial co-operatives. However, as stated earlier, CCBs have been permitted to involve their own disposable long-term resources, to a limited extent, in providing block capital loan assistance to industrial societies. The more important reason for the inadequate progress in this regard, is the dormant condition of a large number of industrial co-operatives. Thus, as on 30 June 1978, out of nearly 25,000 primary industrial co-operatives (other than weavers' co-operatives) engaged in the groups of industrial activities approved by the RBI for working capital refinance, as many as 11,452 or nearly 46 per cent were dormant.

4.60 The aggregate credit flow to the industrial sector from CCBs during 1977-78 formed only 4.3 per cent of their total advances in the year; bulk of these loans was to co-operative spinning mills and handloom weavers' co-operatives. Financial assistance to the handloom sector was of two kinds, *viz.* (*i*) to the apex/regional weavers' societies for trading in yarn and marketing of finished cloth and (*ii*) to primary weavers societies for their production and marketing activities. There had been a significant rise in the magnitude of credit availed for these purposes from the RBI as will be observed from the data given below :

April-March	Drawals by SCBs on the RBI's credit limits for financing apex/primary weavers societies (Rs. crores)
1975-76	34
1976-77	36
1977-78	168
1978-79	127

Of the drawals in 1978-79, about Rs. 100 crores were for lending to the weavers' societies in Tamil Nadu and about Rs. 18 crores in Andhra Pradesh. As a measure to reduce the cost of this credit which is intended to benefit one of the weakest sections of the community, the rate of interest on refinance assistance provided by the Reserve Bank for the purpose has been lowered to 2½ per cent below the Bank Rate from 1 March 1978. Advances to industrial co-operatives other than handloom societies are yet to look up, mainly because a large number of such units in the country continue to be dormant, despite the Reserve Bank's advice to the state governments, as far back as October 1968, to conduct surveys for identifying the viable and potentially viable industrial societies for stepping up credit assistance to them from the co-operative financing system. The need for reorganization of industrial societies on viable basis had again been brought home to the state governments in the Reserve Bank's circular dated 17 May 1979, issued in the context of the recommendations made by the Working Group on Small Scale Industries with special reference to District Industries Centres.

Loan Recoveries

4.61 Overdues at the level of CCBs rose to 38 per cent of the demand as on 30 June 1978 from 34.5 per cent on 30 June 1971. Statewise, the overdues of CCBs in Assam and Bihar amounted to more than 70 per cent of the demand for 1977-78 and between 40 and 55 per cent in the case of CCBs in Andhra Pradesh, Gujarat, Himachal Pradesh, Jammu & Kashmir, Madhya Pradesh, Maharashtra and Rajasthan. As on 30 June 1979, Maharashtra, Tamil Nadu, Uttar Pradesh and Gujarat together accounted for 51.1 per cent of the total overdues in the country at CCB level. The classification of 313 CCBs (for which data on overdues as on 30 June 1979 are available) was as under :

Percentage of Overdues to Demand	No. of CCBs
Upto 20	44
Between 20 and 40	113
,, 40 and 60	107
Above 60	49
	313

Source: Reserve Bank of India.

Thus, 49 CCBs had overdues exceeding 60 per cent of demand and hence were *prima facie* ineligible for credit limits from the Reserve Bank of India.

4.62 Against the background of the rising overdues and the consequent deterioration in the financial position of many CCBs, a programme of rehabilitation was introduced in 1971, in respect of CCBs whose bad and doubtful debts, accumulated losses and overdues over 3 years exceeded 50 per cent of their owned funds. Initially, according to the criteria, 64 CCBs in 12 states were brought under the programme of rehabilitation on the basis of their financial position as on 30 June 1970. The number of such banks increased to 180 as on 30 June 1977. The programme envisaged investigation of overdues with a view to identifying irrecoverable debts and ascertaining the reasons for overdues, augmenting the bad debts reserve of the concerned banks to cover the bad debts, coercive steps for recovery of chronic overdues, rationalisation of loan policies and procedures of CCBs, strengthening of the supervision machinery, mobilisation of resources, toning up the management of the banks, training and professionalization of staff etc.

4.63 As paucity of resources with some CCBs constituted the main obstacle in writing off their irrecoverable dues and accumulated losses and improving their financial position, the GOI introduced in January 1972, a Central Sector Plan Scheme under which Central/State Governments provided grants-in-aid to 'weak' CCBs for the purpose with reference to their financial position as on 30 June 1971. Upto 30

June 1979, under this scheme, the GOI released assistance of Rs. 781.42 lakhs in respect of 146 CCBs in 15 states and Rs. 14.71 lakhs in respect of 3 SCBs in the areas served by the two-tier credit structure. As a result of the above assistance provided under the scheme, a substantial number of the banks have improved their financial position. The Central Sector Plan Scheme has been discontinued by the GOI with effect from April 1980.

4.64 The RBI had been reviewing from time to time the criteria for considering a CCB as weak so that the banks which have improved their position could be excluded from the rehabilitation programme. Accordingly, in November 1979, the RBI laid down revised norms, for deletion of a CCB from the list of 'weak' banks, *viz.*,

(*i*) The bank's financial position is such that its estimated bad and doubtful debts, accumulated losses and other overdues over 3 years no longer exceeded 50 per cent of its own funds.

(*ii*) The bank has shown an average annual growth rate of 10 per cent in respect of deposits and loans outstanding during the preceding 3 years.

4.65 On the basis of the above revised norms, 106 CCBs were retained in the list of 'weak' CCBs with reference to their financial position as on 30 June 1978 for the purpose of rehabilitation programme.

4.66 The implementation of the rehabilitation programme has not been uniformly satisfactory in all the states, as evidenced by the deterioration in recovery performance referred to earlier. According to a review, made by the Reserve Bank, of the progress of rehabilitation programme as on 30 June 1979, many of the banks have not drawn up the annual plans covering all aspects of the rehabilitation programme. Certain SCBs have yet to create rehabilitation cells as recommended. Similarly, in some states, the State and District Level Committees have not been constituted to monitor the programme of rehabilitation, while in many states, the committees have not been meeting as frequently as required. Investigation of overdues on a scientific basis at the level of PACS had not been completed by the banks in many states *viz.*, Andhra Pradesh, Assam, Bihar, Orissa, Punjab and Uttar Pradesh. As a result, the amount released by the Government of India under the Central Sector Plan Scheme has not been fully utilised by the banks. Had the assistance been fully utilised, the financial position of these banks would have improved. Further, it has been observed that the assessment and write off of irrecoverable overdues has not been done in accordance with the instructions of the GOI, for example, by some of the CCBs in Karnataka. Also as on 30 June 1979, sizeable amounts have been reported to be involved in arbitration cases and execution petitions in certain states, *viz*., Andhra Pradesh and Jammu & Kashmir. The slow pace of disposal of arbitration cases and execution of awards clearly indicates the lack of seriousness on the part of the agencies implementing the programme of rehabilitation. Again, certain measures essential to complement the rehabilitation programme such as revitalization of PACS, selection of certain good working societies for intensive development, strengthening and improving the arrangements for supervision over field staff, mobilization of resources etc., have not been taken up with the desired degree of earnestness.

State Co-operative Banks (SCBs)

4.67 At the apex level of the state co-operative credit structure are 26 State Co-operative Banks* with 360 offices (as on 30 June 1979).

Resources

Over the years, their overall financial position has shown considerable improvement with an expanded resource base. Between 1970-71 and 1977-78, their owned funds increased from Rs. 93 crores to Rs. 214 crores. At end-78 June 1979, their owned funds at Rs. 239 crores formed about 12 per cent of their total working capital. Their deposits also recorded a fast growth from Rs. 279 crores in 1970-71 to Rs. 1,004 crores in 1977-78 and further to Rs. 1,206 crores in 1978-79. Nearly 56 per cent of the deposits as on 30 June 1979 were held by four SCBs *viz*., Maharashtra (27 per cent), Gujarat, Uttar Pradesh (10 per cent each) and Tamil Nadu (9 per cent). The bulk of the deposits (79 per cent of the total deposits as on 30 June 1978) had accrued from within the co-operative sector representing the investment by the central co-operative banks of their statutory reserve fund, agricultural credit stabilisation fund, bad debts reserve, gratuity and provident fund of employees, etc., and deposits eligible to be reckoned towards their statutorily stipulated liquid assets besides the deposits kept by primary co-operative banks and non-credit co-operatives like co-operative marketing societies, co-operative spinning mills, co-operative sugar factories, etc. This was in tune with the state policy to ensure that the investible funds of the various types of co-operative organizations should, as far as possible, be conserved for deployment within the

* Excludes Arunachal Pradesh State Co-operative Bank.

co-operative system itself. Deposits gathered by SCBs from outside the co-operative system, *viz.*, individuals and institutions, constituted 21 per cent of the total deposits at end June 1978. Owned funds and deposits together amounted to Rs. 1,445 crores at end June 1979 constituting 72.3 per cent of the working capital of SCBs at Rs. 2,000 crores.

Borrowings and Advances

4.68 As on 30 June 1979, the borrowings of SCBs at Rs. 454 crores accounted for 22.7 per cent of their working capital, indicating a decrease of over 20 per cent from the 1970-71 position. Their outstanding liabilities to the RBI stood at Rs. 360 crores which, as a proportion to their working capital, formed only 18 per cent as against 35.3 per cent in 1970-71. It may be noted in this context that although the Reserve Bank has the capacity and the intention to expand rural credit through the co-operative organizations by providing funds at low interest rates, subject to the discipline stipulated by it, the co-operative credit system is unable to absorb an increasing quantum of such resources year after year, owing to its inability to comply with the discipline required of it. This is evident from the fact that, while the short-term agricultural credit limits of the Reserve Bank had increased from Rs. 390 crores in 1970-71 to Rs. 748 crores in 1977-78, and further to Rs. 799 crores in 1978-79, the percentage of utilisation of the limits had declined from 74 to 59 over the same period. In the case of medium-term credit limits for agricultural purposes, the utilisation of the limits averaged around 56 per cent during the last six years ended December 1978.

4.69 Between 1970-71 and 1978-79, there was nearly a threefold increase in the lending operations of SCBs, the quantum of loans issued having gone upto Rs. 2,237 crores in 1978-79 from Rs. 749 crores in 1970-71. The loans outstanding stood at Rs. 1,396 crores as on 30 June 1979 as against Rs. 534 crores at the end of 1970-71. In deployment of resources, agriculture received the lion's share, the short-term credit for production constituting about 88 per cent of the total agricultural loans. Non-agricultural advances have also increased from 20 per cent of the total loans issued in 1970-71 to 33 per cent in 1977-78 as may be seen from the following table. Non-agricultural advances were, in the main, meant for financing consumption purposes and working capital requirements of handloom production-cum-marketing co-operatives, co-operative spinning mills, co-operative sugar factories, monopoly cotton procurement, distribution of consumer goods through co-operatives, etc. As a result of deliberate policy pursued by the Reserve Bank, the SCBs have been enabled to invest their own resources increasingly in non-agricultural sector which provides a higher interest margin, with a view to off-setting the losses incurred by them in agricultural lending at the pooled rate of interest.

LOAN BUSINESS OF SCBs

(Rs. crores)

Purpose	1970-71				1977-78			
	Loans issued during the year		Outstanding at the end of the year		Loans issued during the year		Outstanding at the end of the year	
	S.T.	M.T.	S.T.	M.T.	S.T.	M.T.	S.T.	M.T.
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Agricultural	574	31	349	66	1,185	168	745	236
Non-agricultural	129	15	90	29	636	33	280	77
TOTAL	703	46	439	95	1,821	201	1,025	313

Source: Statistical Statements relating to the Co-operative Movement in India.

INDUSTRIAL CO-OPERATIVE BANKS

4.70 Besides SCBs and CCBs, some Industrial Co-operative Banks have been functioning in a few states. They cater to the credit needs of village/cottage industrial co-operatives (other than co-operative sugar mills and spinning mills) and in exceptional cases, of individual craftsmen and self-employed technocrats. In Rajasthan and Tamil-Nadu, an apex level Industrial Co-operative Bank with state-wide jurisdiction exists, while in Gujarat, Maharashtra and Karnataka, a few district-level banks are working in some of the districts. The position of these banks is indicated in Statement 4.12.

4.71 We have noted earlier that the RBI has, as a rule, preferred to route its financial accommodation for cottage and village industries, through the regular co-operative credit system, *i. e.*, SCBs and CCBs and hence, it has been advocating either the conversion of the existing industrial co-operative banks into urban co-operative banks with their clientele limited to urban industrial co-operatives, bringing the rest of their constituents within the CCB's financing orbit or their total merger with the CCB itself. There is, however, resistance to this idea from the Industrial Co-operative Banks and also from some of the concerned state governments. Those who advocate the continuance of these special banks argue that the established co-operative financing system which is traditionally oriented to agriculture may adopt apathetic and unenlightened attitudes towards the credit needs of industrial co-operatives. One of the reasons cited in support of these banks is that the industrial co-operatives are the administrative responsibility of the Industries Department in the state government while SCBs and CCBs fall within the jurisdiction of the Co-operative Department.

Long-term Co-operative Credit

Structure and Progress

4.72 The long-term co-operative credit structure is federal in some states and unitary in others. Bihar, Gujarat, Jammu and Kashmir, Maharashtra and Uttar Pradesh have unitary structure where the SLDB concerned finances individuals directly through a network of its branches. In other states except Himachal Pradesh and West Bengal which have a mixed pattern, the structure is federal with PLDBs as affiliates. As at end June 1978, there were 19 SLDBs, operating through 999 branches and 889 PLDBs with about 6 million farmers on their rolls, covering nearly 11 per cent of the estimated farm households in the country.

4.73 Table below presents a summary of the progress registered by LDBs over the period 1970-71 to 1977-78.

(Rs. crores)

	SLDBs		PLDBs	
	1970-71	1977-78	1970-71	1977-78
	(1)	(2)	(3)	(4)
1. Owned funds	58	213	48	97
2. Deposits and other borrowings ..	24	50	449	719
3. Debentures outstanding	725	1,690	—	—
4. Working capital	841	2,082	551	896
5. Loans issued	168	239	119	160
6. Loans outstanding	638	1,305	448	735

Source: Statistical Statements Relating to the Co-operative Movement in India.

4.74 Long-term credit dispensed through PLDBs and branches of SLDBs in 1977-78 to about 5 lakh borrowers were of the order of Rs. 239 crores while the amount outstanding at end June 1978 came to Rs. 1,305 crores. The lending programme of SLDBs in the financial year 1978-79 was fixed at Rs. 419 crores, comprising Rs. 271 crores for the ARDC-aided schemes and Rs. 148 crores under ordinary lending programmes. Against this programme, the actual disbursals at the level of primary units were of the order of Rs. 244.16 crores made up of Rs. 147.23 crores under the ARDC schemes and Rs. 96.93 crores under ordinary programmes.

4.75 Statewise disbursement of long-term credit through PLDBs/branches of SLDBs during the last five financial years (1974-75 to 1978-79) is given in Statement 4.13. It will be seen therefrom that the magnitude of lending is showing a declining trend even in some of the co-operatively well-developed states.

Non-diversification of Loans

4.76 Purposewise, minor irrigation accounted for 60 per cent of the total lending in 1977-78, followed by farm mechanization and land improvement (Statement 4.14). Loans benefiting artisans and landless labourers reported in Andhra Pradesh, Kerala, Haryana and Punjab were negligible. Evidently, the main thrust in the lending activities of LDBs continues to be on financing land-based activities. Even in the states where LDBs are legally entitled to lend for non-land based purposes, (*e. g*., Kerala, Karnataka, Haryana, Punjab, West Bengal) financing of such activities which would benefit the rural poor has not been taken up in a big way, due presumably to lack of expertise and technical know-how with the LDBs for such lending. The declining potential for traditional lending avenues such as minor irrigation investments points to the need for the banks to explore non-traditional avenues of lending, both land-based and non-land based, such as sericulture, horticulture, plantations, dairy farming, animal husbandry, social forestry, etc.

Committee on LDBs

4.77 Mention may be made here of the Committee on Land Development Banks appointed by the RBI under the Chairmanship of Shri K. Madhava Das in 1973. The committee's report, published in 1975, made several recommendations pertaining to the organisational, structural and operational aspects of the LDBs. The more important of them were: (*i*) co-ordination between LDBs and other institutions including the short-term structure and the development departments of the state governments; (*ii*) concerted action towards improving recovery performance; (*iii*) changes in legal framework to boost the operational efficiency of LDBs in the eastern and north-eastern states; (*iv*) diversification of lending operations and linking of lending to specific agricultural and other development programmes; and (*v*) strengthening of managerial and supervisory machinery and building up of technical staff. These recommendations are being pursued by the RBI with state governments. Admittedly, the progress of implementation is rather slow.

4.78 The operational efficiency and organisational competence of many of the LDBs leave much to be desired. Bearing testimony to this, is the rising overdues at the primary level which increased from Rs. 149.76 crores at end June 1977 to Rs. 226.57 crores at end June 1979. Both in absolute quantum and as percentange of demand, the overdues at the level of PLDB/branches of SLDBs have increased in Andhra Pradesh, Assam, Bihar, Gujarat, Jammu & Kashmir, Karnataka, Madhya Pradesh, Tamil Nadu, Uttar Pradesh and West Bengal as will be seen from the data given below:

Rising Overdues

(Amount in Rs. crores)

State	Overdues as on 30 June					
	1977		1978		1979 (Provisional)	
	Amount overdue	% of overdues to demand	Amount overdue	% of overdues to demand	Amount overdue	% of overdues to demand
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Andhra Pradesh	5·11	15·1	11·17	28·8	16·50	33·4
Assam	0·11	44·6	0·11	40·6	0·21	51·1
Bihar	12·66	41·9	18·93	61·0	22·75	59·5
Gujarat	29·09	38·1	39·15	68·7	44·76	74·6
Jammu & Kashmir	0·45	47·1	0·51	43·5	0·68	49·4
Karnataka	15·53	54·6	N.A.	N.A.	19·59	47·9
Madhya Pradesh	9·18	50·0	13·22	47·0	18·76	56·6
Tamil Nadu	15·05	51·1	32·38	67·1	52·51	80·8
Uttar Pradesh	11·27	23·9	15·09	26·6	19·11	27·6
West Bengal	0·49	17·5	1·14	25·4	2·35	39·1

Source: Reserve Bank of India.

Statewise position of PLDBs/branches of SLDBs classified according to the range of their overdues to demand, as on 30 June of the last four years (1974-75 to 1977-78), is indicated in Statement 4.15. As on 30 June 1979, according to available information, 925 PLDB/branches of SLDBs had overdues not exceeding 25 per cent of demand for 1978-79, while 360 PLDBs/branches of SLDBs had overdues above 55 per cent. The classification of the units according to the range of their overdues was as under:

Range of overdues to demand	No. of Units
25 per cent or less	925
Between 26 per cent and 35 per cent	167
,, 36 per cent and 40 per cent	50
,, 41 per cent and 50 per cent	138
,, 51 per cent and 55 per cent	97
Above 55 per cent	360

Source: Reserve Bank of India.

4.79 Several factors have contributed to the rising trend of overdues. The more important of these are: faulty loan proposals and lending without an integrated programme; laxity in post-credit follow-up and monitoring of end-use; lack of technical guidance to the loanees; natural calamities; and above all, wilful default. The observations we have made earlier regarding the deterioration in recovery climate in the short-term credit structure and the unhelpful attitude of some of the state governments also apply generally to the long-term credit structure. Leaving aside such external factors which are outside the control of LDBs, it is necessary to draw attention to one important internal factor within the control of LDBs. During our field visits we have noticed that very little has been done to ensure that the investment credit borrowers reap the full benefit of their investment on completion of the project through the application of the needed production credit. As LDBs did not always furnish a list of their borrowers to PACS in their jurisdiction, long-term loanees were not assured of production credit support as a matter of course. The absence of any effective operational link between PLDBs/branches of SLDBs and short-term credit wing has given rise to problems of inability of the co-operative credit system to assess the credit-worthiness and credit-servicing capacity of its clientele in a complete manner, taking note of the totality of credit support needed by the borrower, and the additional income potential expected to be generated by the investment for servicing the loan.

4.80 As mounting overdues in some states, as stated above, have virtually thrown out of gear the financing operations of LDBs, attempts are being made to rehabilitate such of those PLDBs/branches of SLDBs, the overdues of which exceed 50 per cent of demand and which are either viable or poentially viable. On the basis of the overdues position as on 30 June 1977, as many as 505 out of 1881 PLDBs/ branches of SLDBs, were stated to be under rehabilitation programme.

Co-operative Credit in the New Context

4.81 It will be observed from the discussions in earlier paragraphs that the co-operative credit system has, to its credit, several achievements and, at the same time, its working has thrown up certain problems that need immediate attention. No doubt, to build up a democratic countrywide organisation upto the village level for dispensing rural credit is no easy task. Over the years, the co-operative movement has evolved different types of co-operative credit institutions which, despite all their faults and shortcomings, have the requisite potential to cater to the diverse credit needs of the rural areas. If suitable changes and improvements are made, they will be able to meet the new challenges underlying the concept of integrated rural development.

4.82 About 57 per cent of the total number of PACS were not viable as on June 30, 1978. Continued non-viability of a very large number of PACS is attributable to poor membership coverage and still smaller number of borrowing members, lack of supervision over the end use of credit, lack of complementary services, absence of tie-up with development plans and programmes and consequently the poor recovery performance. In our view, these are the factors which have not only placed serious constraints on the business expansion of PACS but rendered several of them dormant. The large scale efforts made through the reorganisation and revitalisation programmes in most of the states were a step in the right direction. According to available information, the reorganisation process has now been completed in many of the states. While this is an important step towards ensuring viability of the base level organisation, it must be pointed out that viability is not a static concept, and that, as costs go up along with service expansion and diversification, viability standards have to be raised suitably and hence, continuous efforts would be needed to achieve such higher levels of performance.

4.83 The co-operatives, along with other agencies, have to meet the credit needs of various target groups in rural areas. This would, on their part, call for a large-scale coverage of families belonging to poorer groups, both land-based and non-land-based. This, however, raises a host of basic issues which have been very succinctly stated by the Dantwala Committee on RRBs (1977). To quote it:

> "This phenomenon needs a deeper analysis than it has received so far, especially in the context of our endeavour to ensure uni-

versal membership. Who are these non-borrowing members? Do they belong to a class of farmers (and others) who have no need to borrow because they have enough resources of their own? Or are they ineligible for borrowing because they are not 'creditworthy' ? Or, worse still, are they eligible but are unable to borrow because the management of the societies is averse to accommodating them ? Do the societies suffer from paucity of funds, as a result of which they can accommodate only less than 40 per cent of its members? Whether the structural and operational innovations we have introduced and propose to introduce are meaningful or not for solving the problems of rural credit, will depend on precise answers to these questions."
(P. 10)

4.84 The underlying objective of the programme of reorganisation is to ensure that the reorganised societies are developed into viable ones so as to render them an effective vehicle to purvey multipurpose credit and to carry multi-service to the rural community, paying greater attention to the needs of the poorer sections. But, the programme, so far, has not paid sufficient attention to this essential perspective nor focussed on integrated rural development. The reasons for this need to be analysed and the measures required to carry the reorganisation programme to its logical end, spelt out.

Viability Aspect

4.85 PACS is commended as an ideal credit institution at the grass-root level for the following reasons: (*i*) the rural community being involved in the operations of co-operatives, it is in the best position to judge the effectiveness of credit; (*ii*) deposit mobilisation can be promoted, and (*iii*) the cost of service will be minimal compared to other credit delivery systems. All the same, it is to be realised that PACS, as at present situated, are not competent enough to handle multi-term and multi-purpose credit. It is, therefore, necessary to consider the steps essential for strengthening and activising them so that they can rapidly build up their organisational effectiveness and capacity to meet the needs of accelerated rural development. This would largely depend upon their financial soundness and managerial efficiency. The build-up of internal resources including deposits would pave the way for their successful operations. But, efforts made up till now for mobilising deposits are relatively negligible in all the states except Kerala and Punjab. The problem, therefore, is how to encourage PACS in all the states to develop a strong deposit base.

4.86 The need to reorient the functioning of PACS to meet, in full measure, the requirements of the weaker sections of the rural community and to build up in them a managerial system which will be responsive to this commitment, cannot be over-emphasised. How this can be ensured and what modifications are called for in their present structure and operations are matters that will have to be examined.

4.87 The policy, currently followed, is to discourage functional societies taking up credit activity primarily on the score that this is the legitimate business of PACS. In view of the need to draw a clear distinction between the financing of an individual for his multifarious pursuits, land-based, or otherwise, and a group of individuals for a common service or activity undertaken by it, the question that arises is, whether, the functional societies should be totally barred from lending to their members.

4.88 At the structural level, the issues that arise in the overall context of the need to cater to the entire gamut of rural productive activities is, whether any particular advantages are derived from a three-tier system of co-operative credit or whether the goals could be better secured through a more compact two-tier structure. Yet another question is whether, for achieving integration of production and investment credit programmes, there is need for a complete structural integration of the short-term and long-term structures of the co-operative credit system or whether functional integration without merging the two can secure the purpose in view.

4.89 One of the most disquieting features of the co-operative system in recent times has been its excessive politicisation. It has become a common feature particularly at the time of elections for the politicians of most hues to indulge in adverse propaganda concerning repayment of co-operative dues. Even more disheartening is the tendency of some of the state governments as stated earlier to stall recovery of co-operative loans by staying the recovery proceedings launched against defaulters. Some of the state governments *e.g.*, Maharashtra and Tamil Nadu have even resorted to exempting the whole classes of defaulters from payment of their dues to PACS and to pay the said amounts to the institutions from the exchequer.

4.90 Another form in which politicisation has manifested itself is the *ad hoc* supersession of elected board of management of co-operative banks by state governments by exercising the powers conferred on them therefor under the State Co-operative Societies Act, and, the appointment of government officials to manage the affairs of the banks. During the last decade, such supersession has been resorted to in quite a few states without any compelling and convincing reasons. Thus, as on 31 December 1980, the boards of management of the SCBs of Andhra Pradesh, Madhya Pradesh, Manipur, Rajasthan, Tamil Nadu, Tripura and West Bengal were under supersession and the management of these banks was in the hands of special officers or a team of persons nominated by the concerned state government. In Andhra Pradesh, the elected board of directors of the Central Agricultural Development Bank (apex land development bank) and 23 CCBs were also replaced by a "team of persons" nominated by the State Government. In Madhya Pradesh, the boards of 124 co-operative banks were superseded in December 1977 and their management placed in the hands of departmental officials, the reasons given for supersession being : (*a*) weeding out of vested interests from co-operatives, (*b*) bringing about uniformity in elections to the committee, (*c*) disqualifying defaulters to be elected to the managing committee, etc. In 1976, the Rajasthan Government dissolved the managing committees of the SCB, SLDB, CCBs and PLDBs for overcoming difficulties faced in the reorganisation of PACS. In Tamil Nadu, the State Government terminated in 1976 the office of the committee of management of the SCB, SLDB and all the 16 CCBs and appointed government officials as special officers to manage their affairs. There have been frequent transfers of some of these departmental incumbents resulting in lack of continuity in leadership, control and guidance from the top.

4.91 There has also been an increasing trend towards officialisation of the management of co-operative banks by deputing government officials to hold key positions of chief executive on a continuing basis. Thus, out of 19 CCBs in Karnataka, the chief executives of as many as 14 banks were drawn from the Co-operative Department. In Haryana, in 9 out of 12 banks, the chief executive belonged to the Co-operative Department. Frequent changes in their incumbency result in lack of continuity in guidance and control. The placement of services of departmental staff, on a large scale, in key positions, virtually leads to a restraint on the much-needed management professionalisation in co-operative banks.

4.92 In the integrated credit structure, the SCBs and CCBs have to play a vital role in building up the institutions at the lower rung not only by advising them about lending norms but by actively assisting their promotional and developmental aspects, such as reorganization and revitalisation of the primary credit structure, working out credit support for various production and development programmes, watching the recovery position and taking timely corrective steps, monitoring the end-use of credit, etc. All this poses the following questions: (*i*) What is the legitimate role of SCBs and CCBs in rural and co-operative development ? (*ii*) What measures are necessary to ensure that the SCBs and CCBs play their due role ? There is a tendency on the part of some SCBs, which possess large deposit resources, to divert a good deal of their funds to the non-agricultural sector in order to absorb the increased cost of their deposits and other operational expenses, and perhaps also to earn larger profits. It is thus a problem of inducing these banks to augment the involvement of their own funds in rural lending. It may be inequitable to expect the banks to lend their high interest-bearing deposits at much lower rates which would involve them in loss and impair their viability. As a matter of fact, this puts a damper on their deposit mobilisation efforts. Pursuant to the recommendations of the RBI's Study Group on Interest Rates (1978), SCB have been permitted since January 1979 to lend to institutions outside the co-operative fold, *viz*., Dairy Development Corporations, Agro-Industries Corporations, Electricity Boards, etc., for activities connected with rural production, processing and marketing. The banks can also now invest their surplus funds in call deposits with commercial banks for specific periods subject to a prescribed ceiling. While these liberalisations may mitigate the problems mentioned above to some extent, some SCBs in the area of which there is limited scope for increasing their lendings to the non-agricultual sector, may continue to experience difficulties in deploying their costly deposits to lend in the rural sector at lower rates of interest. This situation raises the question whether, as a result of the need to deploy costly deposits in more profitable avenues of lending, SCBs are tending to move away from the developmental role expected of them and why large farmers should not be charged a higher interest rate so that co-operatives can deploy their deposit funds in the rural sector itself.

Identification of Problems

4.93 It will be observed from the foregoing review that the more important problems in the sphere of short-term co-operative credit system are : (*i*) inadequate progress in reorganisation of PACS into viable units and lack of focus on qualitative improvement in their working; (*ii*) problems of recovery; (*iii*) credit activity of functional societies; (*iv*) rehabilitation of 'weak' CCBs; (*v*) three-tier *versus* two-tier structure; (*vi*) politicisation of the co-operative movement; (*vii*) bureaucratisation and officialisation of SCBs and CCBs; and (*viii*) leadership role of SCBs/CCBs.

4.94 In the sphere of long-term credit, the problems encountered by LDBs are: (*i*) organisational ineffectiveness and lack of managerial and technical skills; (*ii*) laxity in post-disbursement follow-up of advances; (*iii*) lack of co-ordination between production credit and investment credit; (*iv*) rising overdues and their impact on fresh loaning; and (*v*) diversificaton of advances portfolio.

4.95 If the country is to derive the benefits of the co-operative credit net-work which it has established, right solutions have to be found to the problems mentioned above. In the light of our field discussions and observations as also field studies, we shall examine these and other related problems and suggest lines of action in the subsequent chapters of this Report.

IV. Commercial Banks

4.96 The first effort to involve a commercial bank in rural credit began with the conversion of the Imperial Bank of India into the State Bank of India (SBI) in accordance with the recommendation of the Rural Credit Survey Committee Report (1954) which proposed that "the new institution should draw up, in collaboration with the Reserve Bank, and undertake a much larger programme of branch extension to rural areas." The preamble to the Act setting up the SBI stipulated one of the main objectives of the bank as "the extension of banking function on a large scale, more particularly in the rural and semi-urban areas" and this was followed up by a provision in the State Bank of India Act, that not less than 400 branches should be opened within the first five years of the bank's working. In fact, SBI exceeded the target and opened 416 branches between July 1955 and June 1960; of these 274 were located in centres with population below 25,000. Under the subsequent branch expansion programmes beginning in July 1960, it opened 427 branches till the end of June 1969. Similar action was taken by its associate banks which had their own branch expansion programmes. They opened 425 branches by June 1969. By the end of June 1980, out of the total number of 7,740 branches of SBI group, 3,597 branches or 46 per cent were in rural areas.

4.97 However, as stated earlier, it was only after the government's policy of social control over commercial banks in 1967 and the bank nationalisation in 1969, commercial banks as a class began to enter the rural sector in a big way. The Indian Banks' Association (IBA) promoted the Agricultural Finance Corporation Ltd., with a view to speeding up project lending by commercial banks in the agricultural sector in 1967. The role played by the AFC is discussed separately in Chapter 13. Further, commercial banks endeavoured to increase their direct involvement in rural credit, firstly, by rapid expansion of branches in the rural and semi-urban areas, and secondly through a number of operational innovations such as establishing specialised branches exclusively or mainly oriented to farm lending, intensifying their efforts in specific areas under the village adoption scheme, linking up their lending to schematic programmes under the Five Year Plan with the assistance of the ARDC, taking over PACS and organising FSS. The banks have made serious efforts to move nearer to their clientele in the rural sector and to serve them better. In this, they have been additionally assisted by the Lead Bank Scheme (LBS) and the setting up of RRBs in selected areas. These efforts of commercial banks are briefly reviewed here.

The Lead Bank Scheme (LBS)

4.98 In October 1969, the Study Group on "Organisational Framework for the Implementation of Social Objectives" appointed by the National Credit Council, under the chairmanship of Prof. D. R. Gadgil, recommended the adoption of "area approach" for the development of credit and banking in the country on the basis of local conditions. For this purpose, it suggested that commercial banks should be assigned particular districts where they should act as pace-setters in providing integrated banking facilities. A committee of bankers, under the Chairmanship of Shri F. K. F. Nariman, appointed by the RBI soon after the nationalisation of banks, endorsed the above view and felt that for assisting in the process of regional development, each bank should concentrate on certain districts. The Reserve Bank of India accepted these recommendations and formulated the Lead Bank Scheme towards the close of 1969.

4.99 Under the Scheme, commercial banks were assigned particular districts for the purpose of developing integrated banking facilities and each bank was designated as the lead bank of the districts allocated to it. In its circular letter dated December 23, 1969 on the LBS the Reserve Bank said:

"The Lead Bank is expected to assume the major role in the development of banking and credit in the allocated districts. At the same time, there is clearly no intention that the lead bank should have a monopoly of banking business in a district. The bank assigned the lead role is thus expected to act as the consortium leader and after identifying, through survey, areas requiring branch expansion and areas suffering from credit gaps, it should involve the co-operation of all banks and other financial institutions operating in the district for opening branches as well as for meeting credit needs."

4.100 The allocation of districts to each bank was made taking into account the size of the bank, adequacy of its resources for handling the volume of work, contiguity of districts so that the bank could have a cluster of lead districts, regional orientation of banks, and the desirability to have more than one lead bank operating in each state and to the extent possible for each bank to operate in more than one state. Under the Scheme, all the 398 districts in the country (excluding the metropolitan areas) have been allocated to the banks. Thus, at the end of June 1980, the SBI group had 111 districts, and 16 of the 20 nationalised banks had the remaining 287 districts.*

4.101 The immediate and initial task of a lead bank was to acquire the basic knowledge about the districts allotted to it, and, for this purpose, it undertook an impressionistic survey of each district and identified the centres for opening branches. This was followed by the formulation of area development programmes. District Consultative Committees (DCCs) were set up in all the districts to serve as forums for consultation and coordination between the banks on the one hand, and the district development functionaries, on the other.

4.102 The working of the LBS was reviewed, on a sample basis, in Gujarat and Maharashtra by the study groups set up for the purpose. They made several useful recommendations, in December 1975, on the functioning of DCCs, preparation of bankable schemes and District Credit Plans, allocation of shares in the DCP among the participating banks, branch expansion, training programmes for the staff of both banks and state governments, and the constitution of a Standing Committee in the RBI for reviewing the progress of the Scheme. Most of the recommendations were accepted and the content of the

* Jammu and Kashmir Bank Ltd., was designated as the lead bank for four districts in Jammu and Kashmir with effect from January 1, 1981.

LBS was enlarged. The lead banks prepared the first set of credit plans for all districts and launched them by March 1978, the target date set by the Government of India. The RBI set up the High Power Committee on the working of LBS in 1977.

4.103 Subsequently, in 1979, it was felt necessary to prepare new credit plans to cover the calendar years, 1980 to 1982, so as to broadly harmonise with the Five Year Plan, then under formulation for the period 1978-83. This occasion was availed of to review the experience of the DCP and to bring about uniformity in the approach and methodology and to systematise the entire working arrangements. *Pari passu* with this, the system of preparing Annual Action Plan under the DCP was introduced and the first such plan was launched in January 1980. Thus, over the years, the LBS has become the main instrument for ensuring better spatial and sectoral distribution of credit by the commercial banking system.

Branch Expansion

4.104 The programme of extension of banking facilities to unbanked rural centres gathered momentum under the LBS. The number of bank offices (including those of RRBs) almost quadrupled (as can be seen from the table) from 8,262 as on 30 June 1969 to 32,419 as on 30 June 1980. The number of rural branches increased eightfold from 1,832 to 15,101 over the same period.

4.105 With the large scale opening of branches, the average population per bank office (APPBO), which was 65,000 for all India, as on the date of nationalisation, declined to 17,000 by the end of June 1980. As on that date, APPBO was equal to or less than the national average in 10 states. In the remaining states, APPBO was more than the national average (Statement 4.16).

4.106 Statement 4.17 shows the frequency distribution of districts, statewise, in regard to APPBO and the averge rural/semi urban population per rural/semi urban office (APPR/SUBO). The APPBO was more than the national average in as many as 237 out of 393 districts for which data are available; of these, 151 districts were, from Bihar (30), Madhya Pradesh (36), Orissa (12), Rajasthan (15), Uttar Pradesh (44) and West Bengal (14). Only in one-fifth of the districts in these states was APPBO equal to or less than the national average indicating the leeway to be made to bring them on par with the rest of the country.

INCREASE IN THE NUMBER OF BANK OFFICES: BANK GROUPWISE/POPULATION GROUPWISE

	Rural	Semi-urban	Urban	Metro-politan/ Port towns	Total
SBI Group					
30-6-1969	819	1,170	248	225	2,462
31-12-1979	3,485	2,304	998	782	7,565
30-6-1980	3,597	2,334	1,017	792	7,740
Increase (1980 over 1969) ..	2,778	1,164	769	567	5,278
Nationalised banks					
30-6-1969	686	1,452	928	1,068	4,134
31-12-1979*	6,194	3,695	2,643	2,530	15,062
30-6-1980@	7,543	4,381	3,165	2,993	18,082
Increase (1980 over 1969) ..	6,857	2,929	2,237	1,925	13,948
RRBs					
30-6-1969	—	—	—	—	—
31-12-1979	2,219	154	24	—	2,397
30-6-1980	2,473	181	24	—	2,678
Increase (1980 over 1969)	2,473	181	24	—	2,678
All commercial banks					
30-6-1969 ..	1,832 (22)	3,322 (40)	1,447 (18)	1,661 (20)	8,262 (100)
31-12-1979	14,444 (46)	7,960 (25)	4,803 (15)	4,350 (14)	31,557 (100)
30-6-1980 ..	15,101 (47)	8,078 (25)	4,856 (15)	4,384 (13)	32,419 (100)
Increase (1980 over 1969)	13,269 (55)	4,756 (20)	3,409 (14)	2,723 (11)	24,157 (100)

Source: Reserve Bank of India
(Figures in brackets indicate percentages to total)

Rural:	Places with a population upto 10,000.
Semi-urban:	Places with a population over 10,000 and upto 1,00,000.
Urban:	Places with a population over 1,00,000 and upto 10,00,000.
Metropolitan:	Places with a population over 10,00,000.
Port towns:	Cochin, Kakinada, Mangalore, Nagapattinam, Okha, Paradeep, Pondicherry, Port Blair, Kandla, Visakhapatnam, Tuticorin, and Mormugao.

* Relate to 14 Nationalised banks.
@ Relate to 20 Nationalised banks.

4.107 As regards the coverage of population by the rural and semi-urban branches, as at the end of June 1980, the average population per rural/semi-urban branch was 21,000. Statewise, the position in this respect was equal to or less than the national average in thirteen states *viz.*, Andhra Pradesh, Gujarat, Haryana, Himachal Pradesh, Jammu and Kashmir, Karnataka, Kerala, Meghalaya, Nagaland, Punjab, Rajasthan, Tamil Nadu and Tripura. Of these, in four states *viz.*, Himachal Pradesh, Meghalaya, Nagaland and Tripura, all the bank offices were in rural and semi-urban centres. In five of these states *viz.*, Haryana, Himachal Pradesh, Kerala, Punjab and Tripura, this figure was equal to or less than the national average in all the districts. The coverage of population by rural/semi-urban offices of banks in the remaining states was not equally uniform. Particularly, there were 107 districts where the average population per rural/semi-urban branch was more than 31,000; majority of these were in the eastern and central regions.

4.108 In order to reduce the inter-state and inter-district disparities in banking development and accord priority to the opening of bank branches in all community development (CD) block headquarters in the country, district-wise plans of branch expansion are being drawn up in consultation with state governments and concerned banks. Under the current branch licensing programme of the RBI, it is proposed to open 6,500 new offices in rural/semi-urban areas during 1979-81. Of the 653 centres identified as unbanked CD block headquarters, 296 were either served by RRB at the centre (160) or served by a commercial bank from a centre at a distance of 3 km (131) or more than 3 km (5). Of the remaining 357 unbanked block headquarters, offices have been opened at 187 block headquarters and licences issued in respect of 131. In the remaining 39 unbanked block headquarters, the banks have expressed their inability to open offices mainly because of the lack of infrastructural facilities. The matter is being pursued with the concerned banks and state governments by the RBI.

4.109 With a view to ensuring a more even spread of rural branches for improving their accessibility to the rural community, we would like to draw attention to certain aspects of future branch expansion policy of banks. The first is that roughly speaking, only one-third of the branches opened by them by the end of June 1980 are located in their lead districts (Statement 4.18). This raises the question whether their branch network in their lead districts is adequate to discharge their lead responsibility. Secondly, according to the details given in Statement 4.19, the average number of rural and semi-urban branches of banks per CD Block was 5 for the country as a whole. This number was 10 or more per block in three states *viz.*, Kerala, Karnataka and Punjab. The number ranged from 5 to 9 in eight others *viz.*, Andhra Pradesh (6), Gujarat (7), Haryana (7), Maharashtra (6) and Himachal Pradesh, Rajasthan, Tamil Nadu and Tripura (5 each). In the remaining states the average number of such branches per CD block was 4 or less. From the data available for

557 blocks, given below, it is observed that in 42 per cent of the blocks, there was only one branch or no branch.

FREQUENCY DISTRIBUTION OF COMMUNITY DEVELOPMENT BLOCKS ACCORDING TO THE NUMBER OF BANK BRANCHES IN THE BLOCKS

State	No. of districts for which data are available	No. of CD Blocks in the districts	No. of CD Blocks having				
			No branch	One branch	Two branches	Three branches	Above three branches
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1. Uttar Pradesh	11	90	—	30	28	9	23
2. Tamil Nadu ..	10	111	2	19	29	20	41
3. Jammu & Kashmir ..	1	1	—	—	—	—	1
4. Rajasthan ..	3	12	—	—	2	1	9
5. Gujarat ..	5	16	—	1	2	3	10
6. Madhya Pradesh	1	7	—	3	3	1	—
7. Bihar	31	320@	21	156	77	33	33
Total	62	557	23 (4)	209 (38)	141 (25)	67 (12)	117 (21)

@ Excludes five blocks in respect of which data are not available.
(Figures in brackets denote percentage to the total).
Source: Reserve Bank of India.

Innovative Efforts to Reach Rural Areas

4.110 Besides extending their branch network into the rural and semi-urban areas, commercial banks opened specialised branches, adopted villages under the Village Adoption Scheme (VAS) and took over PACS or organised FSS to reach their clientele in rural areas.

Specialised Branches

4.111 The specialised branches set up by banks include the Agricultural Development Branches (ADBs) of the SBI group, the Agricultural Banking Division (ABD), also of the SBI group, the *Gram Vikas Kendras* (GVK) of the Bank of Baroda and the Rural Service Centres (RSC) of the Dena Bank. The Farm Clinics of the Syndicate Bank, first formed in 1973, help farmers not only in regard to financing but also in regard to supplies. Besides, the Indian Overseas Bank had set up Rural Credit and Development Divisions to concentrate on and follow-up effectively priority sector advances.

4.112 According to the banks, the specialised branches are meant to overcome the practical difficulties relating to manpower, high costs of operations and follow-up of financed farmers who are scattered over a wide area. As a way out, compact areas are chosen as their jurisdiction either in terms of number of villages as in ADB and GVK, or, in terms of number of rural branches as in RSC. Thus an ADB expects to cover on an average 4,000/5,000 farmers spread over 100/150 villages over a period of 4/5 years to the extent of Rs. 1/1.5 crores. In the case of GVKs, which are of three types, the jurisdiction ranged from 20 to 100 villages, the number of accounts from 500 to 2,000 and the amount of finance from Rs. 20 lakhs to Rs. 100 lakhs. The jurisdiction of a RSC is 10 branches in the first stage increasing to a maximum of 30 branches at the advanced stage and the business needed to make them viable was put at Rs. 17 lakhs and Rs.20 lakhs respectively.

4.113 Rural branches of the SBI falling in the jurisdiction of an ADB, it appears, do not lend to agriculture. The GVK, on the other hand, is set up as part of an existing branch but devotes itself exclusively to the functions defined for it. In this sense, it is a branch within a branch. The RSC, on the other hand, located at strategic centres, is independent of the branches that fall within its jurisdiction; in fact, officers in a RSC do not have any sanctioning powers since they form only a technical supporting system for the branches.

4.114 The distinguishing feature of the specialised branches, according to the banks, is their staffing pattern. An ADB is provided, subject to availability, with a manager, a head cashier, two Rural Development Officers (RDO), two cashiers and an agricultural assistant. The actual strength varies, however, with the coverage; in general, one RDO is posted for every 500 farmers financed. In a GVK, the staff strength ranged, among the three types, from one officer and one clerk to three officers and four clerks. Similarly, the initial staff strength of one officer and two farm assistants in a RSC increases to three of each type of staff at the advanced stage. According to the Dena Bank, since a portion of the work-load of the branches coming under a RSC is being transferred to RSC, the bank expects that the branches can function, hereafter, with minimum staff.

4.115 Function-wise, each RSC, according to the bank, is to intensify and supervise the lending operations of branches on more scientific basis with appropriate pre-sanction and post-sanction measures. Not only are they to support efforts to increase advances to agriculture and other sections but also help the branches in effective recovery of previous dues. GVKs, according to the Bank of Baroda, have the objective of identifying and estimating the various requirements, including credit, of the rural people and integrating them with the concerned agencies. For the purpose, they provide counselling services to farmers and in addition, focus farmers' problems to the respective government officials, and other agencies concerned with development, with a view to getting them resolved speedily and effectively. They also arrange for educating/popularising among farmers modern farming methods with the assistance of manufacturers/dealers of fertilisers, pesticides and agricultural implements and local development agencies and agricultural colleges. ADBs differ from the conventional branches of the SBI in that they concentrate on the formulation of agricultural programmes in their area of operation. Initially, the accent is on development of minor irrigation sources and farm mechanisation besides meeting crop loan need of all eligible agriculturists. The ultimate aim of an ADB, is to cover not only agricultural activities but also all allied activities in its area of operation, phased over a period of 3 to 4 years. Commencing from a compact group of villages, the programme is to cover the entire area such as to lead to an integrated and harmonious development of various facets of the agricultural economy in the long run. The aim of an ADB, in the words of the SBI, is "to finance agricultural development and not merely financing agriculture". The focus of an ADB was modified, in May 1976, and since then, it has been allowed to finance cottage and small agro-based industries, artisans engaged in rural arts and crafts, small units devoted to repairs and rural trade. An ADB also accepts deposits and provides credit against gold ornaments and silverware to clientele in villages outside its jurisdiction. At centres, where the ADB is the only commercial bank, it can extend its services to all customers in regard to deposits and collection and remittance facilities.

Working of Specialised branches

4.116 Of the three types of specialised branches, ADBs, came to be organised first. The first ADB was organised on November 11,1971 and by the end of December 1978, the SBI and its associates had set up 384 ADBs which had financed over 11 lakh farmers directly as on that date with outstanding loans amounting to Rs. 274.74 crores. In addition, their indirect advances amounted to Rs. 25.17 crores spread over 25,437 accounts. The average number of direct accounts and the amount outstanding per ADB worked out to 2,865 and Rs. 71.5 lakhs, respectively. The average loan outstanding per borrower was Rs. 2,497. Recovery amounted to 62 per cent of demand in the ADBs as at end-June 1978.

4.117 The number of ADBs of the SBI, that is excluding those of its associates, stood at 335 at end 1979. According to the bank,out of its total advances of Rs. 770 crores made to 27.58 lakh borrowers as at end 1979, ADBs accounted for Rs. 306 crores (40 per cent) and 11.26 lakh farmers (41 per cent).The RSCs and GVKs, are comparatively, of more recent origin. As at end March 1979, the Dena Bank had organised 6 RSCs, all of them in Gujarat, to cover 95 of its branches. Since the inception of RSCs, the branches covered by them, according to Dena Bank, about doubled their accounts and advances till March 1979. The GVKs, which numbered 123 as on the last Friday of June 1979, had, according to the Bank of Baroda, extended finance in 4,647 villages. During 1978, fresh loans issued by 119 GVKs amounted to Rs. 17 crores spread over 70,000 accounts.

4.118 According to the Dena Bank, costs and returns are not to be calculated separately for RSCs, since they are servicing centres to their branches. However, estimates made by it are that establishment cost of a RSC in the first stage could be met if agricultural advances in the branches served by it reached a level of Rs. 17 lakhs and that a business of Rs. 30 lakhs was needed to meet the cost of a RSC of the advanced type. The Bank of Baroda had estimated the loan business at Rs. 20 lakhs, Rs. 50 lakhs and Rs. 1 crore for the three types of GVKs respectively. The corresponding expenditure for the three types was placed at Rs. 0.33 lakh, Rs. 0.97 lakh and Rs. 1.4 lakhs, respectively. Out of 384 ADBs, functioning at the end of December 1978, 185 earned profits amounting to Rs. 4.15 crores and the remaining 199 incurred losses amounting to Rs. 1.57 crores. Of the loss-making branches, 128 were organised in 1977 or 1978. In this context, it is relevant to mention that the SBI has adopted what it has described as a liberal transfer rate policy.*

Village Adoption Scheme

4.119 The Village Adoption Scheme (VAS), with its emphasis on area approach, was first conceived by SBI, in 1969, even prior to ADBs and represented a reaction to the ill effects of scattered lending that came to be practised in the early days of social control. At first, attempts were made to intensify agricultural lending on an area basis. Later, it

* Transfer rate or transfer price is the interest charged by the Head Office of a bank on funds lent by it to its branches and interest paid by the Head Office on funds lent to it by its branches. The profitability or otherwise of a branch depends on the price it receives or pays on funds lent by it to Head Office or funds borrowed by it from Head Office. This, however, is one of the factors determining the profitability or otherwise of branches, the other factors being income earned by way of interest from customers, interest on deposits, establishment and other expenses and the share of Head Office cost borne by branches. Of these factors, transfer price and share of Head Office cost passed on to branches are not uniform among all banks.

was thought convenient to adopt a village and cover the entire gamut of economic activities in it. The attractiveness of VAS to a bank lay in easy assessment of financial needs, lower cost of operation, better supervision, gainful use of staff and conveyance, easier and better recovery, avoidance of duplication of financing, better co-ordination between bank and development agencies, and build up of rapport between bank and its clients.

4.120 Each bank framed its own guidelines regarding selection of villages, activities to be financed, identification of beneficiaries etc., under the scheme. The general criteria followed by banks in the selection of villages for adoption are good potential for development, easy accessibility and non-susceptibility to recurrent natural calamities.

4.121 The SBI developed a variant of VAS, under the name of '*Gramodaya* project'. The idea is to cover not only the economic needs but all the needs of the adopted villages. Under this programme initiated, on a pilot basis, in the latter half of 1977, 252 ADBs had taken up one village each. According to the bank, credit assistance to the extent of Rs. 5.62 crores had been extended to 27,500 households as at the end of June 1979.

4.122 By December 1978, commercial banks had adopted 70,270 villages or about 12 per cent of the total number of villages in the country. The average number of villages adopted per rural branch came to about 6. Statement 4.20 ranks the various states in the ascending order according to average population per rural/semi-urban bank office followed by the ranking of states in the descending order in terms of the percentage of villages adopted to the total number of villages, the number of accounts per village and the amount outstanding per village as at end December 1977. Taking the first two criteria together, it is observed that with a few exceptions, the percentage of villages adopted to the total number of villages is higher in states where the coverage of rural population by banks is better. West Bengal, Himachal Pradesh and Jammu & Kashmir constitute the exceptions, apart from a few States and Union Territories in the North-Eastern Region. In West Bengal, although the percentage of adopted villages to total villages is high, the coverage in terms of number of accounts per village and amount outstanding per village is poor. In the case of Himachal Pradesh and Jammu & Kashmir, although the branch network in rural areas is relatively better the ranking in terms of all the criteria is very low, perhaps due to difficulties in respect of transport facilities and availability of infrastructure facilities. Similar reasons are attributable for the poor performance of the scheme in the North-Eastern Region. In Uttar Pradesh, Madhya Pradesh, Bihar, Orissa and to a certain extent in Rajasthan, the absence of adequate branch network at that point of time probably contributed to the low coverage. In Gujarat an Maharashtra, on the other hand, despite the availability of a good branch network, the scheme did not progress presumably because of the widespread coverage by co-operatives. It is only in the southern states that the scheme has shown good progress in terms of number of villages, number of accounts per adopted village and the amount outstanding per village.

4.123 This brief review lends credence to the criticism that the banks treat and publicise a village as adopted even though only a few of its residents had been granted loans. Adoption as a concept has little meaning if a plan for the intensive development of the village, in terms of viable bank schemes, is not framed and implemented. Thus, the VAS has not led to any more intensive lending in the villages adopted; on the other hand, it may have led to the neglect of villages not adopted under the Scheme. This apprehension was expressed by the Expert Group (Chairman Dr. Gunvant Desai) on Agricultural Credit Schemes of Commercial Banks (1978) as under:

> "The Village Adoption Scheme should not end up becoming a convenient device to avoid scattered loans under conventional credit schemes. This is stressed because the instruction manual of one bank goes to the extent of laying down that all agricultural advances should in future, be restricted to adopted villages only! " (P. 168)

Financing through Primary Co-operatives

4.124 The commercial banks have tried to reach and finance farmers not only individually through direct loans but also through the medium of primary societies. Two schemes of financing through co-operatives have been in operation for some time. According to the first scheme, introduced in June 1970, some of the PACS in the jurisdiction of weak CCBs were ceded to commercial banks. Under the second scheme, commercial banks organised FSS. In the tribal areas, they financed LAMPS.

4.125 The scheme of ceding PACS to commercial banks was initially implemented in five states and later extended to seven more states. By June 1978, it was in operation in 121 districts in 12 states, *viz.*, Andhra Pradesh, Assam, Bihar, Haryana, Jammu & Kashmir, Karnataka, Madhya Pradesh, Maharashtra, Orissa, Tripura, Uttar Pradesh and West Bengal. Statewise details of the scheme are given in Statement 4.21. In all, 24 commercial banks were implementing the scheme through 664 of their branches. The number of ceded societies was 3,058 but only 2,217 of them had been financed during 1977-78. Since the take over of societies, 253 or 8 per cent of them had not been financed even once by the banks. Besides, finance had been discontinued to 9 per cent of the societies due to their inability to fulfil the minimum recovery performance stipulated. The comparative data given below broadly indicate that, barring the slight edge which the ceded societies appear to have in respect of management (62 per cent of the ceded societies had full-time paid secretaries as against 53 per cent in the case of all PACS), they do not reveal any better performance than the PACS as a whole.

AVERAGE PER SOCIETY, 1977-78

	All PACS	PACS ceded to Scheduled Commercial Banks
Membership	412	477
Borrowing membership	142	237
Loans issued (Rs. lakhs)	1·09	1·29
Percentage of overdues to demand	43	64
Percentage of societies having full-time paid secretaries	53	62

Source: Statistical Statements relating to the Co-operative Movement in India.

4.126 While the all-India picture of the ceded societies is not particularly bright, they seem to have done better in some states. For example, the average membership per ceded society was more than the national average of 477, in Uttar Pradesh (861), Karnataka (549), and Orissa (589). The average loan business per ceded society exceeded the viability norm of Rs. 2 lakhs per society only in Haryana (Rs. 3.26 lakhs) and Andhra Pradesh (Rs. 2.16 lakhs). In fact, only 1,097 or 36 per cent out of 3,058 ceded societies have attained a loan business exceeding Rs. 1 lakh. Statewise, the percentage of the ceded societies having a loan business of Rs. 1 lakh and above was 94 per cent in Haryana, 67 per cent in Karnataka, 44 per cent in Madhya

Pradesh, 41 per cent in Andhra Pradesh and 40 per cent in Maharashtra. In the other states, for which the relevant data are available, this percentage was less than 30. As regards the recovery of loans, the overall recovery of ceded societies was better but not outstanding as compared to the position in respect of all PACS.

4.127 Certain difficulties have been faced in the implementation of the scheme. First, ceded societies are not often located in a compact area but are scattered, rendering supervision difficult. Secondly, banks feel that their anxiety to expand loan operations was not fully reciprocated by the elected management of PACS. According to the banks, they have little say in the administration of the societies which continued to mainly depend on the co-operative department for guidance and decision. In particular, banks feel that the co-operative departments develop indifference towards the ceded societies in that management subsidy is not released, certificates for recovery of dues are delayed and recovery efforts in respect of these societies are not given equal importance. Another major difficulty that has impeded the successful implementation of the scheme is the one relating to the overdues. On this question, CCBs felt that the commercial banks are asking only for good societies whereas the latter felt that only societies with large overdues were passed on to them. While other commercial banks reacted in different ways, the State Bank group had evolved a rational policy regarding taking over of overdues of societies ceded to it. The main feature of the policy was to take over the overdues of upto 5 years provided these had arisen out of *bona fide* loan transactions of the PACS. However, in the case of PACS in which the total amount of overdues exceeded their owned funds, the overdues were taken over on a collection basis only. Overall, with the overdues problem remaining unsolved, this scheme has shown limited success only. The question is whether the scheme can be expanded to cover more societies.

4.128 Under the second scheme, the commercial banks had organised 216 FSS by the end of June 1979. The limited lata that are available show that the outstanding loan amount disbursed to FSS and LAMPS stood at around Rs. 15.24 crores which may be compared with the total outstandings of FSS and LAMPS at Rs. 112.69 crores at end June 1978. Commercial bank credit through FSS and LAMPS formed only 13 per cent of the total outstandings of these societies. On the whole, it appears that the commercial banks have not found it easy to channelise credit through these societies.

Deposit Mobilisation and Credit Deployment in Rural Areas

4.129 After banks' nationalisation, the sectors—agriculture (direct and indirect), small scale industry, small road and water transport operators, retail trade and small business, education, and professional and self-employed persons—that were hitherto neglected by commercial banks were given "priority" status and banks were asked to provide credit to these sectors.

4.130 Besides lending directly to the priority sectors, commercial banks also contribute to rural development by way of their subscriptions to the debentures floated by Co-operative Land Development/Mortgage Banks, the Rural Electrification Corporation, the National Co-operative Development Corporation and Agro-Industries Corporations, the prime objective of which is either to augment flow of investment credit to farmers or contribute to infrastructure development in rural areas.

4.131 Apart from the general emphasis on lending to the priority sectors, sharper focus to bank lending in that direction was necessitated by two directives of the RBI. The first was that the banking sector's involvement in the priority sectors should reach a level of 33.3 per cent of outstanding credit by March 1979 and 40 per cent by March 1985. Secondly, to emphasise local deployment of deposits, and to allay apprehensions that rural branches might become the conduit for the flow of resources from the rural to the urban areas, public sector banks were advised that, by March 1979, their rural and semi-urban branches should achieve a credit-deposit (CD) ratio of at least 60 per cent. While it is not necessary that this ratio should be achieved separately branchwise, districtwise or regionwise, the banks have been asked to ensure that wide disparity in the ratios between different states /regions is avoided in order to minimise regional imbalances in credit deployment. In addition, under the Differential Rate of Interest (DRI) Scheme, initiated in 1972, specifically oriented to the weaker sections, banks are expected to extend, at a concessional rate of interest of 4 per cent, one-half per cent of their aggregate advances as at the end of the previous year. This proportion has since been raised to a minimum of 1 per cent in November 1978. Further, it is stipulated that two-thirds of the credit advanced under the DRI scheme should be deployed in rural areas and that 40 per cent of the credit should be directed towards scheduled castes/tribes. To facilitate the flow of funds to scheduled tribes, banks were advised to use the medium of co-operatives, including LAMPS, organised specially for the benefit of the tribal population.

4.132 Banks have not however been able to reach a credit-deposit ratio of 60 per cent in respect of their rural and semi-urban offices as at the end of June 1979.

CREDIT-DEPOSIT RATIOS OF OFFICES OF PUBLIC AND PRIVATE SECTOR SCHEDULED COMMERCIAL BANKS ACCORDING TO POPULATION GROUP—ALL INDIA

(As on the last Friday of June 1979)

Population Group	Public sector banks	Private Sector banks	Total
(1)	(2)	(3)	(4)
Rural	55·2	50·8	54·4
Semi-urban ..	47·5	45·1	47·2
Urban/Metropolitan	80·0	76·4	79·4
Total	70·0	67·0	69·5

Source: Trend and Progress of Banking in India, 1979-80.

Data on statewise frequency distribution of districts based on credit-deposit ratios as at end June 1979, for rural and semi-urban offices are given in Statement 4.22. Of the 164 districts in which rural offices of banks achieved a credit-deposit ratio of over 60 per cent, 25 were from M.P., 20 from A.P., 17 from U. P., 15 from Rajasthan, 14 from Karnataka and 13 each from Maharashtra and Tamil Nadu. Out of 98 districts in which semi-urban bank offices had over 60 per cent credit-deposit ratio, 14 districts were from A. P., 13 from U. P. and 11 each from M. P. and Rajasthan. While these data help us to know the overall position with regard to credit deployment, undue emphasis should not be placed on credit-deposit ratio as there are several factors influencing the ratio. For, where deposit mobilisation is large, CD ratio cannot improve despite large lending. This happens in some parts of the country where deposits accrue due to remittances from abroad. On the other hand, a low level of advances and still lower level deposits may appear large when expressed as a ratio.

Sectoral Deployment of Credit

4.133 As at the end of June 1979, priority sectors accounted for 31 per cent of total bank credit (provisional data), as against the target of 33.3 per cent to be achieved by March 1979. Sectorwise outstanding credit to agriculture, direct and indirect, rose from

Rs. 188 crores in June 1969 to Rs. 2,459 crores in June 1979 forming 13 per cent of the total bank credit in June 1979. It is seen from Statement 4.23 that direct loans formed 74 per cent of total agricultural credit of commercial banks in June 1979 as against 29 per cent in June 1969. The emphasis had obviously shifted in favour of establishing direct contact with the farmers. As at end June 1979, scheduled commercial banks held over 6.5 million direct agricultural accounts. Assuming that each account represented one operational holding, it can be said that about 8 per cent holdings had been financed by commercial banks.

4.134 Commercial banks started presenting data on disbursement of loans during the year, besides those on outstandings, from 1974-75 (April—March). Direct advances to agriculture—short-term and term—amounted to Rs. 274 crores in 1974-75 and Rs. 800 crores in 1978-79. The amount outstanding per account which amounted to Rs. 2, 101 at end June 1969 increased to Rs. 2,786 at end June 1979.

Credit to Target Groups

4.135 As to how far commercial banks have reached the target groups identified in Chapter 2, the data on direct short-term and term finance to farmers according to size of holding, presented on next page, reveal that marginal and small farmers (2 hectares and below) accounted for about 69 per cent of the accounts for direct finance for agriculture. Assuming that each account represented one holding, it can be estimated that only 6 per cent of the 59 million farmers having 2 hectares or below had availed credit from the commercial banking system. However, the share of marginal and small farmers in the total credit outstanding amounted to 38 per cent as against the share of 44 per cent of those having holdings above 4 hecates. The concentration was more pronounced in the case of term credit, 60 per cent of which was accounted by holdings of more than 4 hectares, although these accounted for only 27 per cent of term loan accounts. The marginal and small farmers, on the other hand, accounted for 52 per cent of accounts and 25 per cent of term finance. In the case of short-term loans, the marginal and small farmers accounted for 74 per cent of the accounts and 56 per cent of the amount outstanding.

4.136 Though the marginal and small farmers will ordinarily need larger term finance, term finance was only 36 per cent of the total credit outstanding against them. In the case of holdings above 4 hectares over three-fourths of the credit outstanding against them was term credit.

DIRECT FINANCE TO AGRICULTURE ACCORDING TO SIZE OF HOLDING
(Outstanding as on last Friday of March 1979)

	Upto 1 ha.	Above 1 ha. to 2 ha.	Above 2 ha. to 4 ha.	Above 4 ha.	Total
Short-term					
No. of Accounts (000) ..	1,882	955	592	410	3,839
	(49)	(25)	(15)	(11)	(100)
Amount outstanding	214	139	125	151	629
(Rs. crores)	(34)	(22)	(20)	(24)	(100)
Average per account (Rs.) ..	1,136	1,457	2,107	3,679	1,637
Term-loan					
No. of Accounts (000) ..	339	306	256	334	1,235
	(27)	(25)	(21)	(27)	(100)
Amount outstanding	89	114	126	489	818
(Rs. crores)	(11)	(14)	(15)	(60)	(100)
Average per account (Rs.) ..	2,622	3,715	4,934	14,621	6,618
TOTAL					
No. of Accounts (000)	2,221	1,261	848	744	5,074
	(44)	(25)	(17)	(14)	(100)
Amount outstanding	303	253	251	639	1,447
(Rs. crores)	(21)	(18)	(17)	(44)	(100)
Average per account (Rs.) ..	1,363	2,005	2,961	8,592	2,850

Source: Reserve Bank of India.
(Figures in brackets denote percentage to total).

4.137 Purposewise classification of total outstanding term loans, given below, indicates that loans for tractors, agricultural implements and machinery accounted for 40 per cent of the total as on the last Friday of March 1979. This, together with outstanding loans for pumpsets and oil engines accounted for 56 per cent of the total.

OUTSTANDING DIRECT TERM LOANS TO AGRICULTURE CLASSIFIED PURPOSEWISE
(as on the last Friday of March 1979)

Purpose	No. of accounts (000s)	Amount outstanding (Rs. crores)
1. Sinking and deepening of wells	191(15)	78·85(10)
2. Composite minor irrigation	85(7)	54·73(7)
3. Pumpsets/oil engines	337(27)	130·97(16)
4. Tractors/Agricultural implements and machinery	161(13)	337·81(40)
5. Plantations	21(2)	37·86(5)
6. Reclamation and land development ..	58(5)	30·41(4)
7. Plough animals	141(11)	25·50(3)
8. Godowns/Cold storage	5	23·24(3)
9. Others	237(19)	98·13(12)
Total	1,235(100)	817·51(100)

Source : Reserve Bank of India.
(Figures in brackets denote percentage to total).

4.138 Activities allied to agriculture — dairy, poultry, piggery, bee-keeping, fisheries and others — accounted for Rs. 289.44 crores spread over 1.4 million accounts. The single most important constituent under this category was loans for dairy amounting to Rs. 109 crores spread over 6 lakh accounts. Loans for poultry, piggery, bee-keeping etc., which occupations generally benefit the socially backward classes, accounted for less than one lakh accounts; the amount outstanding at Rs. 39.38 crores was also comparatively small.

OUTSTANDING DIRECT FINANCE TO FARMERS FOR ALLIED ACTIVITIES
(as on the last Friday of March 1979)

Purpose	No. of accounts (000s)	Amount (Rs. crores)
Dairying	577	109·37
Poultry, piggery and beekeeping etc.,	87	39·38
Fisheries	34	36·19
Others	672	104·49
Total	1,370	289·43

Source : Reserve Bank of India.

4.139 The extent to which commercial banks have assisted the socially backward classes — scheduled castes and scheduled tribes — is evident from Statement 4.24. Scheduled caste/tribe households accounted for less than 5 per cent of the amount outstanding against each one of the priority sector purposes for which banks had extended credit. Secondly, for the same purpose, the average loan outstanding per account of SC/ST tended to be considerably less than the amount outstanding in respect of all households. These only showed that not only is the coverage of these classes less than that of others, but also that these households had, on the average, obtained less credit.

4.140 Finally the smallest class of bank borrowers in respect of whom data are available, is those with credit limits of Rs. 10,000 or less. These numbered over 10 million in all sectors (as on the last Friday of June 1977) and formed 93 per cent of the total number of accounts but accounted for only 10 per cent of the total outstandings. Small accounts in the priority sector accounted for 92 per cent of the priority sector accounts but accountsd for only about one-fourth of the total outstanding against this sector at end June 1977.

CREDIT TO SMALL ACCOUNTS IN THE PRIORITY SECTOR
(As on the last Friday)

(Rs. crores)

	December 1972		June 1977		Dec. 1977
	No. of accounts	Amount outstanding	No. of accounts	Amount outstanding	Amount outstanding
1	2	3	4	5	6
Total Bank Credit	4,340	5,553	10,750	13,457	15,235
Of which those with credit limits of Rs. 10,000 or less	3,924 (90)	884 (16)	10,016 (93)	1,393 (10)	1,688 (11)
Credit to priority sectors ..	1,774 (40)	727 (13)	5,999 (56)	3,674 (27)	4,579 (30)
Of which, those with credit limits of Rs. 10,000 or less	1,650 (93)	225 (31)	5,531 (92)	867 (24)	1,088 (24)

Source : Basic Statistical Returns.
(Figures in bracket indicate percentage to total).

4.141 The integrated rural development approach underlines the need to focus banks' efforts on the weaker sections of the community. The Working Group under the Chairmanship of Dr. K. S. Krishnaswamy, Deputy Governor, Reserve Bank of India, has recognised in its report submitted in 1980, "that the time has come when a new direction is to be given to banks' advances to these (priority) sectors" and "there is a need to ensure that bank advances within these sectors are given increasingly to the comparatively weaker and more under-privileged sectors."* Towards this end, the Group has considered it necessary to introduce the concept of a sub-sector within the two main priority sectors *viz.*, agriculture and small scale industries, to focus the attention of banks on the need to give increasing finance to such sub-sectors. The sub-sectors comprising the more under-privileged in this main group of priority sectors will be known as 'weaker section.' The Group has accordingly proposed that the weaker section in the agricultural sector would comprise small and marginal farmers with land holdings of 2 hectares or less, landless labourers and persons engaged in other allied activities where borrowal limits for such activities do not exceed Rs. 10,000. As regards small scale industries, the Group decided that all small scale industries with limits upto and

*Report of the Working Group on the Modalities of Implementation of the Priority Sector Lending and 20 Point Economic Programme by Banks, p. 41.

inclusive of Rs. 25,000 should be treated as the weaker section in this category. This will include almost all artisans as well as village and cottage industries besides a proportion of the tiny sector.

Statewise Distribution of Credit to Priority Sectors

4.142 Details of statewise distribution of credit to agriculture and other priority sectors are given in Statement 4.25. At the end of March 1979, direct credit to agriculture, which formed 74 per cent of the total credit to agriculture at the all-India level, was more important in all the states except Assam. The concentration of direct finance to agriculture was more pronounced in that the three southern states — Andhra Pradesh, Karnataka and Tamil Nadu — accounted between themselves one-third of the total; Uttar Pradesh accounted for 11 per cent. Each one of the remaining states claimed less than 10 per cent of the total, the shares of Assam, Himachal Pradesh, Jammu and Kashmir and Tripura being even less than 1 per cent each. Of the total indirect credit to agriculture, Uttar Pradesh and Maharashtra accounted for 15 per cent and 23 per cent respectively; the share of each one of the remaining states was less than 10 per cent of the total.

4.143 Term finance was dominant in all the states except Andhra Pradesh, Jammu and Kashmir, Kerala, Orissa, Tamil Nadu and Tripura where short-term credit was more important. In Karnataka and Himachal Pradesh, both short-term and term credit were more or less of the same dimension. The lesser importance of term credit in the southern states reflected in part the well established long-term co-operative credit structure as also the ease with which short-term credit could be given due mainly to prevalence of *ryotwari*. The greater importance of term credit in the northern and eastern states reflected at once the weak long-term co-operative structure and the preference of commercial banks to lend against security. Besides, loans granted for purchase of tractors, agricultural implements and machinery were the more important single component of term credit in these states, reflecting better coverage of the better-off among the farmers.

4.144 The share of marginal and small farmers in total direct credit was less than the national average of 38 per cent in eight states *viz.*, Gujarat (19), Haryana (28), Karnataka (34), Madhya Pradesh (17), Maharashtra (23), Punjab (9), Rajasthan (15) and Uttar Pradesh (27). In the remaining states, the share of small and marginal farmers was more than 45 per cent, it being as high as 75 per cent or more in Himachal (76), Kerala (78) and Tripura (89). The backward classes, *viz.*, scheduled castes and scheduled tribes accounted for 5 per cent or less of the total credit to agriculture in all the states except five *viz.*, Assam (6), Gujarat (6), Himachal (17), Rajasthan (12), Tripura (19) and West Bengal (7). Of the credit provided to this class, direct credit accounted for more than three-fourths of the credit in all the states except Assam, Tripura and West Bengal.

4.145 Provision of credit for activities allied to agriculture was similar to that of agriculture but the concentration was more pronounced, the four southern states accounting for 47 per cent of the total credit for this purpose. Outstanding credit for retail trade, small business professionals and self-employed and education, which amounted to Rs. 604 crores at end March 1979 was also concentrated in the southern states which accounted for 35 per cent of the total. Among the other states, U. P. and Maharashtra accounted for 10 per cent and 14 per cent respectively.

Overdues of Direct Loans to Agriculture

4.146 Recovery performance of direct loans to agriculture has not shown any perceptible change over the past few years in that recovery hovered at around half the demand. As at end June 1978, recoveries amounted to 51.2 per cent of demand (Statement 4.26). Recovery formed more than 60 per cent of demand in Haryana, Jammu and Kashmir, Punjab and Kerala.

4.147 In regard to commercial banks, therefore, the issues that need examination in detail relate to whether,

(*i*) any change in the approach to rural branch expansion is necessary,

(*ii*) any re-orientation is needed to enable them reach the target groups,

(*iii*) co-ordination between banks *inter se* and between banks and development administration at the district level could be further improved,

(*iv*) the existing arrangements for financing through PACS and other intermediate agencies need to be extended, (*v*) available technical support to credit could be widened and deepened, and

(*vi*) the problem posed by overdues could be overcome through appropriate additional legal measures and/or administrative arrangements.

V. Regional Rural Banks

4.148 In 1975, the GOI appointed a Working Group under the chairmanship of Shri M. Narasimham to review the flow of institutional credit especially to the weaker sections of the rural community. The Group identified certain deficiencies in the role of the two major agencies in the field, the co-operative credit institutions and the commercial banks. It also came to the conclusion that the regional and functional gaps in rural credit cannot be met within a reasonable period by reorganising or restructuring the two systems. At the same time, it recognised certain commendable features in both the systems which could be combined in a new type of institution. The Working Group, therefore, recommended the setting up of State-sponsored, regionally-based and rural-oriented banks called Regional Rural Banks (RRBs). They were meant to combine the "local feel and familiarity with several problems which the co-operatives possess and the degree of business organisation, ability to mobilise deposits, access to central money markets and a modernised outlook which the commercial banks have." Accepting this recommendation, the GOI promulgated the RRBs Ordinance on 26 September 1975 and the first five RRBs were established on 2 October 1975. The Ordinance was later replaced by the RRBs Act, 1976. RRBs thus came to form the third component of the multi-agency credit system for agricultural and rural development.

Major Features of RRBs

Sponsorship

4.149 RRBs are sponsored by scheduled banks, usually a public sector commercial bank. The Steering Committee on RRBs (now in the RBI) identifies the districts requiring RRBs and later the Government of India in consultation with the state governments and the sponsor banks proceeds to set up RRBs. RRBs are visualised as the rural arm of the commercial banks. As such, special responsibility lies on the sponsor bank. The sponsor bank by virtue of the provisions of the law provides managerial assistance to the RRBs sponsored by it for the first 5 year period, besides financial accommodation on mutually agreed terms. A few non-public sector commercial banks have also sponsored RRBs. Following a view taken by the RBI in consultation with the Government of India, scheduled state co-operative banks are also allowed to sponsor RRBs.

Share Capital and Management

4.150 The authorised capital of a RRB has been fixed in the RRBs Act at Rs. 1 crore and the issued capital at Rs. 25 lakhs. Of this, 50 per cent is subscribed by the GOI, 15 per cent by the concerned State Government and 35 per cent by the sponsor bank. The management vests with the Board of Directors headed by the Chairman who is usually an officer of the sponsor bank but appointed by the Government of India. In addition, the Central Government nominates 3 directors (of whom one is from the RBI). The concerned state government has 2 directors, while the sponsor bank nominates the balance of 3 directors. In some cases, non-officials are nominated as Government or sponsor bank directors. The RRB is free to recruit its own staff, but in the initial years the sponsor banks provide staff particularly at the level of branch managers and field officers. Remuneration of staff directly recruited by RRBs, as determined by the Government of India, broadly corresponds to the salary structure obtaining in the state governments for comparable cadres. It is this aspect of the cost of operations that gives the RRB its low-cost image as compared to the high-cost structure of the commercial banks.

Lending Operations

4.151 The major objective of the RRBs is to develop the rural economy by providing credit and other facilities for agriculture, trade, industry and other productive activities in the rural areas, particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs. Keeping this objective in view, the GOI has decided that RRBs should confine their lendings only to the weaker sections. This coverage of the weaker sections by RRBs makes them as the small man's bank and could be considered as their most distinguishing feature. Financing of others is exceptional and incidental as in the case of indirect finance through FSS/PACS/LAMPS which include other farmers as well, or as in the case of financing all farmers in an area, predominantly covered by small/marginal farmers, coming under ARDC-financed schemes for land-based activities.

4.152 While RRBs are scheduled banks and carry on 'banking' business, their banking operations are somewhat limited, because of the fact that their lending is confined to the weaker sections of the community. Nonetheless, they provide other banking services to all. They have been allowed to offer slightly higher rates of interest on their deposits as in the case of CCBs.

Banking Business and Branches

4.153 The Review Committee on RRBs (Chairman — Prof. M. L. Dantwala) appointed by the RBI, in 1977, made certain recommendations broadly falling under two categories, *viz.*, structural and functional aspects of working of RRBs. It was the Committee's view that this institutional innovation was well conceived and was necessary to make good some of the inadequacies of the existing system. Hence the Committee recommended that RRBs should form an integral part of the rural credit structure. It recommended that while establishing new RRBs, priority be given to areas served by weak central co-operative banks. Further, the Committee suggested that the RBI, instead of the GOI, should be the shareholder and local participation should be provided for in the share capital as well as in management.

Recommendations of the Review Committee

4.154 The most important of the functional aspects recommended by the Review Committee related to the transfer of, in a phased manner, the rural business of commercial bank branches to RRBs. This envisaged the transfer of business not only of the sponsor banks but also other commercial banks in the area. This is a far-reaching recommendation with significant implications. This has also a bearing on the structural pattern at the base level. This would mean that while the branches of RRBs and PACS would ultimately form the two wings of the rural credit delivery system at the village level, the big farmers and others who are not in a position to get loans from RRBs will have to approach either the PACS or the nearest branch of a commercial bank at the urban or semi-urban centre. For reasons of promoting rural savings and securing rural development in its entire area and also on considerations of viability, the Review Committee recommended the financing of large farmers upto a limited extent, *i.e.*, upto 40 per cent of the total loans. Financing of farmers other than small/marginal farmers is now being allowed upto a limited extent in a different manner, as mentioned earlier.

Functional Aspect

Progress in setting up of RRBs

4.155 At the end of June 1980, 73 RRBs were functioning, covering 130 districts in 17 States. The bulk of them are located in 5 States, *viz.*, Uttar Pradesh (15), Bihar (14), Madhya Pradesh (9) and Orissa (6). The year-wise progress in regard to the establishment of RRBs is given below and the statewise position is given in Statement 4.27.

End December	No. of RRBs		No. of branches	No. of districts covered
	Opened	Total		
1	2	3	4	5
1975	6	6	13	11
1976	34	40	489	84
1977	8	48	1,187	99
1978	3	51	1,754	102
1979	9	60	2,420	114
1980 .. .. (upto June 1980)	13	73	2,678	130

Source : Reserve Bank of India.

Branch Expansion

4.156 The performance of RRBs in expanding their branch network in reaching out to the weaker sections in the unbanked and hitherto neglected areas has been remarkable. During the year 1979-80, as many as 713 new offices were opened, as against 561 opened in the previous year. Of these, the number of offices opened in unbanked centres was as high as 645 in 1979-80 and 524 in 1978-79. In fact, one out of every three new bank offices (of commercial banks and rural banks) set up in 1979-80 was opened by RRBs.

4.157 RRBs have increased their deposits as will be evident from the table below :

Year	*Deposits* (*Rs. crores*)
1976	7.7
1977	33.0
1978	74.1
1979	123.2

Deposit Mobilisation

The total deposits of 60 banks as at the end of March 1980 (for which data on deposits are available) were of the order of Rs. 140 crores, collected through nearly 29 lakh accounts, giving an average of Rs. 500 per deposit account. The averge deposits per RRB amounted to Rs. 2.3 crores and per branch Rs. 5.6 lakhs, the size-wise distribution at the bank level being as follows:

Deposits Size	No. of RRBs
Below Rs. 50 lakhs	13
Between Rs. 50 and 100 lakhs	3
Above Rs. 100 lakhs	44
	60

4.158 There are, however, wide variations in the performance of RRBs. The information on types of deposits (pertaining to December 1979 in respect of 40 RRBs) shows that, of the total deposits, 33 per cent were fixed, 59 per cent were savings and the remaining 8 per cent were current. The high percentage of savings deposits in the total deposits and the comparatively small amount of average deposit (Rs. 500 per account) are indicative of the fact that RRBs have been able to mop up the savings of the small income groups.

Financing of the Weaker Sections

4.159 In accordance with the major objective of RRBs, they finance only the weaker sections of rural community. Apart from small/ marginal farmers and agricultural labourers, RRBs extend credit facilities to rural artisans, small traders, self-employed persons, etc. The ARDC definition of small farmers has been adopted by RRBs. For non-agricultural advances, the pre-investment annual income limit of Rs. 4,000 is the deciding factor. In the ARDC scheme areas, financing of other farmers also has been allowed upto a limited extent, for land-based activities, as a special case. More recently, following the recommendations of the Tambe Working Group@, RRBs have been advised to step up their financing of rural artisans and village and cottage industrial activities, the ceiling for composite loans for this purpose being Rs. 25,000. As suggested by the RBI, RRBs charge 11 per cent on crop loans, 9½ per cent on term loans for agriculture and 9½ per cent on loans to artisans, etc.@@ These are on par with the rates charged by other agencies like co-operatives to the ultimate borrowers.

@Working Group appointed in May 1979 by the RBI under the Chairmanship of Shri W. S. Tambe, Executive Director, RBI, on an Apex Financial Institution for the small and decentralised sectors of Industry.

@@Consequent upon the revival of Interest Tax on Scheduled Commercial Banks, they have passed on its incidence to borrowers. RRBs have been allowed to maintain parity with these rates. Accordingly, the rates in force from 1-7-80 are 11·85%, 10·25% and 10·25% respectively.

4.160 The outstanding advances by RRBs as at the end of December 1979 were of the order of Rs. 167 crores involving as many as 16.39 lakhs borrower accounts. The average amount per account at Rs. 1,020 is indicative of the large number of small loans. The average in respect of RRBs operating in Kerala and Orissa was less at Rs. 730 and Rs. 760 respectively. The following table indicates the purpose-wise data on the advances made by RRBs as at the end of December 1979.

Purpose	No. of Accounts	Amount (Rs. crores)	Percentage to the total	
			No. of accounts	Loans and advances
(1)	(2)	(3)	(4)	(5)
1. Small/marginal farmers and landless labourers (agricultural purposes)	10,19,813	104·61	62·2	62·5
2. Rural artisans, small traders & others*	5,09,925	49·87	31·1	29·8
3. Consumption loans	14,574	0·91	0·9	0·5
4. Indirect loans (through FSS/PACS)	29,413	8·16	1·8	4·9
5. Loans for staff (against FD, etc.) ..	65,759	3·86	4·0	2·3
6. Total	16,39,484	167·41	100·0	100·0

Source : Reserve Bank of India.
*Separate data on the loans provided to rural artisans are not available.

4.161 Agricultural loans to small farmers, etc. formed 62.5 per cent followed by advances to rural artisans, small traders and others at 29.8 per cent. It would be noted that loans issued directly to the farmers etc. constituted as much as 94 per cent of the total. The indirect loans, i.e., through PACS/FSS, formed a very small part of the total, mainly for the reason that in a number of states, the government and CCBs are not keen to cede reorganised PACS to the RRBs. There has also been not much progress in the organisation of FSS by RRBs. According to available data, 100 FSS and 425 PACS/LAMPS were being financed by RRBs. RRBs in West Bengal have reported financing of 235 PACS. RRBs in Karnataka have the largest number of FSS at 29. In all other cases, the number of societies is nominal. It would appear that in financing the weaker sections effectively, RRBs rely largely on direct loans through their branches.

4.162 By the end of March 1980, 60 reporting RRBs had outstanding loans of Rs. 168 crores. On an average the per bank advance was Rs. 2.80 crores and per branch advance Rs. 6.70 lakhs, the size-wise distribution at the bank level being as follows:

Size of Outstanding loans	No. of RRBs
Below Rs. 100 lakhs	16
Between Rs. 100 and Rs. 200 lakhs	14
Between Rs. 200 and Rs. 300 lakhs	10
Rs. 300 lakhs and above	20
	60

The direct advances (to individuals) were Rs. 156 crores to about 1.6 million borrowers, on an average about Rs. 950 per account, indicating thereby the preponderance of small loans.

4.163 The GOI, the RBI, state governments and the sponsor banks play a significant promotional role in the setting up of RRBs and in facilitating their operations. The promotional functions stand transferred to RBI, since October 1978, although the statutory functions provided for in the RRBs Act continue to be exercised by the GOI, pending the necessary amendments to the RRBs Act. Actual implementation of most of the recommendations of the Steering Committee is done by GOI such as setting up of new RRBs, issue of circulars on administrative and staff matters. The RBI, in recognition of the need to nurture these new institutions and their major objective of serving the weaker sections, has extended certain concessions and facilities to RRBs. As in the case of CCBs, RRBs are allowed to maintain cash reserve and liquid assets aggregating 28 per cent of their time and demand liabilities and also to pay 1/2 per cent more interest on deposits accepted by them (excepting for deposits over five years). Similarly, the RBI provides refinance facilities upto 50 per cent of their eligible loans and advances at 6 per cent interest, the rate being the same as charged to SCBs. During the year 1979-80, the RBI sanctioned refinance limits to 45 RRBs aggregating to Rs. 75.65 crores. The outstandings against these limits as at the end of June 1980 were Rs. 67.40 crores.

Role of GOI, RBI, State Govts., and Sponsor Banks

4.164 A special responsibility under the RRBs Act has been cast on sponsor banks to aid and assist RRBs and to provide managerial and financial assistance. In accordance with this statutory responsibility, sponsor banks provide financial accommodation, usually upto 35 per cent of the RRB's loans, at a rate of interest of $8\frac{1}{2}$ per cent per annum. They pay interest on the current deposits of RRBs kept with them at 9 per cent as advised by RBI, since the latter's borrowings from the former are not exempted for purposes of maintaining cash reserve and liquid assets. The sponsor banks provided loans to 45 RRBs aggregating Rs. 43.30 crores as at the end of June 1980. The sponsor banks also provide the services of their staff, free of cost, to work as chairman, branch managers, etc. of the banks. Besides, they meet the cost of training of RRB staff in the Reserve Bank's College of Agricultural Banking, in addition to the provision of free training to the clerical staff of RRBs in their own training centres. The average subsidy provided by sponsor banks worked out to Rs. 2.3 lakhs per RRB in 1979 as against Rs. 2.7 lakhs in 1978.

4.165 In respect of RRBs, the following issues need examination:

(*i*) Whether the rural business of commercial banks should be transferred to RRBs,

(*ii*) Viability aspects of RRBs,

(*iii*) Whether RRB's services continue to be confined to weaker sections,

(*iv*) Cost profile of RRBs,

(*v*) Relationship between RRBs and sponsor banks,

(*vi*) Local participation in RRBs, and

(*vii*) Overseeing of RRBs.

These are examined in detail and our recommendations thereon are presented in Chapter 7.

PART II

RURAL CREDIT DELIVERY SET-UP AT THE GROUND LEVEL

Chapter 5

CO-OPERATIVES AT THE GROUND LEVEL

The efficiency and effectiveness of the flow of credit, for accelerating integrated rural development, will depend on the delivery mechanism at the beneficiary level. In this chapter, we discuss the more important problems relating to the co-operative credit structure at the primary level as indicated in the previous chapter, and then proceed to indicate, in the light of observations made during our field visits and discussions with knowledgeable persons, what best could be done for its further improvement, keeping in mind, the imperatives and national objectives in this regard.

Organisational Pattern

5.2 The three types of co-operatives operating at the base of the rural credit system are PACS, FSS and LAMPS. The main features of these three categories of societies, as conceived originally, are indicated on the next page in a summary form.

5.3 As can be seen from the following data, PACS account for 90 per cent of membership and 94 per cent of loan business. While LAMPS are, by definition, confined to certain areas, FSS are still to make a mark and gain wider acceptance. In these circumstances, the real thrust in the immediate future to improve the co-operative credit coverage has obviously to be through PACS.

Operations of PACS, FSS and LAMPS, 1977-78

(Rs. crores)

Types	No. of Societies	Membership (in '000)	Loan Business: Disbursed	Loan Business: Recovered	Loan Business: Outstanding
(1)	(2)	(3)	(4)	(5)	(6)
PACS	1,13,124	43,042 (89·9)	1,189·32 (93·6)	1,015·16 (94·2)	1,685·39 (93·8)
FSS ..	1,577	32,76 (6·8)	55·91 (4·2)	45·27 (4·2)	69·03 (3·8)
LAMPS	1,424	15,42 (3·3)	25·22 (2·2)	16·64 (1·6)	43.66 (2·4)
Total	1,16,125	47,860	1,270·45	1,077·07	1,798·08

Figures in brackets indicate percentages to the total.
Source : Statistical Statements Relating to the Co-operative Movement in India.

Categories of Societies

Features	*PACS*	*FSS*	*LAMPS*
1. Area coverage	Generally a small area of not less than 2,000 hectares of cropped area	A large area of operation extending upto a block or population of 10,000	Area upto a block or a *tehsil*.
2. Type of beneficiaries	Generally all types of farmers (big, medium and small)	All farmers and other rural households including rural artisans, agricultural labourers, etc.	Mainly tribals
3. Nature of credit business	Short-term crop loans and medium-term loans for agricultural and allied activities	Multi-term and multi-purpose credit	Short-term, Medium-term and Long-term loans including consumption loans.
4. Nature of non-credit business	Supply of farm inputs, distribution of essential commodities, etc.	Package of services	Package of services including supply of consumer goods and marketing of minor forest produce and other products of members.
5. Management	(*a*) Full-time paid secretary	(*a*) Whole-time Managing Director and Functional Specialists.	(*a*) Whole-time Managing Director and other staff.
	(*b*) Board of Directors consisting of 11 members of whom not less than 50 per cent shall represent weaker sections.	(*b*) Board of Directors consisting of 11 members of whom five shall be representatives of weaker sections and two shall be elected from among other members besides two nominees of the Registrar of Co-operative Societies, one nominee of the financing bank and the Managing Director, ex-officio.	(*b*) Board of Directors consisting of 11 members of whom five shall be elected from among tribal members, two shall be elected from among non-tribal members, besides two nominees of the Registrar of Co-operative Societies, one nominee of the financing bank and the Managing Director, ex-officio.

5.4 In a vast country like ours with diverse conditions, no single or uniform structural pattern applicable all over, is feasible. We also observe that the co-operative opinion in the country is generally not in favour of periodic changes in the base-level structure of co-operative credit. What is, therefore, urgently called for, is a programme of consolidation and strengthening of the existing co-operative credit institutions of all the three categories mentioned above. In this connection, we note that even though some of the FSS and LAMPS have registered good progress, a large number of them has not progressed in the desired direction, as pointed out in the preceding chapter. As for LAMPS, the National Committee for Backward Areas appointed by the Government of India is expected to go into their relevance and make appropriate recommendations. In our view, the basic concept underlying FSS and LAMPS is sound and attuned to the problems of the clientele they have to serve. We would, therefore, urge the state governments to make vigorous efforts immediately to develop FSS and LAMPS on the lines conceived, so that they can fulfil their objectives within a specified time-span. In regard to PACS which constitute the dominant component of rural credit delivery mechanism, measures necessary to revitalise them are detailed in the ensuing paragraphs.

Viability of PACS

5.5 As PACS have been the weakest link in the chain of co-operative financing system, efforts have been going on since about two decades for reorganising them into economically viable units. The Committee on Co-operative Credit (1960) set out the following as the criteria to judge the viability of a PACS:

(*i*) It should render, within a reasonable time, 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;

(*ii*) For purposes of ensuring compactness and convenience to members, the population covered by it should not exceed 3,000; and

(*iii*) No village covered by it should be at a distance of more than 3 or 4 miles from its headquarters.

Later, in 1964, the Conference of the State Ministers for Co-operation held at Hyderabad defined viability in terms of the capacity of the society to appoint a full-time paid secretary, to set up a regular office in its own or hired building, to contribute to statutory and other reserves and to pay a reasonable dividend on the share capital of members. The reorganization programme, thus contemplated, involved three main stages:

(*i*) formulation by the state governments of area-wise standards of the quantum of business needed to enable the society to attain viable status; (*ii*) survey to locate viable or potentially viable units with reference to these criteria, demarcation of areas within the accepted population coverage and drawing up, on the basis of the survey, an action programme to enable the potentially viable units to become viable within the shortest possible time; and (*iii*) amalgamation or liquidation of weak societies. Even while the reorganization programme was being implemented on this basis, the Working Group on Co-operation for the Fifth Five Year Plan (1973) translated the viability criteria into concrete terms to mean a minimum credit business of Rs. 2 lakhs (by way of outstanding short-term agricultural loans), taking into account the cost of operation of the society. In May 1976, the Reserve Bank of India suggested to the state governments that a normal cropped area of 2,000 hectares of land should be able to provide the minimum business of Rs. 2 lakhs envisaged. It is on this basis that the present round of reorganisation is in progress.

5.6 Except three states, *viz*., Jammu & Kashmir, Maharashtra and Gujarat, all other states have proceeded with the reorganization of societies as described above. We learn that the Jammu and Kashmir Government has not yet drawn up any concrete plan for reorganization.

5.7 In Maharashtra, the State Government had formulated a reorganization scheme in 1969 based on the concept of "group viability" under which a secretary is to be appointed for a group of societies and thus satisfy the criteria of viability. However, in 1973, an Evaluation Committee for Secretaries' Caderization Scheme (Kore Committee) appointed by the State Government rejected the group viability concept and recommended that such societies as were found incapable of attaining viability within three years should be merged into bigger societies except in the case of those located in tribal, coastal or traditionally under-developed areas which could be allowed a gestation period of five years. On-the-spot study of a few PACS in Maharashtra which were covered under group viability proposition, undertaken by the Reserve Bank in 1973-74, showed that a group secretary was seldom able to provide benefits which a single society got from its full-time paid secretary, such as, intensive supervision over end-use of loans, prompt attention to the needs of members for loans, inputs and services, recovery of loans, business expansion, etc. Dealing with this issue, the All India Rural Credit Review Committee (1969) had earlier observed:

> "It is the general experience at any rate in the co-operative field that one who is simultaneously employed by many masters can successfully evade serving any of them. If the ability of a particular society to employ competent staff and give orders to it is one of the tests of viability, then, group viability of a number of societies is a contradiction in terms. We doubt whether any arrangement on the lines apparently favoured by Maharashtra can at all work satisfactorily...."
> (*P. 454*)

In September 1975, the State Government reconsidered the matter and decided to reorganize the then existing 19,955 societies in the state into about 10,000 viable units. However, it is yet to implement this decision. The reluctance of the State Government to take up reorganization on the basis of viability norms already stipulated is reportedly due to its apprehension that it would give rise to discontent in village leadership.

5.8 In Gujarat, though the process of identification of societies for amalgamation has been completed already, the State Government is yet to bring legislative measures for the amalgamation of societies.

5.9 The Committee sees no convincing justification for any further delay on the part of these three state governments in reorganizing primary societies. With proper enlightenment of members regarding the benefits of reorganization, it should be possible to achieve the objective quickly. Economics has to prevail over parochialism. The system of group secretary which Maharashtra had favoured is administratively shortsighted, as it would only result in slack supervision and increased overdues for which the state had come into prominence. If, in the multi-agency set-up, the co-operatives are to retain their relevance as one of the major purveyors of rural credit, they have to become viable and build-up capacity to render multi-purpose services to their constituents, particularly to the weaker sections. Hence, their reorganization should be hastened and completed expeditiously. The Committee, therefore, suggests that in the three states mentioned above where reorganization is pending, the GOI and the RBI/NABARD should prevail upon the state governments concerned to devise and execute necessary legal and administrative steps for ensuring that the whole exercise of reorganization, on the basis of norms already prescribed, is completed within the next one year at the latest. This, in our view, is the first essential step.

5.10 Our enquiries revealed that even where the reorganization exercises have been completed, the quality of operations has not improved to the desired extent. The case studies of some reorganized PACS conducted by the Reserve Bank, in 1980, show that the progress made by the reorganized societies in increasing borrowing membership and loaning operations and in diversification of functions is slow, and that in some cases, the reorganized societies continue to function without a full-time paid Secretary/Manager. The all-India average short-term agricultural loan business (outstanding) per society as on 30 June 1978 stood at Rs 1.16 lakhs which is less than the minimum of Rs. 2 lakhs fixed for viability. In some states such as Andhra Pradesh, Assam, Bihar, Orissa and West Bengal the average short-term loan business per society was below the all-India average. Further, out of 1,16,125 PACS on 30 June 1978, 46,621 societies or 40.1 per cent of the total had incurred losses during 1977-78 and 72,520 societies or 62.4 per cent of the total had not undertaken supply of inputs. According to Prof. M. L. Dantwala, with whom the Committee had discussions, the reorganization scheme, as presently operated, has been "no more than a scheme of reduction in the number of PACS" inasmuch as there has been no discernible improvement in the quality of their functioning. We cannot, however, miss the point that considerable effort has gone into weeding out many dormant societies. We must also recognise that it will take some time for the reorganized societies to show significant improvements. Several of them have, in fact, started functioning as reorganized societies in the last two or three years only. But, there is no gainsaying the fact that the time has come for undertaking a drive for improving the efficiency and content of services as well as for increasing the business and membership of the societies, particularly from among the weaker sections. This, in our view, is the second essential step.

5.11 As per information made available to the Committee, some states have already begun to plan beyond the original viability threshold of Rs. 2 lakhs. In Punjab, the Registrar of Co-operative Societies has laid down that the societies should achieve short-term agricultural loan business of not less than Rs. 5 lakhs within a period of 2 years. In Haryana, this has been fixed at Rs. 3 lakhs. In Uttar Pradesh, the levels of business to be achieved by a reorganized society over a 3 year period, as prescribed by the Registrar, include, besides a loan business of Rs. 5 lakhs, fertilizer business of Rs 2 lakhs, supply of consumer goods worth Rs. 25,000 and deposit mobilisation of Rs 25,000. In Kerala, a High Level Committee constituted by the State Government, in April 1979, to look into the problems of co-operative credit in that state, is understood to have recommended, in its report submitted, in August 1980, the following minimum criteria for the performance of PACS to be achieved over a period of two years:

> (*a*) a membership of 1,500, (*b*) share capital of not less than Rs. 1 lakh, (*c*) minimum deposit of Rs. 1 lakh, (*d*) a loan operation of not less than Rs. 6 lakhs, (*e*) its own building, (*f*) at least three paid employees, (*g*) should meet at least 50 per cent of the agricultural credit requirements of its members, (*h*) should contribute to reserves and pay dividend, (*i*) should play a leading role in input supplies, distribution of consumer goods and participate in development activities like housing, marketing of produce, etc.

5.12 Thus, in the states where reorganization has been actively followed by efforts to build up the business of societies the available data, given below, indicate improvement in their performance.

(Rs. '000)

State	Average membership per society (Number)		Average working capital per society		Average amount of loans issued per society	
	1976-77	1977-78	1976-77	1977-78	1976-77	1977-78
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Haryana ..	367	405	306	368	290	317
Uttar Pradesh	784	877	270	339	166	182
Kerala	1501	1642	916	1080	432	519

In Haryana, as many as 1,279 out of 2,056 reorganized societies (for which data as on 30 June 1979 are available) had loan business of more than Rs. 3 lakhs each. The position in Kerala, was much better; out of 1,616 societies, as many as 734 each had loan outstandings at Rs. 5 lakhs and over, as on 30 June 1979, and of them, 361 had loan business exceeding Rs. 10 lakhs, each.

5.13 We are clear that in planning the future of reorganized societies, no one should be unduly fettered by the existing concept of viability which has been framed in terms of agricultural production credit business and one whole-time paid secretary only. In planning the future of reorganized societies, the aim should be to transform them into a single contact point in the village for all types of credit and not merely for agriculture in the narrow sense. In other words, they should also have the capacity to serve other rural producers such as artisans, craftsmen and agricultural labourers in respect of their economic activities. They must offer a package of services to their clientele, *e.g.*, input supplies and marketing help. They have to be servicing agencies either by directly undertaking the services required by the producers in rural areas or by forging effective links with other agencies such as marketing societies and fertilizer suppliers who render such services. In other words, they have to diversify their functions and augment their resources and business. This calls for professional expertise in management, such as has been envisaged for the FSS. The plan must, therefore, provide for classifying them according to the progress achieved from time to time and for developing them to the next stage on their onward march to the ultimate goal of a truly multi-purpose service institution for all types of rural producers. This is the most essential objective to be achieved.

5.14 The Committee is convinced that the reorganization of PACS through reduction of numbers is only the first step and the next step towards vitalising and developing the reorganized societies has to be taken up with a sense of earnestness and urgency so as to realise the objective of multi-purpose credit along with infrastructure and services. The Committee, therefore, urges that in the states where the reorganization programme has been completed, there should be a time-bound programme, supported by technical assistance from the state governments, and where necessary, by financial aid from SCB/CCBs and the state governments, to vitalize and develop the reorganized societies so that they could evolve themselves into the pattern of FSS in regard to services and operations, over a period of three years. In states where reorganization is pending, the programme of intensive development of societies should be taken up alongside their reorganization. The RBI/NABARD may initiate necessary steps towards drawing up and implementing a comprehensive scheme in this behalf, statewise, in consultation with the respective SCBs and the state governments and also review the progress thereof at periodic meetings.

Membership Coverage

5.15 It is seen from the discussion in the previous chapter, that the principle of universal membership adopted by the societies has not fully achieved its objective inasmuch as, over large parts of the country, a considerable segment of the weaker sections of the rural community including rural artisans, village craftsmen and agricultural labourers is still outside the co-operative fold. We have to consider ways and means of enrolling as many of them as possible as members. Already, to facilitate the enrolment drive, the share capital contribution has been relaxed in their case to 5 per cent from the usual rate of 10 per cent of the borrowings. The RBI has commended to the state governments the inclusion of a clause in the bylaws of the society by which the weaker sections are entitled to elect at least 50 per cent of the members of the managing committee. Some other measures like the grant of subsidy or the fixation of a special rate of interest may be introduced with a view to making it attractive to persons of these sections to become members and avail of the credit and other service facilities. It will help in reporting and monitoring if the members of these sections can be easily distinguished from others. We suggest that there should be two categories of membership of societies—one category exclusively reserved for the weaker sections distinguished by the lower rate of share capital prescribed for them and the other earmarked for those contributing share capital at the usual rate, as mentioned above. This is to facilitate statistical reporting and analysis of the extent to which the weaker sections are given the benefits due to them and not to dilute the rights of the members belonging to the weaker sections. Further, every one of these two categories of members should be supplied with a pass book in two different colours containing all relevant details, such as name and address of the member, cultivated area, occupation, shares held, borrowing power, loans sanctioned in cash and kind, amount drawn/repaid with date and amount of loan outstanding, etc., which should conform to the entries in the land register and other books of account of the society. The validity of the entries in the pass book should be ensured by prompt authentication by the concerned official of the society.

5.16 Membership expansion by itself is no index of effective coverage, particularly of the weaker strata; for, the proportion of borrowers to total members on rolls continues to be low in most of the states as indicated in Chapter 4. As regards access of the poorer sections of the rural community to co-operative finance, it is pertinent to reproduce the observations of the All-India Rural Credit Review Committee as under:

> "The comparative neglect of the small cultivators by the co-operatives results from more factors than one. One of these is that the principle of open membership is not always effective and several co-operatives operate as a closed shop for the benefit of one particular economic group or caste or faction. Secondly the repaying capacity of the small cultivator is called into question and the loan often ruled out on this ground. Thirdly in the distribution of the limited funds available, it is the small farmer who gets left out. These are some of the factors which keep some restrictive practices alive in practice, even though on paper, they are supposed to have ceased to exist."
> (*P. 174*)

We noticed during the course of our field visits that the above observations of the Rural Credit Review Committee still hold good and that restrictive practices in lending on account of caste, faction, etc., continued. In several places, the Committee could sense the prevalence of a tendency on the part of bigger farmers to block the flow of co-operative credit to the poorer sections.

5.17 Studies carried out by the Reserve Bank in select areas in 1979-80 to find out reasons for low borrowing membership have revealed as under:

(*i*) Though a number of members of a family have been enrolled as members of PACS, only one of them is borrowing;

(*ii*) Several affluent members do not resort to borrowing;

(*iii*) Tenant cultivators with no recorded rights in the lands tilled by them, being ineligible to obtain credit on the normal scale, have to go to non-institutional sources for meeting their agricultural outlays;

(*iv*) Members with very small holdings seldom obtain institutional finance for fear of their inability to repay on due dates;

(*v*) Lifting of fertilizers was a pre-condition for drawal of cash component of loan;

(*vi*) The loan was inadequate and its disbursement untimely; and (*vii*) Consumption credit was not available in adequate measure. Apart from the above, the Committee observed during its field visits that there are other factors too, which come in the way of weaker sections borrowing from a society such as lending procedure not being in conformity with the need, risk involved in borrowing, lack of programmes for these groups and structural inability of the society to lend. The rise in membership, particularly the multi-membership in respect of several households, is perhaps the consequence of membership drive/campaigns launched during special occasions like the "All India Co-operative Week", provision of share capital subsidy, implementation of various development programmes such as SFDA, CADP, DPAP, etc. It has also to be noted that all members belonging to undivided families are not potential borrowers unless they pursue independent avocations. Where defective loaning policies and procedures inhibit the progress of borrowing membership, it is the responsibility of the state governments to take immediate steps, in conjunction with the apex and central co-operative banks, to rectify them.

5.18 It must be noted that the restrictive practices in the matter of financing weaker sections are prevalent despite the Reserve Bank's stipulation that not less than 20 per cent of the short-term agricultural loans issued to PACS by CCBs should go to finance small farmers and weaker sections and the ARDC's stipulation that atleast 60 per cent of its disbursements should be towards meeting the investment credit needs of the weaker sections. The Committee is aware that mere exhortations of a similar nature will not produce the desired result unless these are accompanied by suitable administrative action. One line of action that suggests itself is the preparation of programmes by each society for covering the weaker sections under the overall guidance of the district development administration and within the framework of the District Credit Plan. These programmes should meet the full requirements of this category of members, and the coverage of such beneficiaries should be increased progressively year by year. Further, in order to ensure that the societies do not deny loans to members belonging to the disadvantaged groups for their credit-worthy activities and without waiting for individual complaints, the state governments should introduce a system of check of all such instances of loan refusal. The concerned Assistant/Deputy Registrar of Co-operative Societies should visit the societies in his jurisdiction at regular and specified intervals, review the matter and report all cases of rejection of loan applications for no valid reasons to the CCB concerned and the Registrar of Co-operative Societies for necessary remedial action. The report should unhesitatingly include punitive measures in cases where such refusal of loans is found to be habitual. We also recommend that, should there be any deliberate blocking of credit to the weaker sections, the state government should not hesitate to organize separate societies for the benefit of such weaker sections, even if it means subsidisation by the state government. The financing bank also should consider denial of credit facilities to the offending societies.

Deposit Mobilisation

5.19 The primary agricultural credit societies, as first organized, were primarily conceived as people's institutions for promoting thrift and mutual aid among their members. The principle of state partnership in share capital and management of societies enunciated by the Rural Credit Survey Committee (1954), was intended, *inter alia*, to boost their image and prestige so that they could attract rural savings and build up their own financial strength through deposit resources. However, this objective has, by and large, remained un-fulfilled and the societies have come to be perceived as mere lending agencies. The Committee considers that in the context of the fast-changing rural scene as a result of increased economic prosperity, it is high time that PACS correct this aberration in their working and take steps to spread banking habit and mobilise deposits in rural areas. A large deposit base provides a countervailing force of depositors which is extremely desirable as a balancing factor against the group of borrowers, pure and simple. Such balancing of forces will help in evolving sound lending policies and practices and ensuring prompt repayments, besides bringing in larger resources. This will also bring into the organized channels large untapped savings potential generated in the rural area for productive deployment. That this is not difficult to achieve has been demonstrated by the societies in Kerala and Punjab.

5.20 As on 30 June, 1979 the PACS in Kerala accounted for 43.4 per cent of the aggregate deposits of Rs. 211.44 crores at the primary level in the country. The increase in their deposits has been steady and fast, rising to Rs. 91.81 crores as on 30 June 1979 from Rs. 9.38 crores at end June 1971. Deposits held by them were almost equal to the total deposits held by all the CCBs in Kerala as on 30 June 1979. The success achieved by them in this regard, despite the absence of insurance cover, is attributed to several factors: the attractive interest rates offered to depositors (2 per cent more than that offered by commercial banks for fixed deposits upto 6 months and savings deposits and 2.5 per cent in respect of term deposits of 6 months and above); successive deposit mobilisation campaigns launched under the auspices of the apex co-operative bank, with the active support of the state government; high density of population; high rate of literacy and traditional banking habit prevalent among the rural people; high rate of monetization of the economy with plantation and cash crops and inward remittances from abroad, especially, Gulf countries (where a large number of Keralites are employed). The last-mentioned factor (which, however, is of recent origin) coupled with payment of higher rate of interest have, no doubt, pushed up the rate of deposit growth; but, the fact that the deposits have gone in such a large measure to these primary level societies is truly reflective of the confidence enjoyed by them among the saving public. It was noticed during our visit to some of the PACS in Kerala that, apart from the large area covered, the viability achieved by them and the high interest rates on deposits, the factors that had gone a long way in projecting their good image with the local people were that they could afford to have suitable buildings of their own with attractive business-like counters, safe custody arrangements and adequate staffing with trained hands for extending banking services to rural customers almost on the lines of commercial banks. According to information available, as on 30 June 1979, out of 1,616 PACS in Kerala, as many as 1,350 societies have office buildings and godowns. It was also our impression, gathered during field level discussions, that, by and large, the management of societies was at present free from political interference. As the primary level co-operatives are out of the purview of the Banking Regulation Act, the societies have been able to offer higher interest rates. Even after offering higher interest rates to attract larger funds, they have found it relatively cheaper (as the average cost of deposits worked out to 7-8 per cent) than the borrowings at 8.5 per cent interest from the CCB and more profitable, particularly when they could use part of their larger resources to cater to the credit needs of those members who can afford to pay interest ranging from 14 to 15 per cent. Their strong deposit base has enabled them to undertake multi-purpose loaning to the rural sector and even to prevent politically motivated interference in the recovery of loans. Besides agricultural production and investment credit, loans on the pledge of jewels are advanced for meeting urgent and varied needs of rural households including consumption purposes, educational expenses, etc. The deposit strength has also helped them to keep the level of overdues in members' loans relatively low, as evidenced by the fact that the percentage of overdues to loans outstanding at the end of June 1978 was 29.3 as against the all-India percentage at 45.

5.21 The experience of Kerala should be a guiding example to be emulated by other states. We are aware that in due cognizance of the varying degrees of development of the rural economy and of the co-operative credit system in the country, it may not be feasible for all other states to adopt the Kerala model with the same extent of success. Nevertheless, there is no reason why PACS in other states, particularly those which have been working at a profit for some years, cannot achieve success in this sphere. RRBs, CCBs and commercial banks have shown the way by achieving a fair degree of success in collecting rural deposits through their branches. As a matter of fact, the achievement of RRBs in this regard should be an eye-opener to PACS.

5.22 Deposits, being cheaper than even borrowings from higher financing agencies, have immense potential in augmenting the viability prospects of primaries. If the societies are able to build up a well-balanced deposit portfolio (with a good mix of savings deposits and other low-cost deposits) at a cost less than that of borrowing from the CCB, it will be a gain to the economy as a whole. The Committee therefore feels that PACS should immediately take steps for deposit build-up by means of a regular programme with due focus and also make it an integral part of their revitalisation process. Initially it is an essay in credibility and confidence. The PACS will have to adopt an approach and a system that will bring confidence to the rural saver and the potential depositor, be he a member of the society or not. The PACS should be able to mobilise substantial deposits if theycan create a good image of themselves as banks, establish proper operational procedures and inspire confidence in the local population. What is wanted is an earnest endeavour on their part to win the loyalty and trust of the local population by issuing receipts for all moneys received, introducing safe-custody arrangements under double-lock system, maintaining fluid resources to meet the claims of depositors as and when they accrue, etc. Also, as in Kerala, there should be a broad understanding among all political parties to keep themselves aloof from the co-operatives. The Committee suggests that, to begin with, viable societies with full-time paid secretaries, good management and infrastructural facilities like building may be selected in each state for the purpose of introducing deposit mobilisation. The apex co-operative bank and CCBs in each state as leaders of the co-operative credit movement in their respective spheres should be fully involved in the programme. Like the Kerala SCB/CCBs, they should be able to set apart some funds for the purpose of erecting counters and other infrastructural facilities. In this connection, the Committee notes that, in Kerala, the state government has introduced, since 1977-78, a scheme to provide financial assistance to PACS with a view to encouraging them to mobilise deposits. Under this scheme, the societies are eligible for subsidy at the rate of 2 per cent of the incremental term deposits for periods exceeding one year, subject to a ceiling of Rs. 10,000 per society, towards meeting incidental expenses related to deposit mobilisation such as publicity and advertisement charges, transportation cost of canvassing deposits, presentation of gifts to those individual depositors who invest substantial amount in long-term deposits etc. We recommend that, as in Kerala, the state governments may extend financial assistance to the societies selected for deposit mobilisation in their respective states.

5.23 It should be stated in this context that inasmuch as there is considerable potential for loaning under credit-oriented integrated rural development programme and a sizeable proportion of rural households is still outside the orbit of co-operative credit, the deposit mobilisation efforts of PACS will not be repugnant to the interests of CCBs. Here again, we have the example of Kerala where despite the increase in deposits held by PACS, there has been a substantial rise in the deposits held by CCBs too, from Rs. 15.15 crores in 1970-71 to Rs. 94.59 crores in 1978-79. In our view, both PACS and CCBs have enough avenues to exploit, for using their deposit resources, provided both these institutional agencies make efforts to identify the avenues and tie up their lendings to specific programmes of development. Again, in the matter of deposit collection, CCBs have advantages of insurance cover and other infrastructural facilities, whereas PACS will have to rely on their own image and strength to inspire confidence among rural investors. We feel that a certain measure of competitive co-existence of PACS with CCBs in the matter of deposit mobilisation and their deployment for local lending is a desirable step in the direction of improving the working of societies. The CCBs can act as balancing centres by absorbing the unutilised surplus resources, if any, with PACS.

5.24 PACS require to be provided with adequate assistance in the form of subventions and grants by the higher level institutions, *viz.*, CCBs and SCBs, which in the federal structure of the co-operative financing system, are expected to provide a positive leadership in developing the strength and soundness of the system and in sustaining its health. However, there is no discernible evidence to suggest that they have been discharging their responsibilities in this regard. As their own progress, strength and resilience are inextricably linked to the development of the base-level co-operatives, it is in their interest that they should substantially aid PACS to enable them to emerge as full-fledged, multi-purpose co-operative societies. For this purpose, they should create and build up quickly, with suitable constitutional sanction in terms of provisions made in their bylaws, a "Primary Co-operatives Development Fund", not merely by ad-hoc lump sum appropriation out of their general resources but by regular, systematic contributions, at stipulated rates out of their annual net profit. Assistance from such a fund should be made available to viable societies to go to the next stage of their development and diversification, including training and strengthening of staff.

Improvements in Loaning Policies and Procedures

5.25 Under the crop loan system adopted by the societies, a part of the loan is disbursable in kind mainly in the form of fertilizers. This presupposes the existence of satisfactory arrangements for procurement of fertilizers/seeds/pesticides in adequate quantities and of the types in demand and their distribution through a network of outlets most conveniently situated from the cultivators' point of view. This, in turn, involves a measure of co-ordination with all concerned with the supplies but in the conditions now obtaining, such co-ordination is sadly lacking in several cases. In the result, in many areas, the co-operatives have not been able to provide timely and adequate supply of fertilizers/seeds/pesticides. Also, there is a practice in some states to insist on the borrowers to lift fertilizers only from co-operatives which is naturally restricted to whatever types are readily available with them at the time of lifting. In view of this and also because of the growing fertilizer-consciousness among cultivators, it may be necessary to impart an element of flexibility in the drawal of kind component, so that, in the event of the societies having no stock of the required brand of fertilizers, the borrowers should be free to buy fertilizers of their choice from whatever alternative source they prefer, on the basis of the entitlement for fertilizers shown in the pass book to be supplied to them as suggested earlier.

5.26 To the Committee's query to SCBs as to the most suitable method of simplification of the existing loaning system, they have generally favoured the introduction of a cash credit type of loaning in primaries. Under the cash credit system, the farmer will be sanctioned a credit limit, operative for the crop seasons, to be drawn upon as and when required and to be repaid as and when income accrues to him. The All-India Rural Credit Review Committee (1969) had earlier recognised the appropriateness of providing cash credit facility to cultivators engaged in multiple cropping and suggested that, to start with, this could be tried on a pilot basis in compact, intensive cultivation programme areas, confining it to societies with full-time paid secretaries and functioning on sound lines. The Working Group on Co-operation for the Fifth Five Year Plan (1973) recommended that the cash credit system be progressively introduced in all areas where multiple cropping as well as subsidiary occupations are common among members. Later, the Study Team on Overdues (1974) also recommended extension of cash credit facility by well-established PACS having full-time paid secretaries to select cultivators who adopt an intensive form of cultivation and whose past repayment performance is satisfactory. The Reserve Bank too has been suggesting that cash credit lending may be introduced in multi-cropped areas where expenditure on inputs cannot follow any definite seasonal patterns and sale proceeds also flow more frequently than in mono-cropped areas. Pursuant to the above suggestion, a beginning has been made in some states, *viz.*, Andhra Pradesh, Kerala, Maharashtra, Uttar Pradesh and Tamil Nadu for purveyance of crop loans for certain crops, in the form of cash credit, on a selective basis. A quick study of the working of the system in Nizamabad district of Andhra Pradesh conducted by the Reserve Bank (1979) showed that the coverage of members under the scheme was very much limited, ranging between 3 in one society and 224 in another; out of 2,113 members in 46 PACS who enjoyed cash credit limits for 1977-78, 1,085 members had utilised their limits in full; but as many as 268 members had made no repayments at all into their accounts during the year. The study further brought out that the credit limits fixed for individual borrowers had no bearing on the range between cash outflow and inflow and that in the absence of pre-operation briefing transactions in the accounts were infrequent. In Kerala, the cash credit arrangements were confined to about 50 societies having a deposit base of Rs. 3 to 5 lakhs each, in the areas of a few CCBs, *viz.*, Kottayam, Ernakulam, Alleppey, Idikki, Trichur and Palghat. A review of the working of the system made for our benefit showed that the members operated on cash credit limits more or less as fixed loans with one or two bulk withdrawals unrelated to any seasonality of farm operations and without frequent credits into their accounts to reflect inflow of funds.

5.27 The Committee observes that in Punjab there is a cheque book system for crop production loans, which in essence, is a variant of the cash credit system. Under the cheque book system, credit limits operative for a period of 3 years, are sanctioned to the affiliated PACS by the CCB on the basis of normal credit limit statements prepared for each society. These statements contain credit limits sanctioned to individual members seperately for *Kharif* and *Rabi* seasons. They are conveyed to the nearby branch of the CCB which maintains personal ledger for each member of the society. All non-defaulting members are allowed to draw the cash component of the credit limit sanctioned to them through cheques drawn in their own favour on the CCB's branch, while in respect of the kind component, they are required to draw cheques in favour of the society from which they lift fertilizers. Members make repayments either to the society or to their personal account with the CCB's branch. As the credit limit is operative separately for *Kharif* and *Rabi* seasons, the outstanding balance in the account has to be cleared by the end of the respective seasons. In general, there are no procedural hurdles in the Punjab system. However, under this arrangement, borrowers have to go to the branch of the CCB for encashment of cheques representing cash portion of the loans unlike in the cash credit system where they can draw cash from their society itself.

5.28 It may be argued that, in the prevailing and emerging contexts, when due to increased cropping intensity flowing from large-scale investments on minor irrigation and land development programmes, cultivators have to be accommodated with production credit in quicker succession, there may be no alternative to a cash credit system for meeting cultivation outlays. Also, for the vast majority of small and marginal cultivators who have little or no saleable farm surplus and have to depend for redemption of their crop loans on off-farm incomes, cash credit would offer certainty in credit flow and also operational convenience enabling them to make repayments in driblets as and when income accrues to them. Yet, as the experience of Andhra Pradesh and Kerala has shown, one may have to proceed with this system cautiously. If cash credit arrangements are to succeed, the borrowers have to be sufficiently educated as to how to operate on the credit limits with particular emphasis on non-overdrawals, frequent credits into the account, etc. This will obviously take time. It may be recalled here that, in terms of the findings of the Expert Group (Gunvant M. Desai) on Agricultural Credit Schemes of Commercial Banks (1978), even some of the commercial banks, which have introduced this system for providing production credit to owner-cultivators growing two or three crops in a year, are not inclined to suggest any large-scale adoption of the cash credit facility because of their apprehensions about the recovery of outstanding balances in the accounts. All the pros and cons considered, the cash credit system may be introduced only gradually, in areas having viable and well-established primaries with full-time staff at their disposal and where cultivation of cash/plantation crops like coconut, coffee, sugarcane, banana or betelvine is predominant.

Security for Loans

5.29 In a majority of cases, crop loans are now secured against personal surety and/or a charge on land created by the borrower in favour of the lending institution. Owner-cultivators and registered tenants may not have any problem in offering the type of security required of them for crop loans. But, in the case of an oral lessee or share-cropper whose interests in his cultivated holdings are unidentifiable, the existing arrangements to extend short-term production credit to him, in terms of the guidelines contained in the Reserve Bank's "Manual on Production-Oriented System of Lending for Agriculture", are as follows:

(*i*) He should produce solvent sureties who are owners of land or are registered tenants;

(*ii*) He may be asked to provide collateral tangible security in the form of gold or silver ornaments, sufficient to cover the loan;

(*iii*) Where even solvent sureties are not forthcoming as guarantors or collateral security as indicated above cannot be provided, he can be advanced loans only in kind, in the form of fertilizers, improved seeds, and other inputs upto an aggregate value of not more than Rs. 500 against the surety of another member who may or may not be a land owner or a registered tenant, provided the guarantor is acceptable to the Managing Committee of the society.

The quantum of credit provided by the PACS to tenant cultivators during 1977-78 was only Rs. 30.90 crores forming 2.4 per cent of their total advances. The share of tenants in the loans issued by societies was very negligible (less than Rs. one lakh) in Madhya Pradesh and Orissa. The existing ceiling of Rs. 500 in respect of an oral lessee/share-cropper is too low to meet his needs, taking into account the sharp increases in input cost. It is, therefore, expedient and essential to raise this limit adequately. The Committee also considers that, by and large, the problem of oral tenants and share-croppers, is one of land reforms and that PACS can assist these groups purposefully with adequate credit support, only when they are registered as actual tillers of the lands cultivated by them. Action towards this end has to come from the state governments. In this context, the Committee observes that the West Bengal Government has moved to record the names of *bargadars* in the state under a crash programme launched in 1978.

Investment Lending through PACS

5.30 The "Single Window Approach" to cater to the needs of farmers and other rural producers, warrants PACS undertaking purveyance of long-term credit besides short and medium-term credit. There is also a consensus in regard to the need for functional integration at the primary level. The Agricultural Credit Board in the Reserve Bank has already suggested that viable PACS could function as agents of LDBs for collection of loan applications, disbursement and recovery of long-term loans, etc., for a consideration. Though there is some move by SLDBs/SCBs in this regard,this has not so far been vigorously pursued. Functional integration being quite expedient in the context of comprehensive services to the weaker sections, the Committee strongly urges that, in the matter of dispensing long-term credit, PACS should act as agents of LDBs. This is further discussed in Chapter 14.

Recovery Problems

5.31 As mentioned in Chapter 4, the high level of overdues of societies constitute the major factor inhibiting expansion of their coverage and lendings. Poor recovery performance impedes the progress of societies on account of their *prima facie* ineligibility to draw fresh finance from their financing banks if their overdues exceed a specified percentage of demand (which is, generally, 50 per cent). Also, the defaults of primaries to the CCBs impair their capacity to draw funds from higher financing agencies, particularly the Reserve Bank of India, as CCBs whose overdues exceed 60 per cent of the demand are not normally eligible for refinance from the Reserve Bank. Thus, overdues have the effect of choking the credit channels.

5.32 According to the findings of special studies conducted by the Reserve Bank in select districts in 1978 to investigate the reasons for overdues, the accumulation of arrears in members' dues was largely due to wilful default and partly due to irregular lendings, slackness in supervision, indifference to recovery efforts, inaction against defaulters and bans on, as well as interference in, recovery work of PACS by the state governments. Further, as indicated in the previous chapter, some of the state governments had declared *annewari* of crops through certificates of District Collectors even where it was not justified.

5.33 A case study of the problem of overdues was undertaken at our instance, by the Reserve Bank in July-August 1979 in 25 selected societies of Raisen district of Madhya Pradesh. Out of 797 defaulters investigated in these societies, as many as 593 were big farmers with overdues amounting to Rs. 19.53 lakhs as on 30 June 1978 and, of them, 258 were wilful defaulters, accounting for as much as 54 per cent of the defaulted amount. Apart from wilful default, misutilisation of loans was one of the major factors responsible for overdues noticed in a similar study of selected borrowers conducted in Bangalore district of Karnataka.

5.34 The Study Team on Overdues had recommended to the state governments to amend the State Co-operative Societies Act for automatic disqualification of the members of the managing committee of societies if the amount of default/number of defaulters exceed 70 per cent of the total demand/total number of indebted membership for a continuous period of two years and also for denial of credit to sureties of defaulters. According to the information available to us, these recommendations have not been given effect to by most of the state governments. The Committee, therefore, reiterates that the implementation of these recommendations should be taken up on a priority basis with a view to creating and sustaining a congenial atmosphere for prompt recovery of loans advanced by the societies. In the event of natural calamities, the state governments should determine the *annewari* of crops, for purposes of credit stabilisation arrangements, on a scientific basis by undertaking crop cutting experiments through their Departments of Statistics, as already recommended by the Study Team on Overdues.

5.35 As mentioned in Chapter 4, some of the state governments had banned coercive action for recovery of overdues from defaulters even when there were no valid reasons such as natural calamities. To add, some of them have, of late, resorted to payment of overdues to the co-operatives on behalf of defaulters. The Government of Maharashtra is understood to have paid the entire overdue amount of crop loans and interest thereon due from small farmers. It is learnt that the Tamil Nadu Government too has written off dues of small farmers. Some other states are also reported to be contemplating such measures of relief to the defaulters. In contrast to this, some other states like Haryana, Punjab and Kerala have taken steps to build up a favourable climate for recovery of co-operative dues.

5.36 The Committee is gravely concerned at the tendency of some of the state governments, as mentioned above, to exempt whole classes of defaulters from the payment of their dues to PACS and to pay the said amounts to the institutions from the exchequer. This has dangerous import and wider implications for the entire institutional credit system. Viewed from the long-term interest of the system, the Committee feels that such general steps, without case-by-case examination of the need for such relief, are bound to vitiate the climate of recovery and encourage wilful defaults besides generating a psychology of non-repayment of not merely co-operative dues but also the dues of other credit institutions, thereby endangering the survival of the institutional credit structure itself. The Committee would, therefore strongly urge that no state government should resort to such measures in future. It would also suggest that the GOI should prevail upon the state governments not to resort to such measures.

5.37 The recommendations of the Study Team on Overdues, to which we have referred to in Chapter 4, should be implemented forthwith. Further, we suggest the following specific steps to be taken for arresting the growth of overdues in co-operatives:

(i) No state government should, as a rule, interfere with the recovery endeavours of co-operatives. Also, it is the responsibility of the state governments in their developmental role to ensure that there is strict observance of financial discipline by all concerned for sound and sustained growth of the co-operative credit system.

(ii) In areas where overdues are heavy, the CCB should arrange with its concerned Director representing such areas, to keep a continuous and close watch over recovery efforts by frequently visiting the societies and enthusing their office bearers to make collections, as also to take legal action against defaulters.

(iii) The tempo of recovery drive should be maintained by the societies throughout the year instead of initiating it towards the close of the year.

(iv) A well-planned recovery campaign should be embarked upon well before the due dates and the recovery machinery geared up to swing into action at the time of harvest of crops.

(v) The crop loan system should be properly implemented by ensuring that no ghost acreages are financed, that the scale of finance and the due dates of repayment are fixed realistically and that the borrowers get timely and adequate credit.

(vi) A system of verification of crops financed by the societies should be undertaken by the supervisory staff of CCB and paid secretaries of societies to check the utilisation of crop loans. The SCB should test-check such verification on a quarterly basis.

(vii) The CCB should examine the existing strength of recovery staff and wherever necessary, take steps for augmenting it suitably.

5.38 It is our view, that, as an incentive to prompt repayment of loans, borrowers of PACS who repay their loans on the due dates should be allowed a rebate in the rate of interest normally charged to them. Such a system is in vogue in Kerala since 1978-79 under which the effective rate of interest ultimately charged to those borrowers who repay their dues without default is less than the contracted rate, by 3 per cent. In terms of the Reserve Bank's instructions issued during August 1980, PACS are required to revise upwards their lending rates on agricultural loans as under, effective from 1 July 1980:

Type of loans		Category of borrowers	Purpose of loan	Existing rate (per cent per annum)	Revised rate
(1)		(2)	(3)	(4)	(5)
Short-term	1	Small farmers upto Rs. 2,500	Agricultural	11·0	11·85
	2.	Others	-do-	13·0	14·0
Medium-term	A.	All farmers	Minor irrigation and land development purposes	10·5	10·5
	B.	-do-	Diversified purposes	11·0	11·5
		Small farmers upto Rs. 2,500	Other than diversified purposes	11·0	11·0
		Other farmers	-do-	12·5	12·5

Some of the state governments and SCBs are reported to be not inclined to raise the lending rates of PACS as above. In our view, a lower interest rate should be a reward for prompt repayment of the loans on the scheduled dates. For improving recovery performance, the rate of interest should be initially fixed at a somewhat higher level and a rebate of 2 or 3 per cent allowed to the borrowers on repayment of dues on schedule, without default.

5.39 The Committee notes that the Government of Tamil Nadu has, by virtue of an amendment to the Tamil Nadu Co-operative Societies Act passed by the State legislature in 1979, empowered the financing co-operative banks to publicise the list of defaulters, particularly the names of big landholders who deliberately refrain from paying their dues to co-operatives, if they are of the opinion that it is necessary to do so in public interest and to induce prompt recoveries. This is a salutary measure which could be considered for adoption by all other states in the country.

5.40 The propensity of borrowers, especially, the comparatively better-off farmers amongst them, to deliberately withhold repayment of their dues to PACS, despite their ability to pay, is, of late, on the increase. While relief in the matter of repayment, may be warranted in times of widespread natural calamities, or under circumstances beyond the control of the loanees, there is certainly no justification in tolerating any wanton delinquency in repayment during periods of good harvest. That defaults are, by and large, wilful, has been established by the studies conducted by the Reserve Bank. Despite this being pointedly highlighted by the Study Team on Overdues, there has, so far, been no effective action to end this tendency by the powers-that-be. So much so, wilful defaulters have been able to hold the co-operatives to ransom with a sense of impunity, thereby deliberately interrupting smooth flow of co-operative credit to the most needy sections of the rural community. The Committee is of the firm view that wilful default in repayment of co-operative loans is not merely a civil misdemeanour but a criminal offence. It should no longer go unpenalised and must attract deterrent punishment under the criminal law of the country. The Government of Tamil Nadu has recently (November 1980) promulgated an Ordinance which, *inter alia*, provides for deterrent punishment to whosoever encourages or incites any person or class of persons or the public generally to refuse or to resist or to obstruct payment of any dues or amount payable to any co-operative society including the state and primary land development banks. When incitement of refusal of payment of dues is itself treated as a criminal offence, there is no reason why the very act of refusal of payment cannot be deemed to be a criminal offence under the law. The Committee would, therefore, strongly urge the Government of India to consider amending the Indian Penal Code and other relevant statutes to provide for deterrent punishment to wilful defaulters. It is also necessary to make a provision in the law to place the onus on the borrower to rebut the presumption that the default is wilful.

Non-Credit Functions

5.41 Over the years, the supply of credit has received so much excessive emphasis in the activities of PACS that non-credit services which are equally important for rural development have tended to be pushed to the back seat and the societies have failed to function as multi-purpose service institutions. While credit should come only as an accompaniment to input supply and output-sale services, in practice, it has overshadowed these essential services. It has to be ensured that hereafter, non-credit services and organizations rendering such services are given equal emphasis and attention along with credit. Thus, input supply arrangements, processing facilities, marketing arrangements and distribution of essential commodities should command greater attention and resources specially when PACS are expected to serve the poorer households who cannot make these arrangements on their own.

5.42 As on 30 June 1978, as many as 43,605 or 38 per cent of the total number of societies had undertaken distribution of fertilizers. A few societies have arrangements to hire or supply agricultural implements including plant protection equipments. Some societies have been entrusted with the distribution of essential consumer commodities under the public distribution system. The co-operative agricultural service societies at the focal points in Punjab have been able to earn substantial profits out of their fertilizer sales due to direct procurement of stocks from production centres.

5.43 In this connection, the Committee is happy to note that the NCDC has come forward to assist PACS in a big way for construction of godown-cum-office-cum-retail shop. By the end of 1978-79, 32,047 societies were assisted for construction of godowns. Under the present pattern of its assistance, 60 per cent of the cost is provided to developed states as term loan to the state governments, the balance being met by the latter as subsidy to the society. For co-operatively under-developed states and backward states, assistance from the NCDC is in the form of loan and subsidy on 50:50 basis. Apart from assistance from its own funds, the NCDC has also sponsored a massive programme for storage construction with the support of IDA and European Economic Community. This programme carries a different pattern of financial assistance. The Government of India has also formulated a scheme for establishment of a national grid of rural godowns with subsidy to the extent of 50 per cent of construction cost to be shared equally by them and the state governments, the balance being provided by way of a bank loan. Following this, the ARDC has come forward to provide refinance assistance to the banks to the extent of 80 per cent of the loans given by them for construction of rural godowns. In view of the availability of financial assistance in an increasing measure, the state government should encourage all reorganized PACS, FSS and LAPMS to construct godowns.

5.44 For this purpose, the state governments may draw up a programme to be implemented in a phased manure so that, over a reasonable time-frame, all the societies can enter the distribution field in a big way. To bring this about, the following complementary measures are required:

(i) The societies should be enabled to own lands for construction of godowns by initiating, where necessary, compulsory land acquisition proceedings and assisted with loans and subsidies for construction.

(ii) For the purpose of ensuring timely and adequate supply of fertilizers, all large-sized PACS, FSS and LAMPS should be linked up directly with the production units, thereby saving the commission payable to the intermediaries. The State and Central Governments may take necessary action to make it obligatory on the part of fertilizer manufacturing units to sell a specified portion of their output directly to the societies selected for the purpose.

(iii) The Agriculture Department of the state governments should recognise the societies as their retail agents for supply of hybrid seeds, pesticides, modern agricultural implements etc., allowing the societies sufficient margin in sale price to cover transportation cost and other incidentals.

(iv) It is the responsibility of the state governments to see that the societies handling consumer commodities under public distribution system have adequate stocks to meet the demands of rural households.

(v) Whether in respect of distribution of consumer goods or sale of fertilizers, the margin retained by the societies should be sufficient to cover transportation, freight, storage losses, transit damages, cost of staff employed for sale, etc.

5.45 In the case of LAMPS, besides the above-mentioned facilities, there should be arrangements to enforce strictly the monopoly enjoyed by them for collection of minor forest produce. Also, there should be a realistic pricing policy for sale of their old stocks.

Management : Composition

5.46 More often than not, co-operatives are criticised for their big-farmer bias and domination by vested interests. This criticism is not wholly unjustified. In order to counter the influence of vested interests on the management of PACS and with a view to ensuring that the policies and programmes of the societies are so directed as to benefit, on a priority basis, the weaker sections of the rural population, it will be necessary to provide, in their constitution, for a fair representation to the latter on their managing committees. In fact, in a number of states, the co-operative law provides for reservation of seats to the weaker sections on the managing committees of societies. In this connection, Shri V. S. Page, with whom the Committee held discussions, has made the following specific suggestions:

(i) The co-operative law should be amended to provide for one-third directors on the managing committee of societies to be elected from among the weaker sections.

(ii) The weaker sections should be in absolute majority on the loan committees of PACS.

The model bylaws of PACS framed by the Reserve Bank and commended to the state governments for adoption contain a provision to the effect that not less than one-half of the members elected out of a total strength of 11 members shall be from weaker sections. In our view, the election of not less than fifty per cent of the members of the managing committee of PACS from among their members belonging to the weaker sections, should be made mandatory by appropriate provisions in the State Co-operative Societies Act of those states where it is not so at present. Also, as suggested by Shri Page, the weaker sections should have controlling interest in the loan business of PACS, for which purpose, they should be in absolute majority on the loan committees of the societies. Necessary provisions should be made therefor in their bylaws.

5.47 Consistent with our suggestion that PACS should endeavour to build up their deposit protfolio, we would urge that the managing committee of societies should be so broad-based as to include at least two depositors to be elected by the general body of members from amongst depositors holding a specified amount of term deposit in the society. This device, we feel, may facilitate a larger flow of deposits and also pave the way for the societies to have the benefit of well-informed local leadership to run their affairs on sound lines. The constitution of PACS may be amended accordingly.

MANAGEMENT : PROFESSIONALISATION

5.48 Keeping in view the changed perspectives in the role of PACS, the need for equipping them with qualified and well-trained personnel for their management is imperative. With the growing need for professional management and the desirability of maintaining the democratic character of the society, certain checks and balances are essential. These can be secured by suitable provisions in the bylaws.

5.49 For the purpose of ensuring promotion, mobility and transferability of professionalised services, it is now recognised that a cadre of such personnel be built under the CCB. According to information available, efforts have already been made in some of the states towards introducing a professionalised cadre of paid secretaries of PACS, *e. g.*, Andhra Pradesh, Assam, Punjab, Haryana, Maharashtra, Meghalaya, Orissa, Bihar, Jammu and Kashmir, Karnataka, Gujarat, Madhya Pradesh, Rajsthan and Uttar Pradesh. As per the scheme, the cadre is created at the district level under the CCB's overall supervision to take care of recruitment, training and administration of the cadre staff. A cadre fund at the state level with annual contribution from both the societies and their financing banks (at a stipulated percentage of loan business) and also from the state government is envisaged for meeting the cost of cadre staff. Financial assistance from the state governments by way of subsidies etc., is available to those societies which have accepted the cadre scheme. This appears to us an adequate arrangement in that it ensures security of service to the paid secretary and at the same time, control by the financing bank, on which, the primaries themselves are represented. We, therefore, suggest that the cadre scheme should be adopted by all the remaining states and adequate contributions made to the cadre fund by the state governments and the participating institutions.

5.50 In this context, the Committee would also like to stress the imperativeness of administering the cadre scheme in its proper perspective. The Committee noticed during its visit to one of the states that the cadre scheme had almost lost its value and effectiveness since some secretaries, although in the cadre, have managed to get themselves entrenched in their respective societies using their political linkages. Intra-district transferability of the secretary/manager in public interest is one of the core features of the scheme that is intended to inspire greater confidence among the local people. Hence, its strict compliance should be ensured by the state co-operative administration in cases where the continuance of the incumbents concerned in the same societies is detrimental to their sound working and development.

5.51 An allied aspect of professionalised management is the need to train the cadre staff adequately to enable them to acquire the skills required for efficient management of societies. The cadre staff should have a rural bias and rural orientation in their outlook and aptitude, so that they can effectively serve the poorer sections of the rural community with full understanding of their problems and a sense of dedicated involvement. The Committee observed during its visit to West Bengal that against about 4,000 managers of PACS to be trained, the training institutes in the state had capacity to train only about 500 candidates. The need for expansion of training facilities with suitable reorientation to meet the changed situation, particularly the requirements of integrated rural development, is therefore obvious. This is a problem that should be tackled on an urgent footing and we suggest that the RBI/ARDC/NABARD in collaboration with the NCUI chalk out a programme for opening more training centres.

5.52 Technical advice and general guidance to farmers, specially the smaller ones, and supervision by trained technicians over the use of credit, are essential to an effective rural credit service. Past experience has shown that linkage between the credit society and government technical services is not effective due to the thin dispersal of these services over a large nunber of the rural population. It is precisely for this reason that the NCA which recommended the formation of FSS envisaged that the technical personnel should be in the direct employ of the societies themselves. As PACS do not have a wide area of operations, it would not be necessary or feasible to have technical expertise with every society. The operations of the society may not be so extensive as to warrant the appointment of technical personnel for a single society on a full-time basis. Nor would a system of technical personnel for a group of societies be administratively workable. The answer lies in the state governments tying up the technical staff attached to the government extension machinery with the credit programmes of societies.

TRAINING OF MEMBERS AND OFFICE-BEARERS OF PACS

5.53 It is obvious that the successful operations of a co-operative society, and the quality of its management ultimately depend on the alertness of its members and the pressure they exert on the committee of management to perform efficiently. This, in turn, calls for the awareness amongst members of their rights and obligations and the responsiveness and competence of the managing committee. The bulk of the co-operative membership in the country, being ignorant about financial management and role of credit, it is important to educate them and thus, enable them to effectively participate in the affairs of the societies. Similarly, the office-bearers of the societies have to be assisted in developing the skills and faculty required for exercising proper control, while the entire managing committee members have to be trained in the art of running the society on sound lines. We note that the NCUI, is already engaged in this task through programmes implemented by the State Co-operative Unions (SCUs). According to its Annual Report for the year 1977-78, 17 SCUs implemented co-operative education programmes during that year with the help of 530 Co-operative Education Instructors. They organized for managing committee members courses of 3 to 5 days' duration and for ordinary members training programmes of 1 to 3 days' duration. The number of managing committee members and ordinary members trained/educated during 1977-78 was 61,039 and 1,32,012 respectively.

5.54 In relation to the total membership of PACS in the country, member-education is yet to be extensively organized so as to produce an impact on the operational aspects of the societies. Continued low borrowing membership, mounting overdues etc., quite prominently bring out this fact. Programmes for improving effective coverage for increased lendings and for functional diversification can achieve the desired results only when the members, existing and prospective, are adequately enlightened on their obligations and the office-bearers made to realise their responsibilities. We would, therefore, emphasise, particulary in the context of the changing perspectives of rural credit and the crucial role expected of the co-operatives in implementing integrated rural development programmes, that the NCUI and SCUs should draw up and implement time-bound member-education programmes and training programmes for office-bearers of all the PACS in the country with the active financial and administrative support from the GOI and the state governments.

5.55 We suggest that the curriculum of the programmes should include case studies of societies flourishing well on account of honest and efficient management as well as of those languishing for want of effective and competent leadership, initiative of managing committee members etc. Also, the emphasis in these programmes should be on taking to the members and the office-bearers, the new ideas and innovations in the sphere of rural credit, at the point at which they get reflected in practice, say, when and how the credit limits are fixed/ loans are recovered/credit is supervised and so on. In particular, attempts should be made to familiarise the members with the functional aspects of their societies, their duties as members, and how they can help in developing the societies.

AUDIT OF PACS

5.56 We cannot judge the health of a system unless audit is up-to-date. The Committee observes that there is, at present, considerable delay in the audit of societies in some states, while in a few others, many societies have been left unaudited for even two years and more. Thus, out of 88,951 PACS due for audit in 1977-78, 73,582 societies only were audited during the year. Out of 15,369 societies which remained unaudited, 4,508 societies had not been audited for over two years. The pendency in audit was pronounced in some of the states *viz.*, Andhra Pradesh, Gujarat, Kerala, Karnataka, Tamil Nadu, Manipur, Orissa, West Bengal and Jammu and Kashmir as may be seen from the data furnished below:

State	No. of Societies due for audit in 1977-78	No. of societies audited during 1977-78	No. of societies in which audit was pending at end of 1977-78	Of the societies in Col. (4) number not audited for 2 years and over
(1)	(2)	(3)	(4)	(5)
Andhra	11,945	8,736	3,209	753
Gujarat	7,886	5,685	2,201	429
Jammu & Kashmir ..	1,394	530	864	472
Karnataka ..	5,477	4,409	1,068	438
Kerala	1,646	718	928	48
Manipur ..	708	173	535	439
Orissa	3,355	2,355	1,000	816
Tamil Nadu ..	4,802	3,463	1,339	23
West Bengal	8,552	7,372	1,180	248

Source: Statistical Statements Relating to the Co-opeative Movement in India, 1977-78

5.57 Audit, being a *sine qua non* for toning up the health of the organization, the need for conducting it promptly and systematically cannot be over-emphasised. Equally important is the quality of audit, to ensure which, it should be done by an agency independent of those concerned with the administration of the societies at the governmental level. The Committee, therefore, suggests that the state governments should urgently review their existing machinery for the audit of societies and take steps not only to strengthen it with an adequate complement of well-trained and experienced staff but also to maintain it as an autonomous entity, independent of the co-operative administration in the state. The state governments should also ensure that the audit of all PACS is completed and the audit report issued to the respective societies within not more than 6 months after the close of the accounting year. The Committee also suggests that, in respect of all bigger societies having loan business of over Rs. 5 lakhs, there should be a system of concurrent audit in addition to final audit for the accounting year.

Functional Co-operatives

5.58 The discussions in the preceding paragraphs pertain to credit co-operatives spread over the country for serving mainly those that are engaged in general agricultural operations and some allied activities. But, there are some rural economic activities in which homogenous/sociological groups of persons are engaged and which involve several special linkages, as for example, animal husbandry operations. Some of these groups have been formally organized into dairy societies, sheep breeding societies, pig rearing societies, poultry farming societies, fisheries societies, etc. The policy hitherto followed has been to discourage such activity-specific functional societies extending credit facilities to their members on the apprehension that they would adversely affect the progress and viability prospects of PACS.

5.59 According to us and also other knowledgeable persons with whom we have had discussions in this regard, it is necessary to draw a clear distinction between financing of an individual for his multifarious pursuits and a group of individuals for a common service or activity undertaken by it. The primary problem in financing an individual through a multiplicity of credit channels is one of assessing the total potential and his capacity to absorb it. From this emanates the logic of a single-window approach to meet his credit problems. Unlike this, a group engaged in a single activity with several linkages as in the case of animal husbandry has a common economic identity and social coherence and as such, can be more effectively catered to by an organization exclusively of that group. This is the *raison d'etre* of functional societies providing credit to their members along with other services. Further, group action in product marketing, which the functional societies seek to promote, cannot be successfully fostered unless credit is linked with marketing. It is necessary to remember that these societies, having no organized, ready market for the output of their constituents, have to create a market which can flourish only on sustained product flow. The loyalty of members, which is a prime attribute to bring this about, can be ensured only if they are served in time with adequate financial support. In the case of activities like poultry raising, dairying, sheep rearing, etc., where supply and marketing arrangements are more important and credit comes in only as a supporting factor, combining credit with other operations under a single society becomes necessary and beneficial. Such financing by functional societies for non-crop based purposes cannot be of any material consequence to PACS which should be able to sustain their viability through diversification and expanded membership coverage. In view of the need to cover the vulnerable groups who are to take up such non-land-based activities, we do not consider it advisable to prevent functional societies from financing their members whenever necessary. Further, they should have the option to be financed either by the CCB, LDB, RRB or by a commercial bank. If the members of functional co-operatives described above are also engaged in crop production, they should obtain their crop loans from the PACS concerned, subject to appropriate safeguards against their borrowing from both the agencies for the same purpose. However, in the case of groups engaged in production of specific crops like cotton, sugarcane, etc., we do not favour the formation of separate functional societies for them.

Chapter 6

COMMERCIAL BANKS AT THE GROUND LEVEL

In this Chapter, we are concerned with the issues pertaining to lending by commercial banks to the rural sector in general, and the target groups identified by us in Chapter 2 in particular. The issues will be discussed under four heads *viz.*, rationalisation of rural branch network, lending for development, procedural improvements and recovery experience.

6.2 At the outset, we may take note of the relevance of the experience and expertise of commercial banks for rural development which needs diverse types of credit. Commercial banks possess necessary resources and skills for extending multi-term and multi-purpose credit direct to the different sectors of the economy. Having worked intimately for long with large, medium and small industry, wholesale and retail trade and foreign trade, they have become repositories of useful economic intelligence on which they can freely draw upon for the benefit of the rural people, particularly the target groups. Their expertise can help in guiding and supporting industry and services sectors in the rural areas. Further, commercial banks can play a significant role in providing systematic support to ensure forward and backward linkages in the programmes of rural development and thus help not only in the formulation of district credit plans but also in their fulfilment.

Rationalisation of Rural Branch Network

6.3 In Chapter 4, the phenomenal progress made by commercial banks in spreading their branch net work in the rural and semi-urban areas was noted. At the end of June 1980, commercial banks had 32,419 branches; of these, 15,101 branches or 46.6 per cent were in rural areas and 8,078 branches or 24.9 per cent were in semi-urban areas. Each rural/semi-urban branch covered, on an average, a population of 21,000. The number of villages covered by each rural/semi-urban branch was 25. Impressive as these averages are, these are bound to improve further with the continued emphasis laid by the RBI on opening of bank offices in rural areas. Efforts are also on to reduce inter-state and inter-district disparities in banking development. We would, in this context, like to draw attention to some important aspects of branch expansion in rural areas.

6.4 According to the present policy, the RBI gives preference to the lead bank in licensing new branches in a district. This is entirely in keeping with the central concept of the Lead Bank Scheme (LBS) that the lead bank must provide leadership to other banks operating in a district. We would, however, wish to stress that real leadership depends on the capacity and support a bank can muster in matters relating to credit planning rather than on a large presence in terms of number of branches in a district. We recommend that while it is desirable to enable a lead bank to establish adequate presence in its lead district, it should be ensured that the lead bank does in fact build up planning capacities appropriate for its role.

6.5 During our meetings with the state government officials, it came out that in some districts, particularly in the southern states, there is not much scope for opening new branches, and, as a result, it may not be possible for the lead banks in those districts to improve their presence in the near future. In such districts, some other method has to be employed. For example, if a non-lead bank operating therein with a few branches is desirous of moving out of the district for its own reasons, it may be allowed to do so, by swapping its branches with those of the lead bank which may have similar problems elsewhere, where the former bank has the lead role. We are aware that the application of this principle is beset with serious problems and practical difficulties. It can, therefore, be applied only by mutual agreement. Where such agreement is forthcoming, such swapping may be facilitated by the RBI.

6.6 It is desirable to take a co-ordinated view of future branch expansion in the rural areas, irrespective of whether the branches are to be opened by commercial banks, RRBs or co-operative banks. It is not correct to open branches of commercial banks without considering its impact on RRBs and co-operative banks. We feel that in regard to a centre identified as eligible for a bank branch, an additional step to be taken is to examine which among the three types of credit institutions is best suited in the light of the occupational pattern, command area of the centre, prospects of business, etc. At the same time, in the case of backward and tribal districts, special steps will have to be taken to ensure adequate presence of commercial banks therein to act as catalysts of development.

6.7 During the field visits, we received representations to the effect that there is need for ensuring better spread of branches in the rural and semi-urban areas, even in districts that are well banked. Now that the state governments are consulted by the RBI in the matter of branch expansion, we have no doubt that this aspect will receive the necessary attention and suitable measures devised to correct the imbalances.

6.8 Commercial banks are sometimes called upon to open branches at centres which do not have some of the basic infrastructural facilities. These facilities by way of all-weather roads, police presence, etc. are a state responsibility and banks can hardly be expected to move in at these centres ahead of these facilities. The states should normally expect banks to reach only those areas which have already been reached by their own administration.

6.9 Finally, it is relevant to mention that under LBS, banks were given lead responsibility even in districts where their presence was nil or minimal. This was done with the twin objectives of making available to those districts the rich experience and well regarded expertise of those banks, on the one hand, and of exposing those banks to the challenges of the new areas, on the other. Some of them have done very well indeed in the new districts. Some others have begun to face problems of supervision and personnel deployment due to the fact that the bulk of their operations and staff is confined to one or two states or regions. At the same time, six more banks have been nationalised recently and they too can be given the opportunity to act as leaders in some districts In view of all these considerations, we suggest that the RBI may undertake a review of the LBS, which has completed a decade by now.

Lending for Development

6.10 We have stressed in Chapter 3, that lending for development in the rural areas, particularly to the weaker sections, means lending against a carefully worked out and well co-ordinated programme. Though the rural branches of commercial banks have lent, by June 1979, 13 per cent of their total credit to 6.5 million borrowers or 8 per cent of the operational holding in the country, our observation in the field is that there is great scope for improving the coverage of weaker sections and the links between development programmes and credit programmes. Integrated development approach lends even greater importance to these aspects. Failure to do so will not only lead to infructuous lending but also make financial targets an end by themselves. Lending to the weaker sections without such links is likely to add to their woes through a larger debt burden rather than result in their real upliftment.

6.11 Banks told us that several government schemes offered to them for lending, tend to be unrealistic and not based on actual field conditions. They feel that the lead bank should be involved actively in the preparation of development programmes so that adequate care of their banking aspects is ensured. Banks also claim that they can draw on their experience in different parts of the country to improve the schemes and thus bring greater realism into them. Further, banks indicated that with greater assistance and collaboration from the government departments for the preparation of schemes suited to areas they could serve the people better. On the other hand, government officials feel that banks place too much emphasis on bankability and security.

6.12 The needed emphasis on identifying needs and preparing programmes suited to local circumstances, fixation of norms for lending and allowing freedom for individual branches to modify them where necessary can be brought about by greater interaction between bank officials and government officials. Such an approach will obviate the recurrent problems arising out of the state officials failing to appreciate viability norms of banks and consequent avoidable misunderstanding regarding rejection of loan applications. We have seen that where, through the intermediation of the ARDC, norms for costs, viability, etc., are settled in advance with the state administrations, complaints do not ordinarily arise. The DCC and similar other forums at the district and state levels can provide the appropriate machinery for the needed interaction between banks and government departments. We shall discuss these matters in Chapter 8.

6.13 As regards identification of beneficiaries, banks are near unanimous in suggesting that they can do better with greater assistance from government authorities. The assistance they seek, particularly in reaching the target groups, is in regard to greater clarity about the target groups themselves. For example, identification can be done by the departmental authorities on the basis of proper and up-to-date records and the list of such identified persons can be passed on to banks at periodic intervals. With clear definition of parameters, the identification exercise could also be done jointly by officials of banks and government so as to develop a proper nexus between the two as also between them and the borrowers. The government should also encourage the bank staff to undertake identification according to the prescribed criteria and make available the stipulated subsidies to such identified beneficiaries.

6.14 In the case of lending for non-land based activities, particularly artisans and craftsmen, the problems are far more complex. So, the state governments will have to play a more direct and active role in the sphere of inputs/supplies, services and marketing by building suitable supporting organisations for all the three items. In these cases, therefore, identification of beneficiaries may better be done by government's own agencies.

6.15 Identification, we would like to emphasise, is not for the purpose of achieving the targets specified and for expending the subsidy but for encompassing all eligible beneficiaries in a given order of priority. Thus, identification is only the first step forward, which is to be followed by the more difficult task of persuading the identified persons to borrow for the purpose of development through one or more of the given schemes. There are several constraints to overcome which require a joint effort on the part of the bank staff and the government's extension staff. For this purpose, the former have to familiarise themselves with the local land record system and the supporting activities and organisations of the state administration, while the latter must become fully conversant with the details of the credit schemes, cost norms, viability criteria, etc.

6.16 It is desirable that both banks and departmental authorities view the entire operation not as one of releasing loans and subsidies, respectively, but as one of assisting and accelerating the implementation of integrated rural development approach. The government staff should adhere to the guidelines issued for identification and avoid burdening banks with bunches of applications at the fag end of the year. Continuous efforts, not unduly oriented to fixed and dated targets, on the part both of the bank staff and of the government staff will remove the ground for much of the criticism on this score. Also officials of government should recognise that identification is one stage of the exercise and sanction of loans is another and that it may not always be possible that everyone identified will be *ipso facto* financed without scrutiny.

6.17 It is sometimes urged that to provide a focus on the socially backward classes, it will be desirable to route all the loans meant for these classes through corporations set up to cater exclusively to them. We have noticed that most of these corporations have come into being for channelising the subsidies provided in the annual budgets and for facilitating the flow of funds from institutional sources as counterpart for those subsidies. Usually these corporations nominate the beneficiaries. They also want to act as disbursing agencies to beneficiaries at their discretion. In our view, unless they have the organisation and competence for providing infrastructural support so essential for making the credit productive and helping the beneficiary households reach higher levels of productivity and income, such corporations are not appropriate intermediate organisations for routing credit. They can certainly assist in identification of beneficiaries belonging to their target groups and in introducing them to the banks. Otherwise, there is every possibility of burdening the poor families with debt and the banks with overdues.

Village Adoption Scheme

6.18 It is often asserted on behalf of banks that area approach for lending, or a variant of it, the Village Adoption Scheme (VAS), helps in ensuring wider coverage of the target groups. The approach, according to them, facilitates formulation, in collaboration with government agencies, of schemes suited to local needs. Such an approach is expected to bring about improvement of infrastructure needed for the success of the scheme, to ensure better relations between government and banks, to facilitate easy assessment of individual needs, and to contribute to better supervision over end use, closer follow-up and monitoring, leading to easier and better recovery. The added advantages are gainful use of staff and vehicles contributing to reduction in cost.

6.19 When the area approach is applied by each bank, in the context of a multi-agency system it tends in practice to result in demarcation of villages to each bank on an exclusive basis. We have already indicated in Chapter 4 that VAS has not led to any intensive financing in the adopted villages in the sense that the adopted villages have been intensively covered in respect of all potential borrowers and all potential activities. Our field visits also revealed that the work actually done and results accomplished in the adopted villages are by no means impressive. The promotion of production did not form part of the VAS nor was the available technical expertise properly deployed. In Andhra Pradesh, for example, we found that there was no comprehensive programming in the adopted villages. In fact, we did not find much difference in the coverage of population or of activities between an adopted village and a non-adopted one.

Extending village adoption to *gram panchayat* adoption, as in West Bengal, also does not seem to have resulted in larger and better lending. We do not, therefore, recommend the continuance of the VAS in its present form. In our view, nothing should be done to give a monopoly to a bank in an area or a village, contrary to the spirit of the multi-agency system.

Specialised Branches

6.20 We have briefly noted in Chapter 4 that the SBI has developed specialised branches for tackling the tasks of lending for development. It is relevant to examine how these branches have fared. For this purpose, we sought data, through a mailed questionnaire from a sample of ADBs of the SBI, from out of those that had completed five years of working by the end of December 1978. Twenty-two ADBs—6 each from A. P. and M. P., 4 from Bihar, 2 each from Karnataka and U. P. and one each from Rajasthan and Tamil Nadu supplied the data. The salient features of the sample ADBs are given in Statement 6.1.

6.21 A glance at the statement shows that the ADBs have both plus as well as minus factors. The plus factors are that the direct loans of ADBs to small farmers (cultivating 2 hectares or less) accounted for 45 per cent of the accounts and 36 per cent of the amount outstanding. In 10 ADBs, the number of small farmer accounts was half or more than half of the total number of accounts. In 3 of them, small farmers accounted for more than half of the total amount outstanding. Secondly, the outstanding per account-production and term credit—was Rs. 1,889. In the case of small farmers it stood at Rs. 1,502. In nine ADBs the outstanding loan per account averaged less than Rs. 2,000 and in four of them it was less than Rs. 1,000. In four ADBs, the average amount outstanding per small farmer account was less than Rs. 1,000. Both these factors taken together lead us to believe that not only have small farmers benefited from ADBs but also that the better class of farmers have not availed any additional benefits. Thirdly, the performance of ADBs in regard to recovery of loans was impressive; as against recovery of 50 per cent of the demand in the commercial banking system, sample ADBs recovered 68 per cent of demand. Recovery formed more than 60 per cent of demand in 12 ADBs, between 50 and 60 per cent in 3 ADBs and less than 50 per cent in seven ADBs. The comparatively better performance of ADBs in regard to recovery is attributable to the trained staff and technical support at their command, which enabled them to provide supervised credit.

6.22 On the other hand, the minus factors of ADBs have also to be noted. The wide jurisdiction in respect of some ADBs apparently prevented their lending in all the villages. On an average, each ADB covered 209 villages. However, there were wide variations in their jurisdiction, ranging from a low of 30 to a high of 1,156 villages. Thus, only 7 ADBs had extended loans in all the villages. This did not mean intensive coverage of the villages because, the average number of loans per village where loans were given was less than 25 in ADBs of Karnataka and M. P., between 25 and 50 in those of Rajasthan, U. P. and Tamil Nadu and between 75 and 140 in those of U. P. In Bihar, loans per village where loans were given ranged from 36 to 184. In this context, it is relevant to mention that we observed that the rural branch of SBI functioning in the jurisdiction of an ADB, in West Bengal, not only desisted from lending to agriculture but also transferred its agricultural loans portfolio to the ADB. Such an arrangement leads first, to a monopoly of business by the ADB and, secondly, to deprivation of credit to some villages because ADBs neither covered all the villages in their jurisdiction nor all the activities in villages intensively. Additionally, the distance between the operating branch and the rural clientele increases, contrary to the policy direction inherent in the national policy of branch expansion.

6.23 The average deposits per ADB amounted to Rs. 21 lakhs. The maximum deposit was Rs. 69 lakhs in one ADB from A.P. Outstanding credit, however, was a multiple of deposits—between two and fifteen times—in all ADBs except in one, where the CD ratio was 97 per cent. This underlined that ADBs functioned more as outlets for credit than as deposit mobilising branches. However, only 6 of the 22 ADBs had built up the targeted business of Rs. 1.5 crores.

6.24 Of the 11 ADBs that had outstanding loans exceeding Rs. 1 crore, the establishment expenses per Rs. 100 of outstanding loans amounted to Rs. 4 or less in the case of eight (Statement 6.2). All these eight had earned profits. Of the remaining three ADBs of this category, establishment cost ranged between Rs. 4 and Rs. 5 in two and in the third it amounted to Rs. 9.36 per Rs. 100 of loans outstanding. The latter ADB seemed to be an exceptional case as it operated in difficult terrain. This ADB and one of the former category incurred loss. The remaining 11 ADBs, had outstanding loans less than Rs. 1 crore. Six of them incurred losses. The establishment expenses per Rs. 100 of loans outstanding ranged between Rs. 4 and Rs. 5 in four of them, of which two earned profits and two incurred losses. In five others, of which three earned profits and two incurred losses, the establishment cost ranged between Rs. 7 and Rs. 8 per Rs. 100 of loans outstanding. Both the remaining ADBs having outstanding loans of less than Rs. 50 lakhs each, incurred losses and the establishment cost per Rs. 100 of outstanding loans ranged between Rs. 7 and Rs. 8. In this context, it is relevant to mention that the SBI has been following what it describes as 'liberal transfer rate' policy with regard to ADBs. We have not been able to get a precise answer to whether this means a special interest subsidy. This has obviously the effect of subsidising the operations of ADBs and makes the exercise on their profit and loss not wholly meaningful. While we recognise the need for subsidising the costs of institutions like ADB in their early years in view of the large complement of staff, we have to consider whether ADB could be held as a model organisation at the field level to be emulated by the other banks as well, from the cost point of view. *Prima facie*, we see little reason to hold it as a model in its present form. Its coverage is too large and militates against the principle of nearness to the borrower. Further, the rural branches of SBI in the area of the ADB are deprived of their agricultural business, thereby affecting their viability adversely. These important objections need consideration.

6.25 In our view, the field level unit, the rural branch, should become viable within a reasonable period. The viability norms may, however, vary from state to state. Therefore, banks should fix the norms and endeavour to fulfil them by expanding the coverage of economic activities by the branches. Further, the branches should be as near as possible to the rural clientele besides being able to provide an amalgam of credit and technical services. The question for consideration, therefore, is whether the ADB in its present form is suitable for implementing integrated rural development approach which connotes multi-term and multi-purpose credit for all the weaker sections, as far as possible near their location.

6.26 On the positive side the ADBs have registered intensive lending to small farmers, combined credit with technical services and achieved better recovery performance. The negative aspect include incomplete coverage of villages and of the activities in the villages in the jurisdiction of ADBs, higher establishment costs and the practice of branches in the jurisdiction of an ADB discontinuing farm lending. These considerations lead us to believe that an ADB suitably strengthened on the technical side and empowered to cater to all activities but with a limited jurisdiction may prove more useful. Alternatively, the ADB can emerge as a programming and technical super-structure at a central location with a mandate to support a group of rural branches undertaking multi-term and multi-purpose credit operations for rural development. The SBI which has blazed many a trail in the past will, no doubt, consider these suggestions and make their rural branches equal to the challenges ahead.

6.27 Some other banks have also tried methods similar to the ADB of the SBI. The RSC of the Dena Bank and the GVK of the Bank of Baroda are two notable examples of these efforts. However, they have not been in existence long enough to permit evaluation. In essence, the RSC seeks to provide technical support for a group of branches, which continue to be responsible for the actual disbursement of credit to the people nearest to them or within their command area. The GVKs are more like ADBs. They are set up in select areas.

6.28 Considering that the need for technical support arises at every rural branch, the point for consideration is whether it is feasible to arrange for technical staff at every branch of each bank. This appears to be a formidable task because it is not only very costly but also not feasible to get qualified hands in requisite number. From this angle, it appears that the arrangement by which a pool of technical personnel serves a group of branches, as in the case of RSC of the Dena Bank, deserves to be studied and improved. Where exactly such a centre should be located from its viability point of view depends on practical experience of the working of such an arrangement for a sufficiently long period. We, therefore, emphasise that technical support and supervision are essential for the success of credit operations, and, that it should be available in time from a nearby centre.

6.29 In view of the general shortage of competent technical personnel relative to the demands of different banks, two suggestions were made to the Committee: (*a*) the banks may rely more on the government's technical personnel and (*b*) the lead banks may maintain a pool of technical personnel in their lead districts not only for their own use but also for the benefit of other banks. We have carefully considered both the suggestions. As regards the first, we feel that greater reliance on government technical personnel does not obviate the need for banks to maintain their own technical personnel. Pre-sanction appraisal and post-sanction supervision are duties that can hardly be delegated by a lending institution to an outside authority. When the need of the hour is to build greater confidence and initiative for larger lending to weaker sections, the bank managers must have their own technical personnel to advise and convince them. As regards the second suggestion, it is, on the face of it, unworkable in practice. When banks are still hesitating to supply simple information regularly to lead banks and often perceive them as competitors and rivals, they can hardly be expected to seek and accept advice from the personnel of another bank, be it a lead bank of its own genre or otherwise. Thus, there is really no alternative for the banks but to build up their own technical cadres.

Lending Through Primary Co-operatives

6.30 It is pertinent to refer to the scheme of ceding PACS to commercial banks. At one time, it was thought to be a comparatively easier and cheaper method for banks to reach the rural borrowers. However, the experience is a mixed bag. Many of the concerned institutions do not seem to be happy with the working of the scheme. As noted by us in Chapter 4, the successful working of the scheme depends on all the participants of the scheme (*viz.*, the ceding co-operative bank, the ceded PACS, and the commercial bank to which PACS have been ceded besides the co-operative departments of the state governments) pulling together. The overall experience does not give us the confidence to recommend the extension of the ceding scheme. However, there is no need to disturb the arrangements wherever it works well. We have some sympathy for the view that, PACS being the very base of the federal structure of the co-operative credit system, the delinking of such institutions on a large scale is bound to have deleterious effects on the federal structure itself. The matter has, therefore, to be approached with caution and circumspection.

6.31 On the other hand, we consider it highly desirable to encourage commercial banks to bring together people with common interests and common purposes into homogenous groups for the purpose of development programmes and give them the required credit along-with other necessary services. The groups may be formal or informal. If the form of a co-operative society is favoured or preferred, it should be made possible for such a functional co-operative society to be registered and supervised, under the law, by the Registrar of Co-operative Societies. In our view, the idea prevalent in some quarters that all co-operative societies should be affiliated to and be financed by co-operative credit institutions only and by none other should be discarded as outmoded and injurious to the interest of the target groups. Such functional groups can very well be financed by commercial banks.

Staffing in Rural Branches

6.32 We have seen in the field that whatever be the organisational device, specialised branch or ceded PACS, the most crucial factor for the success of a branch in development lending is the branch manager himself. He is the man on the spot and must be given adequate training and powers. Everything must be done to facilitate the branch managers to reach the people and to supervise the financed activities. This raises several questions. First, there is the question of adequate staff. Available data on this aspect are given below.

NUMBER OF EMPLOYEES OF SCHEDULED COMMERCIAL BANKS, CATEGORYWISE

(December 1977)

	Rural	Semi-urban	Average number of staff per branch	
			Rural	Semi-urban
	1	2	3	4
No. of Offices ..	10,857	7,700		
Category of staff:				
Subordinates ..	18,434	28,373	1·7	3·7
Clerks	30,818	61,744	2·8	8·0
Officers.. ..	17,188	24,298	1·6	3·2
Total	66,440	1,14,415	6·1	14·8

Source : Basic Statistical Returns

Secondly, a bank connotes, in the minds of staff manning it, basically desk work. Or, to put it in another manner, clientele needing assistance from it should come to the branch to seek it. Thirdly, there is also the association of ideas that a bank branch, whether located at a metropolitan centre or at a rural centre, has to have fixed hours of work, such hours being the choice of employees and not the clientele whom they serve. Fourthly, there is the urge always among bank staff to get transferred from a rural branch to an urban branch at the earliest opportunity. The net result of all these factors, as Dr. B. Venkatappiah put it, is that "we have rural branches but not rural bankers". We are convinced that systematic and concerted efforts have to be made over a long period by all concerned to foster attitudinal changes and to develop the right kind of rural bankers. These efforts have to be in various fields such as recruitment,training, rewards, penalties, etc. We have not been able to study them within the time available to us We trust the GOI, the RBI and NABARD when established, will devote attention to these important aspects on a priority basis.

6.33 For immediate action, we would comment on one or two aspects. First, is it necessary at all for rural branches to be open for public on all the six working days in a week? Since rural lending needs proper field work, we feel that three days in a week should be earmarked for field work (relating to deposit mobilisation, loan appraisal by contacting prospective borrowers, liaison with concerned government staff, supervision over end-use of loans, recovery of loans, etc). Further, all the staff working in the rural branch should be expected and oriented to undertake such outdoor work. In this sense, the functions of a rural branch and its staff should be redefined in order to be in tune with the needs of rural development lending.

6.34 We would add that daily banking is not necessary in the rural areas, though fixed hours of banking on specified days are necessary. The hours of work should also be flexible, to suit the sowing and harvesting seasons. Similar adjustments in the hours of banking have been made in urban banking in residential areas, besides innovations such as Sunday banking. Extension of the principle to suit the rural areas should not prove any more difficult.

6.35 We understand that the Indian Banks' Association (IBA) is already seized of the idea of rural branches of banks keeping their counters open only on certain days of the week. The IBA is reported to have set up a committee to examine the issue. We are confident that this committee of bankers cannot but conclude that the needs of rural banking are different from those of urban banking. A prerequisite of rural banking is contact with the people. Therefore, on days on which banking business is not to be transacted across the counter, all the staff should do field work and account for the time. The officer staff and clercial staff together with extension staff of the Block can meet groups of people in the villages for explaining schemes relating to deposits and credit, the formalities connected with advances, etc. The officer staff can also make contacts with the government officials and market functionaries to further the cause of their clientele. The other staff can contact beneficiaries and defaulters, if any. Thus the peripatetic bankers will make the bank's presence felt among all the clientele, actual and potential, in the command area of the branch.

6.36 It is also necessary to stipulate that not only is it adequate to serve a rural branch for a specified period but also serve it successfully. Success in this context can be defined in terms of increase in the business of the branch particularly in regard to lending to the weaker sections. Exemplary performance must be rewarded with commendations leading to, even, out of turn promotion. There should be disincentives, as well, by way of continuance of the non-performing staff in the rural areas even beyond the normally accepted term in the rural areas. The basic purpose is to discourage anybody getting away with the idea that he has done a stint in the rural branch and has, therefore, earned his transfer to an urban branch.

PROCEDURAL IMPROVEMENTS

6.37 It is widely recognised that the procedures of rural branches should be as simple as possible, as the bulk of the clientele are not literate and are likely to be frightened away by complex forms and documentation. In 1978, the Working Group on Simplification of Application Forms and Lending Procedures in the Banks for Loans to Agriculture and Allied Activities, appointed by the Government of India, had made recommendations on the application form, documentation and procedures. The RBI has since commended them to commercial banks for implementation. It is too early to comment on the experience gained. We would like to add that the banks and the RBI should review this matter periodically in order to bring about further improvements whenever necessary.

6.38 During our field visits and discussions, three points were frequently brought up: delays in sanctions due to inadequate powers of branch managers, their motivation, and the practice of demanding collateral. When the first point was brought to the notice of bank Chairmen they clarified that, over the years, branch managers have been delegated sufficient powers so as to cover the bulk of the small loans and the recurrent complaints of delays reflected more their unwillingness to exercise the powers and accept responsibility for the sanctions, than inadequate powers. We have reasons to think that the main cause is the absence of proper motivation among many managers. We saw an instance in which the dynamism exhibited by one manager in extending advances to the priority sectors and effecting recoveries was brought to nought by his successor who elected to remain inactive. Managers of the latter category are inclined to take shelter under some rule or the other and go slow with sanctions. One remedial step could be to impress on managers that their performance will be assessed not merely on the growth of deposits but mainly on the progress of credit to weaker sections in all its aspects including recovery. When this was put to the bank Chairmen, they did appreciate the suggestion but felt that it will take some time to bring about the change in the attitude of managers.

6.39 We agree with the statement of the bank Chairmen that unwillingness to lend and delays arise largely out of unfamiliarity with the clientele and their activities. It is necessary to remark in this context that most of the employees of banks having moorings in the urban areas are reluctant to work in the rural areas for long enough periods. In one state, bank Chairmen admitted that staff posted in rural branches preferred to commute to it every day from nearby urban centre and managed to come to metropolitan area daily for one reason or the other. There was the singular example of an eastern state where political and other pressures were brought to bear upon bank managements to transfer the staff from rural to urban areas. Training, administrative devices of "carrot-and-stick" and above all, time, are necessary for bringing about improvements.

6.40 As regards collateral, the complaint is that branch managers continue to demand such security despite the circular of the RBI dated August 14, 1979. This is reproduced as an annexure to this Chapter. The circular has stipulated that in regard to crop loans upto Rs. 1,000, the security to be furnished will be demand promissory note/loan agreement, and, for crop loans between Rs. 1,001 and Rs.5,000, the security will be by way of hypothecation of crops. In regard to crop loans above Rs. 5,000 the security will be hypothecation of crops and mortgage of land. Mortgage of land is, however, to be at the bank's discretion. As regards investment loans upto the cost of economic unit (where applicable or Rs. 5,000 whichever is lower) for creation of moveable assets, the security to be furnished will be by way of hypothecation of the assets created. For loans above Rs. 5,000, for this purpose, the security will be hypothecation of assets or third party guarantee. Mortgage of land can be taken at bank's discretion. Where moveable assets are not created out of loan of Rs. 1,000 and over, mortgage of land can be taken again at the discretion of the bank. In particular, the RBI circular stated that:

> "In the case of crop loans over Rs. 5,000 and term loans over Rs. 5,000 where moveable assets are created out of the loan amount, taking mortgage of land may be decided at the discretion of bank. Where, however, mortgage is not taken as security, third party guarantee may be taken in addition to the hypothecation of moveables. Similarly, for term loans of Rs. 1,000 and over *where moveable assets are not created out of loan* amount, taking of mortgage of land may be decided at the discretion of banks. Further, in the case of term loans where moveable assets are created, distinction may have to be made between loans

upto the cost of economic unit (where applicable or Rs. 5,000 whichever is lower) and those beyond".

The explanation offered by bank managers was that they were not insisting on collateral in all cases; it was being demanded only where it was available, particularly with a view to preventing the borrower from pledging the available security with another credit agency for a second loan. *Prima facie*, the argument may appear reasonable but in practice, the collateral is taken in many cases, contrary to the spirit of the RBI circular. Discretion and ambiguity in an important matter like this have the consequence of tempting managers to confine lending to those who can offer collateral. This has to be overcome and for this purpose, bank managements must issue unambiguous instructions not to seek collateral from the exempted categories of borrowers. Further the higher levels of bank management should make it a point to scrutinise and enquire about rejected loan applications carefully and independently and sanction them after such scrutiny, so that over time, the branch managers build up confidence and learn to handle such applications direct. Additionally, bank managements should publicise, among their staff, case studies of loans that were not repaid despite their being backed by collateral as well as those which inspite of not being backed by collateral, were repaid because the activity undertaken with the loan succeeded. Indeed, the real collateral is the viable programme for which loan is given. We are firmly of the view that unless determined action is taken to ensure faithful compliance with the RBI's instructions in this matter of collateral, the weaker sections will become playthings of richer intermediaries and the efforts to uplift them will be vitiated.

Recovery Experience

6.41 There are no standardised data on the overdues of agricultural loans of commercial banks. This is because commercial banks did not have a uniform basis for computation of demand and recoveries. Recovery, according to available statistics, referred to in Chapter 4, ranged between 48 per cent and 50 per cent during the five year period, 1974-78.

6.42 The ARDC, as an apex body engaged in *institution-building* for smooth flow of credit for agriculture and allied activities, has set up a Standing Committee on Agricultural Loans through Commercial Banks (CALCOB), in April 1979, to review, *inter alia*, the recovery performance in regard to agricultural loans of commercial banks with special reference to term loans and recommend appropriate measures.

6.43 The CALCOB decided, at its first meeting, to make an in-depth study covering the various facets of overdues under term loans issued by commercial banks. The methodology for the study was drawn up by a steering committee set up for the purpose. The main objective of the study was to focus attention on the problem of overdues of direct term loans of public sector banks for agriculture and allied activities. In addition, it was felt necessary that the study should look into the level of overdues of direct short-term loans also.

6.44 The study was undertaken, in 1980, by 19 commercial banks in 70 branches spread over 17 States. The criteria stipulated for selection of branches for study were that two branches were to be selected from among those, opened on or before December 31, 1975, each with high level of overdues/sizeable agricultural loan business in each of the states allotted to it. The selected branches were to be from different geographical areas.

6.45 A review of the overdues position of selected branches during 1976-77 to 1978-79 revealed that the level of overdues under term loans was higher than that under short-term loans. In the majority of branches, overdues exhibited a rising trend during the period. There was no uniformity, however, either in the trend of overdues in selected branches of a bank in a particular state or of different banks in the same state.

6.46 In respect of loans given on a schematic basis recovery was generally better, though not upto expectation, than that of loans that were not based on schemes. The level of overdues of non-schematic loans granted prior to 1970 was considerably higher than that of those granted after 1970.

6.47 The purposewise classification of loans indicated that overdues were high under loans for almost all purposes and the differences, if any, were not significant. Nonetheless, overdues of loans for farm mechanisation and dairy development were not high. The recovery performance of two branches of the same bank or of different banks in a particular state did not disclose any uniform pattern. The recovery performance of different categories of borrowers under loans for land-based as well as allied activities did not also show any significant variation. However, the recovery performance of farmers other than small farmers was slightly better and performance of land-holding beneficiaries was better than that of agricultural labourers under loans for allied activities. Recovery was better in cases where the term loans were accompanied by short-term loans.

6.48 The causes of overdues as revealed by an intensive study of 30 overdue term loans selected on a random sample basis, in each of the branches, revealed that factors like wilful default, misutilisation of loans and insufficient incremental income accounted for 84 per cent of the overdues, and that factors like defective appraisal and lack of effective supervision and follow-up accounted for 16 per cent of the overdue amount.

6.49 Based on these findings and the suggestions made by the branches, the study has recommended that banks should deploy adequate staff at their branches as per their existing norms for attending to agricultural loans for effective supervision over end-use of credit and recovery of dues. This is recommended as an immediate step, pending the working out of realistic norms by the CALCOB based on a study already initiated by it. Secondly, banks may adopt a camp approach for recoveries especially overdues concentrated in small pockets when the influence of the officials of the Revenue Department, Block Development Office and Agricultural Department could be utilised by the banks' field officials for maximising recoveries. If these camps are attended by banks' senior officials, it will boost the morale of the staff and also create a favourable climate for recovery. Thirdly, unlike co-operatives, commercial banks apparently do not have any built-in stabilisation arrangements in the event of impairment of repayment capacity in particular area/s on account of widespread natural calamities like flood, drought, etc. Besides the guidelines issued by the GOI, in 1979, on provision of relief to borrowers affected by natural calamities, two study groups, also appointed by the CALCOB, have recommended modifications/improvements to the above guidelines. It is hoped that, based on these guidelines, banks will take necessary action in regard to conversion/rescheduling of loans in the event of calamities. Fourthly, wilful defaulters of any credit institution should not be financed by any other credit institution. Fifthly, besides enacting legislation on the lines recommended by the Expert Group on State Enactments having a bearing on Commercial Bank Lending to Agriculture where it has not been done so far, the states can remove ambiguities in any existing legislation as and when brought to their notice by banks. Also adequate staff and machinery may be provided to deal with cases filed under the Act. Further, states may take expeditious action to implement the recommendation of the Study Team on Overdues of co-operative institutions in regard to setting up of State Corporations to purchase lands brought to sale by banks if there are no buyers. We are discussing this issue with reference to long-term credit extended by land development banks in Chapter 16.

6.50 Our purpose in giving a gist of the findings and recommendations on overdues from this study is to highlight the latest field level position in this regard. In our view, if banks orient their lending increasingly under programmes that are area-specific with appropriate forward and backward linkages and pre-sanction appraisal followed by intensive supervision by their own staff, the cause for much of the overdues should disappear. The state administration on its part should assist banks in proper identification of beneficiaries and co-operate with banks in evoking response to the programmes through extension. More importantly, extension staff of government should not only encourage bank borrowers to repay loans on time but also stifle attempts at borrowers developing an anti-recovery stance. This is necessary because bankers being transferred from place to place, the recovering banker may not be the same as the banker who gave the loan. As emphasised in the previous chapter, state governments will have to maintain congenial climate for recovery.

ANNEXURE 6·1—RBI GUIDELINES ON MARGIN MONEY AND SECURITY NORMS

Types of credit facility	*Margins*
I. Crop loans	
(*i*) For crop loans to small and marginal farmers up to Rs. 5,000 sanctioned according to the standard scale of finance	No Margin
II. Term loans	
(*i*) Upto the cost of economic unit (where applicable)	No Margin
(*a*) For small/marginal farmers, agricultural labourers and other specified categories of borrowers where subsidy is available under special agricultural development programme like SFDA, DPAP, VRDP, TDA etc.	No Margin

Subsidy

Where subsidy is available, the same should be treated as margin and no further margin money should be stipuated.

Security Norms

Type of credit facility	Loan amount	Security to be furnished
1. Crop loan	(*i*) Upto Rs. 1,000	DPn/Loan agreement
	(*ii*) Rs. 1,001 to Rs. 5,000	Hypothecation of crops
	(*iii*) Over Rs. 5,000	(*a*) Hypothecation of crops and (*b*) Mortgage of land* *OR* Third party guranatee.
2. Investment loan:		
(*i*) where moveable assets are created out of loan	(*i*) Upto the cost of economic unit (where applicable or Rs. 5,000 which ever is lower)	Hypothecation of assets.
	(*ii*) Other (*i. e.* for amounts over those under (i) above)	(*a*) Hypothecation of assets and (*b*) Mortgage of land *OR* Third party guarantee.
(*ii*) Where moveable assets are not created out of loan.	Rs. 1,000 and over	Mortgage of land*

*Mortgage of land at bank's discretion.

Source : RBI letter DBOD. No. BP. BC. 115/C. 453-79, dated 14-8-1979 to all cheduled commercial banks.

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Chapter 7

REGIONAL RURAL BANKS

ALL along, we have been emphasising that, in view of the large magnitude of credit requirements of diverse nature, there is ample scope for the three types of credit institutions — co-operatives, commercial banks and RRBs — operating in the rural sector. In Chapter 4, we reviewed the role of RRBs as special institutions, set up to correct the regional imbalances and functional deficiencies in the institutional structure, *vis a vis* the weaker sections and identified certain problems. Here, we discuss these problems and suggest measures to enable RRBs to fulfil their allotted role.

Coverage of RRBs

7.2 The Dantwala Committee, 1978, recommended that RRBs should become an integral part of the rural credit structure and priority for establishing RRBs should be given to those districts where CCBs are weak. Following this recommendation, steps have been taken to establish more RRBs. As a result, by the end of June 1980, the total number of RRBs increased to 73 covering 130 districts in 17 states. The new RRBs are located in areas where the co-operative credit system is weak and the commercial bank branch network inadequate.

7.3 During our discussions with the state governments, we learnt that some state governments, which earlier were not in favour of RRBs partly for fear of adverse impact on co-operative banks, have begun to see the advantages of setting up RRBs. Gujarat is a case in point. Some state governments *e. g.*, West Bengal and Orissa, in fact, want a RRB for each and every district of the state. There was clear evidence to show that RRBs have not, as originally feared, snatched away the business of co-operatives. In many districts where RRBs have been functioning for some time, both CCBs and RRBs have increased their business. Even in states like Kerala where the primary co-operatives are strong and efficient, no real clash or conflict of interest is observed. The point that needs to be stressed is that the large magnitude of diverse credit needs in the rural sector provides ample scope to both RRBs and CCBs.

7.4 Institutional arrangements for credit have to ensure the widest coverage possible of the rural households. The co-operatives which are the major agencies in the field confine the services to their members. Though they cover, in terms of area, a large number of villages, the effective coverage in terms of members financed, as noted elsewhere in the Report, is low. For a variety of reasons such as clash of interest or considerations of caste, many rural households particularly those belonging to the vulnerable groups have no access to co-operative credit. A substantial section of the rural community will continue to remain outside the co-operative fold. It is to take care of the credit needs of this section that the commercial banks and the rural banks have been inducted.

7.5 As between commercial bank branches and RRBs, experience as well as evidence before us show that RRBs are more suitable for the tasks in hand. Apart from the fact that RRBs devote special attention to the weaker sections, the target groups which should be enabled to participate in and share the benefits of rural development, they have the advantage of lower cost of operation as compared to the commercial banks. RRBs are managed by men of the area who are in a better position to know and appreciate the problems of the area. Being district level organisations, they can be trusted to take banking closer to the rural households and ensure more effective supervision over the end-use of credit. For these reasons, preference should be given to RRBs in regard to licensing of branches in the rural areas.

7.6 In the last few years, commercial banks have made very rapid strides in their branch expansion programme in the rural areas. This was a necessary step to widen and quicken the coverage to provide credit support to rural development programmes. Thus, in many centres, branches of RRBs as well as commercial banks have come to operate simultaneously. The Dantwala Committee recommended that, with a view to avoiding wasteful competition in serving the rural poor, eligible rural business of commercial banks may be transferred to RRBs in a phased manner. We understand that a few sponsor banks are proposing to try out such transfer on a pilot basis.

7.7 During our discussions with the chairmen of some of the commercial banks, we were told that they would prefer to sponsor a RRB rather than open their own rural branches. Apart from the high cost of their operations, commercial banks find it difficult to post the clerical staff to rural centres since the latter prefer to work in urban centres. Even in respect of transferable cadres like branch managers, the banks face a problem in finding the required staff for rural centres. One of the important reasons for the unsatisfactory functioning of many rural branches is the unwillingness of the urban-oriented staff to get involved in rural lending to the fullest extent. Both the clerical staff and supervisory staff who have joined the commercial banks with expectations of urban posting and the attendant comforts, are often averse to staying and touring in villages. On balance, the advantage would seem to lie in encouraging commercial banks to transfer the eligible business of their rural branches to RRBs sponsored by them, wherever possible. Rural branches with predominance of loans to weaker sections may be given priority for such transfer. Similarly, rural branches which have not been able to develop adequate business even after a reasonable period, so as to cover their own costs of establishment deserve to be considered for this purpose. On the other hand, where the bigger category of borrowers are substantial in number in any rural branch and account for bulk of the business, it may be retained by the commercial bank.

7.8 It will be noted that we have in view only a selective approach. The transfer envisaged is of eligible business and not of the staff. It is also not our intention that every rural branch should be brought under the transfer programme. In fact, the presence of commercial bank branches may be very necessary in semi-urban and some larger rural centres. The sponsor banks themselves my take initiative to draw up a programme of transfer of business on a mutually agreed basis. The Reserve Bank may take such steps as are necessary to facilitate the transfer operations when such agreed programmes are presented.

Viability of RRBs

7.9 An issue often raised in connection with the operations of RRBs is their viability. Any credit institution, if it is to survive for long, cannot afford to incur losses continuously. It has to become viable sooner or later. This is an essential aspect of any long-term arrangement to institutionalise credit. The Dantwala Committee, based on the overall performance of RRBs which had been in existence for about a year by December 1976, had estimated a level of business of Rs. 3 crores that should be attained in 3 to 4 years, in order to earn adequate profits. More recently (April 1980), a study carried out by the Reserve Bank has thrown further light on this aspect. It covered the RRBs which had completed either a three year period by December 1978 or attained a business of Rs. 3 crores or more (the level indicated by the Dantwala Committee) within this period. Out of 15 banks studied, excluding expenses borne by sponsor banks, 8 worked at a profit in 1978, 6 sustained losses while the remaining one bank did not show profit or loss. Among other things, the study report has brought out that RRBs have to operate with some serious constraints: "they have to (*i*) lend only to the weaker sections, (*ii*) charge lower rate of interset, (*iii*) open branches in remote rural areas and (*iv*) keep up low cost profile." RRBs have no scope for cross subsidisation, *i. e.*, of making good the loss by charging higher rates of interest to others. Nevertheless, the study has shown that, given a reasonable margin and creation of conditions for accelerated rate of growth of business, the RRBs are capable of breaking even at a level of business of about Rs. 8 crores through a network of about 70 branches in about six years. The period may be even longer in the case of RRBs located in the backward/tribal areas and difficult terrain such as North Eastern States. At the same time, it has been pointed out that there are several factors which can help reduce this period, such as favourable response from the people, better availability of infrastructural facilities, state government support, etc.

7.10 It is not necessary for the Committee to take a firm view on the size of business, the age or the number of branches at which a RRB will break even. It is enough to note that both the Dantwala Committee and the RBI study, particularly the latter, have affirmed the potential and prospects of viability within a short and foreseeable period and some RRBs have, in fact, achieved viability in shorter periods. We have, however, to point out that viability cannot be the sole criterion for assessing the performance of RRBs in the earlier years. In this context, we fully endorse the following observations made by the Working Group on Rural Banks (Narasimham Group), 1975:

> "A discussion on viability tends generally to be in financial terms. For a financial institution, it is indeed appropriate that it be so. However, where the objective of the type of financial institution is socio-economic, an initial period of financial loss may well be a price worth paying for the achievement of the larger social objective of widening the area of credit coverage. Indeed the success of these banks should be judged as much by their efforts at expanding and extending the area of rural credit as by the conventional yardsticks of profitability."

7.11 Certain suggestions have been made in the RBI study report for reduction in the cost of funds to RRBs and for opening other avenues of income. The more important ones aimed at facilitating financial viability are briefly stated below:

(*i*) One way of reducing the cost of funds could be a reduction in the borrowing rate of RRBs. In this connection, the sponsor banks which are charging 8.5 per cent may reduce the lending rate by at least 2 per cent, *i. e.*, to 6.5 per cent. Similarly, the Reserve Bank may refinance upto 75 per cent of eligible loans (instead of 50 per cent) at 4 per cent (as against 3 per cent) below the Bank Rate.

(*ii*) The issued capital has been in the first instance fixed at Rs. 25 lakhs. This may be increased to at least Rs. 50 lakhs so that more cost-free funds are available to RRBs.

(*iii*) RRBs should be allowed to levy a nominal once-and-for-all evaluation fee on all term loan borrowers on the basis of the total project outlay.

(*iv*) In cases where the existing area of operation does not provide adequate business potential for reaching the viability level, their area may be extended to cover adjoining district/s.

(*v*) In areas where the terrain is difficult, the accessibility is limited, the area itself requires further monetisation and practically all families belong to weaker sections as in North Eastern Region, the approach to RRB may have to be different and it may be allowed to cover larger areas and also finance all the categories of borrowers for all purposes, as a special case.

(*vi*) Project lending will help RRBs to build up their loan business. From this point of view, sponsor banks as well as the ARDC may ensure that RRBs become participants under their various rural schemes and extend the needed technical assistance in preparing the schemes.

7.12 We understand that action has already been taken on some of the recommendations made in the study report. Action on the rest, wherever warranted, may be pursued. However, it needs to be recognised that RRBs will incur losses in the initial years. The question is as to who should make good the losses. Sponsor banks, as specifically provided in the RRBs Act, aid and assist RRBs. They do provide managerial assistance in the form of cost-free services of their own staff and meet the training expenses of RRB staff, in addition to contributing to share capital and giving loans at a concessional rate of interest. It may not, therefore, be in order for the sponsor banks to meet the entire losses by themselves. It is recommended that the losses incurred by a RRB should be made good annually by the shareholders, *viz.*, the GOI, concerned State Government and the sponsor bank in the same proportion as their share holding. In addition, the equity capital which presently stands at Rs. 25 lakhs may be raised appropriately. As it is not desirable for a scheduled bank to exhibit losses in its balance sheet year after year, this question may be studied further by the RBI/NABARD and action initiated soon.

Confining RRB Services to Weaker Sections

7.13 It is sometimes asked whether for the purpose of improving viability or for other reasons RRBs should be allowed to finance big farmers and others not belonging to the weaker sections. As mentioned elsewhere in the Report, certain minor relaxations have been made allowing them to finance big farmers in land-based compact area schemes of the ARDC in order to ensure that the benefit of development is not denied to bulk of small farmers as a result of this restriction. The holders of fixed deposits are also eligible for loans against these deposits.

7.14 The Dantwala Committee felt that the total exclusion of borrowers other than weaker sections would be inadvisable, first, on account of the adverse effect on deposit mobilisation and, secondly, on the ground that normal credit facilities should not be denied to any class of farmers. This would also help diversify lending and improve viability. The Committee suggested that not more than 40 per cent of the loans may be issued to large borrowers. Data on deposits of RRBs, given in Chapter 4, indicate favourable trends despite the present restrictions. As for credit to bigger farmers, they have been drawing upon co-operative credit for many years in the past and should by now be expected to seek less credit from institutional sources. Where such households do require credit, the co-operatives as well as the branches of the commercial banks in the nearby semi-urban or urban centres would in any case be available to cater to their needs. Institutional credit has to go a long way in the effective coverage of the credit needs of the weaker sections and RRBs have a large part to play in attaining this goal. We do not, therefore, consider the present stage conducive for any general relaxation that may have the effect of diverting the attention of RRBs from their goal. They should continue to confine their operations to the weaker sections. The departures, if any, from this rule should be exceptional, as for example, in backward, hill/tribal areas. The image of RRB as a small man's bank, in our view, should be kept up.

Cost of Operations

7.15 One of the important considerations that weighed with the Narasimham Group in recommending a new type of institution in the form of RRB was the fact that its operational cost could work out to be lower than the branches of commercial banks. As pointed out by the Group, "the appraisal of the banks' working should be based both on the fulfilment of objectives *and* control of cost — in short, in achieving a favourable cost-benefit ratio." To ensure this, the Group recommended that "arrangements will have to be made to recruit the necessary managerial, supervisory and clerical staff from within the area of operation of the rural bank on scales of pay and allowances as applicable to employees of the State Governments concerned." This has been made statutorily binding on RRBs by Section 17 (1) of the RRBs Act, 1976, which reads as under:

> "......the remuneration of officers and other employees appointed by a RRB shall be such as may be determined by the Central Government and in determining such remuneration, the Central Government shall have due regard to the salary structure of the employees of the State Govrenment and local authorities of comparable level and status in the notified area."

7.16 It has, however, come to our notice that some employees of RRBs and their unions have started demanding higher scales of pay and other allowances and facilities available in the commercial banks or in the GOI. In our view, this demand is inconsistent with the basic concept of RRB as a low cost institution. The RRB staff are recruited locally and their postings or transfers are within the bank's area of operation which is ordinarily a district or two. The need for maintaining the local ethos makes it imperative that the emoluments and other service conditions of the RRB staff should be in line with those obtaining for the state government staff in comparable cadres who constitute bulk of the salaried people in the area and with whom the former have to establish a close rapport for their day-to-day work. Therefore, the emoluments of the staff should be continued to be determined with due regard to the state government scales as now being done by the GOI. It is obvious that the terms of service and facilities available to the government staff (and hence to the RRB staff) may differ from state to state. However, the terms and service conditions of the staff of RRBs operating within a state have to be uniform. There is no valid reason why the terms and conditions of service should be uniform for all RRBs in the country, disregarding the salutary principle of parity and harmony between RRBs and the states in which they operate.

Relationship of Sponsor Banks with RRBs

7.17 In accordance with the provisions of the law and also the framework of the Scheme, the sponsor banks provide refinance facility, equity contribution and managerial subsidy in the form of cost-free staff, recruitment and training facilities. They have also a major say in the management and operations of RRBs. The Dantwala Committee held the view that depending upon the stage of development of the region or of the RRB itself, the relationship between the sponsor bank and its RRB should be allowed to evolve.

7.18 During evidence before us, the commercial banks expressed different opinions about the links with RRBs. One view was that the RRB should be totally delinked from the sponsor bank, as it would then help build up its own image and ethos. The other view was that the existing links should be continued and further strengthened since RRBs have been conceived as the rural arm of sponsor banks. In terms of Section 3 (3) of the RRBs Act, it is obligatory on the part of the sponsor bank to provide facilities for recruitment and training of personnel for a period of 5 years. Even thereafter, there is no bar on continuing the financial and managerial assistance by mutual agreement. In so far as the banking aspects of the linkage are concerned, it is obvious that these have to be continued since the sponsor banks are financing banks as well.

7.19 In respect of managerial and other aspects, the question does arise whether the assistance should continue in the same measure and for how long. Experience has shown that RRBs face many problems in the initial years of their working in finding suitable staff and in giving them adequate training. The sponsor banks are in a good position to assist RRBs in this respect. The key personnel should continue to be provided by sponsor banks till RRBs are in a position to develop their own personnel through suitable training and otherwise to take over the relevant responsibilities. In this context, training of RRB personnel assumes great importance. While the SBI has set up separate training centres for the RRB staff, other sponsor banks conduct special courses for the RRB staff at centres meant for their staff. However, the existing arrangement cannot be said to be adequate. In States like U. P., Bihar, West Bengal, etc., RRBs could not adhere to their branch expansion programmes for lack of adequate support either in recruritment or in training of personnel. Similarly, technical staff also cannot be expected to be appointed by RRBs either to the required extent or within the given time frame. It should be the responsibility of the sponsor banks to provide technical assistance in project formulation by RRBs. We recommend that facilities for recruitment and training and technical assistance should continue to be provided by the sponsor banks, on the same terms for a period of 10 years for each RRB. Thereafter, any arrangement of assistance of this type can be decided upon by mutual agreement between the sponsor bank and the RRB.

Local Participation

7.20 We have given thought to the recommendation of the Dantwala Committee for local participation in the share capital of RRBs by allotment of shares to co-operatives, other local institutions and individuals in the area. The intention behind this recommendation is to enlist local support and involvement through share participation. This may raise certain practical problems as to how many and on what basis individuals and institutions should be eligible for share holding. It may not be feasible to pick and choose the possible shareholders from among the innumerable individuals and rural institutions in the area of a RRB. Local involvement can be ensured better, as recommended by the Dantwala Committee itself, by nomination of local persons on the Boards of Directors. Eight directors, in all, are nominated by the Government of India/Sponsor Bank/State Government—three each by the GOI and the sponsor Bank and two by the State Government. Most of them are officials of the concerned authority. We recommend that nomination of atleast two non-officials who are either progressive small farmers, social workers or persons connected with rural welfare, agricultural development, village industry, etc., may be made — one non-official by the GOI and another by the sponsor bank. It is not advisable to consider persons who are active politicians or office-bearers of political parties for such nominations. Some of the state governments have also expressed their preference for keeping RRB managements free from politics.

Transfer of Overseeing Function to RBI

7.21 The Dantwala Committee recommended that the RBI which is charged with the responsibility of overseeing the functioning of commercial banks as well as the co-operative credit system will be the appropriate authority to look after the work relating to RRBs as well. It is in pursuance of this recommendation, as noted in Chapter 4, that the Steering Committee of the GOI was wound up and a new Steering Committee has been set up in the RBI itself. The Committee also recommended that the RBI, instead of the GOI, should participate in the share capital of RRBs and nominate its representatives on the Boards of Directors. The Chairman of the RRB is also to be appointed with its concurrence. Thus, it was the intention of the Dantwala Committee that the entire control, regulation as well as the promotional/developmental responsibility relating to RRBs should vest with the RBI instead of the GOI. We strongly endorse this recommendation with the modification that NABARD will take the place of the RBI in the new set-up. However, since this cannot be implemented unless certain amendments to the existing provisions of the RRBs Act are carried out, it is urged that the necessary amendments to the Act may be made at the earliest so that there will be a single overseeing authority to look after RRBs.

Facilities/Concessions to RRBs

7.22 Being institutions devoting exclusive attention to the weaker sections, it should be appreciated that RRBs have to be treated on a special and different footing in facilitating their operations. As of now, certain facilities are available to RRBs such as concessional refinance from the RBI, lower standards of liquidity, slightly higher rates of interest on deposits, etc. These should be continued and the classification of RRBs as scheduled banks should not be allowed to come in the way.

Outlook for the Future

7.23 To conclude, we have no doubt that given the necessary aid, support and guidance in the initial years, RRBs will come to have an increasingly important role as an integral element of the multi-agency system at the ground level. The fact that RRB needs to be subsidised to some extent initially and given funds at concessional rates is not unique and does not detract from its suitability as an institution, for, neither the co-operatives which have been in the field for long nor the specialised branches of commercial banks, such as ADBs of SBI, are, as we have seen, able to operate without subsidies or concessional rates in one form or the other. Earlier, in Chapter 2, we had stated that different methods of reaching the poor need to be evolved and that some have to be approached individually while others can be dealt with in groups, formal or informal, co-operative or otherwise. The RRB is more suitable for adopting individual approach than the rural branch of a commercial bank, in view of its low cost profile, wider network of its branches in remote rural areas, the local feel of its staff and its image as a small man's institution. It follows that RRBs must be organised in districts where the group approach of the co-operatives has not made much headway for one reason or another and the individual approach of the commercial banks has either not been tried due to lack of branches or not gathered momentum due to staff and other problems. If along with such a step, the selective transfer of business by commercial banks to RRBs, as envisaged in para 7.8 takes place, RRBs will be well on their way to becoming district level commercial banks, ready to diversify their activities.

Chapter 8

FIELD LEVEL ARRANGEMENTS FOR DISTRICT CREDIT PLANNING AND CO-ORDINATION UNDER MULTI-AGENCY SYSTEM

IN the previous four chapters, we have examined the structure and working of the different credit institutions making up the multi-agency system for rural financing and have made certain recommendations with a view to improving their performance. Earlier in Chapter 2, we have emphasised that the objectives of integrated rural development, as we have visualised it, cannot be achieved unless rural lending is properly tied to well designed programmes of development. This calls for effective co-operation and co-ordination not only between credit institutions but also between the credit institutions on the one hand and the concerned government and other development agencies on the other. Therefore, the question of making the field level arrangements for planning and implementing credit-based development effective and adequate assumes great importance. It must be added that if credit programmes in rural areas are to achieve the expected results, governmental support has to be on a much broader canvas than mere formulation of development and credit plans. We shall deal with this subject in the next chapter. Here, we shall consider the implications of the concept of the District Credit Plan (DCP).

CONTENT OF DISTRICT CREDIT PLAN

Approach

8.2 A credit plan presupposes the existence of a development plan so that the former can subserve the objectives of the latter. This, however, is not the case at present in most districts, which are the administrative units for rural development. So far, development planning has, by and large, been undertaken at the national or state level, where broad sectoral allocations of public outlays are made in the light of accepted priorities. Disaggregation of such sectoral allocations for each district is seldom made or made after considerable delay. District planning has not made much headway except in isolated instances. Consequently, the formulation of meaningful and realistic District Credit Plans has become difficult. The actual experience of credit planning at the district level makes this point more clear.

8.3 The first attempts to draw up a credit plan for credit institutions operating in a district were made under the lead bank scheme. The first round of the preparation of DCPs was completed by March 1978. These plans were not, however, uniform in regard to coverage, methodology or period. Though considerable efforts were put in by lead banks in their preparation, the plans could not fully serve the purpose intended. In particular, the plans were not aligned with the development schemes of the districts and even the emphasis on agricultural and allied activities which constituted the mainstay of the rural economy was not adequate. Besides, these plans did not take into account the role of co-operatives, which were an important source of institutional credit in the rural sector. The major gain of this exercise is the awareness of the problems of credit planning that it brought about amongst all concerned, the banks as well as the government departments.

8.4 In March 1979, the RBI decided to terminate the existing DCPs at the end of December 1979 and issued fresh guidelines for formulating DCPs covering the calendar years 1980-82 so as to synchronise with the remaining period of the then formulated five-year plan. These guidelines took into account the methodologies adopted and experience gained by various banks in the preparation and presentation of district credit plans and emphasised the need for dovetailing the DCP into the overall district development plan and for systematising the approach to the contents of the plans such as period, credit estimates and allocation and acceptance of shares among credit institutions.

8.5 The distinctive feature of the new guidelines was the concept of participative planning introduced through the instrumentality of the task force as the plan formulating body and the District Consultative Committee (DCC) as the overall plan approving body. The task force comprised district planning official and representatives of some commercial banks, CCB, and the lead bank, the last mentioned being the convenor. The lead banks were advised to appoint fairly senior officers at the district level with adequate supporting staff for the purpose. The task force was required to identify and fix responsibility for action under the DCP and bring this on record prominently in a separate chapter in the DCP. An Annual Action Plan (AAP) was also to be prepared as a separate document. These steps, it was hoped, would make the two sides to this exercise, the credit institutions and the government departments, fully conscious of their respective roles and responsibilities in the formulation as well as the implementation of the credit plan.

8.6 As regards the objectives, the guidelines said as follows :

> "The DCPs will have the same objectives as those of the National Plan. It is, therefore, important to emphasise the principal objectives of the National Plan, namely (1) removal of unemployment and under-employment (2) appreciable rise in the standard of living of the poorest section of the population and (3) provision of some of the basic needs of the people belonging to the poorer sections. From these objectives, the main objectives for bank loans follow: (1) loans for labour intensive schemes which generate employment, (2) loans to increase productivity of land and other allied sectors so as to reduce under-employment and increase income levels and (3) loans to the weaker sections of the population (marginal and small farmers, agricultural labourers, rural artisans, and scheduled castes and scheduled tribes) for productive purposes to the maximum extent possible, and provision for some consumption component to the low income groups as a part of loans for production and investment purposes. Needless to say that all the schemes to be financed through loans will have to be technically feasible and economically viable".

8.7 As regards methodology, four points deserve mention. First, the plan was to indicate scheme-wise and block-wise break-up so that monitoring of implementation in compact areas and of the development of infrastructural facilities can be facilitated. Second, the term loans, working capital loans and crop loans were to be shown separately. Third, scale of finance and cost norms were to be uniform for all credit institutions and properly co-ordinated with higher refinancing institutions like the ARDC. Fourth, each credit institution was required to plan its financial and man-power resources and match them with the shares allocated to it for lending under the DCP.

Experience

8.8 It is encouraging to note that by 30 November 1980, DCPs for 1980-82 were formulated for 376 out of 397 districts and have been put into operation. Although it is a little premature to review their working, it will be useful to draw some lessons from the formulation exercise. First, non-availability or difficulty in getting required factual data on district development plans continues to be a serious constraint as in the earlier exercise. It will not, therefore, be surprising that many plans turn out to be unrealistic. Second, though a task force was to undertake the preparation of the plan, in some cases, its constitution was abnormally delayed or not done at all. The idea of participative planning is still to catch on in some states and districts. As a result, though the banks have generally followed the national priorities and guidelines of the Reserve Bank, the strategy and measures necessary for reaching the specified target groups among weaker sections, have not been spelt out clearly and in the requisite detail. Instead of detailed break-up of the DCP, sectorwise, blockwise, schemewise and bankwise, some plans have indicated only broad sectorwise estimates. In some other cases, only financial outlays are indicated without reference to physical targets. There are also instances where cognisance of potential created by government development programmes has not been taken while estimating credit outlays. Third, resources available were not worked out in some cases on a sourcewise, institutionwise and blockwise basis, and it is doubtful how far credit programmes have been matched with the availability of resources. Also, the ARDC schemes and other on-going credit schemes of various agencies had not figured in some DCPs. The DCP was to be a comprehensive financing institutionwise plan involving all the lending agencies in the district. In many cases, the targets fixed for the co-operative sector and particularly for crop loan finance by CCBs appeared to be unrealistic when compared with the past performance of these banks. Fourth, in several cases, identification and fixation of responsibilities of different agencies, institutional and government, have not been done with due care and attention. There was a tendency to slur over and reluctance to call a spade a spade. Assessment of additional staff and other requirements on the side of government departments and the credit institutions for making the programmes a success has left much to be desired.

8.9 While the above is a brief review of the DCP documents, any generalisation regarding their quality cannot be made. Some are, indeed comprehensive and can well be taken as models, whilst others are sketchy and devoid of the necessary details. It can, however, be said that the present round of district credit plans marks an advance over the previous round. With the growth of awareness among all concerned, the finalisation of the Sixth Five Year Plan and the new emphasis on district development plans, we can reasonably hope that the next exercise will be more complete and fruitful. Thus, we are convinced that there is no real alternative to a well-knit district development plan as the foundation for lending for rural development.

Bankable Schemes

8.10 For all its importance, the DCP is a broad framework. It becomes operational only to the extent that it is translated into technically feasible and economically viable schemes with reference to location-specific realities, or in the popular phrase 'bankable schemes'. A scheme becomes bankable when its forward and backward linkages are ensured. Supporting services like supply of inputs, marketing facilities and extension services must be identified and provided for in adequate measure. Once such bankable schemes are prepared, allocation to each bank has to be decided for which purpose a banking plan has to be prepared when several banks are to participate in their implementation. Recently, the ARDC undertook the responsibility for preparing banking plans for the CD blocks brought under integrated rural development programme. By September 1980, it had prepared 181 banking plans for 1,270 blocks. These plans are confined to term investments in agriculture and allied sectors for which refinance is admissible from the ARDC. The work was done in close co-operation with the state government officials in the districts. Progress is said to be satisfactory in Andhra Pradesh, Gujarat, Maharashtra, Karnataka, Tamil Nadu and Uttar Pradesh. Although some states were slow in responding to the requests of the ARDC in regard to the designation of definite project authorities and allocation of subsidies for different purposes, there appears to be greater realisation of the utility of banking plans. We suggest that the experience of the ARDC in the preparation of banking plans may be analysed closely for drawing suitable lessons for the future.

8.11 The mechanics of formulation of bankable schemes and their implementation were analysed in 1978 by the Expert Group (Chairman Dr. Gunvant Desai) on Agricultural Credit Schemes of Commercial Banks. According to the Group, schemes prepared by commercial banks in a routine manner on the basis of guidelines issued by their Head Offices, have tended to be stereo-typed in nature, without being related to the scope for lending or absorptive capacity of the area. The Group found that, virtually, there was no serious analysis of the infrastructural support and complementary activities which have a bearing on the economic viability of the loans. As a consequence, credit flow has been more supply-oriented than demand-based. The state governments admitted the lacunae and inadequacy of expertise with them particularly for preparation of bankable schemes in new activities. When we enquired about the attempts being made to remedy the situation, some of the governments mentioned the following: One state government pointed out that with its proposed decentralisation of functions to the district level, the cause for complaints that government schemes tended to overlook bankability should decline. Another state government referred to its inducting the *panchayat* as an intermediary for preparing location specific schemes and implementing them in its area. A third state government referred to its preparing not only viable schemes but also reviewing the viability while the scheme was in progress.

8.12 In this context, we would like to draw attention to two instances that came to our notice during our field visits. In the first instance, we came to know of a poultry scheme financed by a nationalised bank which was rendered infructuous on account of lack of veterinary services and vaccination facilities, and finally the loan had to be written off because of heavy chicken mortality. The second was a scheme of supply of milch animals to the tribals who had no aptitude for this subsidiary occupation. The scheme, therefore, had to be changed to growing of vegetables in which the tribals took active interest. Both these instances underline the fact that bankability depends on, and increases with, the appropriate field level arrangements for supporting services such as supply of raw naterials, marketing facilities and extension services which are particularly relevant when the object is to improve the productivity and income levels of the weaker sections of society. Secondly, while formulating schemes, the aptitude factor of the beneficiaries is equally important. Further, scattered lending or isolated individual schemes, where the responsibilities and specific tasks to be assigned to other agencies have not been defined, have resulted in infructuous investment.

8.13 The above discussion of DCP, bankable schemes and banking plans shows how important it is to put the district planning process on a proper basis and in the desired direction. This brings us to the consideration of the machinery for credit planning at the district level.

Machinery For Credit Planning

District Consultative Committee

8.14 It will be worthwhile to trace briefly the origin of the DCC. It appears that the idea of setting up a district level committee came from the AFC's initiative in 1969 in constituting a National Level Consultative Committee consisting of banks and other national bodies concerned with agricultural development. The national level committee suggested the formation of similar state level committees and later some state governments proceeded to set up district level consultative committees.

8.15 Finding that such committees had not started functioning effectively in various states, the Banking Commission (1972) made a recommendation in the following words:

> "The Commission feels that it is very necessary to have a regular machinery at the district level in all the states which will take a co-ordinated view of the credit problems of the various productive activities in a district. The Commission recommends the formation of a co-ordination committee at the district level with representatives of the lending agencies as members, and the seniormost officer of the State Government in charge of development of district as the Chairman."
> (Pp. 196-197)

The main functions of the district level co-ordination committee, according to the Commission, were to look into all practical aspects of field level co-ordination and evolve suitable procedures to keep all the agencies lending to rural producers in the district properly informed.

8.16 Later, after the allotment of the districts to various banks under the Lead Bank Scheme, during the course of intensive discussions held by the Reserve Bank and Government officials in various forums to explain the rationale and objectives of the scheme, it was felt that a forum such as a consultative committee of representatives of financial institutions operating in the district and government officials was necessary for help and guidance at the district level. Following this, the Reserve Bank issued guidelines for conduct of the meeting of the DCC to the lead banks (*vide* Circular DBOD.No.BD.458/C.168-73 dated 31st January 1973). Thus, the DCCs came into existence more or less voluntarily because of the felt need for consultation in the matter of district development schemes. Over the years, it has evolved as an integral part of the Lead Bank Scheme. It is in this light that the functioning of the DCC must be viewed.

8.17 The convenor of the DCC is an officer of the lead bank of the district. Membership of the committee is open to all the credit institutions operating in the district. It also includes officials of the development departments and development agencies. The District Collector in his capacity as the head of district development administration, came to be the Chairman of DCC. His presence and participation ensure the needed importance and status to the committee and help in co-ordination. Sometimes, non-officials are invited to attend the meetings of the DCC when their knowledge and expertise are considered necessary.

8.18 The DCC meetings are convened generally once in a quarter to review the progress of plan implementation, to identify the difficulties faced in this regard and to consider ways of overcoming them. To ensure purposeful and result-oriented discussions in these meetings, lead banks have been advised by the RBI in January 1980 that the agenda for the meeting should be drawn up properly covering all relevant aspects relating to the implementation of the district credit plans and that a brief note on each item of the agenda should be circulated sufficiently in advance to the participants. It has also been laid down that the minutes of the meetings should be drawn up properly, indicating the action points and those responsible for them.

Standing Committee of DCC

8.19 Recently, under the Reserve Bank's instructions, a Standing Committee of the DCC has been set-up in each district to attend to all important matters regarding the implementation of the district credit plan on an on-going basis. It comprises the District Planning Officer, one or two banks having larger number of branches in the district, CCB, land development bank (if there is one), the Lead District Officer of the Reserve Bank and the Lead Bank Officer (LBO) who acts as the convenor. Wherever necessary, the Standing Committee can associate other district officials and financial institutions concerned with its work. The functions of the Standing Committee, *inter alia*, cover the following :

"(*i*) identifying the feasibility of formulating new bankable schemes and assisting in the review of the District Credit Plan,

(*ii*) looking into the questions of availability of necessary infrastructural facilities and supply of inputs, etc., for the schemes,

(*iii*) examining the factors impeding the flow of credit under any of the schemes,

(*iv*) making suggestions for rationalisation of loaning policies and procedures of institutional credit agencies,

(*v*) looking into the problems concerned with the end-use of credit and recovery of dues,

(*vi*) devising ways and means to ensure proper co-ordination among all the concerned agencies,

(*vii*) following up closely the decisions taken at the DCC meetings and ensuring prompt submission of data, etc."

In short, the Standing Committee is to function as the Executive Committee of the DCC and look after the implementation of the district credit plan.

Further Improvements in DCC

8.20 The functions of DCC have undergone some changes in keeping with the different phases of the Lead Bank Scheme. Its initial concern with the expansion of the banking network in the district, has given place to overall monitoring of the programmes under the credit plans. With the second round of District Credit Plans, it is now actively concerned with finalisation of DCP/AAP, allocation of responsibilities among concerned agencies and monitoring its implementation. It does all this not by ordering its constituents but through consensus. Differences between the participants are ironed out through discussions. The DCC calls for reports and monitors compliance again by consent. It is gratifying to note that though the DCC does not have formal authority for any of its functions, it has been fulfilling an essential need at the district level.

8.21 We have, however, come across a general feeling that the DCC has not been as effective as it should have been and that there is considerable scope for improvement. Our observations and discussions at the field level have thrown up certain inadequacies. The Collector has been specially selected to chair the meetings because of the commanding position he holds as the head of the district administration. Therefore, its success hinges on the interest shown by the Collector and the aptitude he has for development and co-ordination. We have received complaints in the course of our visits that some Collectors do not give this work the attention and the time it deserves and that they frequently absent themselves from the meetings of the DCC; the attitude gets communicated to other levels of the government hierarchy and has an adverse impact on the functioning of the DCC. At the same time, it must be realised that the failure on the part of Collectors to attend the meetings may not be due to lack of interest or zeal, but due to their being overburdened with multifarious duties which leave them little time to pay the required attention to development work.

8.22 We may refer here to the administrative arrangements suggested under the recent decision of the GOI to extend the integrated rural development approach to all blocks in the country. A single agency, namely, District Rural Development Agency/Society is being set up in each district for implementation of all special programmes. This agency will be headed by the Collector/Deputy Commissioner. The agency will have a full time Executive Officer of the rank of senior scale IAS Officer. Besides a Project Officer and ministerial staff, the agency will be strengthened with the addition of a Credit Planning Officer, an Industries Officer and an Economist/Statistician. It is desirable to make this body an agency for comprehensive planning and implementation of all the programmes under the integrated rural development approach.

8.23 For the effective functioning of the DCC, its Chairman, that is the administrative head of the district, should have sufficient time to attend to the development needs and programmes of his district. To this end, some states have appointed senior officers of the rank of Collector in each district to relieve the head of the district of his routine work. We would urge that experience of such arrangements in practice may be carefully examined and adopted with suitable modifications.

8.24 The second point made out against the DCC is that its members have not displayed the right spirit and attitude, and, therefore, the requisite rapport and co-operation between government officials and bankers have not materialised. In particular, it is said, the DCC tends to become a fault-finding forum where both officials and bankers blame each other for failures. Some bankers have felt that government officials are often target-oriented and fail to appreciate even the genuine difficulties which come in the way of the banks achieving the targets. Some Collectors, it is added, are not very receptive to the suggestions of the bankers although the reasons for failure may be traceable to lapses on the part of the government functionaries themselves. It is not as if the bankers are free of all blame. For, some of them, not having the requisite rural orientation, have not shown sufficient urgency and enthusiasm in fulfilling the tasks allotted to them. The hierachical system in the banks is also not supporting their field level staff properly. It will be seen that most of the points made against the DCC are matters of attitudinal changes which can only come about over time. In fact, we are glad to note that conditions obtaining today represent a perceptible improvement over the past working of the DCC. More positive and constructive attitudes are developing with increasing realisation among government officials and bankers about their mutual dependence. We understand that to improve co-operation and understanding between government officials and bankers, state and district level workshops are being held. We feel that these workshops will be valuable in creating a better appreciation of each other's role and should be continued. The co-operative credit structure has to be actively involved in all such efforts. We recommend that thé personnel involved in district planning should bé given appropriate training.

8.25 The third point is that although co-operative banks are members of the DCC and are an important source of institutional rural credit, their participation has hitherto been lukewarm and the problems faced by them have seldom come up for discussion. We recommend that efforts should be made for effective participation of co-operatives in the planning exercise.

Sub-Groups of DCC

8.26 There is also a view that the DCC, because of its large membership, is unable to concentrate on specific problems. There has, therefore, been a demand that a more compact sub-committee should be constituted to attend to day-to-day operational problems. We appreciate the constitution of a Standing Committee of the DCC at the instance of the RBI for preparation and monitoring of DCP. While such a committee will go a long way in solving problems of a general nature, there appears to be a need to form separate sub-groups consisting of technical experts from banks and government departments for different sectors for formulating realistic and technically sound sector-wise schemes. Such groups will be suitable for detailed discussions on technical matters and for reaching agreements on crucial aspects such as input supplies and extension. Greater rapport will be achieved between bank experts on the one hand and technical experts of government on the other and implementation will be facilitated. We recommend that such sub-groups be constituted for selected subjects, according to the potential and the programmes of the district.

8.27 It has also been said that the DCC is unable to enforce its decisions due to its not having authority over its constituents. Often the lead bank complains that it is not able to evoke the necessary response from the branches of other banks. The Reserve Bank has a key role to play in the successful working of this consultative machinery. A High Power Committee on the working of the Lead Bank Scheme set up in the Reserve Bank of India keeps the overall progress of the scheme under constant and critical review. More recently, the RBI has appointed Lead District Officers (LDOs) at the rate of one for 4 or 5 districts and entrusted them with the function of attending the meetings of the DCC regularly and monitoring the Lead Bank Scheme and the implementation of the DCPs in their districts. We met some of the LDOs during the course of our field visits. We are happy to record that they are fully conversant with the problems and are acting as referees between the banks and government functionaries. The appointment of LDOs has given the Reserve Bank direct contact with credit institutions and development departments/agencies at the field level. It has, however, to be recognised that Reserve Bank can only persuade them but cannot on its own purvey credit and provide supporting facilities, the responsibility for which lies squarely on the banks and the state administration. We have reasons to believe that the initiative taken in this regard by the RBI is beginning to bear fruits and the DCCs can with some efforts be developed into useful instruments for approving and monitoring the implementation of the DCPs.

8.28 A suggestion has been made to clothe the DCC with statutory authority so that it can enforce its decisions. We have carefully considered this suggestion. We feel that, on balance, it is advantageous not to make it statutory or vest it with special powers. For, the basic problem of the DCC is how to induce certain changes in the attitudes of its participants. Obviously, these changes cannot be brought about by legal provisions. Steps recently taken by the

Reserve Bank of India such as the organization of workshops at the district level, the appointment of LBOs by commercial banks and the induction of LDOs of the Reserve Bank are in the right direction. The DCC, it must be remembered, was born out of necessity, which fact alone infused the basic willingness among its participants to co-operate. Emphasis on such willingness can lead to setting up healthy coventions among the participants to heed the decisions by consensus and honour the commitments voluntarily made at the DCC meetings. Healthy conventions will lead to a culture under which every institution finds itself accountable for its actions. The Collector, as the Chairman, should hold the scales even and attempt to create awareness on each side of the constraints and the requirements of the other and to evolve a broad consensus. Together they should rise above the strictly partisan pressures and make consultation process effective and meaningful in the real sense. If some problems cannot be solved at the district level, there is no need to throw up one's hands in frustration, for, they can be referred to the State Level Committee or taken up with the higher echelons in the banks and the administration. The higher echelons both in the governments and the banks must, by their actions, encourage, support and guide the evolution of such a culture. For this purpose, it should be ensured that the DDC meetings are given the due importance and are attended by the seniormost government and bank officials in the district.

8.29 Every effort must be made to see that the DCC meets regularly, not as a ritual but as a good and real opportunity for a dialogue on issues relating to the development of the district. As the system stabilises, we visualise that the DCC should shoulder the following responsibilities :

(*i*) Preparation of the credit plan, its acceptance by consensus, allocation of shares, responsibilities among financing agencies and responsibility among various departments of the District Administration.

(*ii*) Examining the nature of and availability of supporting services required for implementation of the credit plan and securing the acceptance of the various agencies for their filling the gaps.

(*iii*) Overall guidance in the preparation of viable development schemes which attract finance from the credit institutions.

(*iv*) Identifying the potential for and assistance in formulation of new credit schemes.

(*v*) Monitoring the implementation of the credit plan on a detailed sectorwise, schemewise, blockwise and bankwise basis.

(*vi*) Examining other factors impeding the flow of credit *viz.*, legislative, administrative, procedural, etc., and making suitable suggestions thereon for action at higher level and taking suitable action at their level, and

(*vii*) Looking into problems concerned with end-use of credit and recovery of dues and suggesting remedies.

8.30 It goes without saying that the effectiveness of the DCC, the Standing Committee and the sub-groups will largely depend on the quality of the preparatory work, in short the efficiency of the secretariat. At present, the responsibility for secretarial work rests with the Lead Bank of the district in its capacity as convenor of the DCC. We recommend that this arrangement should continue. But the convenor should work closely with the district administration in the matter of preparing the agenda and highlighting the issues for consideration. The District Collector should designate one official to work in close liaison with the Lead Bank. When our recommendation to make the 'District Rural Development Agency' an agency for comprehensive planning and implementation is acted upon, the Officer-in-Charge of this agency would be the obvious choice for this. The DCC should deliberate on broad planning and operational aspects and individual cases should not be dealt with in this forum.

8.31 The question is sometimes asked whether in view of the recent emphasis on block level planning, it would not be necessary to have a committee at the block level more or less on the model of the DCC. It is true that following the guidelines of the Planning Commission, some action has been initiated on block plans. But in view of the non-availability of the requisite expertise at the block level, it is doubtful if meaningful block plans will become a reality immediately. Further, the banks may not be in a position to depute to block level committees sufficiently experienced persons with managerial and technical calibre who can make the necessary responses and undertake commitments on their behalf. The branch manager may not by himself be able to perform this role of agreeing where appropriate and withstanding undue pressures where he must. Accordingly, at this stage, we do not find it feasible to recommend the formation of the block level committee as a general rule. Nevertheless wherever such committees have been or may be set up, the credit institutions should do their best to participate in the work of such committees and utilise the DCC as the forum for resolving issues that defy amicable solution at the block level.

Technical Support for Institutional Lending

8.32 We have stressed that to implement the DCP as an instrument of integrated rural development and to participate effectively in the DCC, credit institutions need to have at their command technical personnel for scrutiny of applications, follow-up and evaluation of schemes. This is in addition to what the state governments must deploy by way of infrastructural support for extension, transfer of technology, etc.

8.33 As of now, commercial banks have technical staff at their head offices/regional offices. Technical staff is also available with specialised rural branches like the ADBs, GVKs, RSCs, etc. Some RRBs and higher echelons of the co-operative banking structure also have some technical staff with them.

8.34 A question often raised in this connection is whether elaborate technical set-up is required for each bank in each district. There are three aspects to this question : the need, availability of personnel and the cost, and these have to be weighed and balanced. It is possible to suggest that banks can depend upon the expertise with the state government in respect of schemes sponsored by it for credit support. Banks have, however, the responsibility to check on the bankability of the schemes presented by the government. In the ultimate analysis, they have to bear the brunt of recovery, despite the help the government may give for the pursuit of defaulters. Further, the banks have to participate in the expert sub-groups suggested to be set up for preparation of credit schemes within the overall framework of the DCP. At the same time the cost aspect can hardly be overlooked. Every branch of a bank or each financial institution at the district level may not find it economical to have its own technical experts in all fields.

8.35 We consider it feasible for the lead bank to arrange for adequate technical expertise of its own in its lead districts; then, the norms laid down by the lead bank could be accepted by other financing institutions in the district more or less in the manner in which the norms of the ARDC are now accepted by all the participating banks. The aim should be to change the role of Lead Bank gradually from one of competition with other lending agencies in the district to that of servicing in the form of preparing area-specific credit schemes in collaboration with the district administration and other banks and prepare banking plan for each scheme providing for participation of concerned banks/credit institutions in its implementation. It is also possible to envisage an arrangement by which a financing agency utilises the services of the technical personnel of the lead bank on a payment basis for specific items of work. Such an arrangement could be temporary till the agency builds up its own staff. To some extent, this will ease the difficulties arising out of the shortage of qualified technical persons in certain fields and areas.

8.36 Even so, the administrative cover by way of securing certificates, etc., and health and veterinary services and farm extension will have to be the responsibility of the government. We suggest that the lead bank and other concerned financing institutions should review the availability of these facilities from time to time and make suggestions in the DCC meeting for their improvement. The question of general government support to bank lending in the districts is examined in the following chapter.

Role of NABARD

8.37 In our Interim Report on NABARD (*vide* Chapter 12 para 16 of this Report) we had referred to the problems relating to co-ordination at the national level and indicated that we would revert to this later. Accordingly, we now recommend as follows: As the position stands now, co-ordination and monitoring of all agricultural and rural lending by the commercial banks under LBS and RRBs is done by the RBI. As the major component of the DCP consists of rural credit, the proposed NABARD will have to play an active role in this sphere. We have also conceived NABARD as an exercise in decentralisation at the national level. This raises the question whether NABARD should take the place of the RBI in regard to co-ordination and monitoring of the DCP. Lead banks being commercial banks which in view of their having multifarious functions beyond rural credit, are better guided and supervised by the RBI. Further, the RBI has the capacity to perform the role of friend, philosopher and guide to both sides of the DCC, the banks and the state governments. We recommend that the functions currently performed by the RBI in regard to the DCP and the DCC should continue with the RBI itself. In view of the pattern of overall relationship between NABARD and other institutions, we have visualised to develop over time, it is necessary that NABARD should equip itself as a major instrument of rural development. It would be desirable that NABARD is represented on the RBI's High Power Committee on the Lead Bank Scheme to enable it to keep track of implementation of DCPs. The RBI may, if considered necessary, assign specific functions to the NABARD in order to ensure co-ordinated efforts. NABARD on its part may appoint officers, who should, besides their other responsibilities, be members of the DCC. This would provide NABARD with feed back on implementation of rural development programmes in the country.

Chapter 9

SUPPORTING SERVICES AND RELATED ACTION FOR SUCCESSFUL RURAL LENDING

WE have pointed out in the previous Chapter that for the successful implementation of the District Credit Plan, several supporting measures are essential by way of infrastructure, services and institutions. We envisaged that during the discussions on the DCP in the DCC, the Standing Committee and the subject-matter sub-groups, agreements would be reached between the credit institutions on the one hand and the government administration on the other, regarding the supporting measures that the latter should undertake. These measures would naturally have to be specific to the schemes and the areas and fulfil the needs identified in the DCP. Here we shall discuss these measures under the following broad heads: (*i*) extension support, (*ii*) supply of inputs, (*iii*) marketing and storage facilities, (*iv*) roads, communications and power, and (*v*) general administrative support. These are only indicative and not exhaustive.

9.2 The importance and relevance of the first three factors have been well brought out by the State Bank of India in its report "Impact of Bank Credit on Weaker Sections" (based on the case studies undertaken by the bank in different parts of the country in 1978), thus:

> "30. As regards the schemes formulated and implemented by the Bank on its own, their success would depend upon the fulfilment of certain pre-conditions. To be really effective and beneficial to the borrowers and reasonably safe from the point of view of the Bank, the schemes should provide for intensive market surveys to ascertain the demand for goods and services that would be produced through the schemes which are sought to be financed. Further, these schemes should also ensure that besides credit, the aspects such as inputs, satisfactory marketing facilities, servicing facilities, etc., are duly taken care of ....
>
> 31. In the case of mat-weaving activity the Kerala State Bamboo Corporation took care not only to supply the raw material to the mat-weavers but also to provide an assured market for the mats. On the other hand, in the case of shoe-making activity, the artisans were left to themselves to find markets for their products; the

marketing facilities of the U. P. State Leather Development Corporation did not reach the small artisans. The small artisans were further handicapped by having to sell their products through middlemen on credit, payment for which was received after long periods. Consequently, the benefit of the Bank's scheme derived by the shoe-makers was not as large as they could have derived if provision for proper marketing facilities for their products had been made in the scheme. The artisans engaged in conch-shell bangle making, basket-weaving, bell-metal ware and *adda* leaves stitching had also to face the marketing handicap in the absence of tie-up arrangements of the kind made with the Kerala State Bamboo Corporation."

Extension Support

9.3 It is recognised that the provision of extension services is the responsibility of the state government. At present, they are of a general nature and not specific to schemes, or categories of borrowers. Consequently, the link between credit and extension has not been forged as effectively as it ought to have been. Our discussions at the field level have brought out this aspect pointedly. For instance, examination of certain minor irrigation projects completed with bank credit has shown that adequate efforts by way of extension have not been made to introduce improved methods of water management and suitable crop patterns and practices which alone would yield the anticipated incremental incomes for repayment of the bank loans. The position is worse still in regard to non-farm activities such as poultry farming, cattle breeding through artificial insemination, development of rural arts and crafts through better designs and tools, etc. Instances of this kind can be multiplied; but suffice to say that without adequate supporting extension services, credit will prove infructuous.

9.4 The Committee views the credit plan for rural development as an instrument for the transfer of new technology to the weaker sections so that they can raise their incomes above the poverty line and forge ahead in the economic race. This involves a close tie-up between technological extension and the disbursement of credit and it is the responsibility of the government to ensure such a tie-up by suitably deploying its extension personnel and adopting a 'compact area' or 'compact group' approach. It is well-known that the backward areas suffer from a dearth of qualified extension staff and several vacancies remain unfilled for long. In such circumstances, it is idle to expect the credit schemes, bankable though they may be, to yield the desired results. This is an area in which determined action is called for from the governments.

9.5 It may be poined out that technology is moving faster than the accumulation of knowledge by the extension staff at the village, block and district levels. It is not therefore sufficient to have the extension staff in position. They have to be trained from time to time so that their knowledge is kept up to date. The higher experts who in the ordinary course do come in touch with the latest techniques must consider it their duty to translate them into simple and understandable terms and disseminate the selected methods to the personnel in the field. The better and more effective these arrangements are for transfer from laboratory to land, the more fruitful will be the credit supported schemes. Hence, the crucial importance of the state government's efforts in this direction.

Supply of Inputs

9.6 Our discussions at the field level have also indicated that lack of timely or adequate supplies of inputs renders credit infructuous or unproductive. Here too, as in the case of extension services, effective arrangements by way of link between credit and input supplies are yet to emerge at the field level in several districts. For instance, though the National Seeds Corporation as well as the various state seeds corporations have taken up production and marketing of certified seeds, complaints are still heard about shortage of supplies of quality seeds in respect of certain crops. Far more serious and frequent are the complaints of rural artisans such as basket makers, potters and handloom weavers outside the co-operative fold about irregular, inadequate and unreasonably priced supplies of essential inputs.

9.7 The evaluation studies of the ARDC have also brought out the fact that there is insufficient attention to inputs supplies. Under the dairy development scheme in Faridkot district in Punjab financed by the Central Bank of India, buffaloes of superior breed were to be purchased from approved *mandis*. Enquiries, however, revealed that buffaloes actually purchased were of relatively inferior breed which yielded less milk than envisaged in the scheme. In another dairy scheme,only 8 out of 56 buffaloes examined for the study were of approved breed (*Murrah*). Again, apart from a lack of prompt supply of a agricultural implements, provision of regular servicing arrangements is not adequate in many areas. Similarly, agro-service centres which are required to provide service and inputs to the farmers at their door-step at reasonable rates have not come up to expectations. The arrangements for supply and distribution of chemical fertilizers also need to be improved in certain areas, particularly where small dealers are the main supply channel.

9.8 Some of the problems relating to supply of inputs (like lack of funds for small dealers in fertilizers and inadequacy of godown space for storage of fertilizers), can be corrected by the credit institutions themselves by extending credit for the creation of the needed facilities. But there are many other problems relating to inputs supplies which are beyond the scope of credit institutions and which can be taken up and solved only by the state administrations at the district or higher levels.

Market and Storage Facilities

9.9 The use of credit for improving production necessarily implies that the farmer or other rural producer who borrows becomes a commercial producer in the sense that he will have some produce to sell. The realisation of remunerative price by the producer can be ensured only by the development of an efficient marketing set-up. Regulated markets have proved to be very useful instruments for this purpose. 4,250 such markets were reported to be functioning in 1978. Several of them have been developed with the assistance of the ARDC. In our view, many more markets are required to be developed and regulated. While drawing up a programme for the purpose, we suggest that priority may be accorded to primary rural markets which are more accessible and hence important to the smaller producers. The big farmers and the rural rich generally utilise the wholesale assembling markets for selling their produce and for their purchases. A small producer has a nominal surplus and a nominal purchasing power and he does not find it economical to travel long distances. The economy of the small producer is thus linked with the efficiency of rural markets. Development of primary rural markets should therefore be made an essential element of integrated rural development.

9.10 Another important factor that enables the rural producer to market his produce at a remunerative price is the availability of public storage facilities. The achievements and targets of covered storage capacities available with public agencies in 1977-78 and 1978-79 respectively are shown below :

(lakh tonnes)

Agency	1977-78 Achievements	1978-79 Targets
Food Corporation of India	64·58	83·00
Central Warehousing Corporation	15·93	27·00
State Warehousing Corporations	16·56	22·00
State Governments	18·00	18·00
Co-operatives	45·00	68·00
	160·07	218·00

Despite the crash programme of the FCI initiated to augment storage through private investment and financial support by banks under the ARDC refinancing facility, the shortage of modern storage facilities persists. In Chapter 5, we have taken note of two recent attempts to augment storage facilities : the large programme of construction of storage godowns at the level of PACS implemented with the assistance of the NCDC; and the project of the GOI for the establishment of a national grid of rural godowns.

9.11 Apart from the development of general market facilities, what is required is proper linking of institutional marketing with credit institutions. In many areas, the marketing societies have undertaken marketing only to a limited extent; one of the purposes of linking of credit with marketing is to facilitate recovery. In practice, however, we have noticed that the recoveries have not significantly improved as a result in some states due mainly to the failure on the part of credit agencies to provide the list of borrowers to the marketing societies and to follow up. Linking credit with marketing, as it now obtains, suffers from several loopholes, organizational and otherwise. We draw attention to the urgent need to plug the loopholes through legislation and governmental action. The public sector marketing organizations (*e. g.* Cotton Corporation, Jute Corporation, Monopoly Procurement of Cotton in Maharashtra) are making efforts in this direction and should be able to find satisfactory solutions if pursued vigorously with the overall objective always in view.

Roads, Communication and Power

9.12 It is obvious that the efficiency of input supply and marketing arrangements depends largely on the state of three basic infrastructural facilities, *viz.*, roads, communications and power.

9.13 According to the Survey Report on Rural Market Development Programme in India (1979), most of the rural markets are linked with main roads only by *kacha* roads. Conditions vary from state to state. For example, while in Tamil Nadu, a large number of the rural markets are connected with *pucca* roads, most of the rural markets in U. P. have only *kacha* roads. The lack of *pucca* and all-weather roads operates to the disadvantage of the small producer-sellers. Non-availability of good roads slows down the flow of inputs and prevents traders from visiting the rural markets for making purchases; and this in turn reduces competition in buying and places the small producer-seller at a disadvantage.

9.14 As regards communications, the position is slightly better in that a modicum of postal services exists in all the rural markets. However, a great deal remains to be done to ensure that market intelligence is supplied promptly to the rural producers operating in smaller markets.

9.15 In regard to the supply of electric power to the rural areas, the position is not satisfactory according to many independent evaluation reports. Rural electrification is expected to serve as a catalyst for agricultural and rural industrial development. The available data relating to 1977 show that in major states *viz*., Uttar Pradesh, Bihar, Madhya Pradesh and Orissa, not even one-third of the villages are electrified. The state-wise particulars are given below:

PERCENTAGE OF VILLAGES ELECTRIFIED, MARCH 1977

	State/Union Territory	Percentage of villages electrified		State/Union Territory	Percentage of villages electrified
	(1)	(2)		(1)	(2)
1.	Andhra Pradesh ..	49·5	13.	Meghalaya	7·4
2.	Assam	9·1	14.	Nagaland	20·7
3.	Bihar	26·9	15.	Orissa	27·8
4.	Gujarat	38·9	16.	Punjab	100·0
5.	Haryana	100·0	17.	Rajasthan	25·1
6.	Himachal Pradesh	42·8	18.	Sikkim	13·0
7.	Jammu & Kashmir	43·5	19.	Tamil Nadu	98·6
8.	Karnataka	54·8	20.	Tripura	6·1
9.	Kerala	95·6	21.	Uttar Pradesh ..	29·4
10.	Madhya Pradesh ..	19·5	22.	West Bengal	28·8
11.	Maharashtra ..	56·5	23.	Union	
12.	Manipur	12·1		Territories	23·9
		All India 35·2			

Source : Agriculture in Brief, 17th Ed., Table 10·21

No doubt, the Rural Electrification Corporation has been striving hard to provide electricity to backward regions and remote villages with potential for development. Evaluation studies* have, however, pointed out that due to faulty project formulation, selection of villages for electrification was not well-informed; nor were the targets laid down for energisation of pumpsets and industrial connections realistic; the electrification schemes did not take into account availability of water, cropping pattern, application of modern inputs and other factors; and above all, electrification has lagged behind the installation of tubewells and pumps in several places for unconscionably long periods. These defects need to be rectified urgently through better and realistic formulation of electrification programmes so that credit extended is better utilised.

9.16 In drawing attention, in the above paras, to the deficiencies of the more important items of basic infrastructure, the Committee wishes to impress on all concerned how crucial these and related items are to the success of integrated rural development approach and how very dependent the credit institutions are, on the efforts of state governments in these directions for making their credit operations effective and fruitful.

General Administrative Support

9.17 There are certain areas of general administration which impinge closely and critically on credit operations for rural development. Maintenance of land records is one such area. The credit institutions should have a clear idea of the status of the borrowing cultivator in relation to land. At present, the land records in most states are not up-to-date. There is also the problem of unrecorded or informal tenancy. During our visits to different states, we observed that financing of tenants and share croppers, allottees of *bhoodan* lands and cultivators in tribal areas continues to be unsatisfactory mainly due to uncertainties of their legal status *vis a vis* the lands they cultivate. There is still no clear demarcation of the rights of these categories and others to land. It is obvious that unless the tiller has the right to land, credit will not flow to him easily despite all exhortations. A person's

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*Evaluation studies on rural electrification carried out by —

(*i*) NIBM in Jalgaon District, Maharashtra (1975),
(*ii*) Centre for Studies in Decentralised Industries (CSDI) of the Vaikunthabhai Mehta Smarak Trust in the Konkan Region of Maharashtra — Thane, Kolaba, Alibag and Ratnagiri Districts (1978) and
(*iii*) Small Industry Extension Training Institute (SIET), Hyderabad, in Allahabad, Almora and Mathura Districts of U. P. and Dhenkanal District of Orissa (1979).

right to land as owner or as tenant should be recorded specifically and updated to enable the credit institutions to lend. Considering that unrecorded tenancy is widely prevalent in some areas, the state governments have to take corrective action without further delay if they are serious about the uplift of these target groups. In this connection, we would like to refer to the manner in which West Bengal Government has dealt with the issue of recording the names of *bargadars* in the State, under the crash programme of 'Operation *Barga*' launched in July 1978. Recognising the recording of *bargadars* (whose number is estimated between 20 to 25 lakhs) as a priority issue, the West Bengal Government had created the post of a Land Reforms Commissioner in 1978 exclusively to look after land reforms. By suitable amendment to Land Reforms Act, 1955 the granting of *barga* certificates was legalised and by August 1980, it is reported that about 9.5 lakh *bargadars* have been recorded. The State Government had also enlisted the support of the commercial banks in providing institutional finance to *bargadars*. While it is too early to say anything about the success of this measure, the experiment of the West Bengal Government shows what a state government can do to improve the lot of the weaker sections through land reforms.

9.18 There is a general impression that most of the problems relating to land rights can be overcome if the pass book system is introduced. This seems to be based on the reports of some working groups. The Talwar Committee on State Enactments having a bearing on Commercial Banks' Lending to Agriculture (1971) recommended : "as and when land records are brought up-to-date, pass books such as those already in vogue in some states may be issued by the state governments to owners and tenants so that such a pass book can serve as *prima facie* evidence to the rights in land of an agriculturist and as a starting point to banks to verify such rights and details pertaining to encumbrances thereon." The Working Group on Multi-Agency Approach in Agricultural Finance appointed by the Reserve Bank in 1976, concluded that the system of agricultural pass books would definitely eliminate the possibility of multiple financing of the same borrowers, provided the pass books are recognised as authentic legal documents evidencing ownership of assets and liabilities of farmers and periodically updated. The Group had therefore recommended that the pass book system should be introduced immediately with necessary statutory backing. Another Working Group constituted in 1978 by the Government of India to examine the existing application forms of various banks and lending procedures followed by them for sanction of loans to agriculture and allied activities, asserted that despite "the enormity of the task in updating the entries in the pass books,......maintaining agricultural pass books will be the single most important step towards simplification of the process of sanctioning of agricultural loans from whatever sources" (Para 3.2.1 of the Report). Further, the Group suggested that such pass books should be issued in duplicate, one copy to be retained by the revenue officer and the other copy to be handed over to the farmer. It envisaged that all entries in the pass book should be authenticated by the competent revenue officer as *prima facie* evidence of title to land and that, if the bank grants loan to the land owner on the security of his land, the bank should be obliged to endorse the pass book against the entry relating to the land on the security of which the loan is granted. The Group recommended introduction of the pass book in states where the system has not been introduced and in states where the pass books already exist, a comparison by the bank officials of the information given in the application forms with the entries in the pass book should be considered as adequate verification (Para 5.2.2 of the Report).

9.19 Pass book will no doubt be useful, provided the entries are up-to-date and backed by legal authority. But, the question is how these desirable features can be enshrined in the pass book when the land record itself is incomplete and outdated. We would, therefore, stress that making the land records up-to-date is the first task and this is squarely the responsibility of the state governments. The second step is to ensure the entries in the pass book relating to land are updated on a regular basis on the occurrence of every relevant event. This again, is a matter entirely within the jurisdiction and competence of state governments.

9.20 The existing system of pass books introduced in various states (Gujarat, Haryana, Himachal Pradesh, Madhya Pradesh, Maharashtra, Rajasthan, Tamil Nadu and Uttar Pradesh) has not proved effective partly because they have no legal validity as a document of title to land and partly because the entries in the pass books are not brought up-to-date even where the land records are up-to-date.

9.21 While we appreciate the need for a pass book, we are rather sceptical about its utility in the present state of affairs. First things must come first. The state governments must first set their land records administration to the primary task of up-dating the records and of according recognition to those who have the rights under the law. Meanwhile, the pass book if issued will be more in the nature of an identity card than legal evidence of rights to land. We have recommended in Chapter 5 that PACS should issue pass books on the basis of the land registers maintained in the society to facilitate identification of their members and their transactions. This will be applicable also to those members who do not own land and who have to be financed for activities not based on land. We are aware that some commercial banks have begun to issue pass books to their borrowers belonging to the target groups indicating therein the loans taken and repayment of instalments due. If these pass books are further improved to include all relevant data, they will serve as safeguards against malpractices and help in loan operations.

9.22 Besides land records, there are other areas in which administrative support of state governments is essential for the successful deployment of credit. It is not our intention to give an exhaustive list. By way of example, we may cite the registration of documents, arrangements for retrieval of information, scientific assessment of damages resulting from natural calamities, administration of the appropriate Act for quick recovery of loans and above all, the creation and maintenance of congenial climate for recovery and recycling of funds. We have already drawn attention to the importance of the District Development Plan as the foundation for the District Credit Plan. The former will obviously cover all aspects of development, not merely those which call for the use of institutional credit. Several of the programmes not involving institutional credit are bound to have indirect effect or influence on the working of the credit institutions. The planning and administration of these programmes will therefore be of interest to the credit institutions. Appropriate arrangements for dissemination of relevant information among the credit institutions and for the proper working of the administrative machinery entrusted with the District Development Plan are indeed necessary in every district.

PART III

RURAL CREDIT SET-UP AT THE NATIONAL LEVEL

CHAPTER 10*

AGRICULTURAL REFINANCE AND DEVELOPMENT CORPORATION

THE Agricultural Refinance Corporation was established by an Act of Parliament in 1963 and started functioning from 1st July 1963. Although primarily a refinancing agency, the Corporation had from the beginning assumed certain functions which are essentially developmental and promotional in nature. In order to emphasise the developmental and promotional role of the Corporation, it was renamed as Agricultural Refinance and Development Corporation (ARDC) by amending the original Act in 1975. The Corporation owes its birth to the wide recognition that a central organisation with adequate resources of its own is essential for supporting schemes for agricultural development. The Third Five Year plan (1961-66) emphasised the urgent need for stepping up agricultural production and the importance of setting up a statutory Corporation to supplement the efforts of the existing agencies at the national level in regard to provision of funds for an accelerated growth in agricultural output. Earlier, the Committee on Co-operative Credit (1960) and the All India Rural Credit Survey, 1954, had drawn attention to the fact that the inadequacy of institutional finance for long-term investment was a major factor impeding agricultural development in the country. They recommended that some arrangement, permanent in nature, must be made for provision of substantial amount by way of medium-term and long-term loans for agricultural development. It may be recalled that in 1954, the central land mortgage banks existed in 10 states only and they had only 304 primary banks affiliated to them. Their resources were limited and their loans were mostly meant for redemption of old debts. The loaning programme had no meaningful relation to the schemes of development. Following the recommendations of the All India Rural Credit Survey Committee, emphasis was shifted from land mortgage banking to land development banking and state (central) land development banks (SLDBs) came to be established in almost every State. The Agricultural Refinance Corporation established in 1963 was largely meant to refinance, assist and guide these SLDBs. In due course, the Corporation

*Reproduction of Chapter 2 forming part of the Interim Report submitted on 28 November 1979. Data have been updated in some places as indicated in footnotes.

extended its business to cover commercial banks and the state co-operative banks as these institutions entered the field of long-term investment for agriculture.

Objectives

10.2 According to the statute, the Corporation is to "provide such financial assistance to eligible institutions as it considers necessary for promoting the development of agriculture in India" and agriculture has been defined as including animal husbandry, dairy farming, poultry farming and pisciculture involving development of both inland and marine fisheries, catching of fish and activities connected therewith or incidental thereto. As enunciated in the statute, the ARDC has evolved the following objectives over the last few years of its working:

(*i*) To assume an effective role as a development bank.

(*ii*) To increase participation in productive lending for the achievement of the Five Year Plan targets.

(*iii*) To diversify lending for achieving a broad-based growth of the economy.

(*iv*) To penetrate into backward and under-developed areas for correcting regional imbalances.

(*v*) To provide assistance to small farmers in an increasing measure.

(*vi*) To strengthen the member banks, both operationally and financially, to enable them to handle increased business.

(*vii*) To emphasize the observance of technical considerations in the formulation of projects.

(*viii*) To orient the commercial banking sector to greater participation in investments for agricultural development.

(*ix*) To provide assistance to governmental agencies in the formulation of viable projects.

(*x*) To translate the agricultural development programmes incorporated in the Five Year Plans and other objectives of national agricultural development into bankable propositions.

(*xi*) To undertake project evaluation, research and studies in order to improve decision-making process in the Corporation as well as in the member banks.

Areas of Activity

10.3 Within the abovementioned broad objectives, the specific purposes for which refinance facilities are provided by the Corporation to eligible institutions are:

(*i*) Minor irrigation works covering compact areas for exploitation of ground and surface water resources which include investments in dugwells, improvement of existing wells, tube-wells, lift irrigation, installation of pumpsets, energisation of wells and other irrigation sources.

(*ii*) Reclamation and preparation of land for irrigation under the command of irrigation projects.

(*iii*) Soil conservation, water management and adoption of dry farming methods.

(*iv*) Farm mechanization and agro-service centres.

(*v*) Development of horticulture and plantation crops such as tea, coffee, rubber, cashewnut, coconut, cardamom and arecanut.

(*vi*) Construction of godowns and silos by organizations of agriculturists or by private entrepreneurs for the use of agriculturists and development of market yards.

(*vii*) Development of animal husbandry, dairy farming, fisheries and poultry farming.

(*viii*) Aerial spraying for control of crop pests and diseases by promotion of agro-aviation schemes.

(*ix*) Forestry development.

(*x*) Installation of gobar gas plants.

(*xi*) Purchase of work animals/animal-driven carts by small and marginal farmers.

Eligible Institutions

10.4 The eligible institutions to which alone the ARDC can provide financial assistance are specified in the Act as follows:

(*i*) a central land development bank or a State co-operative bank or a scheduled bank, being in each case a shareholder of the Corporation.

(*ii*) a co-operative society (other than a SLDB or a State co-operative bank) approved by the Reserve Bank in this behalf.

(*iii*) an Agricultural Credit Corporation established under the State Agricultural Credit Corporations Act, 1968.

(*iv*) such other institutions as may, on the recommendations of the Reserve Bank, be approved by the Central Government in this behalf.

However, no institution has so far been approved by the Central Government under (iv) above although this category was introduced specifically by the Amendment Act of 1975 to enable the ARDC to give direct finance to certain development institutions other than its shareholders.

Form and Extent of Assistance

10.5 The Corporation's assistance to SLDBs is in the form of subscription to the special development debentures floated by them on the strength of mortgages collected by them after issuing the loans. The ARDC normally subscribes upto 75 per cent of these debentures, the balance of 25 per cent being contributed by the concerned State Government and Central Government in the ratio of 50:50. Considering the strategic importance of minor irrigation schemes in the country's plans for increasing agricultural production, the ARDC agreed to increase its contribution to the special development debentures floated by SLDBs for minor irrigation schemes to 90 per cent in August 1967, with the governments being required to contribute only 10 per cent of the value of debentures for such schemes. The Corporation has recently decided to extend indefinitely the concession of 90 per cent in respect of minor irrigation schemes not only to SLDBs but also to the commercial banks, SCBs and RRBs. In order to encourage the banks to take up more schemes in the eastern and north-eastern regions, the ARDC is making available 90 per cent refinance for all the schemes emanating from these areas as against 75 per cent in regard to schemes other than minor irrigation in other areas. Further, the facility of refinance to the extent of 90 per cent of the financial assistance is also extended to all special programmes such as IRD, CADA, Desert Area Development and Hill Area Development and to all special schemes such as those sponsored by appropriate agencies like SFDA, DPAP, Scheduled Castes/Tribes and Girijan Development.

10.6 In the case of SCBs and commercial banks, refinance is provided by the Corporation in the form of term loans repayable in annual instalments. The extent of refinance ranges from 75 per cent to 90 per cent depending upon the purpose of investment and the category of the beneficiaries, *viz.*, small and marginal farmers.

Membership and Shareholding

10.7 The RBI is the major shareholder (not less than 50 per cent) as per the statute. Besides, the membership of the Corporation is open to SLDBs, SCBs, Scheduled Commercial Banks, LIC, other insurance and investment companies and such other classes of financial institutions as may be notified by the Central Government. The shareholders of the ARDC as well as their share holding (the authorised capital being Rs. 100 crores) as at the end of June 1979 were as under:

Particulars	No. of share-holders	Value of shares held (Rs. crores)	Per cent of total
(1)	(2)	(3)	(4)
Reserve Bank of India	1	31·07	54·0
State Land Development Banks	19	9·27	16·1
State Co-operative Banks	24	4·59	8·0
Scheduled Commercial Banks (including Regional Rural Banks)	106	11·09	19·3
Life Insurance Corporation & other Insurance Companies	6	1·48	2·6
	156	57·50	100·0

Source : Agricultural Refinance and Development Corporation.

10.8 The shares of the Corporation are fully guaranteed by the Central Government as to repayment of the principal and the payment of a minimum annual dividend at a rate fixed by the Central Government at the time of issuing the shares. The rate of the guaranteed dividend was fixed at 4.25 per cent for the first series of shares. The rate was raised for the subsequent issues and it was fixed at 6.25 per cent for the eighth series of shares issued in November 1978. This provision of a minimum annual dividend was made with a view to encouraging shareholding by private commercial banks and co-operative institutions. However, it has proved to be costly in the sense that the Corporation has had to earn 15 per cent on the value of the shares in order to pay the above guaranteed dividend if it is not exempted from payment of income-tax.

Debt-equity Ratio and Borrowings

10.9 The maximum borrowing power of the Corporation is fixed at 20 times the paid-up capital and the reserve fund. The outstanding borrowings of the Corporation in the recent past have ranged between 15 and 18 times its paid-up capital and reserves. The Corporation can raise resources through:

(*i*) issue of bonds and debentures guaranteed by the Central Government as to the repayment of principal and payment of interest,

(*ii*) borrowings from the Reserve Bank of India for a period not exceeding 18 months against trustee securities,

(*iii*) borrowings from the Reserve Bank of India out of the NAC (LTO) Fund,

(*iv*) borrowings from the Central Government and any other authority or organisation or institution approved by the Central Government,

(*v*) acceptance of deposits for periods not less than 12 months from the Central and State Governments, local authority, SLDBs, SCBs, scheduled banks or any person with the prior approval of the Reserve Bank,

(*vi*) loans in foreign currency from any bank or financial institution in India or elsewhere, with the prior approval of the Central Government.

10.10 To enable the Corporation to augment its resources, the Reserve Bank has been keeping with the Corporation the dividend accruing on its shares as an interest-free deposit for a period of 15 years from the establishment of the Corporation. With the expiry of this 15 year period, the Reserve Bank has since decided that the

ARDC should pay dividend to it from the close of the accounting year 1980; it has agreed to continue this special deposit (aggregating Rs. 5.2 crores as on 30 June 1979) due for repayment in June 1980 for another 10 years commencing from 1 July 1980.

Overall Resources Position

10.11 Till the end of June 1979, the ARDC had issued 14 series of bonds for a total amount of Rs. 246.39 crores including the 10 per cent excess contribution to each series allowed to be retained. The 14th series was issued at par with an interest rate of 6.25 per cent and maturity of 10 years. For the borrowings from the Government of India aggregating Rs. 502.4 crores at the end of June 1979, the Corporation is required to pay interest at 6.25 per cent on loans with a maturity upto 9 years and at 6.75 per cent on loans maturing between 9 years and 15 years with a rebate of 0.25 per cent being allowed for prompt payment of interest. The Reserve Bank of India sanctions credit limits annually to the Corporation for drawals from the NAC (LTO) Fund. These borrowings are for a period of 10 years and carry an interest of 6 per cent at present. The overall resources position of the Corporation as well as the borrowings at the end of June 1979, were as follows:

(Rs. crores)

Particulars	Position as on 30 June 1979	Position as on 30 June 1980*
(1)	(2)	(3)
1. Paid-up Capital	57·50	57·50
2. Reserves	25·28	30·45
3. Research and Development Fund	2·00	2·00
4. Special deposit	5·22	6·89
5. Borrowings from :		
(i) Government of India	502·40	644·61
(of which from IDA/World Bank) ..	(444·00)	(548·00)
(ii) Reserve Bank	263·50	314·70
6. Bonds	246·39	285·99
7. Special loan account deposit	6·58	6·68
Total ..	1,108·87	1,348·82

Source : Agricultural Refinance and Development Corporation

Management and Organisation

10.12 The general superintendence, direction and management of the affairs and business of the Corporation are vested in a Board of nine directors with a Deputy Governor of the Reserve Bank of India

* Latest position as now available.

as the Chairman. Apart from the Managing Director who is appointed by the Reserve Bank in consultation with the Board, one more director is nominated by the RBI. Three directors are nominated by the Government of India from among its officers. The three other directors are elected once in every four years by an electoral college each, from among the shareholders of (*i*) State Land Development Banks, (*ii*) State Co-operative Banks, and (*iii*) Life Insurance Corporation of India, Scheduled Banks, Insurance and Investment Companies and other financial institutions.

10.13 The composition of the Board has remained unchanged over the years despite the change in the name of the Corporation in 1975 to signify its developmental role. The Chairman of the Corporation is a Deputy Governor of the RBI. The M.D. is a full-time functionary. He is appointed by the RBI after consultation with the Board. The ARDC Act has not laid down any specific powers for Chairman or M.D. According to the Act, the Managing Director shall perform such duties as the Board entrusts or delegates to him. The RBI may, at any time, remove the Managing Director from office, after consultation with the Board.

Administrative Structure

10.14 The Head Office of the Corporation is in Bombay. The Managing Director is assisted by two General Managers, 4 Senior Directors apart from Directors, Deputy Directors, Economists, Financial Analysts and other staff. Basically, the staffing pattern is officer-oriented to ensure speedy disposal of work. For help in technical evaluation, the Corporation has appointed a few senior technical experts in different areas of specialisation.

10.15 The Head Office of the Corporation consists of seven Divisions, *viz.*,

(*i*) Three Project Divisions.

(*ii*) Funds, Accounts and Administration Division.

(*iii*) Planning & Development and Management Division.

(*iv*) Programming and Evaluation Division; and

(*v*) Technical Division.

In addition, the Corporation has also set up separate cells for Training and Internal Audit. The organisational set-up for the Head Office is presented in the enclosed chart. While one General Manager is in charge of all three Project Divisions each headed by a Senior Director for a group of states, the other General Manager is in charge of all the other Divisions.

Regional Offices

10.16 The Corporation has established 14 Regional Offices, located in the major State capitals. These are in Ahmedabad, Bangalore, Bhopal, Bhubaneswar, Calcutta, Chandigarh, Gauhati, Hyderabad, Jaipur, Lucknow, Madras, New Delhi, Patna and Trivandrum. There is a regional unit for Maharashtra located in the Head Office itself.

10.17 The functions of the Regional Offices can be grouped in three categories:

(*a*) Financial and/or Technical Appraisal of Schemes including operational aspects.

(*b*) Follow-up and Monitoring of Schemes.

(*c*) Planning and Development.

The role of Regional Offices is essentially developmental and promotional. They actively assist the financing banks and the state governments in the identification and formulation of viable schemes, provide clarification on the Corporation's policies and procedures when required, undertake scrutiny of the schemes and their economic appraisal and carry out follow-up studies in respect of schemes sanctioned by the Corporation. They also scrutinise and recommend the debenture floatation proposals/drawal applications/rephasing proposals and keep the Head Office informed of the developments in the states affecting agriculture and financing banks and generally act as liaison offices of the Corporation in the different states. The organisational set-up for a typical Regional Office as proposed is given in the enclosed chart.

10.18 Till 1973 all the schemes were referred to the Board for sanction. In 1973, the Board delegated to the Managing Director the power of sanctioning schemes involving refinance upto Rs. 50 lakhs. From 10 January 1979, the Board has authorised the Managing Director to sub-delegate to General Managers and Senior Directors in Head Office and Directors holding charge of Regional Offices, the power to sanction specified types of schemes involving refinance

CHART 10·1

AGRICULTURAL REFINANCE AND DEVELOPMENT CORPORATION

ORGANISATION CHART

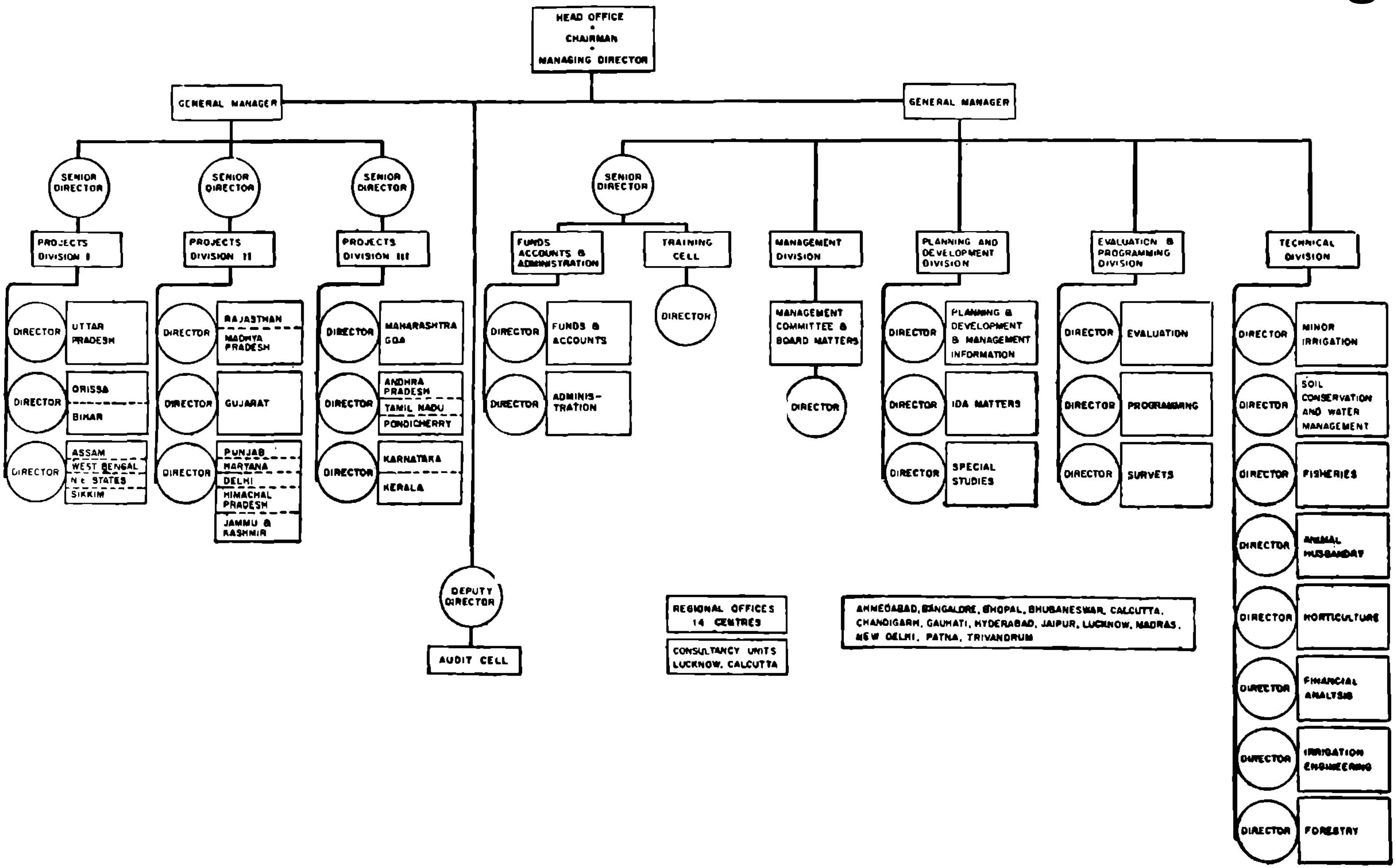

CHART 10·2

ORGANISATIONAL CHART FOR A TYPICAL REGIONAL OFFICE OF ARDC

(PROPOSED)

SENIOR DIRECTOR

DIRECTOR

Appraisal / sanctions	Operations	Technical Cell	Follow-up Monitoring Statistics	Block level Planning and Development	Administration
Deputy Directors (2)	Deputy Director (1)	Deputy Directors (2)	Deputy Directors (2) 1	Deputy Directors (*)	Deputy Director (1)
Development Officers (3)	Development Officer (1)	Development Officers (4/5)	Development Officer (1) 1	Development Officers (*)	Development Officer (1)
Assistant Development Officers (6)	Assistant Development Officers (2)	—	Assistant Development @ 1 2 Officers	Assistant Development Officers (*)	Assistant Development Officers (2)

(1) Include Agricultural Economists

@ (2) Include Field Survey / Investigation Units

* (3) Strength of each Category of Staff would be related to No. of Blocks to be covered under Integrated Rural Development Programme.

upto Rs. 40 lakhs subject to certain conditions and limitations. The Directors in charge of Regional Offices have been now empowered to sanction refinance assistance upto Rs. 20 lakhs in respect of minor irrigation schemes and upto Rs. 10 lakhs in the case of certain specified schemes for diversified purposes. At the Head Office, appropriate monitoring arrangements have been evolved to look into the schemes sanctioned at the Regional Offices. Although the sanctioning power has been decentralized to some extent, actual disbursement of refinance is attended to by the Head Office.

Consultancy Services

10.19 In order to help the formulation of viable agricultural development schemes in the northern and eastern states, the Corporation set up in August 1971 a Consultancy Service Unit in Lucknow. A new Consultancy Service Unit was opened at Calcutta (in 1973) to serve exclusively the eastern and north-eastern regions.

Staff

10.20 Although the ARDC is empowered by statute to recruit its own staff, it has been drawing most of its staff from the RBI since inception. In the light of its experience, the ARDC has indicated to the RBI its preference to develop its own cadres at all levels. The final decision on this matter has not yet been taken.

Training Arrangements

10.21 The ARDC has embarked on a comprehensive programme of organising training for the senior and middle level staff of LDBs and other agencies and the junior level staff of LDBs connected with the implementation of ARDC schemes. The training programme for the senior and middle level staff is conducted through the College of Agricultural Banking (CAB), Pune, while for the junior level staff, the training is through the regional training centres with the help of SLDBs. In CAB, Pune and in other programmes, 86 courses have so far been conducted for senior and middle level staff of banks, state governments, the RBI and the ARDC, training 2,325 members. SLDBs have trained 12,110 members upto 30 June 1979 under the junior staff training programme under the overall guidance of the ARDC.

Operational Dimensions

10.22 The progress in the business of the Corporation during the first few years of its inception was not significant because it had to bestow considerable attention to the spadework required for embarking upon full-fledged operations. The subsequent years, however, have witnessed a faster growth in the sanction of schemes as well as in the disbursement of refinance.

10.23 Starting with only 3 schemes involving financial outlay of Rs. 2 crores in 1963-64, the number of schemes sanctioned increased to 8,655 as at the end of June 1979 with financial assistance of Rs. 2,727 crores and the Corporation's commitment aggregating Rs. 2,303 crores. The active association of the Corporation with the World Bank and its affiliate IDA since 1969 has been a noteworthy feature of ARDC's operations. The cumulative refinance disbursed by the Corporation crossed the Rs. 1,000 crores mark and stood at Rs. 1,334 crores as at the end of June 1979. The progress details over the years are given below:†

(Rs. crores)

Year July—June	No. of schemes sanctioned at the end of the year	DISBURSEMENT	
		During the year	Upto the end of the year
(1)	(2)	(3)	(4)
1963-64	3	—	—
1969-70	371	28·60	59·09
1974-75	2,053	106·40	423·07
1975-76	2,905	171·15	594·20
1976-77	4,487	220·82	815·02
1977-78	6,221	234·30	1,049·32
1978-79	8,655	284·87	1,333·56

Source : Agricultural Refinance and Development Corporation.

Coverage of Regions

10.24 As regards geographical coverage of ARDC's operations, every district in the country except for 27 out of the total 387 districts, had at least one ARDC scheme by January 1979. In terms of blocks 4,621 out of 5,004 have one type or other of ARDC schemes sanctioned for implementation.* Except in the difficult hilly terrain particularly in the northern and north-eastern states, the ARDC has penetrated into other areas where some type of agricultural development has been undertaken. With a view to reducing imbalances between different regions of the same state, the ARDC is making

† The position in this regard as on June 30, 1980 was as below :

Number of schemes sanctioned at the end of the year		12,225
Refinance disbursed in 1979-80 :	(Rs. crores)	412·23
Refinance disbursed upto the end of 1979-80 :	(Rs. crores)	1,738·19

* The number of blocks covered has risen to 4,814 by 30-6-1980.

efforts to cover all the districts in the country. The regionwise disbursement of refinance during the recent years may be seen in Statement 10.1. The position with regard to the distribution of refinance in the different regions is indicated below:

Region	PERCENTAGE REFINANCE DISBURSED**							
	1963 to 1969	1969 to 1974	During year ended June					Cumulative upto June 1979
			1975	1976	1977	1978	1979	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Northern	32·5	21·6	17·4	20·3	19·5	15·6	19·0	19·4
North-Eastern	2·4	0·2	0·1	—	0·4	1·3	1·0	0·6
Eastern	0·8	3·7	10·2	10·6	13·0	15·8	14·7	10·9
Western	13·0	25·2	16·8	15·2	10·6	14·3	14·1	16·3
Central	5·0	17·8	28·9	26·5	28·7	25·5	23·0	23·8
Southern	46·3	31·5	26·6	27·4	27·8	27·5	28·2	29·0
	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0

Source: Agricultural Refinance and Development Corporation.

While displaying a perceptible increase in the share of the underdeveloped states in the eastern and north-eastern regions upto 1977-78, the above data reveal a slight set-back to the trend during 1978-79. In order to encourage the member banks to take up more schemes in the eastern and north-eastern regions, the ARDC is making available 90 per cent refinance for schemes emanating from these regions irrespective of the nature of purpose as against 75 per cent refinance in regard to schemes other than minor irrigation in other regions.

10.25 As at the end of June 1979, the refinance provided to less developed states† worked out as under:

(Rs. crores)

Area	No. of schemes	ARDC commitment	Refinance provided by ARDC
(1)	(2)	(3)	(4)
(*a*) Less developed States	3,899	1,011·60	527·18
(*b*) Other States	4,756	1,291·00	806·38
(*c*) Total	8,655	2,302·60	1,333·56
Percentage of (*a*) to (*c*)	45·0	43·9	39·5

Source: Agricultural Refinance and Development Corporation

** Percentage of total refinance disbursed during year ended June 1980 amounted to 26·7 percent in the Northern region, 0·7 per cent in the North-Eastern region, 11·5 per cent in the Eastern region, 15·3 per cent in the Western region, 22·6 per cent in the Central region and 23·2 per cent in the Southern region. The share cf the regions in the cumulative disbursements upto June 1980 was 20·8 per cent for the Nothern region, 0·6 per cent for the North-Eastern region, 11·2 per cent for the Eastern region, 16·1 per cent for the Western region, 23·6 per cent for the Central region and 27·7 per cent for the Southern region.

†Includes Uttar Pradesh, Madhya Pradesh, Bihar, Orissa, West Bengal, Rajasthan, Jammu and Kashmir, Himachal Pradesh and North-Eastern States.

During the year ended June 1979 the less developed States accounted for Rs. 127 crores out of Rs. 285 crores disbursed by the ARDC.

Purposewise Disbursements

10.26 The purposewise details of disbursements are shown in Statement 10.2. Minor irrigation schemes account for a major part of the disbursements (about 68 per cent of the average during the period upto June 1979). Farm mechanisation schemes constitute the next largest single item with disbursements at Rs. 187 crores constituting 14 per cent of the total. Storage and market yards schemes occupy the next place with disbursement of Rs. 91 crores constituting 6.9 per cent followed by schemes of land development, reclamation, soil conservation and command area development which account for 4.2 per cent of the total. The other schemes for which refinance assistance had been disbursed are plantation/horticulture (3.1 per cent), fisheries (1.7 per cent), dairy development (1.5 per cent) etc. Though the business of the ARDC has shown signs of diversification in recent years, the process is yet to become perceptible and achieve a better geographical spread. The recent trend of diversified lending is largely on account of commercial banks whereas in the case of LDBs, 83 per cent of disbursements made were for minor irrigation schemes as at the end of June 1979.

Agencywise Disbursements

10.27 The relative shares of the agencies through which the ARDC finances show some interesting trends as may be seen from the details furnished below:

Year	DISBURSEMENT OF REFINANCE BY THE ARDC					
	SLDBs		Scheduled Commercial Banks		State Co-operative Banks	
	Amount (Rs. crores)	Percentage to total	Amount (Rs. crores)	Percentage to total	Amount (Rs. crores)	Percentage to total
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Upto 30-6-1969 ..	27·85	91·4	1·06	3·5	1·56	5·1
1969-73 ..	167·93	89·2	11·09	5·9	9·32	4·9
1973-74 ..	77·76	79·5	17·36	17·7	2·72	2·8
1974-75 ..	77·06	72·4	27·87	26·2	1·47	1·4
1975-76 ..	99·09	57·9	70·75	41·3	1·31	0·8
1976-77 ..	126·70	57·4	92·98	42·1	1·14	0·5
1977-78 ..	111·94	47·8	120·26	51·3	2·10	0·9
1978-79 ..	131·32	46·1*	149·52	52·5*	4·03	1·4*
Upto 30-6-1979 ..	819·59	61·6	490·53	36·8	23·44	1·7

Source: Agricultural Refinance and Development Corporation.

* For 1979-80 the percentage is 39·8 for SLDBs, 58·0 for scheduled commercial banks and 2·2 for SCBs.

The share of SLDBs in disbursements of the ARDC refinance which was as high as 91.4 per cent upto 1969 has continuously declined over the decade, to 46.1 per cent in 1978-79. In sharp contrast to this, the relative share of commercial banks increased steadily from 3.5 per cent in 1969 to 52.5 per cent in 1979. Their involvement particularly in minor irrigation has been increasing in areas where the co-operative structure is weak.

Coverage of Small Farmers and Other Weaker Sections

10.28 It is one of the objectives of the ARDC to promote flow of larger quantum of credit to small and marginal farmers and other weaker sections of the rural community. Special attention is, therefore, paid to the problems of small farmers. The small farmers who are not entitled to capital subsidy made available by the Government of India/state governments under the special programmes such as SFDA, DPAP etc., but are classified as small farmers as per ARDC definition† are entitled to concessional terms of loaning, *viz.*, 5 per cent down payment only as compared to 10 per cent and 15 per cent stipulated for medium and large farmers, and a longer period of loans upto 15 years especially for minor irrigation investments besides payment of a uniform rate of interest of 9.5 per cent per annum on loans for all purposes as against 9.5 per cent and 10.5 per cent to be charged to others for minor irrigation/land development and other purposes respectively. As against the usual 75-80 per cent, the Corporation provides 90 per cent refinance to banks against loans given by them for schemes of small and marginal farmers sponsored by SFDA/MFAL agencies so as to encourage member banks to formulate more schemes for such beneficiaries. In the eastern and north-eastern regions where small farmers are predominant, 90 per cent refinance is made available for all categories of investments.

10.29 The ARDC is also committed to ensuring that at least 50 per cent of the refinance provided by it to its member-banks under the various schemes is against loans given to small farmers and other weaker sections. The Corporation has been stipulating in its sanction letters that the financing banks should ensure that at least 50 per cent of the beneficiaries under each scheme are small farmers.* As at the end of June 1979, a total of 534 schemes sponsored by the SFDA/MFAL agencies were sanctioned by the Corporation involving an aggregate commitment of Rs. 90 crores of which Rs. 47 crores

† A farmer cultivating land providing a pre-development net return to family resources not exceeding Rs. 2,000/- per annum based on 1972 prices is classified as a small farmer.

* The present objective is to channelise at least 60 per cent of the disbusement to small farmers during the Third ARDC credit project.

were availed of till then. The share of small farmers in the ARDC's total disbursements rose from 48 per cent as at the end of March 1978 to 49 per cent* as on 31-3-1979. Purposewise, 48 per cent of the total disbursements for minor irrigation was in respect of small farmers while 52 per cent of the amount advanced towards diversified purposes (other than farm mechanisation, storage and market yards which do not directly benefit the small farmers) was for small farmers. The schemewise position as on 31-3-1979 is shown below:

(Rs. crores)

Category of schemes	Minor Irrigation			Diversified (excluding farm mechanisation, storage & market yards)		
	Total disbursement	Disbursement to small farmers	Percentage of 3 to 2	Total disbursement	Disbursement to small farmers	Percentage of 6 to 5
(1)	(2)	(3)	(4)	(5)	(6)	(7)
IDA Projects ..	329·9	111·1	34	13·1	5·3	40
ARDC I ..	112·5	62·4	55	10·5	4·0	38
ARDC II ..	154·1	82·8	54	29·6	10·0	34
SFDA/MFAL ..	35·9	35·9	100	5·4	5·4	100
Other Schemes ..	201·4	111·9	56	74·5	44·2	59
Total ..	833·8	404·1	48	133·1	68·9	52

Source : Agricultural Refinance and Development Corporation.

Rate of Interest

10.30 The rate of interest charged by the Corporation on its refinance which was 5.5 per cent per annum for all types of assistance from the Corporation in 1964 was gradually raised over the years in accordance with the overall credit policy. In August 1974 the rate was fixed as 7.5 per cent per annum for minor irrigation and land development schemes and 8 per cent per annum for other types of schemes. The lending rates to the ultimate beneficiaries were fixed in consultation with the GOI/RBI at 10.5 per cent per annum for minor irrigation and land development schemes and 11 per cent per annum for other schemes, allowing a margin of 3 per cent to the financing banks.

10.31 With the decision of the Government of India to exempt the ARDC from payment of income-tax for 5 years and a marginal reduction in the rate of interest on the Government of India loans to the

* Of the total disbursements of ARDC during 1979-80 (excluding farm mechanisation and storage and market yards) member banks attained a small farmer coverage of 58 per cent under all the ARDC programmes while purposewise the coverage was 61 per cent for minor irrigation and land development, and 47 per cent for diversified purposes.

ARDC, the Corporation has, with effect from 15 March 1979, reduced its rate of interest on refinance to the eligible institutions and the latter's rate to the ultimate borrowers as follows:

Type of schemes	Rate of interest on refinance to eligible institutions	Rate of interest to be charged by banks to ultimate borrowers
	(Per cent per annum)	
A. Minor irrigation/land development	6·5	9·5
B. Diversified purposes :		
(a) small farmers	6·5	9·5
(b) others	7·5	10·5

Source : Agricultural Refinance and Development Corporation.

It may be noted that in the case of small farmers even for schemes other than minor irrigation and land development, the rate of interest on refinance is fixed at 6.5 per cent per annum and the banks are required to lend at 9.5 per cent to such farmers as against the earlier rate of 11 per cent per annum.

Period of Loan

10.32 Loan maturities are determined on the basis of the repaying capacity generated by the investment undertaken by the beneficiaries but it will not exceed the useful life of the assets financed. Since certain types of investments do not fructify immediately, a suitable gestation/grace period is allowed. Thus in the case of minor irrigation or land development schemes, a grace period upto 23 months is allowed, wherever necessary. In the case of orchards and plantations, this gestation period may extend to 5 or 6 years. The maximum period allowed for loans does not exceed 15 years including the gestation period. In the case of dairy and poultry investments shorter loan maturities of 4-6 years are stipulated in view of relatively higher rate of return. For pumpsets, tractors and other machinery, the maximum period is 7 years to coincide with the useful life of the assets. For other investments the period may extend upto 9 years for those other than small farmers and upto 15 years for small farmers.

10.33 Since 1 July 1978, SLDBs are allowed to float special development debentures carrying a maturity of not more than two years in excess of the period of the corresponding loans given to the ultimate borrowers. This facility is not available in respect of loans given to the corporate bodies like State Electricity Boards. The maximum period of all special development debentures will, however, continue to be 15 years. Repayments from member banks to the ARDC are fixed co-terminus with the repayment period fixed for the ultimate beneficiaries. Appropriate rephasing of loan repayment schedules at the farmer level is admitted in the case of natural calamities such as flood, droughts, etc.

Borrower's Contribution — Down Payment

10.34 The ARDC requires the beneficiary also to contribute to the project cost to ensure his stake in the investment and mobilise rural savings. Such down payment varies from 5 per cent to 15 per cent according to type of investment and the class of borrowers. Small farmers have to contribute only 5 per cent of the cost of investment irrespective of the purpose while the medium category of farmers have to make a down payment of 10 per cent. Large farmers are required to put in 10 per cent for pumpset loans and 15 per cent for other types of loans. In the case of two or more farmers in the medium category joining in a group loan, the down payment for pumpset loans and other loans will be 7 per cent. For a group loan for large farmers down payment will be 7 per cent for pumpset loans and 10 per per cent for other loans. These contributions are inclusive of the share capital contribution mandatory for borrowings from LDBs. Corporate borrowers such as Irrigation Corporations provide down payment of 20 per cent to 25 per cent of the investment costs.

Security

10.35 Security from the ultimate beneficiaries is that prescribed by the financing banks according to their normal rules of business. LDBs under the bylaws invariably obtain mortgage of land as primary security. Commercial banks obtain mortgages but do not insist on them in the case of milch cattle if the borrower is a landless labourer. In view of the difficulties experienced by commercial banks to effect a sub-mortgage or sub-hypothecation of the security obtained from their constituents in favour of the Corporation, the ARDC Act was amended in 1973 empowering the Board of the Corporation to waive security or Government guarantee for any eligible institution or a class of eligible institutions on the merits of each case. Thus for commercial banks, the ARDC has waived security requirements for the refinance. The security obtained by the commercial banks under their normal rules of business, will however, be held in trust on behalf of the Corporation. The Corporation has also decided to waive 'other security' or government guarantee in respect of schemes of SCBs provided they satisfy certain norms indicated by the ARDC. In the case of SLDBs, their debentures are guaranteed by the concerned state governments.

Interest Rate Structure and Margins

10.36 While setting up the ARDC it was clearly recognised that there would be no element of subsidy in the interest rates charged by the ARDC to the eligible institutions or to the ultimate borrowers. While a uniform rate of interest was charged with no distinction being made between loans to small farmers and others for the same purpose, a differential rate of interest has now been stipulated from 15 March 1979 following the Government of India's decision to exempt the ARDC from payment of income-tax for 5 years and the proposed marginal reduction in the rate of interest on the Government of India loans to the ARDC. Accordingly, small farmers now get loans for all purposes at the same rate of interest (9.5 per cent) from banks under ARDC schemes while loans to other farmers for diversified purposes are charged 10.5 per cent.

10.37 The interest rate structure depends on (*a*) the cost of resources to the ARDC and (*b*) the margin to be made available to banks over the refinance rate. The cost of resources, as at present, is as indicated below:

Source of funds	Rate of interest payable by ARDC
(*i*) Government of India loans by way of reimbursement of amounts disbursed under various World Bank assisted projects	6·25 per cent for 9 years loans and 6·75 per cent for loans above 9 years and upto 15 years, with 1/4 per cent rebate for prompt payment.
(*ii*) Borrowing from the RBI out of the NAC (LTO) Fund	6 per cent
(*iii*) Open market borrowings through issue of bonds	6 per cent (The rate is fixed by the GOI and the RBI keeping in view the overall monetary policy and the cost of raising resources for the GOI and state governments)
(*iv*) Share capital	6·25 per cent (This is the current rate of guaranteed dividend payable).

10.38 The average lending rate, average borrowing rate and gross-spread available to the ARDC during the last 5 years were as shown below:

(Rates in percentage)

	1973-74	1974-75	1975-76	1976-77	1977-78
(a) Average lending rate	6·26	6·37	6·56	6·74	6·94
(b) Average borrowing rate ..	4·99	5·10	5·25	5·43	5·53
(c) Gross spread (a — b)	1·27	1·27	1·31	1·31	1·41
(d) Spread after income-tax at 57·75 per cent	0·54	0·54	0·55	0·55	0·60

The capacity of the ARDC to build up adequate reserves is limited by the spread between the average borrowing and lending rate. It will be seen that as at the end of June 1978 only 0.6 per cent was available for meeting the establishment and administrative expenditure and for building up its reserves etc. As against the income-tax benefit of about 0.8 per cent, the Corporation has reduced the rate of interest virtually by 1 per cent. The Corporation's ability to build up adequate reserves is mainly linked to further reduction in the rate of interest on the Government of India loans.

10.39 The other factor that determines the interest rate structure is the margin to be allowed to the financing banks over the rate of refinance. The banks are now allowed a margin of 3 per cent over the refinance rate to meet the cost of financing, supervision, etc. A committee recently appointed by the ARDC has looked into this problem of adequacy of margin for the on-lending banks.

Short-term Financing by the ARDC

10.40 The original Act contained a provision prohibiting the ARDC from providing working capital. This restriction was removed by an amendment to the Act in 1975. Although the Corporation had proposed, at the time of the amendment, that there should be an enabling clause for providing necessary working capital to farmers as part of the loaning operations of the ARDC, Government of India had taken the view that this should be done as per the guidelines issued by them according to which working capital requirements could be given by the ARDC on a selectives basis, in integrated development projects where the execution of the projects is dependent on ensuring the flow of short-term funds for inputs, on a specific decision on each case by the Board.

10.41 The ARDC provides maintenance cost in the case of long gestation loans like plantation/horticulture until the investment starts yielding and for this funds are advanced at the same rate of interest as the investment cost. In the case of integrated cotton and apple projects, the problem of the ARDC is in issuing working capital loans to the beneficiary at the same rate as that of the co-operatives through the Reserve Bank. The market borrowings or borrowings from the RBI's NAC (LTO) Fund or the GOI for this purpose do not leave adequate margin to the ARDC as the interest rates are higher or equal to the rate of refinance. The Corporation's difficulties in expanding short-term credit facilities thus centre round the resource base.

10.42 The quantum of short-term loans provided by the Corporation has not been significant, *viz.*, Rs. 3 crores in the cumulative disbursement of Rs. 1,334 crores since inception*. The ARDC has recently decided to extend the facility of interim accommodation to LDBs beginning from January 1980 so that they can build up portfolio for floatation of special debentures. This scheme will save LDBs from incurring high interest charges on bridge finance. The ARDC is also considering the extension of the system of composite loans, which is in vogue for plantation and sericulture, to minor irrigation and other schemes, thereby enabling LDBs to finance short-term credit needs of farmers who are granted long-term loans.†

Financing Village and Rural Industries

10.43 The Act as at present does not specifically provide for financing all types of village and rural industries. The Corporation has, however, given a wider interpretation to the term 'agriculture' and thus is able to finance agro-based industries and input type of industries when these units are closely related to the agricultural production schemes. Instances of this type of financing are the setting up of tea factories in the tea gardens to process green tea, cotton seed processing units, vaccine manufacturing units, etc. With no rigid ceiling stipulated for the capital cost of investment for the setting up of such units, the basic consideration guiding the ARDC has been the capacity needed to process the additional agricultural produce from the development refinance. In all such schemes, the ARDC has taken care of forward and backward linkages which are necessary to ensure proper input supply, processing and storage arrangements.

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* As on 30-6-80, Rs. 8 crores were provided by way of short-term finance as against cumulative disbursement of Rs. 1,738 crores under long-term finance.

† Annual Statement of the Chairman of the ARDC, October 1979.

CHAPTER 11*

RESERVE BANK AND RURAL CREDIT

IN striking contrast to the working of other Central Banks, the Reserve Bank of India has been given by its statute (Sections 17 and 54) a very important role in the sphere of rural credit in view of the predominantly agricultural character of the Indian economy and the urgent need to expand and co-ordinate the credit facilities available to the agricultural sector. Keeping this in view, the framers of the RBI Act laid down in Section 54 of the Act that the RBI shall create a special Agricultural Credit Department with the following broad functions :

(*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 organisations; 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 organisations engaged in the business of agricultural credit.

11.2 The Agricultural Credit Department (ACD) was accordingly organised simultaneously with the establishment of RBI in April 1935. In the first 20 years from 1935 to 1954, the role of the Agricultural Credit Department was confined mainly to undertaking studies and advising State Governments regarding legislation for regulating private money lending and checking of malpractices. The All-India Rural Credit Survey Committee appointed by the RBI focussed attention on the failure of co-operative credit agencies to meet the credit needs of agriculture; the co-operative credit institutions, for instance, accounted for only 3 per cent of the total credit availed by the *ryots*, which only reflected the structural, financial and managerial weaknesses of the co-operative financing system as a whole, as also the lack of co-ordination between credit and other economic activities especially marketing and processing and concluded that "co-operation has failed but co-operation must succeed". Therefore, the

*Reproduction of Chapter 3 forming part of the Interim Report submitted on 28 November 1979. Data have been updated in some places as indicated in footnotes.

Committee recommended the integrated credit scheme which among others included :

(*i*) Large primary credit societies and State partnership in co-operatives through contribution to their share capital;

(*ii*) full co-ordination between credit and other economic activities particularly marketing and processing;

(*iii*) administration through adequately trained and efficient personnel responsive to the needs of rural population; and

(*iv*) with a view to extending the banking facilities in rural areas, conversion of Imperial Bank of India into a State-partnered bank.

11.3 The key role of overall charge of co-ordinating the extensive effort on the credit side was assigned by the Committee to the RBI. To enable the RBI to meet the financial obligation cast on it as a result of the recommendations of the Committee, the RBI Act was amended in 1955 to provide for the establishment of two funds *viz.*, the National Agricultural Credit (Long Term Operations) Fund to provide long-term funds for State partnership in co-operatives and the National Agricultural Credit (Stabilisation) Fund to facilitate conversion of short-term loans into medium-term loans when repayment becomes difficult on account of natural calamities.

11.4 The recommendations of the Committee were broadly accepted by the central and state governments as well as by the general body of co-operative opinion. Without going into further details of follow-up, suffice it to mention that the State Bank of India, Central and State Warehousing Corporations were established, crop loan system was introduced and the co-operatives were strengthened through State partnership at all levels.

11.5 In 1966, the RBI on its own set up a Committee to reassess the developments that had taken place in the field of rural credit since the submission of the Report of the All-India Rural Credit Survey Committee in 1954. This Committee, which reported in 1969, observed that although an impressive effort was made to implement the recommendations, "the uncertainties, delays and lack of effective action in such matters in the earlier stages did mean that some of the dynamism contemplated in the Rural Credit Survey Committee's recommendations was lost in half-hearted effort and lack of comprehension" (p. 39). It vindicated the role of the RBI and recommended for its further enlargement. The Committee found that owing to certain factors such as structural weaknesses, failure to mobilise adequate deposits, overdues, lack of trained staff, etc., co-operative credit was trailing considerably behind the demand for it in the agricultural sector. The Review Committee, therefore, felt the need for inducting the commercial banks into the field of rural credit without, however, impairing the role of the co-operatives. A similar suggestion for channelling commercial bank finance through primary agricultural credit societies was made in the Report on "Organisational Framework for the Implementation of Social Objectives" by the Study Group constituted towards the end of October 1968, under the Chairmanship of Prof. D. R. Gadgil, in pursuance of a decision of the National Credit Council. The Group, while addressing itself to the task of identifying credit gaps had pointed out that in the context of Government's accepted social objectives, the main social objectives of banking and credit would be to spread more evenly the institutional credit over unbanked and underbanked areas and to ensure that neglected sections and small borrowers—who have been depending on non-institutional credit—also get adequate credit from banks at reasonable terms. The Group also emphasised the 'area approach' to rural development. Pointing out that the lowest unit for the 'area approach' should be the district, it stressed the need for integration of credit plan with other activities in a district. Commercial banks were initially assigned the role of financing farmers directly. In 1970, they were inducted into financing the primary agricultural societies in areas where co-operatives were found to be weak and later to the financing of the newly organised Farmers' Service Societies (FSS). In 1975, with the establishment of Regional Rural Banks for catering to the needs especially of weaker sections in rural areas, the resources of commercial banks were directed to the rural sector in a more positive manner. In the field of long-term credit, the multi-agency approach was already recognised as far back as in 1963 when the Agricultural Refinance Corporation was established (later renamed as Agricultural Refinance & Development Corporation) for refinancing long-term investments in agriculture and allied activities by commercial banks side by side with the co-operative and land development banks. With these developments the set-up for rural credit in the RBI has also undergone a change as broadly reflected by the attached Chart. For purpose of convenience, financing of agriculture by commercial banks is looked after by the DBOD while the ACD continues to take care of co-operative credit sector.

CHART—RESERVE BANK OF INDIA AND RURAL CREDIT

RESERVE BANK OF INDIA ——→ (AGRICULTURAL CREDIT BOARD)

AGRICULTURAL CREDIT DEPARTMENT			DEPARTMENT OF BANKING OPERATIONS AND DEVELOPMENT	RURAL PLANNING AND CREDIT CELL	INDUSTRIAL FINANCE DEPARTMENT
REFINANCE		OTHER FUNCTIONS	REFINANCE	REFINANCE	
SECTION OF RBI ACT	PURPOSE				
I. SHORT TERM					
(*i*) 17(2)(*b*) with 17(4)(*c*)	Crop Loans	(*i*) Statutory Inspection of SCBs, CCBs, Primary co-op. banks under Section 35 of BR Act (As applicable to Co-op. Societies)	(*i*) Commercial Banks under Small Farmer's window (ST) Section 17(3B) of the RBI Act.	Regional Rural Banks (ST) Section 17 (3B) of the RBI Act.	LT Loans to IDBI from NIC (LTO) Fund for Tiny & Decentralised Sector. Section17(4G) with 46 C(2)(*a*) of the RBI Act.
(*ii*) - Do -	Marketing of crops				
(*iii*) 17(4)(*c*)	Distribution of Chemical Fertilisers.				
(*iv*) 17(2)(*bb*) with 17(4)(*c*).	Production & marketing activities of weavers societies and 22 Broad groups of cottage and small-scale industries.	(*ii*) Voluntary Inspection of SLDBs/PLDBs, Apex marketing societies etc.			

(*v*) -Do-	Weavers & rural artisans for the above purpose through PACS/FSS/LAMPS.	(*iii*) Formulation of policies regarding rural credit in consultation with Agr. Credit Board.	OTHER FUNCTIONS (*i*) Lead Bank Scheme. (*ii*) Rural Branch Licensing (*iii*) Guidelines and Directives to Commercial Banks relating to rural credit. (*iv*) Undertaking special studies. (*v*) Inspection of RRBs.	OTHER FUNCTIONS (*i*) Policy regarding and establishment of new RRBs and monitoring the working of RRBs. (*ii*) Issue of inspection reports on RRBs. (*iii*) Guiding the formulation and monitoring of District Credit Plans.
(*vi*) 17(4)(E)	Loans to ARDC	(*iv*) Monitoring of the scheme of Commercial Banks financing PACS.		
(*vii*) 17(2)(*a*) with 17(4)(*c*)	Purchase and Sale of yarn.			
(*viii*) 17(4)(*c*)	Against pledge of sugar			
(*ix*) 17(4)(*a*)	General Banking Business.	(*v*) Co-ordination work regarding floatation of ordinary debentures by SLDBs.		
II. MEDIUM TERM				
(*i*) 17(4AA) with 46A (2)(*b*)	Agricultural purposes	(*vi*) Statutory functions under BR Act (As applicable to Co-op. societies) regarding liquidity, returns, licensing, etc.		
(*ii*) 17(4AA) with 46B (2)	Conversion of ST Loans.			
(*iii*) 17(4AA) with 46A (2) (*b*).	Purchase of shares in co-op. processing societies.			
		(*vii*) Undertaking field and special studies relating to co-operatives.		
III. LONG TERM				
(*i*) 17(4AA) with 46A (2)(*a*)	State Govts. for share capital contribution of co-op. credit societies.	(*viii*) Training of co-op. personnel and evolution of appropriate staff development plans for co-ops.		
(*ii*) 17(4AA) with 46A (2) (*e*)	Loans to ARDC.			
		(*ix*) Publication of statistical data relating to Co-operative Movement.		

11.6 Against this brief historical background, the role of the RBI in rural credit may be viewed with reference to three aspects : (*i*) provision of finance, (*ii*) promotional activities and (*iii*) regulatory functions. The first represents the quantitative aspect and the latter two relate to qualitative aspects of the role of the RBI.

Provision of Finance

Co-operatives

11.7 Section 17 of the Reserve Bank of India Act provides for the extension of agricultural credit by the RBI either through the state co-operative banks or through the commercial banks and Regional Rural Banks (RRBs). The credit provided by the RBI for agriculture through co-operative channels is of three kinds *i.e.*, short-term, medium-term and long-term. Details of the RBI credit to the co-operative sector for the period 1972-73 to 1977-78 are given in the statements appended to this report. Reflecting the growing involvement of the RBI in the supply of agricultural credit, the credit limits sanctioned for the co-operative sector for all types of credit, increased from about Rs. 644 crores for 1972-73 to Rs. 1,049 crores for 1977-78, that is, a rise of 63 per cent over the five years ending June 1978 (Statement 11.1). Keeping in line with the increase in credit limits, both drawals and outstandings have also gone up during the period. Total drawals rose from Rs. 859 crores in 1972-73 to Rs. 1,429 crores in 1977-78, while outstandings increased from Rs. 349 crores to about Rs. 814 crores.*

11.8 The bulk of the credit limits sanctioned by the RBI relates to short-term credit. The share of short-term credit sanctioned in a year averaged about 81 per cent. It was Rs. 513 crores in 1972-73 (or about 80 per cent of the total) and steadily rose to Rs. 845 crores† in 1977-78 or about 81 per cent. Though the credit limits sanctioned by the Reserve Bank have gone up over the years, the limits have not been fully utilised for certain reasons. In the last few years deposit resources of the co-operatives have increased significantly while the avenues for lending became somewhat limited. The co-operatives have represented that they are not able to make full use of the funds at their disposal because of organizational weaknesses

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* For 1978-79 the figures for credit limits sanctioned, drawals and outstandings were Rs. 1,124 crores, Rs. 1,523 crores and Rs. 781 crores, respectively, and for 1979-80 Rs. 1,198 crores, Rs. 1,207 crores and Rs. 819 crores, respectively.

† For 1978-79 this figure was Rs. 961 crores and for 1979-80 Rs 944 crores.

resulting in lack of fuller coverage of farmers and increase in the number of defaulters and limited permission to diversify for more profitable business. As regards the National Agricultural Credit (Long Term Operations) Fund, medium-term credit accounted for 11 per cent on an average in a year, while about 80 per cent was for long-term purposes such as assistance towards share capital contributions. As regards long-term credit, a complete picture can however be obtained by taking into account long-term disbursements made by the ARDC also.

11.9 The predominance and the sizeable growth of short-term credit are only logical, considering the fact that bulk of the RBI credit available under various clauses of Section 17 is refinance for seasonal agricultural operations and marketing of crops and is therefore essentially short-term credit. Details of short-term credit provided by the RBI to the co-operative sector are given in Statement 11.2. Finance for seasonal agricultural operations and marketing of crops (both cotton and other crops) accounted for 89 per cent on an average of the total short-term credit. Over the period 1972-73 to 1977-78, credit for seasonal agricultural operations alone increased by 80 per cent. In addition to the increased demand for production credit following the increase in irrigation and large-scale adoption of improved agricultural practies, liberalisation of procedures and norms for credit, increase in coverage and reorganisation of co-operative credit societies at the primary level also contributed to this spectacular growth in credit for seasonal agricultural operations and marketing of crops.

11.10 Of the remaining components of short-term credit, credit for purchase and distribution of fertilizers, for production and marketing of handloom products and short-term accommodation to the ARDC together accounted for about 9 per cent on an average of the total short-term credit extended by the RBI. As regards credit for fertilizer distribution, cash credit limits are sanctioned to SCBs under Section 17 (4) (c) against State Government guarantee for financing the fertilizer distribution operations of State/Apex Marketing Federations or the affiliated CCBs to enable them to finance primary marketing societies. The rate of interest charged which was 3 per cent above Bank Rate has been reduced to 1 per cent above the Bank rate with effect from June 1978. The Reserve Bank provides funds if the marketing societies are not in a position to obtain funds for this purpose from commercial or co-operative banks. Since the availability of funds from banks has increased, the dependence on the RBI has come down from Rs. 47 crores in 1975 to Rs. 6 crores in 1978*. A purpose for which the RBI credit has been increasing, of late, is the financing of cottage and small-scale industries other than handlooms. Credit limits for this purpose which were below Rs. 1 crore till 1973-74 have increased steadily to Rs. 7.1 crores in 1977-78†. The increase is due to the identification by the RBI of 22 broad groups of cottage and small scale industries (other than handlooms), following the recommendations of the Working Group on Industrial Financing through Co-operative Banks in 1968. This was accompanied by relaxations in the loan procedure in respect of industrial co-operative banks which finance industrial co-operative societies, and also the availability of refinance to central/primary urban co-operative banks providing working capital to the approved cottage and small-scale industries. It may be noted that the credit limits for other than seasonal agricultural operations and marketing of crops have been small, although the RBI has been willing to sanction such limits. This reflects the inadequacy of the delivery system and also the lack of supporting organisations and management expertise.

11.11 Turning to medium-term credit limits (Statement 11.3) these averaged Rs. 94 crores a year during 1972-73 to 1977-78 or 11 per cent of the total credit limits sanctioned by the RBI. In fact, the relative share of medium-term credit declined over the period—from 13 per cent in 1972-73 to 11 per cent in 1977-78.** Originally, medium-term loans were sanctioned by the RBI out of its general resources; however, since 1956, following the recommendation of the Rural Credit Survey Committee these loans are provided from the National Agricultural Credit (Long Term Operations) Fund. The three components of medium term credit are (*i*) loans for purchasing shares in co-operative processing societies, (*ii*) loans for agricultural and other allied purposes including animal husbandry and pisciculture and (*iii*) conversion of short-term agricultural loans into medium-term loans, whenever such conversion becomes necessary due to wide-spread crop failure. The first two are financed out of the NAC(LTO) Fund and the third out of the NAC (Stabilisation) Fund.

11.12 Almost 85 per cent of the medium-term credit is in the nature of conversion loans and only 14 per cent relates to investment type

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* For 1979 this figure was almost same at Rs. 6·5 crores.

† For 1978-79 and 1979-80 the limits were Rs. 16·5 crores and Rs. 24·9 crores, respectively.

** In 1979-80 the share rose to 12·4 per cent.

medium-term credit for agricultural and other allied purposes. However, the share of conversion loans declined from 85 per cent in 1972-73 to 81 per cent in 1977-78*. The relative share of pure medium-term credit, on the other hand, increased from 11 per cent in 1972-73 to 18 per cent in 1977-78.† While the share of conversion loans fluctuated from year to year depending upon the climatic conditions and the consequent need for such conversions, the share of investment-oriented medium-term credit increased steadily though not as spectacularly as short-term credit. The relatively small size of medium-term loans is accounted for by the fact that these are not project loans but are scattered. Besides, the policy in regard to provision of medium-term credit by the RBI has been one of deliberate restraint so as to ensure that there is no undue competition with LDBs in making such loans and that co-operative banks deployed, as far as possible, their own resources in extending medium-term loans.

11.13 The provision of long-term credit to the State Land Development Banks by the RBI was, at least till 1972-73, in the form of purchase of ordinary debentures floated by them. These debentures were supported by the RBI to the extent of the short-fall in public subscription subject to a maximum of 20 per cent of the concerned issue. However, with the increasing need for long-term loans and following the recommendations of Rural Credit Review Committee (1969) a consortium arrangement was evolved to support the debenture floatations. Under this arrangement, the debenture floatations were always fully supported by the financial institutions and agencies as these, being trustee securities, are attractive and this in turn obviated the need for the RBI's support. The RBI's total subscription to the ordinary debentures was Rs. 25.4 crores as on June 30, 1975 while the holding of the RBI amounted to Rs.19.1 crores as on 30th June 1978**. With increasing emphasis on projectisation of agricultural investment lending, the provision of refinance from the ARDC through subscription to the special debentures of SLDBs has become a major source of funds to these banks.

11.14 At present, the RBI provides long-term finance to co-operatives in the form of loans (out of the LTO Fund) to (*i*) state governments to enable them to contribute to the share capital of co-operative credit institutions and (*ii*) the ARDC (Statement 11.4). The former

* In 1979-80 this share was 78 per cent.
† In 1979-80 this share was 22 per cent.
** As on 28th November 1980 this figure came down to Rs. 7·82 crores.

accounted for about 27 per cent of the long-term credit limits during 1972-73 to 1977-78 and the latter for about 73 per cent. The share of loans to the ARDC in the long-term finance provided by the RBI rose from about 65 per cent in 1972-73 to 76 per cent in 1977-78, while that of loans to state governments declined from 35 per cent to 24 per cent. However, in absolute terms, the RBI assistance (credit limits sanctioned) to both state governments and ARDC increased to Rs. 21 crores and Rs. 65 crores, respectively, by the end of June 1978*. These trends in long-term finance reflect the growing role of the ARDC.

Commercial Banks

11.15 No separate refinance facility from RBI is available to commercial banks in respect of their agricultural advances as such, but under the "Small Farmers' Window" introduced in December 1977, in the case of loans to small farmers—direct individual loans not exceeding Rs. 2500 each (whether extended as short, medium or long-term facility)—the Reserve Bank gave refinance facility at Bank Rate at 50 per cent of the advances under this category disbursed from January 1, 1978. According to the credit restrictions imposed recently, with effect from last Friday of September 1979, such refinance is available at 50 per cent of the increase over the level as on last Friday of December 1978. The outstanding refinance under this facility as on 28 September 1979 was Rs. 26.3 crores.**

Regional Rural Banks

11.16 Following the recommendations of the Working Group constituted by the Government of India in July 1975, Regional Rural Banks (RRBs) were established in some districts of the country with a view to providing credit facilities to the rural poor—small and marginal farmers, agricultural labourers and rural artisans. Each RRB is sponsored by a nationalised or other commercial bank which provides facilities to RRBs in several ways *viz.*, subscription to its share capital, provision of managerial and financial assistance and help in recruitment and training of personnel in the initial period. The Reserve Bank has been providing refinance to the RRBs, since October 1, 1976, to the extent of 50 per cent of their outstanding advances at the same concessional rate of 6 per cent per annum as

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* As at the end of 30 June 1980 these figures were Rs. 20 crores and Rs. 85 crores, respectively.

** The facility has since been discontinued by the RBI with effect from July 1, 1980.

in the case of co-operative banks. In August 1979, 57 RRBs with 2,056 branches were operating in 106 districts of 17 States in the country.* The credit limits sanctioned by the Reserve Bank in favour of RRBs amounted to Rs. 34 crores as at the end of June 1979, in respect of 31 RRBs†. The total amount drawn against these limits and outstanding as on the last Friday of March 1979, was Rs. 28 crores**. The Reserve Bank has also granted concessions and exemptions to RRBs in the maintenance of cash reserves, etc. In their case, the cash reserve ratio continues to be 3 per cent of the total demand and time liabilities as against 6 per cent applicable to other scheduled commercial banks. The liquid assets to be maintained by RRBs under Section 24 of the Banking Regulation Act, 1949, continue to be 25 per cent as against 34 per cent applicable to other banks. As these banks are in the initial stage of their development and require nurturing, their working has been entrusted to a separate Cell in the RBI called the Rural Planning and Credit Cell (RPCC). In pursuance of the recommendations of the Committee on Regional Rural Banks (Dantwala Committee), a Steering Committee has been constituted by the Reserve Bank of India and this Committee is entrusted with the functions of identifying areas for location of RRBs, lending policy, supervision of the functions of RRBs, and suggesting guidelines on the follow-up action on Dantwala Committee Report, etc.††

PROMOTIONAL ACTIVITIES

11.17 The quantitative aspects brought out earlier reflect the role of the RBI as lender of the last resort. More important than these are the qualitative aspects of the role of the RBI, *i.e.* its developmental or promotional activity in regard to agricultural credit. These qualitative aspects may be considered briefly.

Co-operatives

(*a*) *Reorganising the co-operative credit structure*

11.18 The RBI recognised fairly early the need for an extensive institutional machinery for providing credit and banking facilities for

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* Latest information shows that as on 30 September 1980, 83 RRBs were operating in 141 districts in 17 States. Further, as on 30-6-1980 RRBs had opened 2,678 branches.

† Further as on 30 September 1980, 44 RRBs were granted limits aggregating Rs. 110·14 crores.

**As on last Friday of September 1980 outstandings on the limits was Rs. 79·12 crores.

††Also see Chapter 7 of this Report.

agriculture; it was also realised that such an institutional set-up should have the active involvement of the people covered by it. To achieve these objectives the co-operative movement was considered the most powerful instrument. It was recognised that what is required is not just an organisation but a viable institutional set up, that is, a structure which is strong, administratively efficient, financially sound and economically viable.

11.19 The policy of the RBI towards reorganising and strengthening the co-operative credit structure (which is formulated jointly with all concerned) relates mainly to (*a*) re-organisation of the state and central co-operative banks on the principle of one apex bank for each state and one central bank for each district, (*b*) rehabilitation of those central co-operative banks which are financially and administratively weak for reasons such as high level of overdues, inadequate internal resources, untrained staff, poor management, (*c*) strengthening and reactivisation of primary credit societies to ensure their financial and operational viability and (*d*) arranging suitable training programmes for the personnel of co-operative institutions.

11.20 Thus, as on June 30, 1977, 180 central co-operative banks out of 344 and 5 state co-operative banks in States having two-tier structure were brought under the programme of rehabilitation. Most of the banks have attained viable status by increasing their deposits and loans and by improving their recovery performance. As for primary societies, the RBI has been assisting the state governments in the formulation of viability norms and in drawing up programmes for amalgamation. As a result of the implementation of programmes for reorganisation into viable units, the number of primary societies declined from 1.54 lakhs in June 1974 to 1.23 lakhs in June 1977*. According to the norms, a reorganised viable primary credit society will ordinarily cover a gross-cropped area of 2,000 hectares so as to have a minimum short-term agricultural credit business of Rs. 2 lakhs.

11.21 An important aspect of reorganisation of the co-operative structure on sound lines relates to the Study Teams appointed by the RBI to go into the various problems of co-operative credit institutions in the country and to study specifically the organisational and other problems of co-operative credit institutions in certain states. Mention may be made of the Statewise study teams—appointed jointly with

*Their number declined further to 1·16 lakhs as at the end of June 1978 and further to 94,503 as at the end of June 1979 (Provisional data).

State Governments—on West Bengal, Kerala, Maharashtra, Rajasthan, Madhya Pradesh, Bihar, Uttar Pradesh, Jammu & Kashmir, Himachal Pradesh and Orissa, which were entrusted with the job of studying the existing position of co-operative agricultural credit institutions in those states and making recommendations for streamlining them. While Study Teams on the last two states have yet to report, the other teams have highlighted the need for reorganisation of the structure at the intermediate and primary levels.* In the states like Madhya Pradesh and Rajasthan, the Teams had also recommended the organisation of special types of societies to cater to the needs of tribals. The various changes depend on the initiative shown by the State Governments.

11.22 As regards special studies, the Study Team on "overdues of co-operative credit institutions" (1974) needs special mention. The Study Team (which was requested to go into the causes of overdues and suggest remedial measures) concluded that lack of will and discipline among the cultivators to repay the loans was the principal factor responsible for the high overdues in the co-operatives. Apart from the need to create a favourable climate for recoveries, the Study Team suggested measures such as automatic disqualification of managing committees/boards of directors, denial of fresh credit and voting rights to defaulters as well as their sureties, adequate provision in co-operative laws for the speedy recovery of dues, the setting up of State Farming Corporations for the purchase of lands of defaulters, etc. While the implementation of the recommendations of this as well as the Statewise Study Teams were actively pursued by the RBI, majority of States have yet to act on the recommendations and the overdues position of the co-operatives in particular continues to be unsatisfactory. An aspect of major structural reforms in the co-operative organisation relates to the integration of the long-term and short-term structure. The NAC and the Banking Commission had endorsed the idea of such an integration. Later the Committee on Co-operative Land Development Banks appointed by the RBI in 1974 recommended the integration of the two wings in small States like Assam, Tripura, Jammu & Kashmir, Himachal Pradesh, etc. The Committee on Integration of Co-operative Credit Institutions (1976) appointed by the RBI recommended that the integration of the short-term and long-term wings should be brought about at all levels but in a phased manner starting with the primary level. It also

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* The Study Team on Himachal Pradesh has since submitted its report. Further, the RBI has appointed a Study Team to review the problems of co-operative credit structure in Karnataka state also.

recommended the formation at district and apex levels new institutions called 'district co-operative development banks' and 'state co-operative development banks' to take over the existing institutions in the two wings. The Agricultural Credit Board which considered the recommendations at its 11th meeting decided to defer the implementation of main recommendations on integration of credit because of the divergent views expressed by the state governments. However, it endorsed the suggestion made by the committee that PACS may act as agents of LDBs in disbursing long-term credit. The ACB also took a decision that in states where there were no LDBs, no new LDBs need be organised.

11.23 With the entry of commercial banks in the field of agricultural credit on the one hand and the organisation of RRBs on the other, wide variations were observed in interest rates charged to the ultimate borrowers (including small and marginal farmers) on agricultural loans issued by different agencies. Besides, even within the co-operative sector interest rates have varied from state to state and sometimes even from district to district within the same State. Following the suggestions made by the GOI in the Ministry of Agriculture and Irrigation (Department of Rural Development), the RBI appointed in October 1977 a Study Group to examine in detail the present interest rate structure of co-operatives in the country dealing with short and medium-term credit at all levels and suggest appropriate margins which may be retained at various levels for the co-operative credit structure. The Group was also asked to determine whether differential rates may be charged in favour of the small farmers. The Group submitted its report and most of the recommendations have been accepted by the RBI.

11.24 In terms of the Development Credit Agreement with IDA for the Second ARDC Credit Project, the RBI, in consultation with the GOI, constituted in April 1978 a Committee to study the "Interest Rates Spreads in Agricultural Lending Sector" with particular reference to the needs of LDBs. The terms of reference included, *inter alia*, an examination of possibilities of reduction in the rate of interest in favour of small farmers. The Committee is understood to have submitted its report recently.* In its promotional role, the Reserve Bank works in close co-ordination with the Central and State Governments, the Planning Commission, the national federation of SCBs and SLDBs and also with the organisations in the related

*The Report was submitted by the Committee in October 1979. The recommendations are being studied by the GOI/RBI.

fields such as the NCDC and the NCUI. Further, the Deputy Governor or Executive Director of the Bank in charge of rural credit holds discussions annually with the state governments and co-operative institutions at which the problems of co-operative development in the State and the entire credit situation in particular are reviewed. In the context of the rapid expansion of agricultural credit, the availability of trained personnel for co-operative banks has become important. In order, therefore, to provide intensive training for the banking personnel at all levels in the co-operative banks and to create a cadre of skilled officers, the Reserve Bank established in 1969 a College of Agricultural Banking at Pune. The training wing in the Agricultural Credit Department of the Reserve Bank arranges orientation training to senior executives of co-operative departments of state governments, Chief Executives of state co-operative banks, state co-operative land development banks, etc. on the policies and procedures of the Reserve Bank in the sphere of rural credit. The Bank also arranges, under the scheme of management trainees drawn up by it in 1973, for the training of the newly recruited management trainees of state (apex) co-operative banks and state co-operative land development banks.

Reorientation of Lending Policies

11.25 An important aspect of the promotional role of the RBI relates to the improvements in and reorientation of the lending policies of co-operative credit institutions. The most important measure of reorienting lending policies is the introduction of the crop loan system according to which co-operative credit has become production-oriented rather than asset-based as in the past. Co-operatives now make loans to cultivators on the basis of production undertaken by them (with reference to the crop and acreage under the crop) and on agreed scales of finance based on certain norms of outlay. The other features of the crop loan system are: disbursal of credit in kind to the maximum possible extent, timing of lending and recovery with reference to seasonality of agricultural operations and recovery through marketing societies by linking credit with marketing.

11.26 The short-term credit limits are fixed by the RBI annually in respect of each central co-operative bank after taking into account a number of considerations such as the financial condition of the bank, its audit classification, size of its owned funds and also the overdue loans. The finance is provided on a reimbursement basis and the credit limit is operated upon as a cash credit; the loan period is ordinarily 12 months in respect of any crop. Further, agricultural operations being seasonal, in recent years, credit limits are sanctioned separately for *Kharif* and *Rabi* crops. Where necessary, the Bank brings about changes in lending policies of co-operative banks by issuing appropriate directives. The RBI charges a concessional rate of interest on its loans to state co-operative banks for financing agricultural operations, the effective rate varying with changes in Bank Rate. The concession has the effect of bringing down the average borrowing rate of co-operative banks which, in turn, enables them to keep their lending rates to ultimate borrowers, reasonably low.

11.27 In regard to medium-term finance, the RBI has evolved norms for finance for various purposes, so as to ensure that the loans are not utilised by co-operative banks as "ways and means" advances. The amount of medium-term loans available to a central co-operative bank is normally limited to its owned funds, though additional limits (upto twice the owned funds) are also sanctioned in special cases. As in the case of short-term loans, a concessional rate of interest is charged by the RBI on its medium-term loans. With a view to ensuring proper utilisation of these loans, central co-operative banks are required since 1970-71, to advance at least 40 per cent of their medium-term loans for identifiable productive purposes. Another type of medium-term finance available is the conversion/rephasing loan *i.e.*, the facility to convert short-term loans into medium-term whenever necessary. The objective of the conversion facility is to maintain the flow of production credit uninterrupted to the farmers affected adversely by natural calamities.

11.28 In the sphere of long-term credit, the RBI has been pursuing the objective of reorientation of lending policies of LDBs and streamlining the procedures by advising LDBs on matters like loan policies, investment of sinking funds, management of resources, development-oriented lending etc. Long-term resources being limited, the RBI impresses upon LDBs the need to ensure their optimum use. The RBI has, therefore, been issuing from time to time appropriate guidelines to LDBs in the matter of purposeful and productive utilisation of resources raised through debenture floatations. LDBs, to be eligible for full support to their debentures, are required to issue 90 per cent of their loans for productive purposes, of which at least 70 per cent should be easily identifiable. In the context of rising overdues of LDBs, the RBI has prescribed norms for regulating advances by LDBs on the basis of their recovery performance. In this connection, mention may be made of the Standing Committee on Debenture Norms constituted by the RBI in September 1975, for evolving uniform procedures for floatation of ordinary and special debentures. This Committee has recently recommended certain relaxations which were communicated to banks (LDBs) in January 1979 and these relaxations will enable them to step up their loaning operations, although the eligibility of PLDB/Branch of SLDB—it has to be noted—will continue to depend on its recovery performance. As LDBs have an important role to play in the provision of long-term credit for investment in agriculture, they have been receiving increasing support from the ARDC in the form of refinance facility.

Resource Mobilisation

11.29 It was expected that as the co-operatives grew both in size and efficiency, they should become increasingly self-reliant and should be in a position to progressively limit their recourse to the RBI's refinance facility. However, with an increase in coverage, the overall credit needs of co-operatives have gone up, and though the owned resources of co-operatives have also gone up, these were not adequate in relation to the growing needs. Therefore, with a view to encouraging the co-operative banks to rely more and more on their own resources and thus reduce their recourse to the RBI refinance, the scheme of linking the rate of refinance available from the RBI with co-operative banks' own efforts at deposit mobilisation (as recommended by the Rural Credit Review Committee) was introduced from 1973-74. To facilitate mobilisation of deposits by co-operative banks, the benefits of deposit insurance cover (for deposits held with these banks) have been extended to co-operative banks also and the actual implementation of the scheme is being pursued with the state governments. As at the end of June 1976, there were 537* registered insured co-operative banks; of these 9 were state co-operative banks, 111 were central co-operative banks and 375 were urban banks.

Special Measures

11.30 In order to ensure that the flow of credit from primary societies is not affected in areas where central co-operative banks are weak, the RBI evolved a scheme for financing of these societies by commercial banks and in December 1970 guidelines were issued to commercial banks on the procedures to be followed for financing primary societies. As it was realised that this scheme should be

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* As at the end of June 1980 there were 1,264 insured co-operative banks.

operated not merely from the angle of weak central banks but from the point of view of effective coverage of rural population, the scheme was extended even to areas where central banks were relatively strong. As at the end of June 1978 the scheme was operating in 12 states, the number of commercial banks involved being 24 and the primary societies financed numbering 2,217†.

11.31 In December 1976, the RBI launched the Agricultural Credit Intensive Development Scheme (ACID) with a view to concentrating efforts, on a selective basis, to strengthen the co-operative structure and link the credit programme with production programmes. The scheme has now been made a part of the District Credit Plan under the Lead Bank Scheme. This is referred to later.

11.32 The role of the RBI in the provision of finance is extended to rural industries as well, *i. e.* provision of non-agricultural finance. An amendment to the RBI Act in 1953 enables the Bank to finance through state co-operative banks and SFCs, production and marketing of products of cottage and small-scale industries on state government guarantee. A beginning was made in 1956 when a scheme was introduced for financing handloom weavers' co-operatives and this was extended later to silk and woollen handlooms and also power-loom societies. The RBI has also identified 22 broad groups of cottage and small-scale industries for purposes of financing. In January 1977, the RBI has introduced a scheme to finance weavers and rural artisans, who are widely scattered and who are unable to form co-operative societies, through PACS, FSS and LAMPS at a concessional rate of interest*.

Commercial Banks

11.33 As mentioned earlier, while the RBI is not making specific refinance facilities available to the commercial banks in respect of their agricultural advances it has been its constant endeavour to induct commercial banks in this field with a view to diverting more and more of their resources for financing agriculture and other priority purposes in the rural sector. To this end, the DBOD in the

† As on 31 December 1979, the scheme was operating in 13 states, the number of commercial banks involved being 24 and the primary societies taken over for financing being 2,869.

* Pursuant to the recommendation made by the Agricultural Credit Board at its meeting held in August 1980, the RBI has decided to provide a separate line of credit by way of refinance facility to SCBs on behalf of central co-operative banks for financing the marketing and processing activities of dairy co-operatives.

Reserve Bank issues guidelines/directives to the banks from time to time. Thus, the public sector banks were instructed to ensure that the rural and semi-urban branches separately should achieve a credit deposit ratio of at least 60 per cent, by March 1979, so that, funds do not flow from rural centres to the urban. The commercial banks have also been advised to ensure that the share of small farmers in their agricultural advances goes upto 50 per cent by 1982-83. Another step taken in this regard is the extension by Credit Guarantee Insurance Corporation (now DICGC) of the guarantee cover to commercial banks in respect of agricultural loans. Under the Corporation's Small Loans Guarantee Scheme, farm loans upto a limited extent are guaranteed by it.

11.34 In 1969, the RBI initiated the Lead Bank Scheme under which one commercial bank is nominated for each district as a lead bank. The Lead Bank is required, among other things, to survey the resources and potential for banking development and co-ordinate bank lending programme in the district. District Credit Plans (DCPs) are prepared for this purpose. Currently DCPs for 1980-82 and Action Plan for 1980 are under preparation. A High Power Committee (HPC) has been constituted by the RBI for the purpose of keeping the progress of the Lead Bank Scheme under constant review and for issuing policy guidelines for its effective implementation.

11.35 As a part of its work, the RBI has been taking up studies relating to the problems faced by commercial banks in financing agriculture. In September 1969, an Expert Group to study the State Enactments having a bearing on Commercial Banks' Lending to Agriculture was appointed. This Group suggested a model Bill for adoption by each state with a view to giving the same facilities as co-operatives to facilitate commercial banks' agricultural lending so that farmers borrowing from these banks are not at a disadvantage as compared to those borrowing from co-operatives. So far 16 state governments have enacted the recommended legislation.

11.36 Mention may also be made of various other Committees set up by the RBI, particularly (*i*) the Committee to study 'Functioning of Public Sector Banks' (James Raj Committee), (*ii*) Working Group on Multi-agency approach in Agricultural financing (Kamath Group), (*iii*) Expert Group on Agricultural Credit Schemes of commercial banks (Dr. Gunvant Desai Group) and (*iv*) Working Group to study the problems of bank credit in North-Eastern States.

11.37 More recently, as a sequel to the Prime Minister's meeting with Chief Executives of banks and term lending institutions on October 8, 1978, five Working Groups were constituted by the GOI on (1) Differential rates of interest, (2) Small-scale industries, (3) Agricultural Credit, (4) Promotion of employment, and (5) Problems of sick industrial units. In pursuance of the recommendations of the Groups, banks were advised by RBI to participate effectively in IRDP in 2,000 blocks selected by State Governments and in 300 additional blocks to be taken up annually, during the remaining period of the Sixth Plan. They are also to ensure that at least 50 per cent of their total agricultural advances goes to small and marginal farmers by 1982-83. Priority will be given to these blocks in the establishment of new RRBs. The RBI (DBOD) has also issued instructions to banks not to ask for any collateral security/guarantee and not to insist on margin money for advances to artisans and village and cottage industries as defined. Other concessions relate to repayment period, rate of interest etc. Further, the banks have been asked to provide credit to at least two additional borrowers per branch per month over and above the rate of increase in the number of borrowers in the previous year (1978). Banks have also been asked to ensure that credit planning should weigh in favour of scheduled castes/scheduled tribes and special bankable schemes suited to the members of these communities should be drawn up to facilitate their participation in such schemes and also a larger flow of credit to them for self-employment.

11.38 As a result of the above efforts, scheduled commercial banks' outstanding short-term advances to agriculture increased from Rs.179 crores at the end of June 1974 to Rs. 661 crores at the end of June 1979*. Their term loans to agriculture during the same period rose from Rs. 257 crores to Rs. 1,087 crores†. We have already pointed out that the share of commercial banks in the disbursement of refinance by the ARDC for agricultural investment has gone up remarkably in recent years.

REGULATORY FUNCTION

11.39 The regulatory role of the RBI in regard to rural credit serves to enhance the quality of credit provided as also the efficiency of the channels through which it is provided. Certain provisions

* The revised figure as at the end of June 1979 was Rs. 759 crores. Further as at end of June 1980 the figure was Rs. 1,025 crores (estimates).

† The revised figure as at the end of June 1979 was Rs. 1,065 crores; and as at the end of June 1980 it was Rs. 1,430 crores (estimates).

of the Banking Regulation Act and of the RBI Act were extended in 1966 to co-operative banks. Particular reference may be made to (*a*) the powers given to the RBI to inspect the co-operative banks SCBs, CCBs and urban banks, (*b*) the requirement relating to maintenance of cash reserve and liquidity ratios, (*c*) the requirement relating to filing periodical returns to the RBI and (*d*) licensing of new banks and branches of co-operative banks. This has enabled the Bank to exercise over the co-operative banks broadly the same kind of control as it exercises over commercial banks. In order to regulate the advances by co-operative banks, the RBI introduced in September 1976 Credit Authorisation Scheme, under which prior authorisation from the RBI for providing finance beyond a limit, has become necessary particularly in respect of non-agricultural financing.

11.40 The overall credit policy framed by the RBI takes fully into account the credit needs of agriculture. Short-term credit limits for co-operatives are fixed annually by the RBI, mainly on the basis of demand for credit put forth by the co-operative banks. These limits are fixed, not merely with reference to the observance or otherwise of such criteria as cash and liquidity ratios, etc., but also with reference to the lending programmes, etc., of the co-operatives. No doubt, these limits are subject to some conditions which are in the nature of operational disciplines.

11.41 The macro-economic credit policy pursued by the RBI does not hamper or choke the flow of rural credit, as credit to rural sector is shown preferential treatment. Thus cash/liquidity ratios applicable to co-operatives are lower than those fixed for commercial banks. Again, unlike commercial banks, co-operative banks can borrow from the RBI at interest rate 3 per cent below the Bank Rate in respect of crop loans which is their main operation. These two special facilities enhance the ability of co-operative banks to borrow and also to lend. Moreover, co-operative banks are permitted to pay slightly higher rates of interest on their deposits.

11.42 The Committee would like to conclude this brief narration about the role of the RBI in rural credit by saying that the role of the RBI in the provision of rural credit has to be assessed not merely in quantitative terms but with reference to its qualitative aspects such as strengthening of the institutional framework, improvement of lending policies, resource mobilisation, designing of special schemes and regulatory functions to promote co-operative banking on sound lines. Given the enormity of the task and the constraints (physical, social, economic and administrative) the progress made by the rural credit system so far, is in no small measure, due to the active part played by the Reserve Bank. This has been possible because of the position the Bank occupies as the ultimate source of finance and as the monetary authority of the country and all along the RBI management has taken the view that a central bank of a developing country has to act as a development bank. This is the reason why the RBI sponsored the ARDC and taken various promotional measures under the multi-agency approach.

Chapter 12*

RECOMMENDATIONS ON NATIONAL LEVEL INSTITUTIONS

THE preceding survey of the existing national level institutions concerned with rural credit shows that they have done commendable work in their respective areas, notwithstanding the constraints—statutory, administrative and other—under which they have been functioning. However, over the next decade the institutional structure has to widen its coverage and deepen its involvement so as to be able to meet the graduated agricultural credit requirement of Rs. 9,400 crores by 1985 as estimated by NCA (1976), besides credit requirements of other rural activities. It has also to tie-up credit with technical expertise. The question is whether they will be equal to this stupendous task of integrated rural development which aims at the uplift of the weaker sections in the rural areas within a given time-horizon. While attempting an answer to this question, we have come across certain deficiencies and doubts. In this Chapter, we shall try to indicate the lines on which these deficiencies can be removed.

12.2 As regards the ARDC, the major deficiency is its inability under the present arrangements to ensure that the borrowers under its schemes do always get the necessary supporting short-term credit and thus build up their earning or repaying capacities to the extent envisaged. Secondly, its support to activities not based on land has not yet reached a significant level compared to the need for promotion of such activities in the context of integrated rural development. In fact, the terms of its statute do not permit it to support activities which are not connected with agriculture as defined. They exclude a number of tertiary activities. Thirdly, the ARDC is still to make a satisfactory response to the increasing demand from state governments and others for direct financing as distinguished from refinancing. The Amendment Act of 1975 made the necessary enabling provision; but, due to various reasons, this has largely remained a dead letter. Fourthly, the ARDC has to expand its developmental role considerably in the field of institution-building, training and research if it is to meet the challenges of integrated rural development. In this,

* Reproduction of Chapter 4 forming part of the Interim Report submitted on 28 November 1979

it has to work in close co-ordination with the state governments. It has to build its own cadres of experts in diverse disciplines and for this purpose, review its personnel and recruitment policies and practices.

12.3 As regards the RBI which, historically as well as by the nature of its organisation, has had to combine diverse functions and duties including rural credit, it is legitimate to ask whether its top management and policy-making bodies will, in practice, be able to set aside, amidst its multifarious responsibilities, the necessary time for giving attention, direction and focus to the details of the complex credit problems of integrated rural development in future. In the past, such questions have been asked in regard to one function or the other. And, on more than one occasion, the answer has been to hive off that function and to create a separate institution for it with suitable links with the RBI. The UTI, IDBI and ARDC are examples to point. In all these cases, separate Boards of Directors were constituted for giving detailed attention and the needed direction at the policy making level, subject to certain controls and guidelines of the RBI. Although each of these cases can be distinguished on its merits, the question arises whether the time has come to take similar action in regard to all the aspects of rural credit.

12.4 It may be recalled that the proposal to hive off agricultural credit from the RBI and create a National Level Agricultural Bank was rejected by the All India Rural Credit Review Committee (1969) in the following words :

> "On all relevant considerations, such as those associated with the refinancing functions of the Reserve Bank, its role as a financier and adviser to the state governments on matters of co-operative credit, the statutory responsibility of the central bank of the country for ensuring the safety of the depositors' interests and regulating the credit operations in the economy, and the experience and expertise which the Bank has built up over the years, we are convinced that the Reserve Bank should continue to discharge the functions which it undertakes at present in the field of agricultural credit. A new institution in this context at the all-India level will only add to the cost of credit and the red-tape associated with its procedures without adding to the resources or the efficiency of the system or the service to the cultivator. It is, therefore, our considered view that there is no justification for having any national level institution for agricultural credit outside the Reserve Bank". (P. 707)

That Committee, however, felt that "the present time seems to us appropriate for a major structural change" and that certain changes were "warranted in regard to the manner in which the direction of this work is at present organised in the Reserve Bank". It recommended the establishment of a statutory Agricultural Credit Board (ACB) and the entrustment of the formulation, review and modification of the Bank's policy in the sphere of rural credit to it. This recommendation was accepted in part and the then Standing Advisory Committee on Rural and Co-operative Credit was replaced by the Agricultural Credit Board through an executive order. It was not given statutory status, presumably because it was felt that no body parallel to the Central Board of Directors should be created. In the result, the ACB continued as an advisory body. It must be added that as a matter of convention, its advice is invariably accepted. The Board now consists of 19 members: Governor, Deputy Governor and Executive Director (E.D.) in-charge of Agricultural Credit Department (ACD), 3 Directors from the Board of the RBI, 4 Secretaries to the GOI in the Ministries of Agriculture, Co-operation and Finance, and Planning Commission, 4 representatives of co-operative banks, 2 representatives of commercial banks, 2 specialists in rural economics/agricultural credit/agricultural practice, and the Chief Officer, ACD. The Board has held 14 meetings in nine years, since its constitution in February 1970. Now, the point for consideration is whether this arrangement is adequate for the purposes of integrated rural development.

12.5 Since the Report of the All-India Rural Credit Review Committee, certain developments have taken place which have the result of enhancing the need for increase in the credit flow to the rural sector and for co-ordination, and thus of emphasising the role of the ACB. Multi-agency approach to rural credit delivery has been adopted and pursued vigorously. Besides co-operative banks and land development banks, commercial banks and RRBs have come to provide credit in rural areas in an increasing volume. In the RBI, all co-operatives, rural as well as urban, are looked after by the ACD while the commercial banks are the subject of the DBOD. RRBs which have been in the charge of the DBOD till recently are now with another administrative group known as the RPCC. The Lead Bank Scheme and the progress of lending to priority sector including agriculture are monitored by the DBOD while the district credit plans are entrusted to the RPCC. We understand that co-ordination is generally achieved through frequent departmental consultations and at the level of Deputy Governors. The ACB which is the main co-ordinating body at the policy level is serviced by the ACD. The Committee is justified in wondering how the Board can grapple with the several important and complex issues that must necessarily arise in the vast field of rural credit by holding one or two meetings only in a year. Probably, the ACB is called upon to advise on a selective basis. Perhaps the advisory nature of this body may have led to its under-utilisation. Or, it may simply be a case of the Chairman and the concerned functionaries not finding the time among their other pressing duties. Had it been a statutory body or likened to a Board of Directors it would have played a more intimate and significant role in the evolution of rural credit policies. These facts and the truly stupendous dimensions of integrated rural development have led us to consider afresh the desirability and feasibility of establishing a national level bank for agriculture and rural development.

12.6 We have studied the views expressed by other Commissions in the past. The Administrative Reforms Commission (1970) did not favour the creation of a separate bank for agriculture despite the recommendation of its own working group and stated as follows:

> "While the need for greater and more pointed attention to agricultural financing was irrefutable, any suggestion to establish an agency for this purpose without a direct link with the central bank of the country was open to serious objection".

The Banking Commission (1972) favoured combining the ARDC and the AFC to form a new institution within the RBI complex but stressed that all short-term credit should be under the control of a single authority *viz*., the RBI. The National Commission on Agriculture (1976) exhorted the RBI to take steps, in accordance with its historic role to "integrating the total structure for financing agriculture and rural development from ground level upwards right up to creation of an Agricultural Development Bank of India as the apex organisation".

12.7 The main reasons for most Commissions to advise against a separate national level bank for agriculture are the almost total dependence of the new bank on the RBI for short-term funds, the extra cost inherent in an additional tier and the likely conflict with the statutory responsibility of the RBI for credit policy and banking regulation. These have been lucidly stated by the All-India Rural Credit Review Committee (1969) in the following words:

"The most crucial question, however, which comes up in connection with any such national institution relates to the manner in which it will find the larger volume of resources which will be required. If it accepts deposits, this can only be in competition with, and at the expense of, the co-operative banks affiliated to it, in which case there would be no net accretion of resources. On the other hand, if this national institution is expected to receive a large volume of funds from the Reserve Bank, it will mean, as we have said, that one more institution will stand between the Bank and the cultivator and that, as a consequence, credit will become costlier to him. If the Reserve Bank is expected to place large sums of money at the disposal of this institution to be passed on to a number of co-operative banks, it is obvious that the Bank will have to satisfy itself in regard to the soundness and the operational efficiency of such banks. This will mean that while the Reserve Bank will continue to maintain its organisation all over the country, the new national bank will also set up a machinery of its own for a similar purpose. Further, no national level bank can be certain of the resources which it can command, as the Reserve Bank can hardly be expected to surrender to any other institution its discretion to determine the volume of central bank credit which can be provided to any sector of the economy or for any category of purposes at any particular time. Finally, the inspection of co-operative banks and the regulation of the credit and banking structure are the responsibilities of the central bank of the country and cannot be entrusted to any other institution". (Pp. 706-707)

12.8 The above points, are no doubt, important and cannot be lightly set aside. Before we proceed to examine these points, we cannot miss to note, as indicated earlier, that there is a sea-change in the nature and magnitude of rural credit problem over the years—from 1969 when the All-India Rural Credit Review Committee put forth their view and now when the strategy of integrated rural credit has changed the complexion of the whole problem. Not only have the demands of rural development acquired new directions but also the quantum of credit requirements has expanded. On the other hand, the field conditions have not responded adequately enough to the changing situation. As mentioned in detail in paragraph 4.6, the tasks ahead in this sphere are such that a satisfactory solution must be found and the points in paragraph 12.7 resolved. We think that this can be done.

12.9 The first point to be examined is the argument that setting up one more institution will stand between the Reserve Bank and the cultivator and, as a consequence, will make credit costlier to the ultimate borrower. According to our view, this is not a valid argument for more than one reason. In the first place, the new bank will not be an additional tier as made out, but will be taking over the rural credit operations presently handled by the ARDC and the RBI. As such, it will be a step towards decentralisation of work at the national level. However, the more significant point to be noted in this regard is that, with the expansion and diversification of the developmental role to be played by the national level institution, the cost of operations are bound to increase irrespective of the fact whether this role is played by the RBI or by the new Bank. At the same time, with the delegation of rural credit functions from the RBI to the new institution, there will be reduction in the costs of rural credit operations in the RBI itself.

12.10 Secondly, as the Banking Commission had asserted in 1972, it is important that all short-term credit which has an important bearing on the money supply should be under the control of a single authority and that authority can only be the Reserve Bank. We accept this proposition, particularly the point that short-term credit has an important bearing on monetary policy. But let us see the practice and policy that has been in vogue or likely to be followed in the foreseeable future. It has been explained to us that short-term credit for agriculture has, at no point of time, been inhibited by the requirements of monetary policy, as the RBI has always accorded preferential treatment to rural credit and has imposed only such minimum operational disciplines as are necessary to ensure the sound health of the co-operative credit structure. The setting up of a new institution for agriculture and rural development should not, in our view, make any serious difference to this position. However, notwithstanding the present position, we do visualise that, in the years to come, the quantum of rural credit to be purveyed by commercial banks, co-operatives and RRBs, will increase to such an extent that not only the commercial banks and RRBs may have to seek recourse to the RBI refinance but also the RBI itself may be compelled to restrict, as an anti-inflationary measure, the volume of rural credit in the context of overall allocation of total loanable funds. The Reserve Bank can lay down the quantum of credit to be purveyed through the new institution and also the broad terms on which this credit may be extended to the bodies lower down, leaving the details of management and deployment to the new institution. It is the

Committee's hope and expectation that the new institution, being equally responsible, will manage its credit operations within the available quantum and will not do anything to vitiate the disciplines required for ensuring the health of the system as a whole.

12.11 We find that hitherto the advocates of the idea of national level bank for agriculture have heavily relied on the analogy of the IDBI and have argued for an institution which is entirely separate from the RBI. This perhaps was the reason for the All-India Rural Credit Review Committee and other Commissions to reject the idea as undesirable. We, on our part, have no hesitation to assert that the analogy of the IDBI is wrong and inapplicable. The IDBI deals with only long-term funds while the new national level bank for agriculture is required to deal with short-term funds also. It is agreed by all that the new bank will have to rely on the RBI for the bulk of these short-term funds. Further, the major responsibility of the new bank will be the co-operative banking structure which is governed by State laws and State adminstration. If the new bank is perceived as an institution entirely separate from the RBI, it may find it difficult to get the right responses from the state governments, whereas there will be need for maintaining very close rapport with the state governments. The prestige and continued assistance of the RBI will be necessary to enable the new institution to maintain the sound health of the system.

12.12 As pointed out earlier, the device of a statutory body for policy making for agricultural credit has not worked in the manner envisaged by the All-India Rural Credit Review Committee and in the meantime the problems of agricultural credit have not only grown in complexity and size but also merged in the larger tasks of rural development. It is in this context we are looking for a new organisational device for providing, undivided attention, forceful direction and pointed focus to the credit problems arising out of integrated rural development. We envisage the new bank as an exercise in decentralisation, while the essential controls are retained where they belong, namely, the RBI. We are therefore convinced that the balance of advantage in the present context lies in setting up a national level bank with close links with the RBI. Further, we envisage the role of the RBI as one of spawning, fostering and nurturing the new bank, somewhat in the same manner as the ARDC. We would cast a special responsibility on the RBI to develop the new institution, which in our view is a logical step in the organisational evolution of the RBI itself.

12.13 Our attention has been drawn to the recommendation of the Tambe Working Group appointed in May 1979 by the RBI at the instance of Government of India that a new apex financial institution called Development Bank for Decentralised Industries (DBDI) be set up as an associate of the RBI for meeting the credit requirements of the small, tiny and village industries. The main argument put forward for having a separate arrangement at the national level is that the IDBI may not be able to give sufficient attention to the development of decentralised industrial sector, at any rate, commensurate to the new emphasis on the growth of non-farm rural employment. We agree that the industries in the decentralised sector need special and continuous attention as pointed out by the Working Group. It is also true that overall development in this sector poses special problems involving not only credit but also upgrading of technical skills through training, supply of raw materials and marketing of finished goods. At the same time, it is important to recognize that integrated rural development as described earlier is all-pervasive and does cover all schemes, based on land and otherwise and meant to generate employment and improve income level of the poor in a compact area, *viz*., block or district. Any institution catering to the needs of agricultural and rural development has to ensure that rural industries are not ignored. Often, agriculturists and labourers take to rural and cottage industries as ancillary or subsidiary occupations. Some of them are in the nature of supporting services to agriculture. And not all of them need be linked to outside markets. In these circumstances, it appears to be prudent to keep open the present channels of credit and refinance and even to expand them whenever necessary. In other words, the new national level institution we are recommending for integrated rural development may take over from the RBI the existing refinance facilities for rural artisans and village industries and expand them as suitable. Such an arrangement would, no doubt, lead to certain amount of overlapping if and when DBDI comes to be established. The matter can be reviewed at that stage, primarily as a problem of co-ordination and sorted out through mutual understanding and adjustment.

Our Concept of National Level Bank

12.14 We have considered various names for this new institution: Agricultural Development Bank of India, Rural Development Bank of India and National Bank for Agriculture and Rural Development. We prefer the third name, *viz*., National Bank for Agriculture and Rural Development (NABARD).

12.15 The functions of NABARD may be as follows :

(*i*) Developmental policy, planning and operational matters relating to credit for agriculture, allied activities, rural artisans and industries and other rural development activities;

(*ii*) Training, research and consultancy relating to credit for agriculture and rural development;

(*iii*) Refinance (ST, MT and LT) to the co-operatives and RRBs, including co-operative marketing and distribution;

(*iv*) Refinance to commercial banks against term lending (MT & LT), short-term accommodation for special purposes;

(*v*) Direct lending singly or through consortium arrangements in special cases;

(*vi*) Co-ordination and monitoring of all agricultural and rural lending activities with a view to tying them up with extension and planned development activities in the rural sector;

(*vii*) Inspection of co-operative banks and RRBs; and

(*viii*) Advice and guidance to state governments, Federations of Co-operatives, the NCDC, etc., in regard to the co-operative movement in close collaboration with the RBI and Central Government.

12.16 We have specifically suggested that co-ordination of district/block level programmes under integrated rural development and institutional lending thereto at the district level, will be one of the important functions of NABARD. In our discussions with co-operatives and the commercial banks, views have been strongly expressed that at present they are being dealt with on different principles. This arises to some extent from the handling of the different institutional structures through different Departments of the RBI. They would like that the guidelines and policy on rural credit are better handled by one organisation. The District Credit Plan seeks, among others, to support the credit necessary for integrated rural development. During the discussions the Committee had with co-operative banks and the commercial banks, views were expressed that co-ordinating function for the District Credit Plan should preferably be done by a representative of the Reserve Bank. Rural credit forms the bulk of the Distirct Credit Plan. It is also noticed that deposit mobilisation and resource deployment are also parts of District Credit Plan as now worked out. The function of co-ordination is best performed by the institution which deals with the bulk of the work under the programme of co-ordination. The Committee has not yet taken a firm view on this and would like to revert to this matter, later. *

12.17 For successful undertaking of short-term lending business, NABARD has to maintain adequate staff to take up monitoring of the working of the borrowing banks, to ensure quality of on-lending and to keep track of the developments at the state, district and primary levels in the sphere of institutional credit. NABARD, as we envisage, will be the refinancing body to the entire rural credit system. Monitoring of the use of funds given to this system is better done by NABARD itself. Detailed inspection of the borrowing institutions, from this angle, has to be carried out by NABARD. Although the commercial banks will be borrowing from NABARD for certain limited purposes connected with agricultural and rural development, bulk of their operations would relate to other lendings, *e.g.* industry, commerce, etc., and hence the statutory inspections of these banks may continue to be carried out by the RBI itself. The case of state and central co-operative banks is, however, on a different footing. NABARD will be providing refinance facilities to these co-operative banks to a substantial extent, as it covers agricultural production and investment, allied activities, rural industries, co-operative marketing and distribution. Their operations also, by and large, are confined to agricultural and rural lending. Similarly, RRBs will be exclusively rural credit institutions drawing upon the funds of NABARD for bulk of their operations. As the institutions involved in rural lending are many and as the areas of lending differ from institution to institution, the responsibility for inspection needs to be defined clearly. The Reserve Bank of India's inspection mainly covers two distinct aspects of banks inspected; the first dealing with the statutory aspects and the second with the developmental aspects of their working. NABARD as a refinancing agency will be interested in the soundness of the borrowing institutions and also in monitoring the field level developments and as such will have to take up developmental inspection. Being an institution within the RBI complex, the statutory inspection of co-operative banks and RRBs may also be taken up by NABARD as an agency function. This arrangement would avoid duplication of work. At the same time, we feel that the RBI as a substantial lender of funds to NABARD may have to keep a watch on the health of

* Discussed in Chapter 8 of this Report.

banking institutions as a whole. This can be ensured by occasional *test* inspection of these banks by the RBI with a view to satisfy itself that their operations are being carried out in conformity with the provisions of the Banking Laws.

12.18 There are also related items of work such as collection of annual statistics relating to Co-operative Movement in India and also Review of the Co-operative Movement by the RBI's ACD which NABARD may take over. Since the RBI as a central banking authority will be concerned with all banking statistics, the data relating to co-operative banks and RRBs collected by NABARD will have to be in conformity with the RBI's guidelines.

12.19 We would like to say a word about direct lending by NABARD. While the new Bank should not resort to direct financing as a general rule and thus enter into unnecessary and wasteful competition with the on-lending banks, yet it is felt that the progress of lending by the new Bank should not be helplessly dependent on the willingness and competence of such banks in respect of certain sectors of rural development. Thus, if NABARD finds that the institutional credit arrangements in a particular area or for a particular purpose are not coming up as fast as they should, it should then certainly undertake direct lending to the public development corporations such as forest development corporation for productive and commercially viable activities.

12.20 The Committee would like NABARD to start functioning within the framework of functions enumerated above. There is no point in burdening the new Bank with many other activities in the initial stage. The question of widening the scope of its activities may be reviewed after NABARD completes five years of its operation.

12.21 The functions listed in 12.15 imply that several items of work at present attended to in the ARDC and the different departments of the RBI such as the ACD, DBOD, RPCC will have to be transferred to NABARD. As regards the ARDC, there appears no serious difficulty as the entire organisation will have to be merged in the new set up. But in the case of the RBI, a lot of detailed work has to be done as the existing departments combine within them central banking duties as well as ordinary financing, promotional and administrative functions. The Committee will work out details once the principles are accepted for implementation.*

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* Accordingly, the Committee prepared the Draft Bill on NABARD and submitted to the RBI on 10th April 1980 (*Vide* Appendix II to this Report.)

12.22 One member did not agree with the view that the new institution should deal with short-term refinance to co-operatives and RRBs and with short-term accommodation to commercial banks for special purposes. While there is a recognised need to link short-term credit with project finance or for granting composite loans where necessary, the bulk of short-term finance for agriculture comprising crop loans have no such integral connection with term finance. It is not, therefore, necessary to transfer short-term refinance from the Reserve Bank to the new institution for ensuring fuller co-ordination of long-term and short-term credit. As a monetary authority and lender of the last resort, the Reserve Bank should have the authority not only of determining the aggregate quantum of finance and of fixing the individual limits to the institutions (co-operatives, RRBs and commercial banks) but also the terms and conditions on which it should be made available to each institution. In the interest of maintaining credit discipline, it may not be proper to dilute the functions of the Reserve Bank. While there may be need for creation of NABARD to improve and co-ordinate the functioning of the ARDC, the Reserve Bank should not be divested of its legitimate functions of central banking authority. The present functions of the Reserve Bank of short-term refinance as well as of monitoring the implementation of District Credit Plans (lead banks in charge of implementation are commercial banks) and of inspection of co-operative banks and RRBs should not, in his view, be transferred to NABARD.

12.23 The other members of the Committee have given careful consideration to the above view. All members of the Committee have agreed that there is need for decentralisation of functions of the Reserve Bank to a lower level organisation in order to handle the vastly increased magnitude of work in the field of rural credit for integrated rural development. The basic principle of decentralisation of functions is that the lower level organisation should deal with the details of the functions whereas the higher organisation should limit its involvement to broad policies and supervision along with test checks to understand the health of the system. We therefore think that it is advantageous for the new institution to deal with all operational aspects relating to rural credit. One other member also supports the proposition that statutory inspection should be retained by the Reserve Bank. It is observed that at present the Reserve Bank inspection is both statutory and also as the lender of money. The new institution being the lender of money will have to take over the functions of inspection which any lender would normally do. The Committee carefully considered whether it is desirable that there should be two types of inspections, one as the lender and another as the statutory authority. The Committee observes that the Reserve Bank has already accepted the agency functions of the state co-operative banks in carrying out the statutory inspections of the urban co-operative banking system. The other members of the Committee are, therefore, clear in their mind that, both for convenience of work and avoidance of duplication of inspections on the borrowing system, the Reserve Bank can follow the agency system through the new institution for the statutory function, whereas the new institution can carry out its normal function of inspection as a lender. We also feel that, as our recommendation is to maintain the organic link between the Reserve Bank and the new institution, this should be possible.

12.24 We had stressed in para 12.12 that NABARD should have close links with the RBI. We shall now spell out the more important of them:

(*i*) Unlike in the case of the IDBI, the RBI must own 50 per cent of the share capital of NABARD and the balance only by the Central Government.

(*ii*) It would be necessary and advantageous to have some common members in the Boards of the RBI and NABARD. The Board of NABARD may be a nominated Board consisting of the experts in the related fields. Considering the fact that agriculture and rural development are state subjects, some state government officers may be appointed on the Board with a view to bringing knowledge of different areas into it. The strength of the Board may not exceed 15 and not less than 3 directors excluding the Chairman may be from among the Directors of the Central Board of the RBI.

(*iii*) A Deputy Governor of the Reserve Bank of India should be appointed as the Chairman of the Board (as is presently the case with the ARDC). This will also help maintain proper perspectives in NABARD in regard to credit and monetary policies and training.

(*iv*) The Managing Director should be appointed by the Board after consultation with the RBI.

12.25 With the larger lending activities envisaged for the new Bank, it will require a strong share capital base as compared to the present level of authorised capital of the ARDC at Rs. 100 crores. Taking into account the graduated credit requirement estimated by the NCA at Rs. 9,400 crores by 1985, it is suggested that the authorised capital of NABARD may be fixed at Rs. 500 crores. The paid-up capital may be placed at Rs. 100 crores in the first instance. In view of the promotional and developmental role assigned to the new Bank, it should be jointly owned by the RBI and the Central Government. The financial and developmental support of the Central Bank will add to its strength and, as such, the RBI should have substantial involvement in this institution. In view of our recommendation that share-holding should be confined to the RBI and the Government of India, there is no need for payment of a minimum dividend. There should also be no difficulty in exempting NABARD from the payment of income-tax, particularly because there will be no private share-holders.

Staff of NABARD

12.26 Since the new Bank is to provide necessary leadership for the banks to play a proper role in integrated rural development and must have personnel of diverse disciplines and experience, it is desirable to empower the new institution to recruit directly the banking and technical staff required by it, although, to begin with, the personnel connected with the items of work transferred to NABARD will provide the nucleus. This means that NABARD will be administratively independent of the Reserve Bank. Our discussions with the various persons concerned with investment lending in the agricultural sector have revealed that the ARDC has found it difficult to build up expert staff under the existing staffing arrangements. It will, of course, have to be ensured that in the interest of smooth transfer of functions from the RBI and the ARDC to NABARD, the legitimate interests of the staff who have built up the present organisations are safeguarded. The Committee proposes to go into this matter in detail.*

Resources of NABARD

12.27 With regard to term lending operations (MT and LT loans) by the new Bank, the existing arrangements obtaining in the ARDC should continue. As at present, funds should be raised through borrowings from the RBI [National Agricultural Credit (Long Term Operations) Fund]† and the Government of India and floatation of bonds by the new Bank.

* Appropriate provisions have been made in the NABARD Bill.

† This issue has been reconsidered. Please see para. 1·13 of this Report.

12.28 As regards deposits as a source of funds, there should be an enabling provision for NABARD to receive deposits from SCBs and SLDBs as also other deposits such as those accruing incidentally in the business of the new Bank.

12.29 Regarding funds required for providing ST/working capital loans to rural production, marketing and distribution in the agricultural and rural industrial sector, NABARD has to depend largely on borrowings from the RBI which should fix aggregate credit limits in favour of the new Bank for these purposes in place of the present practice of fixing a separate credit limit for each one of the SCBs/CCBs, RRBs and commercial banks. Funds also should be made available, on a similar basis, from the RBI out of the NAC (Stabilisation) Fund for relief in times of natural calamity and from out of NAC (LTO) Fund for granting medium-term loans to SCBs/CCBs and share capital loans to the state governments.† NABARD should also have access to the National Industiral Credit (Long Term Operations) Fund for facilitating block or composite loans to rural industries. The Committee envisages that while the Reserve Bank will grant a general line of credit in favour of the new Bank and stipulate whatever specific conditions as are felt desirable from the point of view of effective enforcement of its overall monetary and credit policy, separately for each of three components of the rural credit system, *viz.*, co-operative banks, RRBs and commercial banks, the operational details including the fixation of limits for individual banks in these three categories should be left to be decided by NABARD.

12.30 As in the case of the IDBI, there is no need to stipulate any borrowing limit for NABARD.

NABARD and National Co-operative Development Bank

12.31 Our attention has been drawn to the proposal mooted by the co-operative movement for the establishment of a National Co-operative Development Bank (NCDB). The background to this proposal is that the Conference of Land Development Banks convened by the National Co-operative Land Development Banks' Federation in 1977 recommended that without establishing a National Bank, the co-operative financing agencies may not be in a position to provide development look to the agricultural finance. Subsequently in 1978,

† This issue has been reconsidered. Please see para 1·13 of this Report.

the All-India Conference of Central Co-operative Banks convened by the National Federation of State Co-operative Banks urged the Government to establish a National Bank for Agriculture and Co-operatives. In March 1979, the Eighth Indian Co-operative Congress called upon the National Co-operative Union of India (NCUI), National Federation of State Co-operative Banks and National Federation of Co-operative Land Development Banks to take necessary steps to establish NCDB.

12.32 We have considered the proposal contained in the document prepared by the NCUI and the view points expressed by the co-operative financial institutions. With the adoption of multi-agency approach to the problems of rural credit, the commercial banks together with the RRBs sponsored by them have started financing agriculture and rural development on a massive scale. RRBs have come to stay as an integral part of rural credit system. A refinancing, co-ordinating and development banking body at the national level has to encompass all the credit institutions in the field. Besides, the RBI's National Agricultural Credit Funds are not meant for the exclusive use of co-operative credit institutions. With the establishment of RRBs, provision has been made in the RBI Act enabling the RBI to extend financial assistance from out of these Funds to RRBs as well. The Reserve Bank's Funds will have to pass through all these systems in a balanced way, according to the exigencies of time and requirements. Further, if NCDB were to borrow from the RBI or the proposed NABARD and to lend to SCBs/SLDBs, this would be an additional tier (really the fourth tier) adding to the cost of retailing agricultural and rural credit.

12.33 The case for NCDB has been made out as a balancing centre in view of the reported lack of opportunity for lending the high cost deposits of the co-operative movement within the state concerned. Another reason made out is the maintaining of the health of the movement itself through an apex organisation armed with the power of the purse. As regards surplus funds, only a few apex banks seem to have real surpluses and that too for short periods only. Surpluses are generally the result of certain deficiencies in the system that stand in the way of expansion of credit in the rural sector. It is not clear whether these apex banks would agree to a national bank handling their money or whether they really want scope for lending on their own outside the state. Further, there is another aspect which needs a long and detailed dialogue. The national bank may have to be controlled by a national co-operative law. Co-operation being a state subject, it is yet to be discussed how far this is feasible. It is also doubtful whether the hierarchical system with the proposed NCDB at the top can maintain the necessary discipline over the loan business. We have already various signs that the apex co-operative banks are not able to bring in the discipline necessary in the credit system because of this inbreeding in the system. All these issues have to be considered separately as problems of the co-operative movement, and not merely as problems of credit dispensation for agriculture and rural development. In fact, NABARD which we have proposed will be largely for the co-operatives as most of the lending activities relating to rural sector in general and to the rural poor in particular will continue to be routed through the co-operative institutions.

Conclusion

12.34 In presenting the above recommendations in the form of an interim report, we are aware that these represent only a broad outline of the new national level institution, NABARD, and that several important details have to be considered before it can be brought into being and made an effective instrument. Some of them have been indicated in the foregoing paragraphs. Others are: the future role of the Agricultural Finance Corporation;* its relationship with NABARD and the related arrangements for consultancy; the delivery system in the field which includes the commercial banks, co-operatives and RRBs;** and the relations between the national level credit institution and the state governments, their extension, technical and development agencies.† We shall address ourselves to these subjects in our subsequent report. As we pointed out in paragraph 1.9, it will help the deliberations of the Committee if the reactions of the concerned authorities to this interim report are made available as soon as possible.

* Discussed in Chapter 13 of this Report.
** Discussed in Chapters 5, 6 and 7 of this Report.
† Discussed in Appendix III to this Report.

Chapter 13

ROLE OF AGRICULTURAL FINANCE CORPORATION

IN this chapter, in accordance with the third term of reference, we propose to discuss the working of the Agricultural Finance Corporation (AFC) with special reference to the consultancy services provided by it and suggest improvements for achieving satisfactory coordination between it and credit institutions.

Structure and Organisation

13.2 To help the commercial banks in financing agricultural projects and participate actively and extensively in the development of agriculture, the AFC was promoted by the Indian Banks' Association (IBA), in the wake of social control over commercial banks in 1967. It was incorporated on April 10, 1968 under the Indian Companies Act, 1956, with an authorised share capital of Rs. 100 crores. The issued and subscribed share capital stands at Rs. 10 crores, of which Rs. 5 crores has been paid up.

13.3 There are 37 shareholders of the Corporation. Besides the State Bank of India and the nationalised banks, some scheduled commercial banks in the private sector and foreign banks having branches in India also hold shares. The public sector banks hold about 86 per cent of the shares of the AFC.

13.4 The objects of the Corporation are wide enough to enable it to finance or assist in the financing of activities connected with the production, supply, transport and distribution of inputs for agriculture, production, marketing, transport and storage of agricultural produce, farm mechanisation, animal husbandry, forestry and all other activities and operations incidental to or connected with agriculture, agricultural produce or agricultural operations.

13.5 The number of Directors of the Corporation, as per the Articles of Association, is not to exceed 25. This number includes three Directors to be nominated by the President of India, one to be nominated by the ARDC, besides a maximum of four to be co-opted by the board for their expert knowledge or experience of agriculture, agricultural operations or agricultural finance. There were 22

Directors as at end December 1979, including three nominees of the GOI, one of the ARDC and two co-opted Directors, besides the Managing Director.

13.6 At its headquarters in Bombay, the Corporation's set-up consists of three Divisions one each for Planning and Co-ordination, Projects and Administration and Services. Each Division is headed by a Director reporting to the Managing Director. The staff of the Corporation consists of 88 officers. The Projects Division is composed of sections devoted to agricultural engineering, agronomy and crop husbandry, agricultural inputs and services, commercial crops and forestry, live-stock development, rural electrification and agro-industries and special projects. The Corporation has set up three regional offices at Calcutta, Lucknow and Madras for the eastern region, northern region and southern region respectively to assist the states in the region to formulate projects to be financed by banks. There are two branches under the eastern region at Patna and Shillong. Besides, it has branch offices at Kota in Rajasthan and Surat in Gujarat, the former for the Rajasthan Canal and the Chambal Command Areas and the latter for the formulation of tribal developmental projects for Bulsar district in the Ukai Command Area.

13.7 According to the Corporation, it follows a flexible staffing pattern. While the 'core' staff, is made up of permanent officer employees, it draws upon staff available locally in the project areas with the state governments, voluntary organisations like the AFPRO (Action for Food Production Organisation, a church supported organisation) or the Universities for collection of data/field work. Locally recruited staff is employed by the Corporation for short periods depending on the number, type, area and size of the projects and the magnitude of field work/data requirements. Further, it has empanelled, over the years, a large number of experts in different disciplines. The services of the experts are commissioned by the Corporation, whenever required, for specific projects. The core staff is also associated with the experts in the projects assigned to the latter.

Operations

13.8 In the "Review of the Project formulation and consultancy operations of the Agricultural Finance Corporation Ltd.," prepared by the Corporation in May 1979, for our use, it has stated that :

"Since 1970 the company has been refraining from making direct loans to farmers excepting in areas where either the member commercial banks' branches are not located or where they are not yet equipped to undertake such loans. However, even in such cases, the company's direct financing was restricted to a short period till such time as the member banks got equipped to undertake financing. These were in the nature of 'bridge loans'. The company had sanctioned bridging finance loans amounting to Rs. 20 lakhs and Rs. 25 lakhs to Indian Dairy Entrepreneurs Agricultural Company Ltd., (IDEAL). Recently, the company has sanctioned bridging finance loan of Rs. 25 lakhs to Oil Palm (India) Ltd."

13.9 In the first three years of its working, the Corporation had sanctioned in all 29 schemes : of these, 3 were in 1968 with a financial involvement of Rs. 1.20 crores each, of which the share of the Corporation amounted to 25 per cent, 20 schemes in 1969 with a financial involvement of Rs. 90.06 crores of which the AFC's commitments amounted to Rs. 1.36 crores and in 1970, the AFC sanctioned 6 schemes with a total financial involvement of Rs. 26.92 crores of which its share was Rs. 1.97 crores. Further, as on the date of the review, the Corporation had sanctioned loans to different State Electricity Boards to the tune of Rs. 80.46 crores.

13.10 The outstanding loans of the Corporation indicate that its involvement in financing schemes amounted to Rs. 3.5 crores in 1972 and thereafter it has shown a decline.

LOANS AND ADVANCES OF AFC

(Rs. 000s)

Year ended December	Total Loans and Advances	OF WHICH		
		Secured (including interest)	State Electricity Boards	Others (excluding bad debts)
(1)	(2)	(3)	(4)	(5)
1968 ..	—	—	—	—
1969 ..	80,97	5,08	75,86	2
1970 ..	1,49,70	20,19	1,29,36	16
1971 ..	3,40,37	12,44	3,24,17	3,76
1972 ..	3,48,41	5,90	3,32,20	10,31
1973 ..	3,49,55	3,42	3,32,75	13,39
1974 ..	2,69,94	7,16	2,49,30	13,47
1975 ..	2,37,73	18,44	1,84,55	34,73
1976 ..	1,81,69	5,28	1,61,44	14,97
1977 ..	1,51,72	5,74	1,31,70	14,28
1978 ..	1,11,57	5,20	91,93	14,44
1979 ..	94,89	5,00	78,41	11,48

Source : Annual Reports of AFC

13.11 Besides direct financing of agriculture, the Corporation had assisted member banks in project formulation and financing even in the early years. The first project with an outlay of Rs. 2.21 crores financed by eleven banks was prepared, in 1969, for the Plantation Corporation of Kerala for rubber cultivation. Some of the other major schemes which the AFC prepared included the Jammu and Kashmir Horticulture Marketing Project, projects pertaining to eucalyptus plantation in Karnataka, forest plantation in Kerala, dairy development under Bharatiya Agro-Industries Foundation in Maharashtra, etc.

13.12 The nationalisation of 14 major commercial banks in 1969 necessitated the banking system to take more vigorous steps to build up their own expertise and involve themselves direct in agricultural credit. The AFC, therefore, decided that normally it would not undertake direct lending activity, and that, its endeavours would be to secure extensive participation of its member-banks in financing agriculture. This shift in emphasis in the role of the AFC was spelt out by Prof. M. L. Dantwala, the then Chairman of the AFC in his address to shareholders on June 16, 1972:

> "Agricultural Finance Corporation is somewhat like a Research and Development Wing servicing the commercial banks, rather than an independent financial institution. It seeks to do collectively for the member banks what each of them would have been required to do individually. . .the AFC tries to explore and identify fresh avenues of financing agricultural development, test the technical and financial viability of new ventures, remove the procedural road blocks and legal hurdles, provide encouragement and assistance to new entrepreneurs, acquaint the bank personnel with complexities of new proposals and even make its services available to the member banks to supervise implementation and check performance. The approach and the technical expertise which an organisation like this builds up is somewhat different from the one required by an apex financial institution."

Role of AFC visualised by earlier Committees

13.13 Around this time, that is in 1971, the NCA submitted its interim report on "Credit Services for Small and Marginal Farmers and Agricultural Labourers" wherein it expressed its view that "it might be ultimately necessary to set up an ADBI on the lines of the IDBI to consolidate the expertise and experience of various agencies such as ACD of the RBI, the ARC and the AFC into a single national organisation, directing the flow of credit according to needs, for full utilisation of land and manpower". In its final report submitted in 1976, the NCA recommended to the RBI to improve the rural credit system by "integrating the total structure for financing agriculture and rural development from ground level upwards right upto the creation of an Agricultural Development Bank of India as an apex Organisation". However, it did not specify the units that will integrate to form the proposed Agricultural Development Bank of India nor its links with the existing institutions like the AFC.

13.14 During the time between the interim and final reports of the NCA, the Banking Commission (1972) reported as under :

> 10.84 ..... The Agricultural Refinance Corporation which is a subsidiary of the Reserve Bank has already developed considerable expertise in project-oriented loaning. The Agricultural Finance Corporation has developed much valuable experience in this field. However, the Agricultural Refinance Corporation's resources and expertise have become available largely to the Land Development Banks and the other co-operative banks do not appear to have availed themselves of this facility to any significant extent. Similarly, the Agricultural Finance Corporation's services are, by and large, available to the commercial banks.
>
> 10.86 ..... we feel that there is a strong case for combining the Agricultural Refinance Corporation and the Agricultural Finance Corporation. The new institution that combines the Agricultural Refinance Corporation and the Agricultural Finance Corporation will be in a better position to help promote development financing to a much greater extent by both co-operative and commercial banks. It should be in a position to undertake many of the comprehensive functions outlined for the Agricultural Finance Corporation and undertake direct financing wherever necessary. It would not have the shortage of finance which the Agricultural Finance Corporation suffers from, to-day, because the combined institution would be in a position to draw from the Reserve Bank a part of the resources that may have been made over to it by commercial banks from time to time from out of the allocations made for agricultural finance. This would also ensure effectiveness of co-ordination between term-financing, technical assistance and finance for current operations within the Reserve Bank complex.

10.100 As regards the establishment of an Agricultural Development Bank of India, the Commission is of the view that the Agricultural Refinance Corporation and the Agricultural Finance Corporation may be combined so that the resources available in both the institutions are put to the best use. The Agricultural Refinance Corporation which is a subsidiary of the Reserve Bank of India has already developed considerable expertise in project-oriented loaning. The Agricultural Finance Corporation which has been established by commercial banks, the majority of which are now in the national sector, has also developed its own expertise for identifying and formulating potential agricultural projects and organising consortia of commercial banks. The new institution formed by merging the two Corporations can serve the purposes the proposed Agricultural Development Bank of India is expected to serve.

13.15 While the decision made by the Corporation, in 1972, to confine its activities so as to serve as the R and D wing of banks gave a clear focus to its emerging as a consultancy organisation, the continued comments about its being merged in a new national level organisation, created uncertainty about its future.

13.16 We, therefore, discuss first, its role as a consultant, a role that has descended on it and recognised to be appropriate for it by the two Commissions referred to above, before discussing its future set-up.

Consultancy Services

13.17 The Corporation takes up a project either on a consultancy basis or on a service-charge basis. A project is prepared on a consultancy basis to meet the specific requirement of the agency commissioning it, for an agreed fee. Implementation and follow up of the project is the responsibility of the agency for whom the project is formulated. On the other hand, in the case of projects taken up on a service-charge basis, the AFC, besides preparing the project, also undertakes cent per cent verification of implementation. The charges in this case are generally around 0.25 to 0.50 per cent of the project cost. Latterly, however, the Corporation has appreciated the need to keep itself informed of the progress of even projects prepared on a consultancy basis and monitoring is being attempted in such cases also.

13.18 The Corporation has started taking up consultancy assignments abroad also. According to the Corporation, pursuant to a feasibility study undertaken by it in Nigeria in 1978, it has been requested to take up a detailed technical feasibility study for agri-business projects in the field of milk and milk products, vegetable cultivation and dehydration, and cattle and poultry feed. The Corporation has been shortlisted by the Asian Development Bank (ADB) for the formulation of economically viable and technically feasible 'Small Holders' Dairy Development Project. The ADB has selected the AFC for the preparation of a project in Anuradhapura district of Sri Lanka. Further, in its annual report, 1979, the Corporation has stated that FAO/World Bank Investment Centre as also the ADB has been drawing upon the services of the Corporation for detailing experts in various disciplines to undertake project indentification/formulation/appraisal work in developing countries. Recently at the request of the FAO/World Bank Investment Centre, the Corporation deputed an expert of the Corporation to assist a Mission in formulating a Cashew Development Project in Thailand. Similarly, at the request of the FAO/World Bank Investment Centre, the AFC detailed an engineer, one of its empanelled consultants, for assisting a Mission on a Minor Irrigation Project in Indonesia.

13.19 Further, at the request of the Asian Development Bank, the Corporation detailed a Project Executive of the Corporation to join an ADB Mission for an Integrated Rural Development Project for assisting the Mission in formulating a bio-gas project. Government of India in the Ministry of External Affairs have also requested the Corporation to mount a mission, under the bilateral economic co-operation between India, Niger and Cameroun, to explore the possibilities of participation by India in the field of Dry Land Farming and intensification of rice cultivation.

Consultancy Work During 1968-79

13.20 Over the last eleven years, the AFC formulated/appraised 951 projects in the field of agriculture and related areas involving an estimated bank loan requirement of Rs. 745 crores. The total number of schemes formulated in 1968-73 and in each one of the subsequent years is given in a summary form below. Details together with purpose of schemes are presented in Statement 13.1.

SCHEMES FORMULATED/APPRAISED BY AFC

Year		Number of schemes	Estimated Bank Loan Requirement (Rs. crores)
(1)		(2)	(3)
1968-73	..	125	175·09
1974	..	199	34·95
1975	..	101	57·66
1976	..	149	74·85
1977	..	137	217·69
1978	..	86	118·42
1979	..	154	66·48
1968-79	..	951	745·14

Source : Agricultural Finance Corporation

13.21 Of the 951 Schemes prepared/appraised by the AFC, the largest number related to minor irrigation (164) followed in order of importance by infrastructural development (137), land development, soil conservation, on-farm development (133), animal husbandry (68), agro-service centres and agro-industries (68), dairy development (66), horticulture/sericulture (54) besides many others. Preparation of schemes of different types referred to above have been taken up in different parts of the country. The projects handled by it are from almost all parts of the country.

13.22 The agencies that commissioned the AFC included scheduled commercial banks, the GOI and the state governments, Development Corporations set-up by the state governments, etc., as can be seen from the table below :

AGENCIES COMMISSIONING THE AFC, YEARWISE AND TYPE OF CONSULTANCY AVAILED

Year	Govt. of India	State Govts.	Govt. Corporations	Scheduled Commercial banks	Others	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1968-73	—	12	18	79	16	125
1974	—	68	105	23	3	199
1975	—	83	6	3	9	101
1976	—	60	79	4	6	149
1977	48	82	1	4	2	137
1978	1	73	5	6	1	86
1979	1	96	4	49	4	154
1968-79	50	474	218	168	41	951
Of which,						
Consultancy basis ..	50	473	93	145	37	798
Service charge basis	—	1	125	23	4	153

Source : Agricultural Finance Corporation

13.23 Through the active assistance and guidance provided by the AFC in the initial years to the commercial banks and the accumulation of experience by them have to a large degree enabled the banks to be on their own in lending to agriculture ; they continue to depend on the AFC for expert guidance in respect of new types of projects. In all these and similar assignments, the Corporation so organised its work that the staff of the commercial banks was also trained in the work such that they could replicate the work on their own. In the opinion of the AFC, commercial banks will continue to depend on it for preparation of projects that are multi-disciplinary in character. Further, commercial banks utilised the services of the AFC in the preparation of special schemes such as the restoration of economic activities in areas affected by natural calamities. The AFC also rendered assistance in evolving common documentation and common system of performance verification wherever a consortium of banks was involved in financing.

13.24 The State and Central Governments commissioned the Corporation for Command Area Development Projects, Comprehensive Area Development Projects, Tribal Development and DPAP projects. Illustratively, the GOI assigned to the AFC, DPAP projects in the districts of Mahendragarh, Bhiwani and Rohtak in Haryana and Mirzapur, and Dehra Dun in Uttar Pradesh. The State Governments of Assam, Bihar, West Bengal, Tripura, Uttar Pradesh and Jammu and Kashmir availed the services of the Corporation for CAD and Tribal Area Development Projects. These CAD projects are located in Deoria, Gorakhpur, Sultanpur and Kanpur districts of Uttar Pradesh and Aurangabad, Champaran, Saharsa and Purnea districts of Bihar. The tribal development projects were located in Birbhum and West Dinajpur districts of West Bengal and Tripura. The DPAP projects assigned by the state governments covered Mirzapur and Dehra Dun districts of U.P. and Mahendragarh, Bhiwani and Rohtak districts of Haryana. The Jammu and Kashmir State project related to Integrated Horticulture Development and Products Processing covering the entire State. The involvement of the AFC in CAD and other similar projects meant an increase in the number of infrastructure schemes. Thus, infrastructure and other schemes numbering 137 was next in importance only to minor irrigation schemes at end 1979.

Consultancy — typewise

13.25 Out of a total of 951 projects, 798 were entrusted to it on a consultancy basis and the remaining 153 projects on a service charge basis. Both the Central and State Governments entrusted project preparation work to the AFC almost exclusively on a consultancy basis. Scheduled commercial banks also depended on AFC to a greater extent for project preparation work on a consultancy basis. The State Corporations — the Irrigation Development Corporations, Land Development Corporations and the like — on the other hand, drew on the services of the AFC to an increased extent on a service-charge basis.

13.26 We made an effort to obtain, from the clientele of the AFC, the progress of implementation of projects prepared by the AFC for them. Of the 26 projects prepared for the three banks, which responded, they could implement 9 projects. The remaining projects could not be implemented due to lack of response from prospective borrowers, bank credit being costlier than credit facilities available from Government, lukewarm response from the concerned state governments in regard to needed supporting services, etc.

Approval of Schemes by AFC

13.27 Projects prepared/appraised by the AFC are approved by the Board of the AFC. Prior to approval, these are vetted by the Agricultural Finance Departments (AFD) of the commercial banks whose Chairmen are on the board of the AFC. The Chairmen of banks, therefore, bring the reactions of their AFDs and their own to the board of the AFC. At the AFC board, the participating bankers indicate their willingness to take up a project in whole or in association with other banks. The Loans Committee of the Board examines simpler projects particularly those that are to be taken up by one bank while there is a Middle Level Management Committee composed of the heads of AFDs of commercial banks which scrutinises complicated projects. The projects approved by the AFC are not, however, eligible for refinance from the ARDC automatically. These have to be appraised by it.

Other Work of AFC

13.28 Among other items of work undertaken by the AFC, mention should be made of (1) assistance to banks in framing a common set of documentation, (2) review of legal enactments to facilitate quicker dispensation of credit, (3) training the concerned bank staff by workshop methods to build confidence to lend to agriculture, (4) seminars and workshops held to bring together persons concerned with important rural development programmes, (5) guidelines on industries' participation in agriculture and rural development, (6) assistance to the state governments in block level planning, (7) association of the AFC in the FAO/Bankers Programme, (8) training programmes conducted by the AFC for various officials, *e.g.*, for 23 credit planning officers of DPAP districts in 12 States, besides training/orientation programmes for officers from international organisations.

ASSESSMENT

13.29 Beginning as a financing agency, the Corporation has emerged as a consultancy organisation rendering expert assistance not only to its shareholders but also to the Central and State Governments. Besides it has also secured consultancy contracts abroad. In its domestic consultancy, the AFC performs three functions : preparation of projects, monitoring of some programmes of lending by commercial banks and preparation of special schemes such as the one prepared under the sponsorship of the Indian Banks' Association for cyclone-hit areas. The third function is not a regular function and is more in the nature of a fire-fighting operation.

13.30 The provision of consultancy services by the AFC for projects has not often meant automatic acceptance of it by the financing banks or by the ARDC, because these institutions appraise schemes independently to satisfy their own sanctioning authorities. Thus, there appears to be a good deal of avoidable duplication resulting from lack of fuller co-ordination between the AFC on the one hand and the banks/ARDC on the other.

13.31 There is also the question of the range of activities covered at present by the consultancy function of the AFC. Generally speaking, the consultancy function of AFC is concentrated in agricultural projects which constitute only one aspect of the integrated rural development approach. However, in certain cases the AFC covers all activities as in tribal development projects. Similarly, being a Corporation for agriculture, the AFC has not so far taken up projects relating to the village industries and rural artisans.

13.32 With the strengthening of the agricultural finance wings of the commercial banks and their increasing direct involvement in agricultural finance, the main occasion when its member banks draw upon the AFC's services is when their branch network is weak to enable them to participate in a particular scheme, or in situations where due to the existence of a consortium, the AFC is appointed as a team leader to sort out problems with the state governments or to straighten out the procedural details.

13.33 Over the years, the state governments have also built up departments to deal with institutional finance, including in some cases project preparation cells as in Rajasthan and U.P. The ARDC has opened regional offices in many State capitals. Direct liaison between the two is growing. Nonetheless, the state governments have commissioned the AFC and these were in difficult terrain or unattempted tasks. The fact that the AFC has been accepting such consultancy assignments shows its innovativeness.

13.34 In the process, the AFC had had to stretch its manpower resources to the hilt. The available manpower, being somewhat multi-disciplinary in character could be advantageously deployed to prepare new types of projects particularly multi-disciplinary projects. Illustrative of these are the efforts to introduce rubber and oil palm in non-traditional areas, suggestion of short-term and long-term measures to rehabilitate the cyclone affected farmers and artisans in Andhra Pradesh, tribal development projects, mechanical compost plants, etc.

13.35 It must be said to the credit of the AFC that faced as it was with keen competition from within the banking system and from outside, it continues to maintain its consultancy role, if only by its readiness to accept difficult projects in virgin areas. It is learnt that the consultancy fees charged by the Corporation do not fully cover its cost; it was able to manage the cost from out of its earnings from other sources.

13.36 Of late, the AFC has been doing, in a limited way, consultancy work abroad also. The AFC is accredited consultant to Asian Development Bank; and it has been receiving requests from the developing countries and other international agencies for sending teams for identification and formulation of agricultural development projects. As part of technical co-operation between developing countries, the AFC also receives requests for organising training/orientation programmes, from foreign banking institutions. This needs to be sustained and increased.

Future Role of AFC

13.37 To determine the future role of the AFC, we thought it only appropriate to consult commercial banks not only because they used the services of Corporation but also, and more importantly, because they owned the AFC. We, therefore, put the following questions, in 1979, to 25 banks which included all the public sector banks and 3 banks then in the private sector.

(*i*) What have been the types of projects of agricultural development for which your bank has availed of consultancy assistance from the Corporation?

(*ii*) How would you react to the suggestion that the Corporation concentrates on preparation/appraisal of schemes in special development programme areas of Government like CAD, CADP, DPAP, Tribal Area Development, etc.?

(*iii*) What other role, in your view, can the Corporation play in the years to come in the commercial bank financing of agriculture?

13.38 Replies received from all banks indicate that all but 3 of them have availed of the consultancy services of the AFC for one or more schemes. However, as referred to earlier, only three banks reported to us about schemes prepared for them by the AFC and financed by them. In regard to the second question, 15 banks favoured AFC concentrating on the preparation of projects relating to CADA, CAD, TDA, DPAP with the expertise already built-up by it. Such specialisation would, according to them, lead to increased consortium-type lending, increase the ability of the AFC to co-ordinate the efforts of Governments and banks and lead to better and fuller use of the skills built up by the Corporation. Other suggested fields of specialisation related to the AFC confining itself to development programmes in the field of forestry, plantation and similar other big projects. Besides such specialisation, banks felt that the AFC should confine itself to the formulation of strategies and guidelines for the banks, play a role in large schemes as a co-ordinator, study financing schemes of banks, evaluate them and advise on needed revisions in the light of problems faced in implementation and thus impart practical bias to make projects operationally acceptable, undertake in-depth studies of special projects in regard to implementation, survey remote areas and report on their needs to banks operating therein, collaborate with the ARDC to ensure that schemes prepared by it are accepted by the ARDC, and concentrate on Government/Government Corporation Schemes. The suggestion that the AFC could continue to monitor schemes is circumscribed, according to one bank, by the fact that a consultant preparing a project may not be able to monitor/evaluate schemes formulated by it as it may have built-in prejudices that will come in the way of objective evaluation. As for the third question, four banks was only a limited role in the future for the AFC, and therefore, felt it should be merged in the ARDC, particularly because the ARDC assisted them in the preparation of schemes and refinancing them besides training their staff.

13.39 Considering the fact that the respondent banks owned the AFC, the replies emphasised one aspect, namely, that schemes prepared by the AFC should be accepted for automatic refinance from the ARDC. In the absence of such automatic refinancing facilities, the replies of banks indicate that they would prefer to be closer to the ARDC than to the AFC. We are, therefore, inclined to feel that banks are eager to adhere to the norms stipulated by the ARDC to be eligible for refinance from it. In this context, it is pertinent to mention that the ARDC and the AFC had recently come together to work out arrangements for operational co-ordination between the two institutions. The guidelines issued in this behalf lay emphasis on the AFC satisfying the norms and conditions laid down by the ARDC while appraising projects, seeking fresh guidelines from the ARDC where such guidelines are not available, mutual information to each other about projects taken on hand and liaison between the ARDC and the AFC at all levels including at the regional level. While these may go to improve the extent of co-ordination between the two institutions, the fact remained that the respondents were rather keen on sustaining the direct link with the ARDC, if only to ensure refinance.

13.40 There are, therefore, two points of view about the future role of AFC. The first is the one recommended by the Banking Commission and the NCA to merge the AFC in the ARDC. Second is the point of view of a majority of the owners of the AFC, that the AFC can retain its separate identity and specialise in certain fields. An additional expectation of banks is that, schemes prepared/appraised by the AFC should be eligible for automatic refinance from the ARDC.

13.41 The limited context in which the Banking Commission recommended the merger of the AFC in the ARDC no longer exists. Not only a national bank which is wider in its scope than the ARDC is being set-up, but also the role of banks in rural development has become larger and diversified with emphasis on coverage of rural artisans and rural industries. Taking into account the nature and magnitude of rural development work in which banks have to play a catalytic role and keeping in mind the efforts needed to nurturing and bringing up a rural development consultancy organisation, our view is that not only is there need for an independent all-India body like the AFC but also for regional or specialised consultancy bodies to cater to specific problems or specific areas.

13.42 Further we also feel that commercial banks have found the AFC usueful particularly in co-ordinating their activities in large project areas and with the state governments, in regard to formulation of complex schemes and in the study of difficult areas for project formulation. To meet these requirements of banks, and, taking into account the pros and cons of the issue, banks have expressed the view that an independent AFC would be better placed to undertake consultancy work for the benefit of backward areas and for purposes hitherto left out by banks. However, the commercial banks' anxiety that schemes prepared by the AFC should be acceptable to the ARDC/NABARD underlines the need for an agreed working arrangement between the AFC and the ARDC/NABARD such that the former will undertake project work on the lines of agreed norms, methods and other aspects of project work while the latter will finance such projects in more or less an automatic manner.

13.43 In this context it is relevant to mention that the demand for project preparation work arises in respect of two types of work, *viz.*, comprehensive area development schemes and a project confined to one or two investments. The latter are capable of replication by banks if guided in the initial effort. For preparing the former type of projects, however, there is need as we have stated earlier, not for one but many organisations like the AFC to study and specialise in different parts of the country. It is noteworthy that the AFC has attempted to prepare such area development schemes. Area development scheme preparation falls in the domain of state governments who would like to use the AFC direct and transact with it as an independent organisation. The advantage to the banking system is that the involvement of the AFC in the preparation of such area development schemes will facilitate induction of needed banker's angle in the bankable components. Thus, the AFC, remaining independent will be able to bring to bear its influence for favourable reaction from governments and banks towards each other.

13.44 As for the ARDC/NABARD, it should commission the AFC for development of projects of a particular type or for a particular area or for both. The ARDC/NABARD can also assign to the AFC jobs in areas covered by RRBs who on their own cannot afford to employ the AFC. Besides, the ARDC/NABARD should utilise the AFC for developing innovative projects with a view to expanding its field of lending.

13.45 Secondly, the AFC has already established some contacts and acquired some contracts for doing consultancy work abroad. Consultancy experience in foreign countries helps preventing the institution from becoming insular in its approach and therefore should be welcomed. In fact, the GOI has supported the AFC in acquiring consultancy work abroad. At one stage, we understand that the GOI had thought of setting up a new organisation to devote itself exclusively to do consultancy work abroad. The need for such an organisation arises from the fact that developing countries in Africa and Asia have realised that experience of countries like India in rural development is more relevant for their conditions particularly because they appear to have been convinced of Indian competence and ability to perform. Further the foreign demand looks not only for consultancy *per se* but also experience in financing. The GOI subsequently seems to have veered round to the view that there is no need for a separate consultancy body when the AFC fills the bill admirably because it has links with financiers in that it is sponsored by bankers. We have seen earlier, however, the need for the AFC to forge its links further with the ARDC/NABARD. Therefore an independent AFC with close links with the ARDC/NABARD will be able to compete better for foreign consultancy assignments.

13.46 In this context, it is relevant to mention that rural credit facilities have not expanded uniformly all over the country due, among other things, to lack of consultancy support for the preparation of viable projects and for linking up credit with rural development programmes. There is need, therefore, to redefine the specific role which the AFC has to play in respect of certain areas and for certain purposes, and particularly in pockets of poverty. Also the AFC has to cater to the consultancy needs of rural artisans and cottage industries. The AFC cannot remain a captive organisation of commercial banks but has to assist the co-operative sector also. We are happy to note from the annual speech of Chairman of the AFC in June 1978, that the All India State Co-operative Banks' Association and the Land Development Banks' Federation are in touch with the AFC to get its assistance in diversifying their lending efforts. We hope that the contact will lead to more useful association and results.

13.47 The question then is how to link up the AFC with the ARDC/NABARD so as to ensure that the work undertaken by the AFC is by and large acceptable to the latter. Unless such a mechanism is developed, the AFC's efforts may not yield the maximum benefits. For this purpose, the efforts already taken to co-ordinate the working of the AFC and the ARDC should be more vigorously pursued. In particular, we suggest that the ARDC/NABARD, as financier, should lay down, (*i*) the basic criteria for programmes that have been developed widely so far and (*ii*) in new areas, fix in advance, after discussion with the AFC, the criteria that will satisfy them. When the AFC has observed these criteria in the formulation of the projects, it is hoped that the detailed scrutiny of projects by the ARDC/NABARD will not be required.

13.48 We notice that a major part of the Corporation's earnings came by way of interest on deposits and that only 20 per cent of its earnings came from the consultancy services provided by it. In view of the need for the AFC to increase consultancy business, continue to be innovative in its efforts and provide its consultancy services to co-operatives and RRBs, we feel that the present capital structure of the AFC should remain unaltered.

13.49 Lastly, in accord with its redefined role, we suggest that the Corporation be renamed as Agricultural Finance Consultants Ltd., (AFC).

PART IV

STRUCTURAL AND OPERATIONAL ASPECTS OF CO-OPERATIVE CREDIT INSTITUTIONS

Chapter 14

STRUCTURAL PROBLEMS RELATING TO CO-OPERATIVE CREDIT SYSTEM

THE terms of reference of the Committee include two structural aspects of the co-operative credit system. One is the relative merits of the two-tier and three-tier structures of co-operative financing institutions and the improvements to be made therein. The second is the problem of integration of the short-term and long-term credit structures. These two aspects are examined in this chapter.

Two-tier versus Three-tier Structure

14.2 As mentioned earlier in Chapter 4, the short-term and medium-term co-operative credit structure presently conforms to a broad pattern of SCBs at the apex (state) level, CCBs at the district level, and PACS at the base (village) level. In smaller states and Union Territories, however, mainly on account of smaller jurisdictional coverage, there exists a two-tier structure, with the SCB at the apex level directly financing PACS at the base level. In Chapter 5, we have stressed the importance of the credit delivery system at the ground level and the need to reorganise and revitalise PACS expeditiously. In our Interim Report (reproduced as Chapters 10, 11 and 12 in this Report), we have recommended a National Bank (NABARD) so as to bring about integration of all activities relating to rural credit at the national level. Having decided on the set-up at the primary level and national level, the Committee has now to examine the need and justification for the other two-tiers of the co-operative credit structure at the state level (SCB) and at the district level (CCB).

14.3 It may be recalled that the three-tier co-operative credit structure has been deliberately built-up pursuant to the recommendations of the Maclagan Committee on Co-operation in India, 1915. However, the questions for consideration are whether the three-tier structure has a functional relevance in the changed context and whether greater advantages will accrue from a two-tier set-up, under which either the SCB directly finances PACS by eliminating the CCB, or the SCB itself can be done away with, the credit flowing from the national institution to the CCB and thence to PACS. On the one side, it is argued that the two-tier system reduces costs of operations by cutting down the middle tier (CCB) and thereby lowers the cost of credit to the ultimate borrower. On the other, it is said that savings in costs effected by eliminating the CCB tier are not significant because there cannot be much reduction in costs since adequate staff has to be maintained at the district level even when a CCB is closed and a branch of the SCB is opened in its place. Further, it is also pointed out that the CCB, being autonomous and nearer to PACS, can render better services than the SCB branch which has to look up for orders. The argument then centres around whether there is need for the SCB. We shall examine these issues in the following paragraphs.

14.4 Let us first go into the issue whether there is a need for a SCB at the apex level in the three-tier co-operative credit structure. In our view, the SCB has a distinct and important role to play and the need for such an organization at the state level arises on several counts. As the leader of the co-operative movement in the state, the SCB is directly responsible for the development of the co-operative institutions lower down the system, not only those concerned with credit, but also those concerned with non-credit activities, in the context of the integrated rural development programme in which co-operative credit agencies have to finance agriculture as well as other schemes of rural development under the district credit plan. To this end, it devolves on the apex bank to ensure that institutions lower down the system *viz.*, CCBs and PACS, are reorganized and adequately strengthened, financially and organizationally, to face the new challenges. Further, as the apex body of credit co-operatives, the SCB occupies a unique position and status and can make a significant contribution to the quantum of credit disbursed by the co-operative credit system. By virtue of its location at the state capital and also its size and status, the SCB is able to attract deposits from sources not easily accessible to CCBs. These resources are used for supplementing those of CCBs in some cases and for meeting the needs of some others which, on account of overdues, become sometimes ineligible for refinance facilities from the Reserve Bank. Besides agricultural credit, the SCB meets non-agricultural credit needs of various co-operative activities and working capital requirements of co-operative processing, marketing societies, etc. It is through such financial support to non-credit co-operative activities that the SCB can ensure maximum benefits for the credit disbursal. In view of the magnitude and range of such financial support required, these functions cannot be easily undertaken by CCBs, whose areas of operations are limited to a district. In this way, the SCB, on the one hand, acts as a repository for surplus funds, and on the other, it acts as a financing agency providing supplementary resources where required. Thus, it brings about an optimum use of the total resources of the co-operative credit system for the overall development of the co-operative movement.

14.5 A specific advantage accrues to the co-operative credit system under the Banking Regulation Act (As applicable to Co-operative Societies) as a result of the provision that allows the current and other deposits with SCBs to be reckoned for the purpose of cash reserves and liquid assets to be maintained by CCBs. Thus the state and central co-operative banks, in the aggregate, keep a lower percentage of liquid assets and a larger amount is made available for the loan business of the co-operative institutions.

14.6 The co-operative movement is a people's movement and co-operatives are being increasingly used as instruments for implementation of the plans and programmes in the rural sector. The state governments have acquired certain regulatory powers under the Co-operative Societies Acts in order to ensure that the co-operatives work on the lines envisaged. Through contributions to share capital, the state governments have become active partners in co-operative credit institutions at all the three levels. It must, however, be remembered that the growth and functioning of co-operatives is dependent on the involvement of the non-official leadership. Effective co-ordination of official and non-official leadership is, therefore, an essential pre-requisite for the development of the movement. In the interests of co-ordinated action, it is necessary that there should be a single institution at the state level with which the concerned state government can actively collaborate in the pursuit of the common objective of rural development and on whose advice and guidance it can rely for the execution of the various programmes. The SCB, as the apex level institution, provides the necessary mechanism through which the state government can implement its programmes. The SCB also provides the link between the co-operative movement in the state, on the one hand, and the higher financing agencies such as the RBI/NABARD and the money market, on the other. For obvious reasons, it would be difficult for any national level agency to deal directly with a multiplicity of CCBs functioning in a state. This would render any co-ordinated approach difficult. Moreover, the task of supervision and control over a large number of institutions would be formidable and such an arrangement would not at all be conducive to smooth and efficient functioning. Hence, for effective co-ordination with the state government and other National/State level agencies, it is essential that there should be an institution at the apex level of the co-operative credit hierarchy in every state. With such institutions lies the primary responsibility of diversifying the movement by bringing into the co-operative fold, various economic activities and of safeguarding the interests of the weaker sections. Arising from their strong financial position and overall control, they are in a position to undertake several other development activities. Some of these, which have assumed importance in the present context, are the maintenance of a common cadre of key personnel for CCBs and arrangement for proper training of staff of affiliated institutions. SCBs will be able to introduce and subsidise various schemes for the benefit of weaker sections. Further, SCBs are expected to study and be in touch with the problems of the co-operative movement in the state by calling conferences, seminars, etc., on the one hand, and be also in touch with the higher financing agencies like the RBI/NABARD, with a view to sorting out problems faced by the system and eliminating the defects pointed out by them from time to time. From the foregoing, it would be seen that SCBs have a multi-faceted role and considered from the financial, administrative, supervisory and developmental angles, the existence of SCBs at the apex level of the co-operative credit structure is essential. In fact, for these reasons, nobody has seriously suggested the abolition of apex banks during our discussions with various groups and persons. We have elaborated the role of SCBs mainly to convince the few doubters that may still exist.

14.7 But, as regards the CCB, which is the middle level link in the co-operative credit structure, there is some serious controversy. We have earlier taken note of the argument that the abolition of CCBs will result in reduced costs. It is also argued that many CCBs have existed merely as intermediaries without properly playing the role expected of them due to weakness and inefficient management. Not much harm, it is added, will be caused to the system if CCBs are eliminated. SCBs could directly deal with primaries and this would be a better arrangement for quicker and efficient disbursement of credit to the ultimate borrower. For testing the validity of these arguments, it is necessary to first analyse the role envisaged to be played by CCBs.

14.8 The CCB is meant to be the leader of the co-operative movement in the district of its jurisdiction and in this sense its role is somewhat analogous to the promotional and developmental role of the SCB at the state level. The CCB has to take active interest and put in efforts in the implementation of the scheme for reorganization of societies into viable units. Further, it has to promote the growth of viable non-credit societies such as marketing societies, processing societies, industrial co-operatives, etc., in the district.

14.9 The entire co-operative credit structure is built up on the basis of the fundamental principle of democratic management and the CCB, as the federation of primary societies, has been set up in consonance with this objective. The local needs and aspirations find expression through the non-official management of CCBs, which can ensure that the functioning of the banks is attuned to satisfy these needs. One of the important functions of a co-operative bank is the mopping up of rural savings for involvement in lending operations and elected directors of a central co-operative bank are required to wield their influence for resource mobilisation. It is notable that roughly 40 per cent of funds required for lending are derived from the own resources of CCBs. Co-operatives cater mainly to the requirements of rural credit, which, being of a diverse nature can entail a certain amount of risk, unless closely tied to local capacities to utilise the credit productively. Hence there is need for a close and continuous supervison of credit and this can best be undertaken by those who have an intimate knowledge of, and close contact with, the borrowers. The elected directors of CCBs should be able to make an assessment of needs, evolve appropriate loaning policies and procedures and supervise the end-use of credit. Of even greater consequence is their role in ensuring prompt recovery of dues. A monolithic structure cannot show the same degree of responsiveness or exert the same amount of influence and control as CCBs which are composed of representatives of lower level institutions themselves. From the angle of the creditor, the structural set-up of apex banks and central co-operatives banks as separate independent entities, which, at the same time, are closely interlinked, provides an important safeguard to outside agencies granting refinance for the business of rural credit. The capital base, reserves, resources and supervisory machinery at each level provide a built-in cushion against bad debts and possible losses. Even if the co-operative credit structure at the middle level were to be abolished, SCBs will necessarily have to establish a branch network for serving PACS. Branch Advisory Committees may have to be set up by the apex bank which bereft of financial and executive powers and acting in an advisory capacity, may not be able to evoke adequate response and inject the needed flexibility in policies and operations in tune with local needs as in the case of CCBs. The unfortunate fact that some CCBs have not in the past, performed some or all of these functions, as well as they might, does not take away the value of these functions. It only pinpoints the need for analysing the causes for the deficiencies of CCBs concerned and for devising suitable measures. A summary dismissal of the institution as useless and redundant under all circumstances seems to be an extreme, unwarranted and unwise conclusion. What needs to be done in regard to chronically weak and irredeemable CCBs is dealt with later.

14.10 As mentioned earlier, considerable importance is attached by the advocates of the two-tier structure to economies accruing from the elimination of CCBs. This aspect was examined in detail by the Study Team on the Two-tier Cooperative Credit Structure in Kerala (1972) in respect of that state. Its observations are cited below:

> "....it seems that the establishment of one unit by integrating the central co-operative banks with the state co-operative bank will enable that unit to present a better image of itself to the depositing public because the owned funds, deposits, loans and advances and the working capital of the unit will be comparable to that of a medium-sized commercial bank, but, at the same time, it will carry on its balance sheet the burden of higher overdues which may, to some extent, tarnish its image. The unit willl be in a position to declare a higher rate of dividend than most central banks in the state. This will help reduce the cost of borrowing to the societies directly or indirectly. We have to set off against these advantages the possible increase in the cost of establishment and the loss that will arise from having to maintain a higher percentage of liquid assets. Taking all these aspects into account, the two-tier structure may be able to reduce the cost of funds to primary societies by not more than 0.25 per cent. We feel that such a nominal reduction in the rate of interest charged to the ultimate borrower should not be the deciding factor on the question whether the central bank could be done away with."

(Pp. 40-41)

In particular, the Study Team has drawn attention to other major considerations which were basic and fundamental, such as the influence wielded by CCBs for deposit mobilisation, their utility in assessing realistically the credit demand and organising efforts to meet the same and ensuring supervision over the end-use of credit and prompt recovery of loans. In the considered view of the Team, these considerations justified the continued existence of these institutions.

14.11 We must also take note of the fact that the special Study Teams on agricultural credit institutions appointed by the Reserve Bank for some other states (West Bengal and Madhya Pradesh) have, however, recommended merger of a few central co-operative banks in view of their exceptional circumstances. Taking into account the fact that a few CCBs had practically ceased to function on account of various factors (weak financial position, overdues and inefficient management), the Study Team on West Bengal held the view that liquidation was not advisable because of its repercussion on other co-operative banks in the state and secondly, liquidation proceedings tend to drag on for a long time. Accordingly, the Study Team recommended that a new CCB may be started and the 24 Parganas (Southern) Central Bank and the Purulia Central Bank may be amalgamated with this new bank. In the case of Cooch Behar and 24 Parganas (Northern) CCBs, it recommended their amalgamation with the SCB. The Study Team on Madhya Pradesh found that instead of eliminating the short-term credit institution at the district level from the scene altogether, in the districts where the existing CCB has no future, the integration of the long-term and short-term credit structures at the district level would be a better alternative. It recommended that both the PLDBs and CCBs in six districts *viz.*, Hoshangabad, Datia, Sidhi, Bastar, Shahdol and Surguja may be merged with each other and the combined unit should undertake to provide short, medium and long-term credit facilities in their respective areas.

14.12 We feel that the substantial expansion in the quantum of finance dispensed by the co-operative credit structure, the considerable diversification of purposes for which credit is made available and the growing complexity of operations make it necessary to have a unit at the district level for efficient and effective management of operations. The experience of RRBs also shows the functional relevance of decentralised banking at the district level.

14.13 Yet another development which supports the need for CCBs is that the district is the basis for development and credit planning. Co-operatives as a major source of rural credit have been assigned an important role under the District Credit Plan. The need for a district level organization, for successfully implementing and monitoring the various credit-based developmental schemes, for ensuring effective co-ordination with other institutional agencies and for proper representation of co-operative institutions, is thus obvious.

14.14 We particularly elicited the views of SCBs as to whether they consider the three-tier structure necessary and whether in the context of changes taking place through the intensive branch network to take credit nearer the villages, any of the tiers could be dispensed with. Except for the SCBs, where the two-tier system is in vogue, and in Punjab, where an experiment of a two-tier system has been proposed, all other SCBs are in favour of the existing three-tier structure. While agreeing that there need be only a two-tier structure (*i. e.* SCB and PACS) in smaller states and Union Territories, co-operative opinion is strongly in favour of the retention of the three-tier structure in bigger states.

14.15 We are therefore of the view that the three tiers are three functional components of a single structure of co-operative credit and a part cannot be removed without impairing the structure as a whole. Considered thus, we would not favour for general application such steps as will destabilise the existing arrangements in the pursuit of doubtful gains. Hence, in our opinion, while a two-tier structure (*i. e.* SCB and PACS) may be continued in smaller states and Union Territories, having regard to the smaller span of control and business resulting from smaller size of the state, making the middle tier redundant, the three-tier system could remain as the general pattern for bigger states.

14.16 However, at the same time, we should not be oblivious of the fact that the main criterion for continuance of the three-tier system, even in bigger states, will be the ability of the SCB and the CCB to subserve the overall objective of providing adequate support for rural development with necessary orientation to respond to the requirements, particularly of the weaker sections. In other words, the paramount consideration should be the ability of the co-operative credit structure to meet the needs of their constituents and the effectiveness with which they are able to function. Hence, economic efficiency and viability would be important factors for deciding the continuance or otherwise of any institution. Where any component of the structure has developed serious organizational or operational weaknesses and has proved to be a hindrance to the smooth flow of credit, changes will have to be considered in the set-up. Where the functioning of an institution, therefore, has deteriorated to such an extent so as to seriously impair the flow of credit and possibilities of its revitalisation and rehabilitation within a reasonable period of time are remote, we would have no hesitation in suggesting the weeding out of such an institution and the induction of other agencies for financing in the areas concerned. We recommend a flexible approach and would stress that the best arrangement suited to the local needs and a particular situation may be adopted. Our specific recommendations regarding the arrangements to be made in areas where credit flow is choked are as under:

(1) Where the non-functioning of any particular tier is due to external factors, these factors should be removed.

(2) A quick analysis of weak CCBs may be made with reference to the flow of credit, recovery performance etc., to identify areas where credit flow is choked by their existence. In such cases, we would recommend that the SCB may open its branches in the concerned district and undertake direct financing of PACS.

(3) Where the working of CCB can be improved, if concerted efforts are made, the bypassing of the institution may be resorted to as a transitional measure, and vigorous steps taken to place it on an even keel.

(4) A more detailed examination of the financial position of CCBs may then be undertaken. Where the functioning of a particular CCB has been jeopardised to such an extent that the possibilities of its rehabilitation within a reasonable period of time, say five years, are remote, the liquidation or merger of the CCB with the SCB may be resorted to.

(5) Where the CCB is to be liquidated, the SCB may consider the sponsoring of a RRB as an alternative to the extension of its own branch network and serve the PACS through it.

Integration of the Short and Medium Term Credit Structure with the Long-term Credit Structure

14.17 The question of integration of the short and medium-term credit structure with the long-term credit structure is not a new one. It had received the attention of various committees earlier. Presumably, it has been included in our terms of reference in view of the importance of ensuring the synchronous flow of production credit and investment credit for all activities covered by integrated rural development approach. On the need for such a flow of both types of credit, there can be, and there is, no difference of opinion. The question for consideration is how and through what institutional arrangements can a synchronous flow be achieved.

14.18 The All-India Rural Credit Survey Committee (1954) which recommended the establishment of a central land mortgage bank in each state at the apex level and the strengthening of the primary land mortgage bank at the district level, emphasised the need for co-ordination between them and the short-term structure in the following words:

> "We recommend that, while the state co-operative bank and the central land mortgage bank should continue to remain separate entities for legal and financial purposes, direction and management should be common to the farthest extent possible and the same administrative staff operate under the two types of institutions. Thus, the state co-operative bank and the central land mortgage bank should have a common board of directors, a common administrative machinery and a common building to house them. If it is not practicable to have a common board of directors, at least some of the directors should be common to both. This recommendation applies in particular to States where either state co-operative banks or central land mortgage banks have to be newly established. Other States should, as far as possible, attempt to modify existing arrangements in approximation to this model."

(Pp. 433-34)

14.19 The Informal Group on Institutional Arrangements for Agricultural Credit (1964) appointed by the RBI, while recommending fullest co-ordination and mutual support in the actual working of the LT and ST credit structure, made a specific recommendation as regards the primary level societies.

> "....the management of the primary agricultural credit societies may be associated with the preliminary investigation and report in respect of applications of their members for long-term credit, the disbursement of such loans when sanctioned, supervision of their utilisation and recovery of the instalments of such loans. This should help to ensure that total co-operative lending to an individual is within his repaying capacity, the available security is enlisted to the best advantage and the total repayment performance is satisfactory."

(P. 62)

14.20 The All-India Rural Credit Review Committee (1969) did not recommend a unified structure, but suggested that primary credit societies should undertake long-term loans on an agency basis. The Committee observed :

> "....We, therefore, recommend that in each state a limited number of societies satisfying appropriate criteria pertaining to financial strength and operational efficiency be selected for functioning as agencies of the land development banks in their areas of operation and that this type of arrangement be gradually extended to an increasing number of societies after experience is gained as a result of this experiment."

(P. 795)

14.21 The National Commission on Agriculture (1976) which also examined this question recommended an integrated approach to rural credit and other services at one contact point to the farmers through the Farmers Service Society (FSS). More recently, the Committee on Co-operative Land Development Banks (1975) appointed by the RBI also recommended that the integration of the short-term and long-term credit institutions has to start at the village level.

14.22 The RBI, at the instance of the GOI, appointed in September 1975, a Committee on Integration of Co-operative Credit Institutions for studying the feasibility of integrating the two structures of the co-operative credit structure and other related issues under the Chairmanship of Dr. R. K. Hazari. The Committee came to the conclusion that, from the national angle and in the interest of the farmers and the co-operative credit institutions themselves, integration of the two structures at all levels is necessary. The Committee observed :

> "....in the context of national agricultural policy, from the point of view of farmers' convenience, of taking a comprehensive view of the borrowers' requirements, of closer supervision over end-use of credit, of improvements in the quality of loans advanced and of better financial discipline among the borrowers, of cost advantages accruing through better management and better deployment of funds, etc., the case for integration at all levels in the two structures of the co-operative credit structure is well established."

(P. 73)

14.23 The Committee pointed out that despite attempts at co-ordination, the functioning of the two structures has been in a mutually exclusive manner and, from the farmer's viewpoint, it would be advantageous if the credit needs are provided at a single contact point. From the angle of co-operative credit societies, integration of credit functions will enable a comprehensive view of credit needs, avoid bifurcation of security and competition between the two credit agencies for realisation of dues, enable a better watch over utilisation, thus facilitating recoveries and would, *inter alia*, enable speedy attainment of viability of PACS consequent on the increase in their business.

14.24 Accordingly, the Committee recommended integration of credit functions of both the co-operative credit structures not only at the primary level but at the intermediate and apex levels also, continuing at the same time, the three-tier structure of co-operative credit. The integrated institutions at the state and district levels should then be known as "state co-operative development banks" and "district co-operative development banks", respectively. At the primary level, however, the PACS will additionally become the channel for long-term loans. Realising that the integration could not be brought about simultaneously at all levels, the Committee recommended a phased programme beginning at the primary level. It further suggested that integration should normally be preceded by reorganization of PACS and training of their secretaries.

14.25 The Reserve Bank ascertained the views of the Government of India, the state governments and the co-operators on these recommendations. While the state governments held divergent views, the National Co-operative Land Development Banks Federation and the SLDBs opposed the measure. The Planning Commission suggested that a cautious approach may be adopted since it involved disturbance of the existing structure and that a considered judgement may be taken after consultation with the state governments and co-operative opinion. The Hazari Committee Report was considered in the eleventh meeting of the Agricultural Credit Board held on 18 July 1977. In view of divergent views on the main recommendation relating to integration, consideration of the recommendation was deferred. However, the suggestion that PACS may act as agents of land development banks in disbursing long-term credit was endorsed. Thus, so far, while no consensus could be obtained on the implementation of the main recommendation of the Hazari Committee, the use of PACS for channelling of long-term loans has been generally accepted.

14.26 Three state governments have recently formulated schemes for integration of the two structures of the co-operative credit. At one stage, the Government of Punjab proposed a scheme which envisaged not only integration of the short-term and long-term co-operative credit structures but also merger of all CCBs and PLDBs with the SCB/SLDB, thus creating a two-tier composite credit structure. The Government of Rajasthan had similarly prepared a scheme proposing conversion of the three-tier co-operative credit structure into a two-tier one and establishment of branches of the reorganized state co-operative development bank at the level of *Panchayat Samities*. The scheme proposed by the Madhya Pradesh Government broadly envisaged action on the lines recommended by the Integration Committee.

14.27 The proposal of the Government of Punjab was considered by the Agricultural Credit Board of the RBI in its 13th meeting held on 29 August 1978. The Board did not express any view on the proposal in view of the consensus that a decision on integration of the short-term and long-term co-operative credit structures itself was pending and that various aspects of the proposal such as the monolithic structure, co-operative character, importance of associating non-official opinion at the district level in the event of abolition of CCBs, integrated balance sheet of the amalgamated unit, the legal framework etc., had to be fully examined. Meanwhile, the RBI had asked the State Government to furnish certain further data so that the proposal could be examined further. The Punjab Government, it is learnt, is having second thoughts in the matter of integration of the two structures.

14.28 The proposals of the Governments of Madhya Pradesh and Rajasthan were considered by the Agricultural Credit Board in its 14th and 15th meetings held on 26 March 1979 and 14 December 1979, respectively. The predominant view in the Board was not in favour of the proposals and the State Governments were advised to be cautious as integration of existing structures in a hurry could choke the flow of credit of both kinds. In case, however, the State Governments wanted to go ahead with the integration proposals, despite the Board's advice, they were asked to provide certain financial and other safeguards as an essential pre-condition. The more important of the safeguards prescribed by the RBI for compliance by the State Governments are : (*a*) provision of necessary funds by the state governments on a redeemable basis at the disposal of CCBs and PACS to enable them to absorb the overdues in excess of the owned funds; (*b*) outright grants by the state governments to cover the deficits in the bad and doubtful debt reserve so that a smooth flow of credit could be ensured;

(*c*) availability of adequately trained personnel to man the restructured institutions at all levels; (*d*) provision of suitable managerial subsidies; and (*e*) the need to ensure that the democratic character and set up of the co-operative credit institutions are not jeopardised. The Committee understands that the Governments of Madhya Pradesh and Rajasthan are also having second thoughts about their proposals for integration.

14.29 We again sought the views of SLDBs and SCBs and their national level organizations with a view to finding out whether there has been any rethinking on this issue. The Federation of SLDBs informed us that its member-banks are not in favour of changing the present structural pattern of co-operative credit. However, as LDBs do not have operational units at the village level, the Federation is not averse to establishing some functional co-ordination between LDBs and PACS. While the present set-up and conditions of PACS are not conducive to the bringing about of such a co-ordination, the Federation agrees that PACS may be developed as multi-functional institutions. The Federation has also reported that it has drawn up a plan involving PACS in long-term credit operations and will implement it on a pilot basis. The general consensus among SCBs is that while the cultivator should get production and investment credit through a single agency and PACS may be appointed as agents of PLDBs for the purpose, a merger of SCBs and SLDBs at the apex level, and CCBs and PLDBs at the district level may create difficulties and would not be desirable.

14.30 We have considered the issue in the context of the recommendations of the Hazari Committee and the reaction of the various bodies to the same. In our view, a dogmatic approach and imposition of a decision from above would defeat the purpose for which integration is proposed, *viz.*, integration of two types of credit. Forced integration of institutions would not only go against the democratic character of the movement but might also result in the overall shrinkage of credit due to the choking of channels and the inadequate expertise for handling diverse problems.

14.31 The status report on the co-operative credit system in Chapter 4 shows clearly that the primary credit structure is not yet attuned to serve as a multi-purpose credit agency. The details of the long-term lending activity of the land development bank system also show that their lending is not keeping pace with the growing needs of investment lending for capital formation. To come up to the levels that the national plan expects from the rural sector, both the systems suffer from lack of technical and supervisory expertise. Whereas the primary level will have to learn about the management of multi-purpose credit system and develop the expertise for this purpose, this level will not be involved in the broader terms of organization and innovations in the lending system. This will have to be taken up at the higher level.

14.32 At the higher level, CCBs have not yet developed the criterion for multi-purpose lending for production. In this Report, we have suggested that the production credit disbursed by the short and medium-term structure be expanded to cover medium-term loans of 7 years. This tie-up of a production programme, with some capital investment of a medium-term nature, is itself an expert job for which CCBs have yet to train and equip themselves. It is desirable that this role is given to CCBs squarely and they are asked to build-up expertise within a stipulated time before asking them to handle still longer term investments. We have made detailed recommendations to streamline the working of CCBs in Chapter 15 that follows. Most of the long-term lending bodies, on the other hand, have so far not got the expertise to develop new lines of lending or understanding the opportunities that are available in rural development for long-term lending. Long-term lending has also to be diversified and innovative, particularly for increasing the capital resources of the poorer sections. Building up this expertise and developing these programmes through pilot studies and pilot experiments, before they establish the norms for long-term lending in these directions, will itself be a long-term effort.

14.33 We would like to observe here that in all our planning of organizations, an attempt to bring under one organization multifarious responsibilities, which in their nature are difficult for a single organization to grasp, has to be avoided. It would often be preferable to have more than one organization for different purposes and arrange for co-ordination of those organizations so that all of them work together towards given management objectives. We feel that this concept will be more suitable than integration of structures in the present state of development of co-operative institutions and the consensus of co-operative opinion.

14.34 We have already referred to the readiness of the National Federations of co-operative credit institutions to initiate action for the grant of multi-term credit by PACS. This means that functional integration can be brought about in the near future. We agree that a beginning may, therefore, be made at the primary level for integration of credit by making PACS the organization for retailing of all types of credit. This is, in any case, vital from the beneficiaries' point of view. We do appreciate that taking into account the present stage of the development of PACS, it may not be feasible to straightaway introduce such a scheme all over the country. The scheme may be initially started on a pilot basis in selected areas, which are served by societies having a whole time trained secretary, competent management and a satisfactory balance sheet. Broadly, the functions in respect of long-term credit to be undertaken by the societies will cover collection of applications, their preliminary scrutiny, disbursement of loans and the supervision and recovery thereof for which commission may be allowed by the LDBs to cover the cost of such services. Moreover, PLDBs/branches of SLDBs should also send to the concerned PACS the list of their loanees so that the latter could be enrolled as their members, if they were not members already, so as to meet their requirements of production credit. Such functional coordination between the two agencies, would not only help the borrowers by enabling them to obtain their short-term and long-term credit requirements at one point, but would also be of mutual advantage to both the credit agencies by ensuring better spervision and monitoring of credit. We suggest that the RBI/NABARD may issue guidelines for the selection of PACS, the fixation of commission, the training of secretaries and other details and monitor the scheme closely in consultation with the state governments and the higher level institutions concerned.

14.35 In this connection, a point which merits serious consideration is whether any rigid distinction needs to be maintained between the credit disbursed by the short-term and long-term structures in the present situation. The medium-term loans were given initially for periods upto 3 years by the short-term structure for purposes such as replacement or maintenance of assets, like plough bullocks, small implements and carts, which call for investments of a small order. Over the years, the scope of medium-term credit has been gradually enlarged to include a fairly wide variety of purposes and with this, the period has been extended to 5 years. At the same time, some SLDBs have reduced the periods of some of their loans from 15 years to 5 years and 7 years, on the suggestion made by the ARDC and in accordance with the twin principles of repayment out of incremental income and the life of the asset. Now, it is difficult to draw a line between long-term and medium-term credit merely on the basis of the institution disbursing it or on the period of loan. The smaller farmer may require a longer period of loan even for purposes requiring smaller investment whereas a bigger farmer may be in a position to repay even a sizeable loan within a shorter period of time. In fact, it would be more logical to classify credit into two categories, production credit/working capital credit and investment credit. Historically, the distinction appears to have arisen as a result of the source of refinance. The RBI cannot, under its statute, provide funds for periods longer than 5 years. The funds required for the LDB structure have had to be raised from the market or more recently from the IDA through the GOI. Institutional specialisation based on such temporary and tenuous grounds need not be continued after the establishment of NABARD, which will be competent to handle both types of refinance. Thus, we feel that there should be facility for PACS and their higher level bodies to advance loans up to seven years. Similarly, the long-term structure be permitted to provide loans for periods of 3 years and above. We recommend that suitable provisions be made by the state governments in their Co-operative Societies Acts, for the purpose. Such arrangements will impart the needed flexibility to the co-operative credit structure as a whole.

14.36 In addition, we note that the ARDC has started providing ST credit with LT loans in some cases. Following this, wherever necessary, the LDBs should, as recommended by us in Chapter 16, be allowed to handle short-term credit as part of project lending, that is, as a composite loan. In our view, this arrangement may be the best arrangement under the circumstances. The nature and magnitude of the present credit needs are such that each structure can continue to play its useful role provided it keeps an eye on the functional co-ordination. Thus, the long-term credit structure has to take note of the operation of the short-term credit structure. Each one has to build up its expertise in such a way that they are complementary to one another. One can even conceive of an informal body of the two institutions at the state level to ensure attention to common problems and co-ordination of different activities, such as supervision and recovery of loans. We feel that such a body may help to achieve the main objectives of integration of investment lending with production lending without necessarily bringing the two structures under one management. Once the composite loaning system based on project approach develops at the primary level after LDBs start channelling their loans through PACS, a real integration would have been achieved.

CHAPTER 15

EFFORTS TOWARDS OTHER IMPROVEMENTS IN SHORT-TERM CO-OPERATIVE CREDIT STRUCTURE

IN this chapter, we devote attention to some of the important problems confronting the higher level co-operative bodies in the short-term credit structure.

STRUCTURAL WEAKNESS OF CCBs AND REHABILITATION PROGRAMME

15.2 Historically, CCBs have played a pivotal role in the development of co-operative credit. The states where these are strong have been in the forefront of the co-operative movement. But their performance, as between states and as between individual banks, has been uneven due to various factors such as quality of leadership, competence of management and strength of the affiliated PACS. Further, in recent years, due to continuous rise in overdues from the members to the PACS and from the latter to the CCBs, many CCBs have deteriorated to the point where no further credit could possibly flow.

15.3 Realising the need for rehabilitating the weak CCBs, the RBI launched in 1971 a programme of rehabilitation in respect of CCBs whose bad and doubtful debts, accumulated losses and overdues over three years exceeded 50 per cent of their owned funds. As mentioned in Chapter 4, the RBI reviewed the position from time to time to decide as to which banks need such rehabilitation. From an initial number of 64 'weak' CCBs (on the basis of the financial position on 30 June 1970) included under the programme of rehabilitation, the number of 'weak' banks identified for this purpose had increased to 180 by June 1977. Besides, the rehabilitation programme covered 5 SCBs in areas where two-tier structure existed. In November 1979, the RBI modified the norms for deletion from the list of 'weak' CCBs and in the light of the new criteria excluded 70 banks from the list. Even with this exclusion, by June 1979, the number of 'weak' banks stood at 106 with reference to their financial position as on 30 June 1978.

15.4 In 1972, the GOI introduced a Central Sector Plan Scheme to enable the Central/State governments to provide grants-in-aid to 'weak' CCBs so that they could write off their irrecoverable dues.

As stated earlier in Chapter 4, 146 CCBs in 15 states and 3 SCBs in states where two-tier system is in operation, have been assisted under this scheme and the GOI released assistance amounting to Rs. 781.42 lakhs and Rs. 14.71 lakhs, respectively, upto 30 June 1979. The scheme has been discontinued by the GOI since April 1980.

15.5 As pointed out in Chapter 4, the rehabilitation programme was not carried out fully and faithfully in all its facets. The programme could have produced much better results if all the elements of the programme had been implemented in a co-ordinated manner. For instance, SCBs did not create the rehabilitation cell. In some states, the state and district level committees had either not been constituted for monitoring the progress of rehabilitation, or, where they were set up, were not functioning effectively. Similarly, investigation of overdues on a systematic basis at the level of PACS had not been completed by the banks. Further, in many states, a large number of accounts involving sizeable amounts remained blocked on account of inordinate delays in pursuing arbitration and execution of cases to their logical end.

15.6 In this connection, we may also mention that the Study Teams set up by the RBI to study the organisational and other problems of co-operative credit institutions in the states of Bihar, Rajasthan, Madhya Pradesh, West Bengal, Uttar Pradesh, Maharashtra, Himachal Pradesh and Jammu and Kashmir had also examined the performance of CCBs in each state so as to assess how effectively each one of them had been functioning as a supporting credit institution and whether its retention in the credit structure as an independent financing unit would be justified in the light of its performance. By and large, the efficiency of CCBs was assessed taking into account their (*a*) performance in mobilizing adequate internal resources, (*b*) performance in meeting credit needs of the area, (*c*) performance in ensuring recovery of loans, (*d*) ability in regard to the efficient management of funds and (*e*) role played as federal body of PACS. By applying the above standards, the Study Teams identified 7 out of 28 CCBs in Bihar, 16 out of 43 in Madhya Pradesh, 10 out of 25 in Rajasthan, 6 out of 21 in West Bengal, 9 out of 55 in Uttar Pradesh and both the CCBs in Himachal Pradesh as inefficient units. The Study Teams have made several recommendations to tone up the efficiency of CCBs and as complementary measures made recommendations for re-organization/revitalisation of affiliated PACS and strengthening of supervisory arrangements. It is unfortunate that although all the states have accepted most of the recommendations made by these

Study Teams, sustained efforts to implement them fully, faithfully and effectively, are not in evidence in several states.

15.7 Although CCBs assisted under the rehabilitation scheme had generally improved their performance, as mentioned in para 15.3 above, as many as 106 CCBs are still considered as 'weak'. In our view, it is not sufficient to merely extend the scheme of financial assistance for some more years. What is necessary is to review the purposes and aims of the programme of rehabilitation of CCBs in the present context and make necessary changes. In fact, the programme has to assume a new dimension and get merged in the strategy to develop CCBs into effective agencies for providing credit support to integrated rural development, in addition to their normal activity of financing agriculture and allied activities. The role of CCBs should now be realigned to conform to the role assigned to NABARD on the one hand, and to the ground level delivery system on the other, without which the vertical integration of the system would not be possible. To play their new role properly, these banks have to be not only an effective channel for flow of funds for a much wider range of purposes than hitherto, but have also to improve their own capacity as well as that of PACS to cover the target groups not only in respect of agriculture and allied activities but also cottage and village industries and other avenues of self-employment. Promotion of village/small industries and provision of assistance to artisans and other self-employed persons in production and service sectors is so much an integral part of the national employment-generation strategy that the co-operative credit structure can hardly justify its existence without playing its due role. CCBs are also important partners in district credit planning. These banks have so far not fully exploited the advantage of their longer standing in the field of rural credit and wider network of affiliated societies. The focus therefore has now to shift from one of rehabilitation of 'weak' CCBs to one of developing CCBs into capable district level institutions to undertake a wide range of functions. These would include formulation and implementation of schemes designed for promoting investments in the desired areas and for achieving productivity increases through application of improved technologies, skills and management practices in the beneficiary units.

15.8 The enlarged scope of their operations in the sphere of village/ cottage industries, artisans and other employment generating activities would entail certain risks to CCBs and PACS, inasmuch as the concerned beneficiaries might not be in a position to provide adequate security in all cases. In the case of commercial banks, the risks involved in financing weaker sections are at present covered by the Deposit Insurance and Credit Guarantee Corporation (DICGC). Since rural development programmes are being undertaken in all the development blocks in the country and financing all the beneficiaries under the programmes would involve some risks to the financing institutions, the adequacy of existing arrangements to cover the risks to be taken by CCBs and PACS should be examined and adequate arrangements made to cover the risks by additional contribution to their risk funds or, if possible, by bringing them within the scope of the DICGC.

15.9 In the light of the new tasks and responsibilities devolving on them under the district credit plan and the integrated rural development approach, CCBs will have to strengthen their technical staff for different types of activities. Each CCB will have to review the technical staff needed with reference to potential available in its area for implementation and monitoring of the schemes for the target groups. Keeping in view the above aspects, we recommend that the state governments and SCBs should prepare action plan for strengthening CCBs.

15.10 It is well-known that, besides lack of finance, several factors have come in the way of progress of the rural industries sector, such as non-availability or erratic supply of raw materials or high cost thereof, lack of or inadequacy of, market arrangements for their products, especially lack of linkages with the urban consuming centres, and lack of facilities to upgrade the skills of rural entrepreneurs and artisans. The economic viability of the investments can be improved only when raw material supplies and marketing arrangements are taken care of. In so far as co-operative credit is concerned, CCBs will have to use their influence as financiers for bringing together co-operative agencies in charge of supply of raw materials and marketing of products on the one hand and producers' co-operatives on the other. For this purpose, we recommend that the development wings of CCBs should be appropriately equipped/strengthened.

Professionalisation of Staff

15.11 In recent years, there has been an increasing trend towards officialisation of the co-operative management by deputing government officials to hold top level positions of chief executives and key personnel in the banks. While in a few cases this led to some improvement in the beginning, the results have been disappointing in most cases as these officials have neither the requisite experience nor the ability to ensure professional management. Further, incumbents have been frequently changed resulting in a lack of continuity in guidance and control. The officials have no abiding interest in the development of the institutions. Studies undertaken by the Reserve Bank during 1976 to 1978 reveal that out of 19 CCBs in Karnataka State the Chief Executive in as many as 14 banks were officers drawn from the Co-operative Department. Similarly, in Haryana, in 9 out of 12 banks the Chief Executives and Managing Directors are from the rank of Assistant/Deputy Registrars of Co-operative Societies. In the Tamil Nadu Co-operative Societies Act, specific provision exists for appointment of the Managing Director of the State and Central co-operative banks by the State Government. At the time of the Committee's discussions with the Government of Bihar it was revealed that the Executive Officer, managers, supervisors of the apex bank were all from the State Government; only a few supervisors here and there were appointed by the co-operatives. CCBs also did not have their own supervisory staff. Thus there was a virtual absence of the co-operative movement in the true sense of the term. No doubt, in certain cases, where the requisite staff may not be readily forthcoming, one could conceive of government deputing staff, as a temporary measure, to fill in the void. Even in such a contingency, it is preferable to seek staff from other banks and/or the RBI. Besides, in some cases, the state government may deem it necessary to depute their staff to specifically tone up the performance of weak banks. However, large scale deputation of government staff to the banks on a continuing basis can hardly be conducive to the efficient functioning of these institutions. Apart from the fact that the imposition of government officials at the top levels has affected the morale of the managerial staff of the banks resulting in a certain degree of frustration among qualified and experienced employees of the banks, who cannot aspire to top level positions, this placement of services of departmental staff with co-operative banks results in superfluous restraint on the banks in building up their own cadres of key personnel. While state governments should provide necessary financial and administrative assistance for development of co-operatives, it is felt that their role should not ordinarily extend to manning most of the key posts by government personnel.

15.12 Like other banking institutions, CCBs are required to fulfil their statutory and other obligations to their creditors on the one hand, and to their constituents on the other. The tasks to be performed by them have become more complex now than in the earlier days when they were required to advance merely crop loans. The progress of deposit mobilisation and loan business of CCBs discussed in Chapter 4 has shown that many CCBs have graduated to a level where they should have their own well-trained professional management, supervisory staff and technical personnel. It is in the context of building up of the co-operative banks as equal partners with the commercial banks and RRBs, in implementing agricultural and rural development programmes with vigour, that the question of professionalisation of their management has to be given urgent attention.

15.13 Professional management competence is acquired through systematic training and long years of experience in various departments *viz.*, planning and development, loan appraisal, supervision and management of resources and personnel. Increasingly, business development has to take place on the basis of a careful appraisal of tecnhical and economic aspects of the proposed investments, the need for promoting asset-creation among the weaker sections and achieving productivity increases and creation of gainful employment in the rural sector. That CCBs have to achieve these objectives by loaning through the agency of PACS which do not have proper staffing arrangements, makes their development and management functions even more onerous. Although in some states there is an awareness of this need for professionalisation of management in CCBs, much remains to be done in all the states.

15.14 A large number of banks have availed themselves of the training facilities provided by the training colleges and institutions in the country for their staff. Mention was made in our Interim Report of the training facilities provided for banking personnel of all cadres of the co-operative banks at the RBI College of Agricultural Banking, established at Pune in 1969. We may also mention here the pioneering work done by the Vaikunth Mehta National Institute of Co-operative Management, Pune, in this field. The Institute conducts diversified courses including the long-term course in co-operative business management. Short-term courses, sectoral as well as functional, are also conducted by this Institute. What seems to be lacking in respect of professional management in CCBs is a well thought-out and systematic recruitment policy for staff of various categories and the building up of a cadre of co-operative banks' staff consisting of key personnel and other officers. In the absence of such a policy and a proper mechanism to give effect to it, the best available talent is not always attracted to CCBs.

15.15 The idea of a cadre for the co-operative banks was mooted by the Rural Credit Survey Committee as far back as 1954. It was reiterated by subsequent Committees which had occasion to comment on this subject. However, the idea of creation of a cadre has not caught on. To illustrate, the position in some of the states may be noted. In Madhya Pradesh, although a scheme of caderisation is said to be in operation since 1968, no tangible progress has been made to extend it to all CCBs in the state. A cadre committee comprising the Chairman and Vice-chairman of the apex bank, one member elected by the general body, the Managing Director and the RCS has been constituted. In Tamil Nadu, a committee consisting, among others, a special officer of Tamil Nadu SCB and Additional RCS is reported to have gone into the differences in the various designations, nature of work allotted, responsibilities, scales of pay in various CCBs with a view to bringing uniformity in all CCBs. The recommendations of the committee are understood to have been accepted by the state government but no decision has yet been taken for implementation. In Karnataka, the staffing pattern, as suggested by the RBI, pursuant to a study, has been implemented by the SCB and 10 out of 19 CCBs. In Andhra Pradesh, the State Government is reportedly considering the recommendations made by the RBI in its study on the staffing pattern of the SCB and CCBs for implementation. In Uttar Pradesh also, the introduction of a cadre system is reported to be under consideration of the State Government.

15.16 In these circumstances, we would reiterate the importance of the creation of a proper cadre of professional personnel and urge that state governments do take necessary steps invariably to bring into being such cadres and ensure professional training for the encadred personnel. If, in the meantime, government officials are required to be deputed to the banks on a temporary basis, it should be ensured that the officials are properly oriented and trained for the tasks entrusted to them.

Organisational Set-up

15.17 In the light of what we have recommended in Chapter 5 regarding the tasks to be performed by the ground level delivery system and by CCBs discussed in the earlier section, we consider that there would be need for organizational restructuring as well as strengthening of the existing staffing arrangements in many of the CCBs.

15.18 Though the organizational pattern in each CCB could vary in details according to local needs and conditions, we recommend that the reorganization should be undertaken by CCBs in a phased programme keeping in view the following profile. Under the overall charge of the Managing Director, the organization must have six Divisions as below:

(*1*) Planning and Development Division under a Development Officer : This would pay special attention to (*a*) development of the capability of the primaries to provide short-term and medium-term credit (as well as long-term credit as an agent of the LDB) in an integrated way, (*b*) development of schemes for agriculture/allied activities to be financed by the societies, (*c*) development of schemes for village/cottage industries and other activities for self-employment, (*d*) mobilisation of deposits and performance budgeting, and (*e*) arrangements for horizontal co-ordination with other financing agencies, supplying agencies, marketing societies and government departments.

(*2*) Operations Division under an Executive Officer : This would (*a*) give effect to the credit policies prescribed by NABARD and provide credit assistance to PACS or individuals directly according to approved policies and procedures and (*b*) make continuous efforts to simplify forms and procedures.

(*3*) Accounts Division under a Chief Accountant : This would look after (*a*) borrowings, (*b*) management of funds, (*c*) general banking, loans and advances, accounts (Head Office and branches), (*d*) statistical information and (*e*) investment.

(*4*) Monitoring Division under a Monitoring Officer : This would (*a*) monitor the progress of implementation of schemes and programmes by calling for quarterly reports from the PACS and supervisors, (*b*) monitor the coverage of weaker sections, (*c*) monitor the progress and work of PACS by calling for reports from supervisors and (*d*) monitor the end-use of credit by calling for reports from supervisors at regular intervals.

(*5*) Technical Division under an Executive Officer (Technical) : This would consist of technically qualified staff to assist in scheme formulation/appraisal of the different types of schemes/programmes for which there is considerable potential in the area of the bank.

(*6*) Administrative Division under a Manager : This will be incharge of inspection of the branches, Board matters, establishment, executive committee meetings, etc.

The enclosed chart indicates the above organizational pattern for the head office of CCB.

POLITICISATION OF CO-OPERATIVES

15.19 Reference has been made in Chapter 4 to some of the damaging results of politicisation of the management of co-operatives. In brief, experience of the past several years has shown that on account of politicisation, elections to the various bodies are indefinitely postponed or the duly elected boards are superseded; professional competence of managers and morale of staff are seriously undermined as a result of politics overshadowing professional considerations; there is political interference in the processes of loan making as well as of loan recovery, resulting in some states in stagnation or total paralysis of the co-operative credit system. We have earlier referred to the decision of certain state governments to pay up the overdues of some borrowers out of budgetary resources without examining the nature of default and the justification for such relief on a case-by-case basis. Needless to say that this only encourages wilful default and vitiates the climate for recovery of dues. If co-operative credit institutions are to function as autonomous bodies and implement effectively national policies in the sphere of rural credit, there is an urgent need for a national consensus amongst political parties to cry halt to politicisation of co-operatives. As an immediate measure, a vigorous educational programme should be launched to see that office-bearers and members of co-operatives are adequately educated regarding their obligations and responsibilities towards their organizations. Taken up on a sufficiently large scale, a programme of this kind should help develop genuine co-operative leadership. The National Co-operative Union of India would be the appropriate agency for taking initiative in this matter.

15.20 We have noted in Chapter 4 how in several states, the managements of CCBs have been superseded under the powers vested in the RCS by the State Act on co-operative societies. These powers were meant to be used in extreme cases where it is found that the affairs of a society are being conducted in a manner prejudicial to the interests of its members. We are distressed to find that in several instances, supersessions have been ordered for other reasons, often to serve the political ends of the powers that be. The question arises whether at least those co-operative societies as are functioning as banks can be dealt with in such a fashion, particularly when they are also governed by a Central Act in respect of their major function *viz.*, banking.

ORGANIZATIONAL CHART FOR THE HEAD OFFICE OF CENTRAL CO-OPERATIVE BANK

Managing Director

Technical Division	Planning & Development Division	Accounts Division	Operations Division	Monitoring Division	Administrative Division
(Executive Officer-Technical)	(Development Officer)	(Chief Accountant)	(Executive Officer)	(Monitoring Officer)	(Manager)
Scheme formulation/ appraisal, planning.	Development of PACS, Development of schemes of agriculture/allied activities, development of schemes for village/cottage industries, artisans, mobilisation of resources, performance budgeting, training, horizontal co-ordination with other agencies (financing, marketing, supplying etc., and state government departments).	Borrowings, Management of Funds, General banking, accounts (H.O. and branches), Statistical information, investment.	Sanctions of loans to PACS (or individuals directly) as per NABARD's policies, simplification of procedures.	Supervision and control over societies and field staff, coverage of weaker sections, supervision over PACS.	Board matters, General Body and Committee meetings, personnel and establishment, premises, vehicles, shares, legal matters, Inspection of branches.

The Banking Regulation Act, 1949 (As applicable to Co-operative Societies) places certain duties and responsibilities on the RBI. Obviously, the RBI cannot discharge these responsibilities satisfactorily if, under colour of law and by application of a State Act, the managements of co-operative banks are changed arbitrarily. The question of law apart, the RBI has a large stake as lender. This anomalous position was recognised by the Banking Commission (1972). They recommended that the jurisdiction to regulate co-operative credit agencies should be transferred to either the Union List or to the Concurrent List of the Constitution. No action appears to have been taken on this recommendation. Pending a decision on it, we have tried to look for an immediate solution which will help in bringing into the consideration of supersession proposals in respect of co-operative bank a more critical appraisal of the bank's financial condition, management and other strictly relevant issues. Accordingly, we recommend that a provision be incorporated in the Banking Regulation Act, 1949 (As applicable to Co-operative Societies) making it obligatory on the part of the state government to seek prior consultation of the Reserve Bank of India when it proposes to supersede the boards of managements of co-operative banking institutions. In the case of LDBs, which are not covered by the B. R. Act 1949 (As applicable to Co-operative Societies), the RBI/NABARD should make it a condition for providing financial assistance that supersession of the board of management of the concerned LDB should be only with the prior consultation with the RBI/NABARD. It would indeed be appropriate if, at the same time, the Co-operative Societies Act in each state is also suitably amended making it incumbent on the state government to have prior consultation with the Reserve Bank before resorting to supersession of the boards of management. Such a measure, we hope, will prevent politically motivated summary dissolution of the boards of co-operative banks, as witnessed in recent years.

Resources Management

15.21 Resource mobilisation by way of deposits and borrowings and resource deployment are two sides of the same coin *viz.*, resources management. In terms of deliberate policies pursued by the Reserve Bank and the state governments over the years, co-operative banks have been encouraged to mobiles deposits not only from the member-societies but also from the public. Mention may be made here of the deposit mobilisation scheme introduced by the RBI in July 1973, the higher rates of interest allowed on deposits of co-operative banks *vis-a-vis* commercial banks, recognition accorded to co-operatives for deposit of funds by government and *quasi*-government institutions and the extension of the deposit insurance scheme to co-operative banks. Following these incentives, deposits of several co-operative banks, especially term deposits, have registered a significant increase in the last few years as indicated in Chapter 4.

15.22 Simultaneously, SCBs/CCBs are also provided by the Reserve Bank refinance assistance liberally on concessional terms to enable them to provide assistance for agriculture and allied activities on easy terms. The relatively high cost deposits, on the one hand, and the liberal concessional refinance linked to providing loans on easy terms, on the other, have given rise to problems of management of resources. Representations have been made to us by some of the SCBs that they have been facing a problem of surplus funds which they are unable to utilise for loaning within the co-operative fold.

15.23 One solution for the high cost deposits remaining surplus with some of the co-operative banks lies in their developing other co-operative business (*e.g.* agro-processing such as co-operative sugar factories, co-operative fertilizer factories, etc.) to offset losses arising from utilising a sizeable part of their deposits for agricultural financing. Depending on the availability, organization and demand for such high cost funds, SCBs/CCBs in certain states have succeeded, over the years, in diversifying their loan portfolios. Financial assistance is now being provided by them for a variety of purposes, including marketing and processing of agricultural produce, storage and distribution of fertilizers, etc. Further, pursuant to the recommendations of the Study Group on Interest Rates in the Co-operative Credit Structure (1979) appointed by the Reserve Bank, the SCBs are now allowed to lend to institutions outside the co-operative fold, *viz.*, Dairy Development Corporation, Agro-Industries Corporations, Electricity Boards, subject to the restriction that the total advances of SCBs for such non-agricultural purposes should not exceed the deposit resources raised from sources other than co-operatives and the institutions financed should be closely connected with activities which facilitate rural production, processing and marketing. SCBs, it is understood, are also permittted to invest, surpluses temporarily, in call deposits with commercial banks upto a prescribed ceiling fixed in each case, taking into account the resources position, composition of deposits, investment in various sectors, etc. In some banks, the problem arises due to the fact that they have mobilised mainly term deposits bearing interest from 7 to 10 per cent and which they are not able to employ on commercial terms. Keeping in view the average interest cost on deposits, co-operative banks should be allowed to charge higher interest on agricultural loans to large farmers compared to small farmers. For this purpose, no ceiling need be fixed on such interest rates considering the fact that most co-operative banks would like to keep the rates on agricultural loans as reasonable as possible.

15.24 The available data for some of the states (Statement 15.1) show that the loans of SCBs were more than their available loanable funds, both at the lowest and peak level of their borrowings from the Reserve Bank. Considering that in either case they have left much unused Reserve Bank credit limits, shows that SCBs' availment of the Reserve Bank refinance has been, in several cases, by way of supplementing their own resources. But the SCBs' point of view is that, because they do maintain liquid assets upto a level that is more than statutorily required, and that much of their non-agricultural financing is seasonal in nature, a large amount of high cost funds remains as surplus for a good part of the year. More importantly, they point out that given profitable avenues for employing their funds, they would show even better performance in their deposit mobilization efforts.

15.25 Given the structure of interest rates for agricultural loans, for concessional finance and for the deposits mobilised by the banks, and given the limited scope for financing such agro-based activities as can absorb high cost funds, SCBs/CCBs are bound to have surplus resources. Regardless of the magnitude of such surpluses in each state and the seasonal nature of these surpluses, we want co-operatives to undertake vigorous programme of deposit mobilisation at all the three levels of the system. The liberalisation introduced by the RBI mentioned in para 15.23 should, we feel, help mitigate the problems of surplus funds with SCBs. We recommend that co-operative banks may also take the initiative to enter into consortium arrangements with commercial banks for financing agro-industries, including processing units.

Chapter 16

EFFORTS TOWARDS OTHER IMPROVEMENTS IN LONG-TERM CO-OPERATIVE CREDIT STRUCTURE

AS a result of the efforts made in the last three decades for improving their organizational competence and operational capabilities, LDBs have come to play an important role, both quantitatively and qualitatively, in the provision of investment credit for agriculture and allied activities. All the same, there are several shortcomings and deficiencies in their working. The Madhava Das Committee on LDBs (1975) which we have referred to earlier, has made several recommendations for streamlining their working; but the response thereto has not been, by and large, quite encouraging with the result that LDBs continue to suffer from certain problems, affecting smooth flow of term finance for accelerated rural development. In this chapter, we consider these problems in the light of our discussions with the various state governments, representatives of LDBs etc., and make our recommendations thereon.

Structural Weakness and Rehabilitation Programme

16.2 The present structure of LDBs which is federal in many states and unitary in some has evolved over the years in response to the requirements of the respective states. LDBs and their Federation, on our eliciting their views in this regard, have expressed themselves against any change in the present pattern. We agree that the existing structure need not be disturbed merely for bringing about uniformity.

16.3 A major problem to-day in the long-term co-operative credit structure is that, in a number of cases, investment credit dispensed by LDBs has not been productively deployed, as a result of which, the overdues are showing a rising trend, rendering several PLDBs in the federal set-up and branches of SLDBs in the unitary structure, either eligible for only restricted lending or ineligible to undertake any fresh lending programme. As indicated in Chapter 4, as many as 360 PLDBs/branches of SLDBs, whose overdues as on 30 June 1979 exceeded the cut-off point at 55 per cent of demand, were ineligible to lend for fresh investments. Another 452 units had only restricted lending eligibility according to the range of their overdues as on 30

June 1979. As per information available in the RBI, the position had further deteriorated by end June 1980 ; the number of units having overdues above the cut-off point had risen to 712 as on that date. During our field visits and state-level discussions, we observed that a sizeable proportion of the overdues stemmed from either non-utilisation or misapplication of the loans advanced. Needless to say, it will spell disaster to LDBs if investment finance provided by them is not applied to generate income at levels enough to secure its prompt return flow. If these institutions are to obtain their due share of the scarce long-term resources, it would be necessary for them to demonstrate in actual practice that the resources provided to them for this purpose are being utilised for effectively-supervised investment schemes capable of augmenting productivity and income of the beneficiaries. What causes concern to the Committee is the lack of evidence to show that this problem has received the serious and earnest attention that it deserves from the state governments and LDBs. Apart from plugging the lacunae in the existing arrangements for monitoring and supervision and tightening up of the post-credit follow-up machinery on the lines suggested by us later in this chapter, what is imperative is the undertaking, on a priority basis, of a case-by-case investigation of loans advanced by each of those PLDBs/branches of SLDBs which are below the cut-off point with a view to identifying (*a*) cases of wilful default in which, even after completion of investments, repayment of loan instalments have been deliberately withheld, (*b*) cases of non-utilisation and misapplication of loans advanced either by not drawing the second and subsequent instalments of loans or by not executing the project, despite drawal of the instalments and (*c*) cases where, inspite of the proper utilisation of the loans availed, the investment remains incomplete due to post-sanction cost escalations or other factors. The Committee emphasises that, if LDBs are to serve as useful and effective channels of investment credit, it is squarely the responsibility of the state governments, who are the guarantors of their debentures, to carry out an exercise of this kind within a specific time-frame of not more than one year and also to formulate, on the basis of the results thereof, a comprehensive rehabilitation programme to be implemented over a period of one or two years, on the following lines in consultation with/and active involvement of, the RBI/ARDC/NABARD :

(*i*) In cases where the investments are incomplete due to inadequacy of loan amounts sanctioned already, additional finance may be provided to the borrowers to complete the project ;

(*ii*) In respect of loans covered by items (*a*) and (*b*) above, stringent and punitive measures should be instituted forthwith for recovery of the dues. The loan accounts in such cases should be summarily foreclosed and, coercive proceedings launched against the defaulters for recovery of their outstanding dues. Also, departmental action should be taken against all the concerned officials who furnished false utilisation certificates on the strength of which the loan instalments were disbursed ; and

(*iii*) The rehabilitation programme should *inter-alia* provide for increasing the coverage of small-farmer and other weaker section clientele and improving the loan operations in terms of progressive increases in lendings, diversification of advances portfolio, effective monitoring and supervision over the use of credit, timely recovery of loans out of incremental income generated by the investments financed, strengthening of the administrative, technical and supervisory staff of the banks with adequate grant-in-aid from the state government, etc. Wherever necessary, it should also provide for financial assistance from the state government in the form of share capital contribution out of its own budgetary resources to enable the concerned LDBs notionally to reduce their overdues and for enabling them to move to the lending eligibility slab immediately above the cut-off point. This, however, should be a purely temporary measure for the banks to finance fresh investments of new and non-defaulter members until such time they improve their recovery performance with action initiated on the lines indicated above.

16.4 The Committee observes that in the matter of realising overdues, LDBs are considerably handicapped for want of bidders in auction of lands mortgaged to them by borrowers. The Committee is of the view that an effective way of assisting LDBs to get over this difficulty is for the state governments themselves to purchase the mortgaged lands in settlement of the LDBs' claim and arrange to dispose them either by outright sale or on long-term lease to identified target groups consisting of small and marginal farmers and agricultural labourers in the area. This method, the Committee feels, will not only help thwart the attempts of habitual and wilful defaulters to gang up but will also enable the vulnerable groups to improve the size of their holdings and their viability. The state governments may set up a suitable organization under the Registrar of Co-operative Societies or some other appropriate authority to deal with this matter. In this connection, the Committee is happy to find that the Karnataka Government has already taken the lead in this regard by placing a sum of Rs. 1 crore at the disposal of the Registrar of Co-operative Societies for purchase of lands of defaulters in auction. The Committee hopes that the other state governments will also follow suit.

16.5 In the case of those PLDBs/SLDB branches which have restricted lending eligibility, the state governments may carry out a case-by-case and on-the-spot scrutiny of the loans for ensuring productive use of credit and early completion of the investments and also take action for recovery of overdues in the manner indicated in the preceding paragraphs.

16.6 Should the rehabilitation programme, as mentioned above, fail to produce the desired results within the time limit specified, the state governments should not hesitate to take action for winding up the units concerned and allowing other institutions under the multi-agency system to take care of the investment credit needs of the area.

16.7 In the case of unitary structure, it is desirable to associate local non-officials with the functioning of the branches of the SLDB and involve them actively in the development of the branch. Towards this end, a branch advisory committee having representatives from various blocks and of different categories of rural population engaged in agriculture and allied activities including those belonging to scheduled castes, scheduled tribes, small and marginal farmers, agricultural labourers and rural artisans should be constituted for each branch and their support enlisted in scheme formulation and implementation and recovery of loans. The bylaws of SLDBs concerned may be amended suitably providing for the constitution of such branch advisory committees with the approval of their Board of Directors and steps be taken to make them function as quickly as possible.

Problem of Viability

16.8 Related to the organizational structure is the problem of viability of LDBs. Various Committees and Working Groups have, in the past, gone into this question. The Madhava Das Committee suggested that a PLDB or a branch of SLDB should have a minimum loan business of Rs. 35 lakhs to function as a viable unit. More recently, the Committee on Interest Rate Spreads in the Agricultural Lending Sector appointed by the RBI in 1978 reviewed this norm, taking into account the general escalation in wage structure, the growing need for the LDB structure to appoint technical supervisors and to pay more attention to scientific methods of loan appraisal, verification of utilisation of loans as also the recovery of loan instalments and came to the conclusion that, with the benefit of an interest margin of 1.75 per cent, it should be possible for a PLDB to attain viability at a level of outstanding loan business of Rs. 40 lakhs. It had further indicated that for obtaining the benefit of an interest margin of 1.75 per cent, the LDB should have an overall margin of about 2 to 2.25 per cent in relation to its current borrowings and lendings and hence, the SLDB in each state, in consultation with the affiliated PLDBs, might fix the appropriate margin to be allowed to the latter so that they could attain financial viability within a period of say, 3 years. In this context we observe that, with the increase in lending rates to ultimate borrowers suggested by the Reserve Bank in terms of its instructions issued in August 1980, the margin available to LDBs has gone up, ranging between 3.75 per cent and 3.85 per cent on ARDC loans and 3.40 per cent and 4.55 per cent on normal loans. The state governments should therefore take steps to ensure that a major portion of this margin percolates to the primary level institutions to make them strong and viable units. Being crucial to structural stability, the viability of the institutions has to be sustained and hence it is important that such of the PLDBs/SLDBs' branches as have no prospect of attaining viability due to dearth of lending potential and other geo-physical constraints are either amalgamated to command a wider coverage and business potential or merged with the adjacent viable PLDB/branch. We would suggest that the state governments and the SLDBs should review the cases of all such non-viable units and take necessary steps as indicated above, to rationalize the structure, keeping the viability objective in view.

Lending Discipline

16.9 As discussed in Chapter 4, even though the lending operations of LDBs have, over the years, increased considerably in absolute terms, the progress in some states cannot be considered encouraging when compared with the local needs and the achievements in long-term lending of the commercial banking sector which is relatively new to the field. Further, in recent years, LDBs in developed states like Karnataka, Gujarat and Tamil Nadu have shown a declining trend in their annual lending. This is also reflected in the extent of availment of refinance by SLDBs from the ARDC. Whereas the magnitude of refinance disbursed to SLDBs upto 30 June 1980 was of the order of Rs. 983 crores, constituting 56.6 per cent of total refinance disbursements, the share of SLDBs in the total refinance has been progressively declining since 1975-76 as indicated below:

(Rs. crores)

Agency	Refinance disbursed during				
	1975-76	1976-77	1977-78	1978-79	1979-80
(1)	(2)	(3)	(4)	(5)	(6)
SLDBs	99 (57·9)	127 (57·4)	112 (47·9)	131 (46·0)	164 (39·8)
Scheduled commercial banks ..	71 (41·5)	93 (42·1)	120 (51·3)	150 (52·6)	239 (58·0)

Source: ARDC's Annual Report for 1979-80.

Note: Figures in brackets indicate percentages to total. The total of the two percentages does not add to 100 as the figures of SCBs are not included in the table.

The most important factor that is said to limit the lending capacity of the banks is the recovery-linked lending norms prescribed by the ARDC and the RBI. This is examined in the ensuing paragraphs.

16.10 Upto the end of the financial year 1970-71, the debenture programme of SLDBs was being regulated on the basis of percentage of overdues at the SLDB level. But, in 1971-72, the RBI felt that, as a measure of financial discipline and also for stimulating recovery efforts, it would be advisable to link the lending eligibility of PLDBs/branches of SLDBs to their recovery performance and, accordingly, from September 1973, SLDBs were required to regulate their advances as a percentage of the annual lending programme of their affiliated units in relation to overdues in such units. In 1975, the RBI set up, a "Standing Committee on Debenture Norms" for evolving common norms for issue of ordinary and special development debentures. Since then, the regulatory norms are being reviewed from time to time by this Committee.

16.11 The salient features of the regulatory norms are: (*i*) a PLDB/branch of SLDB with overdues upto a tolerance limit of 25 per cent of demand will have unrestricted lending eligibility; (*ii*) banks with overdues exceeding a cut-off point (55 per cent at present) will not be eligible to be financed out of funds borrowed from the ARDC or by way of normal debentures; and (*iii*) banks with overdues between the tolerance level and the cut-off point will be eligible for lending subject to a slab system, the intention being that, the higher the recovery percentage, the greater will be its lending eligibility.

16.12 During the implementation of the Second ARDC Credit Project (1977-79), some modifications and relaxations in the norms of discipline were recommended by the Standing Committee on Debenture Norms and these were finalised by the RBI and the ARDC in consultation with the Government of India and IDA. According to the earlier arrangement, the classification of PLDBs/branches of SLDBs was based on their overdues in slabs of 10 percentage points for units having overdues above 25 per cent of demand. This was changed in January 1979 to slabs of 5 percentage points each and somewhat higher limits were fixed for each slab. Accordingly, the revised overdue slabs and lending eligibility which are now operative are as under:

Range of overdues (Percentage to demand)		Eligibility for lending	Limits for fresh lending
		(As percentage of average of loans issued during preceding 3 years or during the previous year whichever is higher)	
(1)		(2)	(3)
26 – 30	..	100	30
31 – 35	..	90	30
36 – 40	..	80	25
41 – 45	..	75	25
46 – 50	..	70	20
51 – 55	..	65	20

In addition, banks falling in each slab are allowed limits for fresh lending which are fixed as a percentage of the previous year's loans or of the average of the previous three years whichever is higher. These figures are shown in column 3 of the above table.

16.13 Banks having overdues exceeding the cut-off point at 55 per cent of demand have ceased to be eligible for any lending programme except to meet the committed expenditure of second and subsequent instalments in respect of loans for which first instalment was already disbursed. However, with a view to encouraging larger credit flow to small farmers, PLDBs/branches of SLDBs with restricted lending eligibility, are allowed to draw funds from SLDBs for financing small farmers identified as such in SFDA, DPAP, CADP areas. This is in recognition of the fact that in these areas arrangements exist to identify and supervise borrowers. This relaxation in respect of financing small farmers has been extended in October 1979 to PLDBs/branches of SLDBs, having "nil" lending eligibility, provided a time-bound programme of rehabilitation, covering among others, measures to strengthen the organization, improving financial viability, augmenting technical support and reducing overdues over a reasonable period of time is drawn up for the concerned unit and implemented and provided there are also arrangements to the satisfaction of the RBI/ARDC for monitoring and supervision of the credit schemes.

16.14 We have been informed that in accordance with the agreement executed with the IDA for the ARDC's Third Credit Project (1980-81) there are proposals to revise the cut-off point of overdues to 50 per cent and also to insist on a comprehensive rehabilitation programme of the entire structure in a state before refinancing is allowed, if half or more of the PLDBs or branches of the SLDB have become ineligible as a result of the new cut-off point. These proposals, if implemented, are likely to affect adversely LDBs' operations in several states and a large number of units will cease to be eligible for any lending programme.

16.15 During the course of our discussions with the representatives of LDBs, three points were made: first, the norms, particularly the method of fixing lending limits, have had a regressive effect on several LDBs; second, the policy of ARDC of fixing the period of the loan as 7-9 years as against the earlier practice of 15 years, has not been fully accepted by the borrowers; and third, the stipulation of the ARDC that the instalment payments for redemption of debentures by LDBs shall be the the same as the instalment payments fixed for the ultimate borrowers, has taken away the flexibility available to LDBs under the previous practice of maintaining a sinking fund and redeeming through a single payment at the end of the period of the debenture.

16.16 We feel that these and other points that have been identified as responsible for the deterioration of the LDB system in recent years deserve to be examined with reference to the policy objective of building sound and strong institutions to serve the rural people. It is obvious that no bank can survive if it closes its doors, inch by inch to begin with and finally after a period, to its clientele and a regulation or discipline that brings this about inexorably, however well intentioned it might be, can only be described as self-defeating. We have no doubt that the present regulation which has been introduced in the wake of credits from the IDA has been devised with the most commendable purpose of ensuring prompt recycling of funds with strict reference to such unassailable concepts as the life of the assets created, the incremental income accrued and timely recovery. But the experience of the last 8 years or so, has shown that more time is necessary for the borrowers to adjust themselves to the shorter tenure of loans and the consequent increase in the amount of instalment of repayment. It takes time for the rural borrowers to appreciate and follow the excellent purposes and concepts implicit in the lending discipline. In this context, we also take note of the improvements already made or under contemplation. In July 1978, the ARDC agreed to fix the maturity periods of debentures so as to make them longer by 2 years than the corresponding loans to ultimate borrowers except in the case of 15 year loans. The ARDC has also agreed to reschedule the loan repayments in the event of natural calamities. LDBs have been allowed to pay their annual redemption instalments at the end of the year instead of different dates during the year. More recently, the period of loans to ultimate borrowers, in the case of wells and pumpsets has been extended from 7 years to 9. We have also been informed that the Debenture Norms Committee is working on a revised regulation which will provide a minimum lending limit to all the LDBs having overdues in excess of the cut-off point and thus take away the regressive features of the present regulation. We, therefore, recommend that the existing norms and guidelines be reviewed immediately by the ARDC/RBI in consultation with the GOI in the light of past experience and realities in the field.

16.17 While pleading for a realistic set of norms for lending, we would reiterate that the health of an investment lending system depends largely on the care and attention devoted to appraisal of investment proposals, systematic follow-up after sanction of loans and prompt recovery of loan instalments. It is the duty of the state governments to ensure that LDBs are equipped for these purposes and that nothing is done to thwart these purposes on political or other considerations.

Diversification of Lending

16.18 In the multi-agency financing system for integrated rural development that entails provision of multi-term and multi-purpose credit to the rural community, LDBs cannot remain, for all time, to be institutions lending only for land-based activities. Unless they finance non-land based activities, LDBs cannot be said to serve the rural poor who have hardly any land and who need long-term finance for widening their production and income base. Moreover, with the narrowing of traditional lending avenues like minor irrigation programmes, land improvement and farm mechanisation which have already been covered to a large extent, LDBs will find it increasingly difficult in the years to come, to increase their business unless they diversify their operations on a large scale. During our visits to Karnataka, Punjab, Haryana, Andhra Pradesh and Tamil Nadu, we noticed that the scope for LDBs to thrive mainly on minor irrigation lendings is getting narrower on account of near-saturation in ground water exploitation. But, not much thought and attention seem to have been bestowed by several LDBs in exploring new avenues. Illustratively, we observed that in one of the districts of Punjab, nearly two-thirds of LDBs' advances in 1978-79 had gone for installation of tube wells and tractor purchase. Also in the heavy black soils of Madhya Pradesh with 50 to 60 inches of rainfall, there was no effort at financing viable drainage schemes. Our visit to Koraput district in Orissa revealed that, despite the scope for term-credit extension to sericulture, horticulture, etc., no attempts worth mention had been made in this direction by the co-operative credit sector.

16.19 Marginal farmers with very small holdings cannot become viable without being supported by adequate capital finance for off-farm activities in addition to farm-based activities. Also, the vast majority of non-land holders have to be assisted with credit for acquisition of production assets. Thus, diversification has to be two-pronged-one in the direction of financing such land-based activities as plantations, sericulture, horticulture, pisciculture, farm forestry, etc. and the other, in respect of non-land based purposes like dairying, poultry farming, piggery, sheep rearing, installation of *gobar* gas plants, construction of rural warehouses/godowns, cold storage plants, agro-processing, rural housing/farm houses, agro-based rural industries, cottage industries, rural artisans, agro-service centres, development of market yards, etc. No longer can these banks remain merely land development banks or even agricultural development banks as in Andhra Pradesh. They have to become rural development banks so that they can play their due role in integrated rural development. We urge that necessary legal and organizational steps be taken expeditiously to achieve this objective.

16.20 It is likely that the proposal to extend the jurisdiction of LDBs to non-land based activities, particularly to the rural industrial sector, may be objected to on the ground that there are other agencies to serve these activities. State Financial Corporations refinanced by the IDBI, special agencies like Handloom Corporations and KVI Boards may claim that they have built up the necessary expertise and organization and that LDBs need not be allowed to encroach on their areas. In this context, we feel that while weightage should be given to the existing expertise and organizational capabilities, no monopoly need be given to any one type of institution. Some overlap is desirable in accordance with the spirit of the multi-agency system and there is some merit in permitting a bank serving agriculture, to extend its services to agro-processing and other related activities. Accordingly, LDBs should be considered as suitable agencies for lending to (*i*) agro-processing units such as rice mills, oil *ghanis*, fruit canning or preservation, (*ii*) units providing subsidiary occupation to the rural population such as handloom, tannery, etc. (*iii*) servicing sector such as saw mills, units manufacturing small agricultural implements and units servicing agricultural equipments and machinery like tractors, pumpsets and custom hiring units. This list is not exhaustive.

Organizational Capabilities for Diversified Lending

16.21 Lending for non-traditional and newly emerging rural development activities needs skills and expertise of the right type for project formulation, appraisal, monitoring and evaluation of the schemes. The Reserve Bank of India had pointed out to LDBs in September 1976 that while they could avail themselves of the assistance of the technical departments of the state governments for technical appraisal of the schemes, they should have their own technical staff at the regional and branch/primary levels. It was envisaged that, in order to ensure a co-ordinated approach in financing investment programmes, SLDBs should set up requisite number of regional offices with adequate trained staff including supporting technical staff. They were also expected to establish at their head office, a project planning division, a technical division and a statistical division. According to information available, 13 SLDBs have set up technical divisions. But it is only in a few SLDBs that the technical division can be said to have the needed expertise and know-how. Others continue to depend heavily on the technical staff of the state governments. Where technical expertise is sought from the state government on deputation terms, the response is often belated owing to non-availability of sufficient and willing personnel for deputation. According to our information, even where the services of technical personnel are made available on deputation, the experience of most of the LDBs seems to be discouraging, either because of mid-term withdrawal of deputationists by the concerned departments of the government or because of lack of required experience of those deputed. During our discussions with the representatives of one of the SLDBs, we were told that the state government had withdrawn the staff deputed by it although the bank was still in need of them. Further, the transferability of government staff resulting in interruption of their services as also their non-accountability to the institutions concerned, adversely affect programme lending. In cases where project formulation was left to the government staff entirely, there were instances where projects were prepared without ensuring local response and wholehearted participation of beneficiaries. There are, of course, instances in which the government staff on deputation have done commendable work and contributed to the growth of good business. Such instances are in fact a tribute to the qualities of the individuals concerned. But, they are rare and do not provide a justification for the system as such. If the staff are to be loyal and devoted, they have to be direct employees of the lending institution.

16.22 In this context, the Committee is gratified to note that the ARDC has recently evolved a scheme to provide financial assistance to LDBs for building up their capabilities through creation of technical cells for project preparation, appraisal, monitoring and evaluation. Assistance from the Corporation out of its Research and Development Fund for this purpose is in the form of a grant which is on a tapering scale for four years towards the expenditure on identifiable items like salary of key technical staff. At the expiry of the given period, the concerned institution is required to continue the organization at its own expense. We hope that, with this catalytic assistance, SLDBs will soon strengthen their technical skills and the state governments will help in the process by making available experienced personnel for appointment by SLDBs.

16.23 We have observed during our field and state-level discussions that the manpower position in LDBs in most of the states continues to be weak, particularly at the operating unit level, though there has been considerable expansion in investment lending techniques. The Madhava Das Committee has already made a series of recommendations in this regard. While the managerial competence at the apex level has shown signs of improvement in recent years, the system needs to be strengthened not only in regard to technical skills and expertise in varied disciplines for servicing multi-type lending programmes but also in respect of field level functionaries. In the changed context of LDBs having to play a vital role in programme lending to the weaker sections, the need for improving the manpower skills of LDBs at their operating units level can hardly be over-stressed.

16.24 As emphasised earlier, lending for rural development especially to the weaker sections, has to be based on properly-conceived and well-co-ordinated programmes. In Chapter 6, while discussing the problems of commercial banks, we have highlighted the importance of strengthening and developing the staff concerned with rural lending in such a manner as to meet the requirements of the changing concepts and perspectives of rural credit programmes. Efforts in this direction have to be systematic and continuous. They should include recruitment in adequate number of the right type of personnel, with the right aptitude, requisite calibre and rural bias, training them for performance for the desired goals, motivating them through incentives and penalising wherever necessary for non-performance. We have not been able to study this in any great detail within the time available to us. We therefore suggest that the ARDC/NABARD should quickly study this problem in depth and take suitable measures to provide necessary support to develop the skills of the field-level functionaries of LDBs.

Other Aspects of Diversified Lending

16.25 Generally, LDBs disburse investment credit for periods beyond 5 years. Loans for periods exceeding one year but not more than 5 years are classified as medium-term and provided by SCBs and CCBs. Also in some of the states, LDBs are statutorily franchised to advance loans only for periods exceeding five years. In the multi-agency set-up of rural finance, this rigid classification is no longer expedient. Hence, the statute should be suitably amended to enable LDBs to provide all kinds of term loans including composite loans.

16.26 The present land mortgage lending system, statutorily to be followed by LDBs, has proved to be a major stumbling block to diversified lendings, and, in particular, to the extension of investment credit to the non-land owning households. According to information available, the recommendations of the Madhava Das Committee to the effect that the insistence upon mortgage of lands for loans given by LDBs should be given up and instead they should be enabled to grant loans on the basis of a charge on the lands or other assets created by the borrower, have not been given effect to, in a number of states. The statutory provisions now obtaining in most of the states, require that the debentures floated by LDBs should be backed by mortgage of unencumbered immovable properties wholly belonging to the borrower with full alienable rights. So much so, only the landed gentry has access to LDBs' credit and the entire non-land owning class of the rural households, constituting largely the group of rural poor, is outside the LDBs' fold. The Committee, during the course of its visits, came across several instances where potential and needy borrowers could not raise adequate credit from the LDBs on account of their insistence on the mortgage of lands to cover the loans. The reluctance of some of the state governments to liberalise security standards for facilitating lending to the rural poor, despite the RBI's /ARDC's prompting them to do so, appears to stem from their apprehension that, giving up the security of land altogether, would result in accumulation of bad debts. But, the present predicament in some states with large overdues in LDBs shows, that mortgage of land has not by itself prevented the accumulation of bad debts. In the production-oriented lending system, it is proper techno-economic appraisal of the investment that is more important than security for the loan. With the increasing accent on financing non-land based activities under diversification programme, the concept of security has necessarily to shift from 'land' to assets created/acquired out of the loan. We therefore make the following recommendations :

(*a*) Land, as security, either in the form of mortgage or as charge, is relevant only in respect of loans issued for land-based purposes. Where the borrowers for such purposes are in a position to furnish land security for the amount of loan to be advanced to them, it should be obained, the asset acquired or purchased with the aid of the loan forming collateral for the loan.

(*b*) Loans for non land-based activities either to land owners or to landless beneficiaries should be secured by hypothecation of the assets created or acquired out of the loan.

Lending Procedures

16.27 The stepping-up of investment lending to the weaker sections envisaged under the rural development approach will, to a large extent, depend upon the simplification and rationalisation of the relevant systems and procedures. Apart from ensuring the availability of credit against such types of securities as the beneficiaries can readily offer, procedures which will hasten the flow of credit in adequate measure will have to be evolved. The Committee, during the course of its visits, had come across complaints of inordinate delay on the part of LDBs in the sanction of loans besides insufficiency of the quantum of credit. The system of scrutiny of loan applications and pre-sanction field inspection varied from bank to bank. Whereas in some states *e.g.*, Maharashtra, a public enquiry system* is in vogue for establishing legal title to the land offered in mortgage as security,

* Under this system, a public notice of each loan application to the bank is given and all persons having or claiming interest in the land offered as security are called upon to present their objections at a specified time and place — (*vide* section 118 of the Maharashtra Co-operative Societies Act).

in a few other states, the borrowers are required to obtain non-encumbrance certificates for a period of 12/13 years and also to produce all other documents necessary to prove their title to the lands. While in some states (*e.g.*, Tamil Nadu) the technical and financial appraisal of individual investments is required to be done by a team consisting of a technical supervisor, field supervisor of the LDB and the land valuation officer, the same is not followed in most other states. Again, the loan sanctioning powers have not been decentralised up to the primary level units *i.e.*, PLDB/branch of SLDB in some states. For eliminating undue delays arising from time-consuming procedures, one state, Orissa, has recently amended its co-operative statute with a view to enabling LDBs to grant loans against land mortgage without insisting on production of non-encumbrance certificates. Under the procedure adopted for this purpose, the intending borrower has only to make a declaration before an officer authorised by the Registrar of Co-operative Societies, solemnly affirming that the land to be mortgaged is free from encumbrances, that the mortgagor is in possession of the land and has the right to create the mortgage. In Rajasthan, the preliminaries pertaining to individual loan applications are sorted out in a camp participated by the functionaries of the lending bank and the applicants concerned. These and other procedural improvements need to be studied and suitably adopted by other states. The ARDC/NABARD should also examine such improvements for evolving appropriate guidelines in this regard.

16.28 In regard to the adequacy or otherwise of the quantum of credit dispensed by LDBs, case studies conducted by the ARDC during 1979, at our instance, in the area of Nuzvid PLDB in Krishna district of Andhra Pradesh and Devanahalli PLDB in Karnataka have revealed that the amount of loan provided by the respective LDBs to small farmers for minor irrigation programmes fell short of the actual cost of investment, necessitating their borrowing from money lenders for completion of the investment. In the case of Nuzvid PLDB, the small farmer-borrowers had to find about 20 per cent of the investment outlay on dug wells as their contribution ; for other farmers, this was around 35 per cent. On composite investments like construction of wells and energisation, the small farmers' own contribution came to about 40 per cent of the investment cost. These illustrations point to the need for devising a procedural system that will allow for variations and adjustments in loan quantum depending upon investment specifications and actual outlay involved, including cost escalations on account of price rise during the period of execution of the investment programmes.

16.29 In all cases where subsidy is available to the borrowers of weaker sections, inclusive of the subsidy amount, the quantum of loan should be sufficient to cover the ultimate cost of the investment. As regards the disbursement of subsidy, we find that there is considerable delay in releasing it to the lending agency towards adjustment to the borrower's loan account. Under the practice now adopted by most of the LDBs, the subsidy element is included in the quantum of loan as a result of which the borrower has to bear the burden of interest on the subsidy portion also, until the subsidy is received by the bank and credited to his loan account. This is not in the interests of the borrower. The appropriate procedure would be that the amount of the loan should be exclusive of the quantum of subsidy and that the subsidy available to the borrowers should be released by the development agencies concerned to the lending institution sufficiently in advance of the disbursement of the loan, so that the latter could disburse it to the borrower along with the final instalment of the loan for the purpose of completing the investment. We urge upon the state governments to ensure compliance with this procedure. Further, the quantum of subsidy provided has tended to be unrealistic because of the ceiling fixed, though costs of investment have increased. We suggest that the subsidy available to the borrowers be increased suitably to take care of the increase in investment cost. A review of all these aspects of subsidies is necessary.

16.30 At present, loan repayments are scheduled by the LDBs on the basis of the repaying capacity assumed under the incremental income concept and the useful life of the asset created or acquired out of the loan. Also, for fixing loan instalments, most of the LDBs follow the equated annual instalment system, after giving the borrowers the benefit of a grace period of one or two years to take care of the gestation period of the investment. It has been pointed out that as the incremental income may not be fully realised in the first few years in all cases, it may be more convenient to fix the initial instalments somewhat lower and the later ones somewhat higher, instead of equated instalments. Varying instalments do, of course, involve a lot of accounting work and may not be favoured by LDB staff. But, the convenience of the borrower must prevail. As the gestation period of investments is a variable factor, being contingent upon the availability of the requisite infrastructural facilities and physical inputs, we suggest that the duration of the grace period should be sufficiently long to facilitate repayment out of incremental income generated. All this calls for study, on a continuous basis, by the ARDC/NABARD of the existing terms and procedures to improve them further.

MONITORING OF LONG-TERM CREDIT

16.31 In regard to monitoring of long-term credit by higher financing agencies, the Committee observes that the Reserve Bank of India and the ARDC have made arrangements in this regard. Apart from regular inspection of SLDBs and a few of their branches/affiliate PLDBs conducted by the RBI on an annual basis, the officers of the LDB Cell set up in the regional offices of Agricultural Credit Department periodically visit PLDBs/branches of SLDBs for assessing the quality of lending, effectiveness or otherwise of the post-credit monitoring, if any, done by the lending agency, etc. During these visits, they also carry out a random test check of utilisation of loans by individual borrowers. The observations made by them are followed up with the banks and the state government concerned for necessary remedial action. In addition, the Special Investigation Cell in the Central Agricultural Credit Department of the RBI also conducts, from time to time, studies on production-oriented system of lending in LDBs. In the course of these studies, on-the-spot verification of end-use of loans is also done and the findings conveyed to the concerned state government/SLDB for taking corrective steps. The ARDC too is intimately involved in the follow up of its schemes through a series of monitoring and evaluation studies. The main findings of these studies also are followed up with the implementing banks. With the growing number of schemes being sanctioned year after year, the ARDC has since proposed to switch over from scheme-oriented monitoring to District-Oriented Monitoring (DOM) of its schemes. Under this new arrangement, the geographical area will be the unit and the schemes in the various disciplines and relating to all banks would be monitored. The Committee expects that the NABARD will not only continue these monitoring arrangements but will also strengthen them further.

16.32 As regards monitoring by the lending agency itself, the supervisory staff of LDBs are presently attending to verification and certification of the utilisation of loans, contacting the borrowers for recovery etc. The field staff of SLDBs also conduct test check of the supervision work carried out by the staff of primary units. Nevertheless, these arrangements have not been quite effective as testified by the findings, summarised below, of a few case studies conducted at our instance by the ARDC.

(*i*) The study of the reasons for non-drawal of the second and subsequent instalments of several ARDC-assisted loans for construction of new wells sanctioned by the Raisen District Land Development Bank in Madhya Pradesh, (conducted in August 1979) revealed that, out of 147 borrowers in Silwani, Gairatganj and Begumganj branches of the bank, who had drawn the first instalment of the loans between April 1976 and May 1977, 26 borrowers had not availed the second and third instalments while 55 borrowers had not lifted the third instalment till the end of June 1979. The reasons were stated to be scarcity of construction inputs including labour, collapse of wells already dug due to technical flaws in construction, and lack of urgency for irrigation as the moisture retained in the rainy season was sufficient for raising subsequent seasonal crops.

(*ii*) In a similar case study conducted in Devanahalli PLDB in Karnataka, (August 1979) of 90 borrowers drawn on a sampling basis from among 349 loanees spread over 30 villages, it was noticed that all the sample borrowers were yet to draw all the instalments of well loans sanctioned to them. Only 14 out of these 90 loanees had completed the wells in all respects. The reasons adduced for non-drawal of the instalments were (*i*) failure of well (*ii*) utilisation of own resources and (*iii*) diversion of instalments drawn for purposes other than those stated in the loan applications.

In the light of the foregoing findings, it is necessary that LDBs strengthen their own machinery for post-disbursement follow-up with adequate staff, technically trained for the job. The follow-up machinery should be in action right from the stage of disbursement of the first instalment of the loan and the supervision mechanism should *inter-alia* provide for (*i*) ensuring utilisation of each loan instalment within a time limit to be stipulated therefor (for each type of investment), (*ii*) verification of utilisation of each instalment by the grass root staff of the PLDB/branch, within a period to be specified for the purpose, and its test check by the manager of the PLDB/ branch of SLDB, (*iii*) proper documentation of the results of verification and (*iv*) a percentage test check of the verification done by the PLDB/branch by Regional/Divisional/Head Office of the SLDB.

16.33 For bringing about the necessary cohesion and co-ordination in monitoring arrangements, each SLDB should have an "Evaluation and Monitoring Cell" with adequate staff so as to ensure that resources routed to the primary level units are utilised productively and mid-course corrections in the terms of loans are effected, if required. This cell should be responsible for (*a*) keeping regular track of the execution of the projects and their completion within the stipulated time-schedule, (*b*) verification of utilisation of loan instalments at specified intervals, (*c*) review of availability of the requisite inputs and technical services to enable the beneficiaries to complete the project according to specifications accepted for loaning, (*d*) ensuring that the assumed level of incremental income is derived by the beneficiaries through appropriate cropping pattern adopted by them and (*e*) applying corrective measures if assumptions/norms on the basis of which loans are given, have undergone a change and in cases where misuse or non-utilisation of loans are noticed.

16.34 Programme lending, to be productive, requires co-ordinated arrangements for assured supply, to the borrowers, of necessary physical inputs, as for instance, cement, electric power, transmission lines, diesel oil, etc., in the case of minor irrigation programmes, quality breed for dairy/poultry projects etc. As emphasised by us in Chapter 9, it is the responsibility of the state governments to ensure this. LDBs, on their part, should be in constant touch with the concerned departments of the state governments so that timely action is initiated to eliminate the constraints or delay, if any, in input supplies for the borrowers to execute their investment projects well on time. The DCC should be used by LDBs to co-ordinate their work with the concerned departments of the state government in this regard, as indicated in Chapter 8.

Co-ordination Between Production and Investment Credit

16.35 A pre-requisite for full utilisation of investment credit is the availability, in adequate measure, of production credit to support it. The available data and information suggest that, as of now, the co-operative financing system in most of the states suffers from lack of effective co-ordination between its short-term and long-term wings; in the result, several long-term borrowers of LDBs are not in a position to obtain working capital finance for deriving optimum benefit from their investment. Some case studies conducted by the RBI in West Bengal and Andhra Pradesh for our use, have highlighted the following points:

(*i*) Out of 23 cases of borrowers of investment credit from Hoogly PLDB (West Bengal) spread over Tarakeshwar, Dhaniakali and Chinsurah-Magra Blocks for construction of wells, only 6 received production credit from PACS, 8 borrowed from non-institutional sources, 2 from commercial banks, 1 managed his production programme out of his son's remittance while the remaining 6, with no tangible security to offer, had no access to PACS credit and resorted to distress sale of produce to finance current production programme.

(*ii*) 14 parties who borrowed for shallow tube wells did not receive production credit support for their investment credit to fructify.

(*iii*) Though the LDB was required to furnish a list of borrowers to the central co-operative bank, no such list was sent after September 1978; even where the list was received from the LDB, the central co-operative bank, on its part, did not pursue the matter with the societies nor did the LDB enquire from the central co-operative bank as to the action taken to provide production credit.

(*iv*) The study of cases of 20 borrowers of Jaggayyapet and Tiruvur PLDBs in Krishna district showed that, though most of the borrowers were members of PACS, only 7 of them had resorted to borrowing from the PACS; 2 borrowers were ineligible to draw short-term credit (being in default to the PACS); 8 had resources of their own ; the remaining 3 preferred to borrow interest-free loans from their relatives.

16.36 A field study on the availability of short-term production credit to borrowers from LDBs, conducted in Punjab and Karnataka states during 1977-78 by the Economic Department of the RBI showed that 60 per cent of the loanees from LDBs received production credit from PACS and that the remaining 40 per cent did not get such loans mainly for want of co-ordination between these two structures.

16.37 It is, thus, obvious that there exists now a gap between the working capital needs of investment credit borrowers and their timely availability to them from the credit institutions. We consider that even at the time of appraisal of the investments to be financed, the source of working capital needed for the investment to yield the assumed level of incremental income should be ascertained by the LDBs and, that in all cases, where the long-term borrowers require such credit, arrangements should be made to ensure its availability to them. The ARDC, we note, is providing refinance to cover production credit, wherever such credit forms an integral part of a composite development programme, as in the case of plantations, sericulture etc. We also understand that the ARDC is studying the question of refinancing ST credit needs of borrowers availing term loans for minor irrigation schemes. Several important issues arise such as raising the necessary resources, the mode of meeting the ST needs of the term loan beneficiaries in respect of lands outside the schemes and above all, the organizational capacity of LDBs. We would suggest that LDBs should invariably provide production finance along with term loans for activities such as plantations, sericulture and poultry. In cases where such composite loans are not to be given, LDBs should ensure that the concerned borrowers become members of PACS and are provided with production credit. If, as recommended earlier, PACS begin to act as agents of LDBs, this process will be greatly facilitated.

16.38 The Committee understands that a sub-committee constituted by the LDBs' Federation to go into the question of determining the extent and nature of co-ordination that should be secured between LDBs and PACS has since submitted its report (January 1980) suggesting functional co-ordination between the two agencies, on a selective basis to begin with. The LDBs' Federation may start a dialogue with the representatives of the ST co-operative credit structure and the state governments to decide upon the details of co-ordination arrangements as indicated by us in Chapter 14. Till such specific arrangements are made, co-ordination between ST and LT credit structures should be ensured by making it incumbent on all LDBs to furnish to the respective PACS in their jurisdiction, a list of borrowers who have completed their investment and also follow it up with a view to ascertaining whether the loanees have been supported by adequate production credit or not.

Recovery of Loans

16.39 Mounting overdues is a major problem confronting the LDBs in many states. In Chapter 4, we have indicated the magnitude of overdues in LDBs in different states. The overdues, it is observed, are primarily caused by bad programming of investments, faulty loan appraisals, slackness in post-disbursement follow-up and supervision, lack of sufficient internal control over accounts, inadequacy of staff for recovery work and above all, wilful default on the part of the borrowers. Added to these are factors like natural calamities, lack of co-operation and assistance from the state governments in creating a proper recovery climate, political tendencies to render the recovery machinery ineffective at the time of elections to state legislatures, local bodies, etc. Poor recoveries have resulted not only in the inability of some of the SLDBs in meeting their sinking fund commitments, but also in curtailing the eligibility of many primary level units to undertake lending to the extent programmed. The high level of overdues, if unchecked, may eventually destabilise the entire long-term credit structure. This calls for sustained, earnest and serious efforts in planning and executing the recovery drive in a concerted manner. Apart from strengthening the machinery for effective post-credit follow-up, the SLDBs should set up a "Recovery Cell", manned by adequate staff to programme and monitor the recovery operations. For hastening the recovery process, we visualies other steps such as :

(*i*) Purchase by the state government of mortgaged lands brought to sale in recovery proceedings launched against defaulters, as suggested earlier.

(*ii*) Adoption by the state governments of a policy of positive assistance to the banks in recovery work, by taking such steps as are necessary to ensure that the recovery staff of LDBs and departmental staff attending to execution of decrees against defaulters are able to draw wherever and whenever required, the assistance of revenue/police officials of the government.

(*iii*) Active involvement of non-official office bearers of LDBs in recovery work.

16.40 The various steps in the preceding paragraphs for improving the long-term co-operative credit structure will be of no avail, if the managements of LDBs themselves are not alive to their responsibilities and indulge in irregular sanction of loans, neglect recoveries and show slackness in control over staff. Wherever such delinquent management is noticed, it should be sternly dealt with by the state governments in accordance with the co-operative statute and necessary steps taken to tone up the management of the banks concerned.

B. Sivaraman
Chairman

Members	*Members*
G. V. K. Rao	M. Ramakrishnayya
M. R. Shroff	R. K. Kaul
S. Satyabhama	L. C. Jain
K. B. Chore	H. B. Shivamaggi Member-Secretary

Bombay, January 30, 1981

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

Chapter 1 : Introduction

The methods and approach adopted by the Committee and the scheme of the Report are indicated in this Chapter.

Chapter 2 : Reaching the Rural Poor

1. The national policy objective of growth with social justice requires that integrated rural development must embrace all the poor households. The normal criterion of banking that a family of rural poor is not credit-worthy will have to give place to the concept that many of the poor can be brought into the mainstream of economic development through credit-worthy programmes. (2.1)*

2. For successful implementation of the programmes for the rural poor, it is necessary to identify them as target groups. These are : small/marginal farmers, agricultural labourers, rural artisans, scheduled castes and scheduled tribes. The number of rural poor is increasing over the years. Bulk of their borrowing was from private money lenders for consumption purposes for which they have to pay relatively high rates of interest. (2.4 to 2.10)

3. The ARDC definition of small farmer based on income criterion is precise and workable, while the GOI definition based on acreage, aims to restrict subsidy, as a matter of policy, to a smaller number among them, on the principle of '*Antyodaya*'. The credit institutions must ensure that those coming under the GOI definition are given absolute priority. (2.12)

4. Agricultural labourers need help for acquisition of productive assets such as dairy animals and for self-employment in activities such as forestry, animal husbandry, fisheries and processing. (2.13)

5. Rural artisans require besides credit, (*i*) supply of raw materials, (*ii*) designs based on market preferences, (*iii*) introduction of improved tools, (*iv*) upgrading of their skills and (*v*) marketing arrangements. This is the responsibility of the government. (2.14)

* The numbers in brackets at the end of the conclusions and recommendations refer to the paragraphs in the Report.

6. We cannot wish away the present indebtedness of the class we are seeking to bring within the rural development process. The credit-worthiness of the programme by itself is not sufficient unless the growth of income generated by the programme, over time, takes care of the initial non-productive indebtedness and puts the family on its feet. Failure to realise this has led to frustration even with well organised lending programmes. The growth is absorbed by the ubiquitous money lender and the credit institution is faced with mounting overdues. (2.15)

7. The basic cause of exploitation of the rural poor is the heavy under-employment and unemployment and, therefore, labour is in a buyers' market and wages are very low. To ensure fair price for labour, pressure needs to be created on the labour market by the state administration through full exploitation of secondary and tertiary sectors. The role of the State Development Administration is paramount in this area. (2.17)

8. The Committee emphasises that unless the investment in the huge organisation of State Development Administration is made to yield results by more effective co-ordination, the attack on the problem of rural poverty will remain cosmetic. (2.18)

9. The household will remain the basic unit of poverty eradication programme oriented to target groups. From the point of view of credit institutions it will be useful to classify the poor households into three categories : (*a*) those who can become viable with loan assistance, (*b*) those who require some capital-subsidy, in addition to loan, to become viable and (*c*) those who are non-viable and require special assistance from the State more or less in the nature of social security. The third category is outside the purview of the credit institutions. (2.20)

10. Different methods of reaching the rural poor need to be evolved. Some sections may have to be approached as well-organised groups such as co-operative societies, some others will have to be dealt with as informal groups so as to facilitate group activity and group lending, yet others have to be approached individually. (2.21)

11. A number of factors contributed to the failure of earlier programmes for the rural poor. The Committee endorses the approach of the Sixth Plan (1980-85) : A Frame-work, to make the programmes coalesce functionally and generate a mass flow of developmental activity. (2.24)

12. The Committee views the integration inherent in rural development in four dimensions. Combining credit and programmes for (*a*) comprehensive agriculture, (*b*) tiny, village and cottage industries, (*c*) rural services including marketing and (*d*) infrastructure for production and supporting services. We hope that the Sixth Plan will take care of these aspects. (2.25)

13. In the Committee's view, credit to the weaker sections could be facilitated by quicker and simpler method of identification of target groups, simplification of procedures and terms, updating of land records, project based lending and creation of the requisite infrastructure for ensuring supply of inputs and services. (2.26)

CHAPTER 3 : DEVELOPMENTAL ROLE OF CREDIT INSTITUTIONS IN THE INDIAN RURAL CONTEXT

1. The lending operations of commercial and co-operative banks have tended, by and large, to be mere money-lending, institutional only in form, but without satisfactory organisational, procedural and operational arrangements for planned and systematic dovetailing with the overall national development policies and objectives. The Committee emphasises the need for imparting development orientation to banking in the rural sector. (3.2)

2. The basic concept of development banking is that credit is consciously used as a lever of development. It calls for initiative and energetic involvement on the part of the bank in developing the potential opportunities of the undeveloped or under-developed sections or sectors, through selective and strategic input of credit. (3.3)

3. The development agencies including the credit institutions have to plan and progress together and ensure that credit is tied up with development programmes and supported by appropriate backward and forward non-credit linkages. (3.6)

4. Though there is a forum where governmental agencies and credit institutions meet, co-ordination in programming and in implementing the programme is generally lacking. (3.7)

5. Cases that were observed during the field visits of the Committee underline the need for proper identification of beneficiaries, activity-wise and area wise and then proceeding to meet their credit needs. (3.11)

6. Under fragmented approach to lending (individual, ad-hoc or scattered) without dovetailing it into an overall area plan, the danger of credit becoming a burden, instead of an instrument for uplift, is greater in the case of loans to the vulnerable sections of the rural community. (3.12)

7. Banking in rural sector has to be in tune with the social and economic environment in which the rural people live, and credit institutions have to be innovative and devise their policies, procedures and overall approach accordingly. (3.13 and 3.14)

8. It is imperative that the bank staff dealing with rural sector are rural-oriented, preferably recruited locally so that they identify themselves with local needs and aspirations. (3.15)

9. One reason for the reluctance of bank staff to work in the rural centres is that these centres do not have satisfactory facilities in respect of housing, education and medical care. Here the role of the state governments in providing the minimum facilities becomes evident. (3.16)

10. The Committee's discussions at the state level revealed that there was a broad agreement among the state governments and the credit institutions. It was accepted that the major role for initiating and ensuring the development process in the rural sector is that of the state administration and the role of credit institutions is to support viable programmes without too meticulous a concern for the security that the individuals participating in the programme can put up. (3.20)

11. The family-wise approach to identify needs is desirable though time-consuming. This could, however, be undertaken village by village, so that the basic work of rural development can be carried out in a phased manner. (3.22)

12. Depending on the stage of development of and administrative capacities available in the states, credit institutions have to modulate their role. Where the development machinery of the state, particularly at the field level, is not adequate, the credit institutions may have to play a wider role to shoulder the task of planning rural development. Following from this, they will have to arrange for staffing pattern and lending procedure differently for different areas. (3.25 and 3.26)

13. Once it is recognised that rural lending is a social obligation and a plan priority, a way has to be found to subsidise it wherever necessary. (3.27)

14. Criteria for assessing performance of bank staff have to be radically changed so that a bank official is judged on the basis of his efforts towards meeting development objectives. (3.28)

15. The Committee has noticed a willingness on the part of the state political leadership and the administration to discharge their overall responsibility for rural development and play an effective role to enable credit to be given to the poorer sections. (3.30)

Chapter 4 : Existing Institutional Rural Credit Structure and Trends in Rural Credit

Overall Progress

1. Under the multi-agency approach rural credit is provided by co-operatives, commercial banks and regional rural banks. Over the period 1969 - 1980, the outstanding institutional credit increased from Rs. 1,075 crores to Rs. 6,325 crores. Co-operatives accounted for 59.4 per cent, commercial banks 38.8 per cent and RRBs. 1.8 per cent of the outstanding credit at end June 1980. (4.2 to 4.4)

2. The total advances of both the co-operative and the commercial banking (including RRBs) sectors during 1979-80 were of the order of Rs. 2,889 crores. Compared to the loans issued in 1974-75, they show an increase of Rs. 705 crores in the case of co-operatives and Rs. 771 crores in the case of commercial banks. (4.5 and 4.8)

3. Loans issued by all the credit institutions in the country increased from Rs. 112 per hectare of gross cropped area in 1974-75 to Rs. 134 per hectare in 1977-78. In the ranking of states according to loans issued in 1977-78, Kerala came first with Rs. 343 per hectare followed by Tamil Nadu, Punjab ahd Haryana. In Himachal Pradesh, Jammu and Kashmir, Maharashtra and Gujarat, loans issued per hectare in 1977-78 represented a decline compared to 1974-75, owing to increased overdues. (4.10 to 4.12)

4. The percentage shares of loans by co-operatives and commercial banks in different states were more or less the same. Thus, commercial banks' agricultural credit has been additive and has not substantially helped to fill the geographical gaps, in the availability of credit, not covered by co-operatives. (4.13 and 4.14)

Co-operative Credit System — Primaries

5. At end June 1979, the number of PACS stood at 94,503 (provisional) as against 90,000 estimated to remain ultimately in the field under the reorganisation programme. (4.19)

6. Over the period 1970-71 to 1978-79, total membership of the societies increased from 31 million to 47.9 million. But, the borrowing membership declined from 36 per cent in 1970-71 to 34.4 per cent in 1977-78. The indebted membership at 22.8 million (at the end of June 1978) formed 47.6 per cent of the total membership. (4.21 and 4.22)

7. Although the share capital of the societies increased, their performance in the matter of deposit mobilisation, barring that of Kerala and Punjab, was not encouraging. (4.24)

8. The borrowing membership was below the all-India percentage in several states. The aggregate loan business per society was Rs. 1.55 lakhs as on 30 June 1978. Short-term loans outstanding per society at Rs. 1.16 lakhs as on 30 June 1978 was below the viability norm of Rs. 2 lakhs. In some states, the number of borrowing members had decreased but the volume of lendings had increased showing thereby that the increased credit supply had not benefited a larger number. (4.22 and 4.26)

9. As a result of the steps taken to increase the flow of credit to the weaker sections as also the various concessions given to them, such as a lower rate of interest, a lower ratio of share holding, a longer repayment schedule and lower rate of down payment, the amount of short-term and medium-term loans issued to the weaker sections by the co-operatives increased from Rs. 213 crores in 1973-74 to about Rs. 490 crores in 1977-78. In regard to long-term credit, comparable data are not available. According to the fragmentary data, loans aggregating Rs. 67 crores or 37.4 per cent of the total loans advanced during 1977-78 had gone to 1.71 lakh cultivators with land holdings upto 2 hectares each, in 13 states and one Union Territory. (4.28 and 4.29)

10. There have been apparently no attempts so far to make an assessment of the irrecoverable debts due from small and marginal farmers and to write them off out of the Risk Funds constituted at the levels of PACS and CCBs. (4.31)

11. Over the period 1970-71 to 1978-79, the recovery performance of the PACS showed a deteriorating trend, the overdues rising from Rs. 322.40 crores in 1970-71 to Rs. 908 crores at end June 1979 and forming 45.2 per cent of the total loans outstanding. In terms of absolute quantum, the overdues were generally high in the eastern states and also in Gujarat, Karnataka, Madhya Pradesh, Maharashtra, Tamil Nadu and Uttar Pradesh. As on 30 June 1978, there were 12 million defaulting members, forming 53 per cent of the indebted members. (4.35 and 4.36)

12. Some of the major recommendations of the RBI's Study Team on Overdues, have not been given effect to, by most of the state governments. On the other hand, some of the state governments have issued, from time to time, blanket stay orders on, or banned coercive action for, recovery of co-operative dues. (4.37)

13. Drawals from the National Agricultural Credit Stabilization Fund had increased to Rs. 103 crores in 1977-78 from Rs. 14 crores in 1970-71. The studies conducted by the Reserve Bank from time to time into the actual utilisation of conversion facilities have revealed several irregularities. The state governments have not taken action to introduce scientific methods for determination of *annewari* as recommended by the Study Team on Overdues. (4.39 to 4.41)

14. Quite a large number of PACS continue to remain as credit disbursing agencies only, without providing complementary services to members. (4.42)

15. The Study of working of Farmers Service Societies (FSS) undertaken by the Reserve Bank in January - March 1980, revealed that most of them have not been able to fulfil their main objectives of providing all types of credit and a full package of services and technical guidance to farmers, especially small farmers, owing mainly to lack of earnestness and enthusiasm on the part of the state governments and the sponsor banks in giving the scheme a fair trial. (4.45 and 4.46)

16. The Large-Sized Multi-purpose Co-operative Societies (LAMPS) organised in tribal areas, numbering 1424, have not been able to make satisfactory progress for reasons such as lack of aggressive investment lending, non-availability of trained and experienced personnel for manning executive positions, frequent increases in royalties payable on forest products, unhealthy competition from private traders, absence of effective marketing organization and market intelligence, lack of infrastructural arrangements for storage and transportation and inadequacy of agency commission paid to the societies for distribution activities. (4.48 to 4.50)

17. Besides the PACS, some of the non-credit societies such as marketing and processing societies and functional societies like dairy co-operatives, poultry farming societies, fisheries societies have also assumed credit purveying role. (4.51)

Central Co-operative Banks (CCBs)

18. As on 30 June 1978, 74 CCBs had loan business of less than Rs. 2 crores each. 77 banks held deposits of less than Rs. one crore each. Owned funds as a percentage of working capital dropped to 16.4 in 1977-78 from 18.4 in 1970-71. However, the growth of deposits was steady, rising from 40.6 per cent of working capital in 1970-71 to above 50 per cent in 1978-79. The rate of growth of deposits was 20.1 per cent during 1978-79 which compared favourably with that of commercial banks. As a result of increased accretions to deposits, the borrowings of the banks as a percentage of their working funds declined to 28.7 in 1978-79 from 36.4 in 1970-71. Their total lendings during 1978-79 amounted to Rs. 2,007 crores, of which agricultural purposes accounted for 73.4 per cent. Advances for working capital purposes of industrial co-operatives were negligible. In the industrial sector, bulk of the advances were to co-operative spinning mills and handloom co-operatives. (4.55 to 4.57 and 4.59 and 4.60)

19. Overdues at the level of CCBs rose to 38 per cent of the demand as on 30 June 1978 as against 34.5 per cent on 30 June 1971. As at end June 1979, Maharashtra, Tamil Nadu, U. P., and Gujarat together accounted for 51.1 per cent of the total overdues. 49 CCBs had overdues exceeding 60 per cent of demand and were thus, *prima facie*, ineligible for credit limits from the RBI. As many as 106 CCBs, identified as weak with reference to their financial position as on 30 June 1978, are under a programme of rehabilitation.

But, the progress in implementation of the rehabilitation programme has not been satisfactory in many cases. For want of investigation of overdues on a scientific basis, financial assistance available to the banks, for write off of irrecoverable debts has not been utilised or properly utilised in many cases. Certain essential measures complementary to the rehabilitation programme, such as, revitalisation and intensive development of PACS, strengthening the arrangements for supervision, mobilisation of resources, etc., have not been taken up with the desired degree of earnestness. (4.61 to 4.66)

State Co-operative Banks (SCBs)

20. Over the years, the overall financial position of SCBs has shown considerable improvement with an expanded resource base. At end June 1979, their owned funds stood at Rs. 239 crores and deposits at Rs. 1,206 crores, which together constituted 72.3 per cent of their working capital. Their borrowings at Rs. 454 crores as on 30 June 1979 accounted for 22.7 per cent of their working capital, indicating a decrease of over 20 per cent from the 1970-71 position. Between 1970-71 and 1978-79, there was nearly a three-fold increase in their lending operations, the quantum of loans issued having gone up to Rs. 2,237 crores in 1978-79, from Rs. 749 crores in 1970-71. In deployment of resources, agriculture received the lion's share. Non-agricultural advances have also increased from 20 per cent in 1970-71 to 33 per cent in 1977-78 of the total loans. (4.67 to 4.69)

21. Besides SCBs and CCBs, some industrial co-operative banks have been functioning in a few states like Gujarat, Tamil Nadu, Karnataka, Rajasthan and Maharashtra. (4.70 and 4.71)

State Co-operative Land Development Banks (SLDBs)

22. As at end June 1978, there were 19 SLDBs operating through 999 branches and 889 PLDBs with about 6 million farmers on their rolls, covering nearly 11 per cent of the estimated farm households in the country. Long-term credit dispensed through the LDB system during 1977-78 was of the order of Rs. 238 crores and the amount outstanding against the ultimate borrowers at end June 1978 was around Rs. 1,280 crores. However, the magnitude of lending is showing a declining trend even in some of the co-operatively well-developed states. Purpose-wise, minor irrigation programmes constituted about 60 per cent of the total lendings of LDBs in 1977-78, followed by farm mechanization programmes and land improvement.

The declining potential for traditional lending avenues points to the need for LDBs to explore non-traditional avenues of lending, both land-based and non-land based. (4.72 to 4.76)

23. Due to faulty loan proposals, lending without an integrated programme, lack of effective co-ordination between investment and production credit, laxity in post-credit follow-up and monitoring of end-use of credit and above all wilful default, the overdues have been increasing at the level of PLDBs/branches of SLDBs in several states. On the basis of information available as on 30 June 1979, 360 PLDBs/branches of SLDBs had overdues above 55 per cent of demand and were thus ineligible to undertake any fresh lending programme. (4.78 and 4.79)

24. Over the years, the co-operative movement has evolved different types of co-operative credit institutions which have the requisite potential to cater to the diverse credit needs of rural areas. If suitable changes and improvements are made, they will be able to meet the new challenges underlying the concept of integrated rural development approach. (4.81)

25. The more important problems facing the co-operative credit system therefore are: (1) inadequate progress in reorganization of PACS and lack of focus on qualitative improvement in their working, (2) problems of recovery of loans, (3) credit activity of functional societies, (4) rehabilitation of weak CCBs, (5) three tier-versus-two tier structure, (6) politicisation of co-operative movement, (7) officialisation of SCBs and CCBs, (8) leadership role of SCBs and CCBs, (9) organizational ineffectiveness and lack of technical skills in LDBs, (10) lack of co-ordination between production credit and investment credit, (11) overdues in LDBs and their impact on fresh investment lending, (12) diversification of the advances portfolio of LDBs and (13) monitoring and follow-up of investment credit. (4.93 to 4.95)

Commercial Banking System

26. The first effort to involve the commercial banks in rural credit began with the conversion of the Imperial Bank of India into the State Bank of India. However, it was only after the government's policy of social control over commercial banks in 1967 and the bank nationalisation in 1969, commercial banks began to enter the rural sector in a big way. They endeavoured to increase their direct involvement

in rural credit through rapid expansion of branches in the rural and semi-urban areas, operational innovations such as establishment of specialised branches, intensification of efforts in specific areas, linking up lending to schematic programmes with the assistance of the ARDC and the Lead Bank Scheme introduced in 1969. (4.96 and 4.103)

27. Between June 1969 and June 1980, the number of rural branches increased eight-fold from 1,832 to 15,101. At the end of June 1980, there was a rural/semi-urban branch for every 21,000 of rural population. The data on branch network point to the need for ensuring a more even spread of rural branches with a view to improving their accessibility to the rural community. (4.104 to 4.109)

28. The specialised branches set up by the banks such as the Agricultural Development Branches of the SBI Group, the *Gram Vikas Kendras* of the Bank of Baroda, the Rural Service Centres of the Dena Bank, the Farm Clinics of the Syndicate Bank and the Rural Credit and Development Divisions of the Indian Overseas Bank are intended to overcome the practical difficulties relating to manpower, high cost of operations and follow-up of financed farmers who are scattered over a wide area. (4.111 and 4.112)

29. Under the 'village adoption scheme', banks have adopted 70,270 villages or about 12 per cent of total number of villages in the country by December 1978. A brief review of this scheme lends credence to the criticism that the banks treat and publicise a village as 'adopted' even though only a few of its residents had been granted loans. (4.122 and 4.123)

30. The scheme of ceding PACS to commercial banks has shown only limited success as the problem of taking over of their overdues has remained unsolved. (4.127)

31. Commercial banks have not found it easy to channelise credit through FSS/LAMPS. (4.128)

32. Banks have not been able to reach a credit-deposit ratio of 60 per cent in respect of their rural and semi-urban offices, as at the end of June 1979. Undue emphasis should not be placed on credit-deposit ratio as it only shows the overall position with regard to credit deployment. (4.132.)

33. The direct loans of the commercial banks to agriculture formed 74 per cent of their total agricultural credit in 1979 and, in this, the share of marginal and small farmers (2 hectares and below) accounted for 69 per cent in terms of the number of accounts and 39 per cent in terms of direct advances to agriculture as at end-March 1979. In eight states, the share of marginal and small farmers was less than 39 per cent of the total direct loans. (4.133)

34. According to purposewise classification of direct term loans to agriculture, tractors/agricultural implement and machinery accounted for 40 per cent and pump sets and oil engines for 16 per cent of the total loans as at end March 1979. (4.137)

35. Among loans for activities allied to agriculture, dairying was the single most important constituent. (4.138)

36. The recovery performance of the banks in respect of their direct loans to agriculture has not shown any perceptible change over the past few years in that the recovery hovered at around half the demand. (4.146)

37. In regard to rural financing by commercial banks, the issues that require detailed examination are whether (1) any change in the approach to rural branch expansion is necessary, (2) any reorientation is needed to enable them reach the target groups, (3) the co-ordination between banks *inter se* and between banks and development administration at the district level could be further improved, (4) the existing arrangements for financing through PACS and other intermediate agencies need to be extended, (5) available technical support to credit could be widened and deepened and (6) the problem posed by overdues could be overcome through appropriate additional legal measures and/or administrative arrangements. (4.146)

Regional Rural Banks (RRBs)

38. The RRBs are meant to combine the local feel and low cost of the co-operatives, on the one hand, and the managerial competence of the commercial banks, on the other. They are state-sponsored, regionally-based and rural-oriented banks. (4.147)

39. The GOI has decided that RRBs should confine their lendings only to the weaker sections. (4.150)

40. As at the end of June 1980, 73 RRBs were functioning, covering 130 districts in 17 States. The average deposit per RRB amounted to Rs. 2.3 crores and per branch Rs. 5.6 lakhs as at the end of March 1980. As at the end of December 1979, agricultural loans of the RRBs to small/marginal farmers, etc., formed 62.5 per cent of their total advances, followed by advances to rural artisans, small traders and others, at 29.8 per cent of the total. (4.154 to 4.160)

41. The issues concerning the RRBs are: (1) whether the rural business of commercial banks should be transferred to RRBs, (2) viability aspects of RRBs, (3) whether RRB's services should continue to be confined to weaker sections, (4) cost profile of RRBs, (5) relationship between RRBs and sponsor banks, (6) local participation in RRBs, and (7) overseeing of RRBs. (4.164)

Chapter 5 : Co-operatives at the Ground Level

1. In a vast country like ours with diverse conditions, no single or uniform structural pattern applicable all over is feasible. (5.4)

2. In the Committee's view, the basic concept underlying FSS and LAMPS is sound and attuned to the problems of the clientele they have to serve. We would, therefore, urge the state governments to make vigorous efforts immediately to develop FSS and LAMPS on the lines conceived, so that they can fulfil their objectives within a specified time-span. (5.4)

3. The Committee sees no convincing justification for any further delay on the part of the state governments of Gujarat, Jammu and Kashmir and Maharashtra in reorganising primary societies. The Committee, therefore, suggests that the GOI/RBI/NABARD should prevail upon these state governments to complete the reorganisation within the next one year at the latest. This, in our view, is the first essential step. (5.9)

4. Enquiries by the Committee revealed that even where the reorganisation exercises have been completed, the quality of operations has not improved to the desired extent. Time has, therefore, come for undertaking a drive for improving the efficiency and content of services as well as for increasing the business and membership of the societies, particularly from among the weaker sections. This, in our view, is the second essential step. (5.10)

5. In planning the future of reorganised societies, the aim should be to transform them into a single contact point in the village for all types of credit. They should have the capacity to serve other rural producers such as artisans, craftsmen and agricultural labourers in respect of their economic activities. They have to diversify their functions and augment their resources and business. The plan must, therefore, provide for classifying PACS according to the progress achieved from time to time and for developing them to the next stage on their onward march to the ultimate goal of a truly multi-purpose service institution for all types of rural producers. This is the most essential objective to be achieved. (5.13)

6. The Committee urges that in the states where the reorganisation programme has been completed, there should be a time-bound programme, supported by technical assistance from the state governments, and where necessary, by financial aid from SCBs/CCBs and the state governments, to vitalise and develop the reorganised societies so that they could evolve themselves into the pattern of FSS in regard to services and operations, over a period of three years. (5.14)

7. The Committee suggests that there should be two categories of membership of societies—one exclusively reserved for the weaker sections distinguished by the lower rate of share capital prescribed for them and the other earmarked for those contributing share capital at the usual rate. Every one of these two categories of members should be supplied with a pass book in two different colours containing all relevant details. This is to facilitate statistical reporting and analysis, and not to dilute the rights of the members belonging to the weaker sections. The entries in the pass book should conform to the entries in the land register and other books of account of the society and the validity of entries should be ensured by prompt authentication by the concerned official of the society. (5.15)

8. The Committee noticed during the course of its field visits that restrictive practices in lending on account of caste, faction, etc., continued. In several places, it could sense the prevalance of a tendency on the part of bigger farmers to block the flow of co-operative credit to the poorer sections. (5.16)

9. Apart from the above, the Committee observed during its field visits that there are other factors which come in the way of weaker sections borrowing from a society such as lending procedure not being in conformity with the need, risk involved in borrowing, lack of programmes for these groups and structural inability of the society to lend. (5.17)

10. The Committee is aware that mere exhortations in the matter of restrictive practices will not produce the desired result unless these are accompanied by suitable administrative action. One line of action that suggests itself is the preparation of programmes by each society for covering the weaker sections under the overall guidance of the district development administration and within the framework of the District Credit Plan. (5.18)

11. The state governments should introduce a system of check of all instances of loan refusal to the weaker sections by Assistant/Deputy Registrar of Co-operative Societies, at regular intervals. Should there be any deliberate blocking of credit to the weaker sections, the state government should not hesitate to organise separate societies for the benefit of such weaker sections, even if it means subsidisation by the state government. The financing bank should also consider denial of credit facilities to the offending societies. (5.18)

12. The Committee considers that in the context of fast-changing rural scene with increased economic prosperity, it is high time that PACS correct the aberration in their working as mere lending institutions and take steps to spread banking habit and mobilise deposits in rural areas. (5.19)

13. The impressive growth of deposits of PACS in Kerala is due to several factors : high rate of literacy, traditional banking habit, high rate of monetisation of the economy, inward remittances from abroad and above all, the fact that the management of societies was free from political interference. The experience of Kerala should be a guiding example to be emulated by other states. (5.20 and 5.21)

14. The Committee feels that PACS should immediately take steps for deposit build-up. They will have to adopt an approach and a system that will bring confidence to the rural saver and the potential depositor, be he a member of the society or not. The Committee suggests that, to begin with, viable societies with full-time paid secretaries, good management and infrastructural facilities like building may be selected in each state for the purpose of deposit mobilisation. The SCB and CCBs in each state should be fully involved in this programme. (5.22)

15. We recommend that as in Kerala the state governments may extend financial assistance to the societies selected for deposit mobilisation. (5.22)

16. The CCBs and SCBs are expected to provide a positive leadership in developing the strength and soundness of the system. They should create and build up a "Primary Co-operatives Development Fund." (5.24)

17. The cash credit system may be introduced only gradually, in areas having viable and well established primaries with full-time staff at their disposal and where cultivation of cash/plantation crops like coconut, coffee, sugarcane, banana or betelvine is predominant. (5.28)

18. The Committee considers that the problem of oral tenants and share-croppers, is one of land reforms and that PACS can assist these groups purposefully with adequate credit support only when they are registered as actual tillers of the land cultivated by them. Action towards this end has to come from the state governments. (5.29)

19. The Committee strongly urges that in the matter of dispensing long-term credit, PACS should act as agents of LDBs. (5.30)

20. The Committee reiterates that the implementation of the recommendations of the Study Team on Overdues should be taken up on a priority basis with a view to creating and sustaining a congenial atmosphere for prompt recovery of loans advanced by the societies. (5.34)

21. The Committee is gravely concerned at the tendency of some state governments to exempt whole classes of defaulters and to pay the amounts from the exchequer, in view of its dangerous import and wider implications for the entire institutional credit system. The Committee would, therefore, strongly urge that no state government should resort to such measures in future. It would also suggest that the GOI should prevail upon the state governments not to resort to such measures. (5.36)

22. Besides the recommendations of the Study Team on Overdues, the Committee has seven specific steps for arresting the growth of overdues. For improving recovery performance, the Committee also suggests that the rate of interest should be initially fixed at a somewhat higher level and a rebate of 2 or 3 per cent allowed to the borrowers on repayment of dues on schedule without default. (5.37 and 5.38)

23. The recent Tamil Nadu measure empowering the co-operative financing banks to publicise the list of defaulters, particularly the names of big landlords, who deliberately refrain from paying their dues to co-operatives is salutary, which could be considered for adoption by other states. (5.39)

24. The Committee is of the firm view that wilful default in repayment of co-operative loans is not merely a civil misdemeanour but a criminal offence. It should no longer go unpenalised and must attract deterrent punishment under the criminal law of the country. (5.40)

25. The Committee would strongly urge the GOI to consider amending the Indian Penal Code and other relevant statutes, to provide for deterrent punishment to wilful defaulters. It is also necessary to make a provision in the law to place the onus on the borrowers to rebut the presumption that the default is wilful. (5.40)

26. It has to be ensured that, hereafter, non-credit services and organisations rendering such services are given equal emphasis and attention along with credit. The state governments may draw up programmes for this purpose. (5.41 to 5.44)

27. We would urge that the managing committees of societies should be so broadbased as to include at least two depositors to be elected by the general body of members from amongst depositors holding a specified amount of term deposit in the society. (5.47)

28. We suggest that the cadre scheme should be adopted by all the states and adequate contribution made to the cadre fund by the state government and participating institutions. (5.49)

29. The need for expansion of training facilities with suitable reorientation to meet the changed situation, particularly, the requirements of integrated rural development is obvious. This is a problem that should be tackled on an urgent footing. The RBI/ARDC/NABARD in collaboration with the NCUI should chalk out a programme for opening more training centres. (5.51)

30. We emphasise that the NCUI and the State Co-operative Unions should draw up and implement time-bound member education programmes and training programmes for office bearers of all the PACS

with active financial and administrative support from the GOI and the state governments. Attempts should be made to familiarise the members with the functional aspects of their societies, their duties as members, and how they can help in developing the societies. (5.54 and 5.55)

31. The Committee suggests that the state governments should urgently review the existing machinery for the audit of societies and not only strengthen it but also maintain it as an autonomous entity. (5.57)

32. A group engaged in a single activity with several linkages as in the case of animal husbandry has a common economic identity and social coherence and as such can be more effectively catered to by an organisation exclusively of that group. This is the *raison d'etre* of functional societies providing credit to their members alongwith other services. In view of the need to cover the vulnerable groups who are to take up non-land-based activities, the Committee does not consider it advisable to prevent functional societies from financing their members whenever necessary. (5.59)

Chapter 6: Commercial Banks at the Ground Level

1. Commercial banks can play a significant role in providing systematic support to ensure forward and backward linkages in the programmes of rural development and help not only in the formulation of DCP but also in its fulfilment. (6.2)

2. We recommend that while it is desirable to enable a lead bank to establish adequate presence in its lead district, it should be ensured that the lead bank does in fact build up planning capacities appropriate for its role. (6.4)

3. In districts where the scope for opening new branches is limited, a non-lead bank operating therein with a few branches and desirous of moving out of the district, for its own reasons, may be allowed to do so by swapping its branches with those of the lead bank which may have similar problems elsewhere where the former bank has the lead role. (6.5)

4. We are aware that the application of this principle is beset with serious problems and practical difficulties. It can, therefore, be applied only by mutual agreement. Where such agreement is forthcoming, such swapping may be facilitated by the RBI. (6.5)

5. In regard to the centre identified as eligible for a bank branch, an additional step to be undertaken is to examine which among the three types of credit institutions is best suited for the centre concerned. (6.6)

6. In the case of backward and tribal districts, special steps will have to be taken to ensure adequate presence of commercial banks therein to act as catalysts of development. (6.6)

7. Now that the state governments are consulted by the RBI in the matter of branch expansion, we have no doubt that better spread of branches in rural and semi-urban areas even in districts that are well banked will receive the necessary attention and suitable measures devised to correct the imbalances. (6.7)

8. Infrastructural facilities by way of all-weather roads, police presence, etc., are a state responsibility and banks can hardly be expected to move in ahead of these facilities. (6.8)

9. In view of the fact that the lead bank scheme has completed a decade of working, the Committee suggests that a review of its working may be undertaken by the RBI. (6.9)

10. Though commercial banks have, within a decade of their entry in agricultural credit, reached a large number of borrowers in agriculture and also deployed a sizeable part of their credit to this sector, there is great scope for improving the coverage of the target groups and the links between development programmes and credit programmes in the context of the integrated approach to rural development. (6.10)

11. There is need for identifying programmes suited to local circumstances which could be done only by greater interaction between bank officials and government officials. Such interaction will also facilitate appreciation by banks and government officials of their respective points of view. (6.12)

12. Identification of target groups can be done by the departmental authorities on the basis of proper and up-to-date records. Additionally the identification could be done jointly by officials of banks and government. Further, government should also encourage identification being done by the banks. Whichever agency does the identification, the beneficiaries should be eligible for the stipulated subsidy and, therefore, the planning mechanism should provide for this. (6.13)

13. In regard to non-land-based activities, state governments will have to play a more direct and active role in devising suitable policies for inputs, services and marketing and in building suitable supporting organisations for all the three items. In these cases, identification of beneficiaries may better be done by government's own agencies. (6.14)

14. Identification of borrowers has to be followed by the more difficult task of persuading the identified persons to borrow for the purpose of development through one or more of the given schemes. For the purpose, bank staff have to familiarise themselves with the local land record system and the supporting activities and organisations of the state administration while government staff must become fully conversant with the details of the credit schemes, cost norms, viability norms, etc. (6.15)

15. Bank and government officials should appreciate that their job is not confined to release of loans and subsidies but one of assistance in accelerating the implementation of the integrated approach to rural development. Government staff should adhere to guidelines and avoid burdening banks with bunches of applications at the fag end of the year. Continuous efforts not unduly oriented to fixed and dated targets are necessary. Also officials should recognize that everyone identified cannot *ipso-facto* be financed by banks without scrutiny. (6.16)

16. The suggestion that the target group can be better reached and more efficiently assisted if credit assistance to them is routed through a separate corporation, is acceptable only if the corporation provides infrastructural support essential for making the credit productive and helping the beneficiary households reach higher levels of productivity and income. (6.17)

17. Field experience indicates that village adoption scheme has not meant comprehensive programming in the adopted villages. We do not, therefore, recommend the continuance of village adoption scheme in its present form. In our view, nothing should be done to give a monopoly to a bank in an area or a village contrary to the spirit of the multi-agency system. (6.19)

18. The rural branch should become viable within a reasonable period. The viability norms may vary from state to state. Banks should fix the norms and endeavour to fulfil them by expanding the coverage of economic activities. (6.25)

19. The branches should be as near as possible to the rural clientele besides being able to provide an amalgam of credit and technical services. (6.25)

20. We believe that the Agricultural Development Branch of SBI, suitably strengthened on the technical side and empowered to cater to all activities but with a limited jurisdiction, may prove more useful. Alternatively, the ADB can emerge as a programming and technical super structure at a central location with a mandate to support a group of rural branches undertaking multi-term and multi-purpose credit operation for rural development. (6.26)

21. The task of meeting the need for technical support which arises at every branch appears formidable because, it is not only costly but it is also not possible to get qualified hands in requisite number. From this angle, it appears that the arrangement by which a pool of technical personnel serves a group of branches, such as in the case of Rural Service Centre of the Dena Bank, deserves to be studied and improved. We emphasise that technical support and supervision are essential for the success of credit operations and that it should be available in time from a nearby centre. (6.28)

22. There is really no alternative for the banks but to build up their own technical cadres. (6.29)

23. The overall experience of the scheme of ceding of PACS does not give us the confidence to recommend the extension of the scheme. However, there is no need to disturb the arrangement where it works well. We have some sympathy for the view that PACS being the very base of the federal structure of the co-operative credit system, the delinking of such institutions on a large scale is bound to have deleterious effects on the federal structure itself. The matter has therefore to be approached with caution and circumspection. (6.30)

24. On the other hand, we consider it highly desirable to encourage commercial banks to bring together people with common interests and common purposes into homogenous groups for the purpose of development programmes and give them the required credit along with other necessary services. The groups may be formal or informal. If the form of a co-operative society is favoured or preferred, it should be made possible for such a functional co-operative society to be registered and supervised by the Registrar of Co-operative Societies. The idea prevalent in some quarters that all co-operative societies should be

affiliated to and be financed by co-operative credit institutions only and by none other, should be discarded as outmoded and injurious to the interests of the target groups. (6.31)

25. We are convinced that systematic and concerted efforts have to be made over a long period by all concerned to foster attitudinal changes and to develop the right kind of 'rural bankers'. These efforts have to be in various fields such as recruitment, training, rewards, penalties, etc. We trust the GOI, RBI and NABARD, when established, will devote attention to these important aspects. (6.32)

26. Since rural lending needs proper field work, we feel that three days in a week should be earmarked for field work (relating to deposit mobilisation, liaison with concerned government staff, supervision over end-use of loans, recovery of loans, etc.). All the staff working in the rural branch should be expected and oriented to undertake such work. In this sense, the functions of a rural branch and its staff should be redefined in order to be in tune with the needs of rural development lending. (6.33)

27. The hours of work of rural branches should be flexible to suit the sowing and harvesting seasons. (6.34)

28. A prerequisite for rual banking is contact with people. Therefore, on days on which banking business is not to be transacted across the counter, all the staff should do field work and account for the time. Thus, the peripatetic bankers will make the bank's presence felt among all the clientele, actual and potential in the command area of the branch. (6.35)

29. It is also necessary to stipulate that not only is it adequate to serve a rural branch for a specified period but also serve it successfully, success being defined in terms of increase in the business of the branch particularly in regard to lending to the weaker sections. Exemplary performance must be rewarded. There should be disincentives by way of continuance of the non-performing staff in the rural areas even beyond the normally accepted term in the rural areas. (6.36).

30. Banks and the RBI should review the implementation of the recommendations of the Working Group on Simplification of Application Forms and Lending Procedures in Banks periodically in order to bring about further improvements wherever necessary. (6.37)

31. We have reasons to think that the main cause for delays in sanctions at the branch level is the absence of proper motivation among managers. One remedial step could be to impress on managers that their performance will be assessed not merely on the growth of deposits but mainly on the progress of credit to weaker sections in all its aspects including recovery. (6.38)

32. We agree with the statement of the bank chairmen that unwillingness to lend and delays arise largely out of unfamiliarity with the clientele and their activities. Most of the employees of banks having moorings in the urban areas are reluctant to work in the rural areas for long enough periods. Training, administrative devices of carrot and stick, and above all, time, are necessary for bringing about improvements. (6.39)

33. Despite the spirit of the RBI's circular dated August 14, 1979, branch managers continued to demand collateral security in many cases. Since discretion and ambiguity in an important matter like this have the consequence of tempting managers to confine lending to those who can offer collateral, the bank managements must issue unambiguous instructions not to seek collateral from the exempted categories of borrowers. Further, the higher levels of bank management should make it a point to scrutinise and enquire about rejected loan applications carefully and independently and sanction them, so that over time, the branch managers build up confidence and learn to handle such applications direct. Additionally, bank managements should publicise among their staff case studies of loans that were not repaid despite their being backed by collateral as well as those which in spite of not being backed by collateral, were repaid because the activity undertaken with the loan succeeded. We are firmly of the view that unless determined action is taken to ensure faithful compliance with the RBI's instructions in this matter of collateral, the weaker sections will become playthings of richer intermediaries and the efforts to uplift them will be vitiated. (6.40)

34. In our view, if banks orient their lending increasingly under programmes that are area-specific with appropriate forward and backward linkages and presanction appraisal followed by intensive supervision by their own staff, the cause for much of the overdues should disappear. The state administration on its part should assist banks in proper identification of beneficiaries and co-operate with banks in evoking response to the programmes through extension. More importantly, extension staff of government should not only

encourage bank borrowers to repay loan on time but also stifle attempts at borrowers developing an anti-recovery stance. The state governments have to maintain a congenial climate for recovery. (6.50)

CHAPTER 7 : REGIONAL RURAL BANKS

1. As between commercial bank branches and RRBs, experience as well as evidence before the Committee shows that RRBs are more suitable for the tasks in hand. Apart from the fact that RRBs devote special attention to the weaker sections, they have the advantage of lower cost of operation as compared to the commercial banks. Being district level organisations, they can be trusted to take banking closer to the rural households and ensure more effective supervision over the end-use of credit. For these reasons, preference should be given to RRBs in regard to licensing of branches in the rural areas. (7.5)

2. On careful consideration of the various aspects of rural banking, the balance of advantage lies in encouraging commercial banks to transfer the eligible business of their rural branches to RRBs wherever possible. Rural branches with predominance of loans to weaker sections may be given priority for such transfer. Similarly, rural branches which have not been able to develop adequate business even after a reasonable period, so as to cover their own costs of establishment deserve to be considered for this purpose. On the other hand, where the bigger category of borrowers are substantial in number in any rural branch and account for bulk of the business, it may be retained by the commercial bank. The transfer envisaged is of eligible business and not of the staff. The sponsor banks themselves may take the initiative to draw up a programme of transfer of business on a mutually agreed basis. The Reserve Bank may take such steps as are necessary to facilitate the transfer operations when such agreed programmes are presented. (7.7 and 7.8)

3. It needs to be recognised that RRBs will incur losses in the initial years. It is, therefore, recommended that the losses incurred by a RRB should be made good annually by the shareholders, *viz.*, the GOI, concerned State Government and the sponsor bank in the same proportion as their share holding. In addition, the equity capital which presently stands at Rs. 25 lakhs may be raised appropriately. This question may be studied further by the RBI/NABARD and action initiated soon. (7.12)

4. Institutional credit has to go a long way in the effective coverage of the credit needs of the weaker sections and RRBs have a large part to play in attaining this goal. The present stage is not considered conducive for any general relaxation that may have the effect of diverting the attention of RRBs from their goal. They should continue to confine their operations to the weaker sections. The departures, if any, from this rule should be exceptional, as for example, in backward, hill/tribal areas. The image of the RRB as a small man's bank, in our view, should be kept up. (7.14)

5. As pointed out by the Narasimham Group, "the appraisal of the banks' working should be based both on the fulfilment of objectives *and* control of cost — in short, in achieving a favourable cost-benefit ratio." However, demands are being made for higher scales of pay and other allowances and facilities available in the commercial banks or in the Government of India. Such demands are inconsistent with the basic concept of the RRB as a low cost institution. The need for maintaining the local ethos makes it imperative that the emoluments and other service conditions of the RRB staff, who are recruited locally and posted/transferred within the area, should be in line with those obtaining for the state government staff in comparable cadres who constitute the bulk of the salaried people in the area. Therefore, the emoluments of the staff should be continued to be determined with due regard to the state government scales as now being done by the GOI. There is also no valid reason why the terms and conditions of service should be uniform for all RRBs in the country. However, the terms and service conditions of the staff of RRBs operating within a state have to be uniform. (7.15 and 7.16)

6. In terms of Section 3(3) of the RRBs Act, it is obligatory on the part of the sponsor bank to provide facilities for recruitment and training of personnel for a period of 5 years. Even thereafter, there is no bar on continuing the financial and managerial assistance by mutual agreement. In so far as the banking aspects of the linkage are concerned, these have to be continued since the sponsor banks are financing banks as well. In regard to managerial and other aspects, RRBs face many problems in the initial years of their working in finding suitable staff and in giving them adequate training. The key personnel should continue to be provided by sponsor banks till RRBs are in a position to develop their own personnel through suitable training and otherwise to take over the relevant responsibilities. Similarly, it should be the responsibility of the sponsor banks to

provide technical assistance in project formulation by RRBs. Facilities for recruitment and training and technical assistance should continue to be provided by the sponsor banks, on the same terms, for a period of 10 years for each RRB. Thereafter, any arrangement of assistance of this type can be decided upon by mutual agreement between the sponsor bank and the RRB. (7.18 & 7.19)

7. We recommend that nomination on the Boards of RRBs of at least two non-officials who are either progressive small farmers, social workers or persons connected with rural welfare, agricultural development, village industry, etc., may be made — one non-official by the GOI and another by the sponsor bank. It is not advisable to consider persons who are active politicians or office-bearers of political parties for such nominations. Some of the state governments have also expressed their preference for keeping RRB managements free from politics. (7.20)

8. We strongly endorse the recommendation of the Dantwala Committee for the transfer of entire control, regulation as well as the promotional/developmental responsibility relating to RRBs from the GOI to the RBI, with the modification that NABARD will take the place of the RBI in the new set-up. Necessary amendments to the RRBs Act may be made at the earliest so that there will be a single overseeing authority to look after RRBs. (7.21)

9. Being institutions devoting exclusive attention to the weaker sections, RRBs have to be treated on a special and different footing in facilitating their operations. Certain facilities now available to RRBs such as concessional refinance from the RBI, lower standards of liquidity, slightly higher rate of interest on deposits, etc., should be continued. (7.22)

Chapter 8 : Field Level Arrangements for District Credit Planning and Co-ordination under Multi-Agency System

1. Achievement of the objectives of integrated rural development calls for effective co-operation and co-ordination not only between credit institutions but also between the credit institutions on the one hand and the concerned government and other development agencies, on the other. Therefore the question of making the field level arrangements for planning and implementing credit-based development effective and adequate assumes great importance. (8.1)

2. The major gain of the first round of the preparation of district credit plans is the awareness of the problems of credit planning that it brought about amongst all concerned, the banks as well as the government departments. (8.3)

3. Non-availability or difficulty in getting required factual data on district development plans continues to be a serious constraint on credit planning. We are convinced that there is no real alternative to a well-knit district development plan as a foundation for lending for rural development. (8.8 and 8.9)

4. The District Credit Plan is a broad framework. It becomes operational only to the extent that it is translated into technically feasible and economically viable schemes with reference to location-specific realities or in the popular phrase 'bankable schemes'. A scheme becomes bankable when its forward and backward linkages are ensured. We suggest that the experience of the ARDC in the preparation of banking plans may be analysed closely for drawing suitable lessons for the future. (8.10)

5. The District Consultative Committee (DCC) came into existence more or less voluntarily because of the felt need for consultation in the matter of district development schemes. (8.16)

6. It is desirable to make the District Rural Development Agency/Society, now being set up in each district, an agency for comprehensive planning and implementation of all the programmes under integrated rural development. (8.22)

7. For the effective functioning of the DCC, its Chairman, *i.e.*, the administrative head of the district, should have sufficient time to attend to the development needs and programmes of his district. To this end, some states have appointed senior officers of the rank of Collector in each district to relieve the head of the district of his routine work. We would urge that the experience of such arrangements in practice may be carefully examined and adopted with suitable modifications. (8.23)

8. We recommend that the personnel involved in district planning should be given appropriate training. (8.24)

9. We appreciate constitution of a Standing Committee of the DCC at the instance of the RBI. Further, we recommend the setting up

of sub-groups of experts for selected subjects according to potential and the programmes of the district. These sub-groups will be suitable forums for detailed discussions on technical matters for reaching agreements on crucial aspects such as input supplies and extension. (8.26)

10. We have carefully considered the suggestion to clothe the DCC with statutory authority and we feel that, on balance, it is advantageous not to make it statutory and vest it with special powers. The basic problem of DCC is how to induce certain changes in the attitudes of its participants. (8.28)

11. DCC was born out of necessity, which fact alone infused the basic willingness among its participants to co-operate. Emphasis on such willingness can lead to setting up healthy conventions among the participants to heed the decisions by consensus and honour the commitments voluntarily made at the DCC meetings. The Collector, as Chairman, should hold the scales even and attempt to create awareness on each side. If some problems cannot be solved at the district level, they can be referred to the state level or taken up by higher echelons in the banks and the administration. The higher echelons by their action should encourage, support and guide evolution of a culture under which every institution finds itself accountable for its actions. (8.28)

12. We visualise the DCC to shoulder the responsibilities of identifying the potential for assistance in formulation of new credit schemes, preparation and monitoring the implementation of the credit plans, allocation of responsibilities among various agencies and securing their acceptance, examining the factors impeding the flow and recovery of credit, etc. (8.29)

13. We recommend that the Secretariat of the DCC should continue with the lead bank, as its convenor. The convenor should work closely with the district administration in the matter of preparing the agenda and highlighting the issues for consideration. The District Collector should designate one official to work in close liaison with the lead bank. When the Committee's recommendation to make the 'District Rural Development Agency', an agency for comprehensive planning and implementation, is acted upon, the officer in-charge of this agency would be the obvious choice. (8.30)

14. The DCC should deliberate on broad planning and operational aspects and individual cases should not be dealt with in this forum. (8.30)

15. We do not find it feasible to recommend at this stage, formation of block-level committees as a general rule. (8.31)

16. In addition to what the state governments must deploy by way of infrastructural support for extension, transfer of technology, etc., the credit institutions need to have at their command technical personnel for scrutiny of applications, follow-up and evaluation of schemes. (8.32)

17. We consider it feasible for the lead bank to arrange for adequate technical expertise of its own in its lead districts. Norms laid down by the lead bank could be accepted by other institutions more or less in the same manner as those of the ARDC are accepted by all participating banks ; and it is possible to envisage an arrangement by which a financing agency utilises the services of technical personnel of lead bank on payment basis for specific items of work. Such an arrangement could be temporary till the agency builds up its own staff. (8.35)

18. The aim should be to change the role of Lead Bank gradually from one of competition with other lending agencies in the district to that of servicing in the form of preparing area specific credit schemes in collaboration with district administration and other banks and prepare banking plan for each scheme providing for participation of concerned banks/local credit institutions in its implementation. (8.35)

19. The availability of facilities from the state governments should be reviewed from time to time in DCC meetings for their improvement. (8.36)

20. We recommend that the functions currently performed by the RBI in regard to DCP and DCC should continue with the RBI itself. NABARD, on its part, may appoint officers who should, besides their other responsibilities, be members of DCC and provide feed back to NABARD on implementation of rural development programmes. (8.37)

Chapter 9 : Supporting Services and Related Action for Successful Rural Lending

1. There should be a close tie-up between technological extension and the disbursement of credit and it is the responsibility of the government to ensure such a tie-up by suitably deploying the exten-

sion personnel and adopting a 'compact area' or 'compact group' approach. (9.4)

2. Merely having the extension staff in position is not sufficient. They have to be trained from time to time so that their knowledge is kept up-to-date since technology is moving faster than the accumulation of knowledge by the extension staff at the village, block and district levels. (9.5)

3. Problems relating to input supplies which are beyond the scope of credit institutions should be taken up and solved by the state administration at the district or higher levels. (9.8)

4. While drawing up a programme for development and regulation of markets, priority should be accorded to primary rural markets which are more accessible and hence important to the smaller producers. Development of primary rural markets should be made an essential element of integrated rural development. (9.9)

5. As linking of credit with institutional marketing, as now obtains, suffers from several loopholes, organisational and otherwise, there is urgent need to plug the loopholes through legislation and governmental action. (9.11)

6. A great deal remains to be done to ensure that market intelligence is supplied promptly to the rural producers operating in smaller markets. (9.14)

7. Rural electrification schemes should be drawn up more realistically. They should take into account availability of water, cropping pattern, application of modern inputs and other factors so that credit extended is better utilized. (9.15)

8. Considering that unrecorded tenancy is widely prevalent in some areas, the state governments have to take corrective action without further delay if they are serious about the uplift of these target groups. (9.17)

9. Making land records up-to-date is the first task if agricultural pass books are to be of use, and this is squarely the responsibility of the state governments. Secondly, it has to be ensured that the entries in the pass book are updated on a regular basis on the occurrence of every relevant event. (9.19)

10. The pass books now being issued by some commercial banks to their borrowers belonging to target groups, indicating particulars of loans taken and repayment of instalments due, should be further improved to include all relevant data so as to serve as safeguards against malpractices. (9.21)

11. Apart from bringing the land records up-to-date, the following are some other areas in which administrative support of the state governments is essential for successful deployment of credit: registration of documents, arrangements for retrieval of information, scientific assessment of damages resulting from natural calamities, administration of the appropriate Act for quick recovery of loans, and above all, the creation and maintenance of congenial climate for recovery and recycling of funds. (9.22)

Chapter 10 : Agricultural Refinance and Development Corporation

This Chapter reviews the working of the ARDC since its inception in July 1963. The recommendations of the Committee regarding the ARDC are given in Chapter 12.

Chapter 11 : Reserve Bank and Rural Credit

This Chapter surveys the role of the RBI in the field of rural credit. The Committee's recommendations on the national level arrangements in this regard are made in Chapter 12.

Chapter 12: Recommendations on National Level Institutions

1. The Committee considered the desirability and feasibility of establishing a national bank for rural development in the light of integrated rural development. It studied the views expressed by the All India Rural Credit Review Committee (RCRC), the Administrative Reforms Commission, the Banking Commission and the National Commission on Agriculture. (12.6)

2. The reasons against having a separate national level bank for agriculture and rural development had been spelt out lucidly by the RCRC. On an examination of these reasons, the Committee felt that there is a need for a new organisational device for providing undivided attention, forceful direction and pointed focus to the credit problems arising out of integrated rural development. (12.12)

3. We are convinced that the balance of advantage, in the present context, lies in the setting up of a national level bank with close links with the RBI. We envisage the new bank as an exercise in decentralisation, while the essential controls are retained where they belong, *viz.*, the RBI. (12.12)

4. Further, we envisage the role of the RBI as one of spawning, fostering and nurturing the new bank, somewhat in the same manner as the ARDC. We would cast a special responsibility on the RBI to develop the new institution, which in our view is a logical step in the organisational evolution of the RBI itself. (12.12)

5. The new national level institution we are recommending for integrated rural development may take over from the RBI the existing refinance facilities for rural artisans and village industries and expand them as suitable. Such an arrangement would, no doubt, lead to certain amount of overlapping, if and when the Development Bank for Decentralised Industries comes to be established. The matter can be reviewed at that stage, primarily as a problem of co-ordination and sorted out through mutual understanding and adjustment. (12.13)

6. The new institution be named as the National Bank for Agriculture and Rural Development (NABARD). (12.14)

7. The functions of NABARD would be as listed in para 12.15. (12.15)

8. NABARD will be the refinancing agency for the entire rural credit system. Monitoring the use of funds given to this system is better done by NABARD itself. Being an institution within the RBI complex, the statutory inspection of co-operative banks and RRBs may also be taken up by NABARD on an agency basis. The RBI can take occasional test inspections of these banks with a view to satisfying itself that their operations are being carried out in conformity with the provisions of the Banking Laws. (12.17)

9. The related items of work such as collection of annual statistics relating to the Co-operative Movement in India and also 'Review of Co-operative Movement' done by the RBI may be taken over by NABARD. (12.18)

10. If NABARD finds that the institutional credit arrangements in a particular area or for a particular purpose are not coming up as fast as they should, it should then certainly undertake direct lending to the public development corporations such as forest development corporation for productive and commercially viable activities. (12.19)

11. The question of widening the scope of activities of NABARD may be reviewed after NABARD completes five years of its operations. (12.20)

12. The functions listed in para 12.15 imply that several items of work at present attended to in the ARDC and the different departments of the RBI such as Agricultural Credit Department, Department of Banking Operations and Development, Rural Planning and Credit Cell will have to be transferred to NABARD. (12.21)

13. The more important of the close links of NABARD with the RBI envisaged by us are:

(*a*) The RBI may own 50 per cent of share capital of NABARD and the remaining 50 per cent may be owned by Government of India only.

(*b*) The Board of NABARD may be a nominated Board of not exceeding 15 members and 3 directors excluding the Chairman may be from among the directors of the Central Board of the RBI.

(*c*) A Deputy Governor of the RBI should be appointed as Chairman of the Board.

(*d*) The Managing Director should be appointed by the Board after consultation with the RBI. (12.24)

14. The authorised and paid-up capital of NABARD may be Rs. 500 crores and Rs. 100 crores, respectively, owned equally by the RBI and Government of India. In view of this share holding arrangement, there is no need for payment of a minimum dividend. There should also be no difficulty in exempting NABARD from the payment of income-tax as there would be no private shareholders. (12.25)

15. While NABARD should be free to recruit its own staff, and would be administratively independent of the RBI, to begin with the per-

sonnel connected with the items of work transferred to NABARD will provide the nucleus. The legitimate interests of such staff will have to be safeguarded. (12.26)

16. As regards resources for term lending operations by NABARD, the existing arrangements obtaining in the ARDC should continue. (12.27)

17. There should be an enabling provision for NABARD to receive deposits from the SCBs, LDBs as also other deposits such as those accruing incidentally in the business of NABARD. (12.28)

18. Regarding funds required for providing short-term/working capital loans for agriculture and rural development, NABARD has to depend on borrowings from the RBI which should fix aggregate credit limits in favour of the new bank for various purposes in place of the present practice of fixing a separate credit limit for each one of the SCBs/CCBs, RRBs and commercial banks. The RBI may stipulate specific conditions as are felt desirable from the point of view of effective enforcement of its overall monetary and credit policy, separately for each of the three components of the rural credit system, *viz*,. co-operative banks, RRBs and commercial banks. The operational details including the fixation of limits for individual banks in these three categories should be left to be decided by NABARD. (12.29)

19. There is no need to stipulate any borrowing limit for NABARD. (12.30)

20. The proposal for establishment of a National Co-operative Development Bank (NCDB) mooted by the co-operative movement has been considered by us. With the adoption of multi-agency approach, the commercial banks together with the RRBs have also started financing agriculture and rural development on a massive scale. Besides the RBI's National Agricultural Credit Funds are not meant exclusively for the use of co-operative credit institutions. NCDB, in our opinion, would only add one more tier and add to the cost of retailing agricultural and rural credit. Further a national bank in the co-operative sector has to be controlled by a national law and since Co-operation is a state subject, it is yet to be discussed how far this is feasible. All these issues have to be considered separately as the problems of the co-operative movement and not merely as problems of credit dispensation for agriculture and rural development. Whether

the hierarchical system envisaged would be able to maintain the needed discipline over the loan business is also doubtful. Moreover NABARD will be largely for the co-operatives as most of the lending activities in rural sector will continue to be routed through the co-operatives. (12.33)

Chapter 13: Role of Agricultural Finance Corporation

1. The AFC which started as a financing corporation in 1967 refrained from making direct finance in 1970 and has since concentrated on consultancy work. (13.8)

2. The National Commission on Agriculture (Interim Report, 1971) and the Banking Commission (1972) were not in favour of continuing the AFC as a separate entity and suggested its merger with the Agriculture Development Bank of India/ARDC. This created uncertainty about its future. (13.15)

3. During the period between 1968 and 1979, the AFC prepared 951 projects. However, information is not available as to how many of these have been able to attract finance and have been implemented. (13.20 and 13.26)

4. Of late, the AFC has been doing, in a limited way, consultancy work abroad also. (13.36)

5. The majority of owners of the AFC, whom we consulted, were in favour of it continuing as a separate consultancy organisation and specialise in certain fields. We agree with this. (13.40 and 13.41)

6. Area development scheme preparation falls in the domain of the state governments who would like to use the AFC direct and transact with it as an independent organisation. The advantage to the banking system is that the involvement of the AFC in the preparation of such area development schemes will facilitate induction of much needed banker's angle in the bankable components. Thus, the AFC, remaining independent will be able to bring to bear its influence for favourable reaction from governments and banks towards each other. (13.43)

7. As for the ARDC/NABARD, it should commission the AFC for development of projects of a particular type or for a particular area

or for both. The ARDC/NABARD can also assign to the AFC, jobs in areas covered by RRBs who on their own cannot afford to employ the AFC. Besides, ARDC/NABARD can utilise the AFC for developing innovative projects with a view to expanding its field of lending. (13.44)

8. Consultancy experience in foreign countries helps preventing the institution from becoming insular in its approach and therefore should be welcomed. An independent AFC with close links with the ARDC/NABARD will be able to compete better for foreign consultancy assignments. (13.45)

9. There is need to redefine the specific role which the AFC has to play in respect of certain areas and for certain purposes, and particularly in pockets of poverty. Also the AFC has to cater to the consultancy needs of rural artisans and cottage industries. (13.46)

10. The AFC cannot remain a captive organisation of commercial banks but has to assist the co-operative sector also. (13.46)

11. The ARDC/NABARD should lend support to the AFC and for this purpose, there must be a method to ensure that the work undertaken by the AFC is, by and large, acceptable to the former. (13.47)

12. We suggest that the ARDC/NABARD as financier should lay down (*i*) the basic criteria for programmes that have been developed widely so far and (*ii*) in new areas fix in advance, after discussion with the AFC, the criteria that will satisfy them. When the AFC has observed these criteria in the formulation of projects, it is hoped that the detailed scrutiny of projects by the ARDC/NABARD will not be required. (13.47)

13. We notice that the Corporation's major earnings came by way of interest on deposits and that only 20 per cent of its earnings came from the consultancy services rendered by it. In view of the need for the AFC to increase consultancy business, continue to be innovative in its efforts and provide its consultancy services to co-operatives and RRBs, we feel that the present capital structure of the Corporation should remain unaltered. (13.48)

14. Lastly, in line with its redefined role, we suggest that the Corporation be renamed as Agricultural Finance Consultants Ltd. (AFC). (13.49)

Chapter 14: Structural Problems Relating to Co-operative Credit System

1. In our view, the need for an organisation like the SCB at the state level arises for the following reasons: (*a*) a leader at the state level is necessary for the co-operative movement to look after the development of credit as well as non-credit co-operative institutions, (*b*) a state level bank is required for strengthening CCBs and PACS to face the new challenges, (*c*) deposits at the state level, from sources not easily accessible to CCBs, are to be attracted, (*d*) non-agricultural credit needs of co-operative institutions can be best met through a state level bank and (*e*) as a link between the lower tiers of the structure and the higher financing agencies like the RBI/NABARD a state level bank is necessary. (14.4 to 14.6)

2. The CCB is meant to be the leader of the co-operative movement in the district of its jurisdiction and in this sense its role is somewhat analogous to the promotional and developmental role of the SCB at the state level. (14.8)

3. The local needs and aspirations find expression through the non-official management of CCBs which can ensure that the functioning of the banks is attuned to satisfy these needs. One of the important functions of a co-operative bank is the mopping up of rural savings for involvement in lending operations and elected directors of a central co-operative bank are required to wield their influence for resource mobilisation. (14.9)

4. Co-operatives cater mainly to the requirements of rural credit, which being of a diverse nature, can entail a certain amount of risk unless closely tied to local capacities to utilise the credit productively. Hence there is need for a close and continuous supervision of credit and this can best be undertaken by those who have an intimate knowledge of, and close contact with, the borrowers. The elected directors of CCBs should be able to make an assessment of needs, evolve appropriate loaning policies and procedures and supervise the end-use of credit and ensure prompt recovery of dues (14.9)

5. Even if the co-operative credit structure at the middle level were to be abolished, the SCBs will necessarily have to establish a branch network for serving PACS. Branch Advisory Committee may have to be set up by the apex bank. Hence savings in costs if any may only be marginal but as the RBI Study Team on Kerala pointed out,

such a nominal reduction in the interest rate charged to the ultimate borrowers should not be the deciding factor as other considerations justified the continued existence of CCBs. (14.9 and 14.10)

6. The unfortunate fact that some CCBs have not in the past performed some or all of these functions as well as they might, does not take away the value of these functions. It only pinpoints the need for analysing the causes for the deficiencies of CCBs concerned and for devising suitable measures. (14.9)

7. It is necessary to have a unit at the district level for efficient and effective management of operations in the field of co-operative credit, in view of their growing magnitude and complexity. Effective co-ordination with other institutional agencies under the DCP also points to the need for a district level unit. The experience of RRBs also shows the functional relevance of decentralised banking at the district level. (14.12 and 14.13)

8. We are of the view that the three tiers are three functional components of a single structure of co-operative credit and a part cannot be removed without impairing the structure as a whole. Hence, in our opinion, while a two-tier structure (*i.e.* SCB and PACS) may be continued in smaller states and Union Territories, the three-tier structure could remain as the general pattern for bigger states. (14.15)

9. Where any component of the structure has developed serious organisational or operational weaknesses and has proved to be a hindrance to the smooth flow of credit, changes will have to be made in the set-up. Our specific recommendations regarding the arrangements to be made in areas where credit flow is choked are as under:

(*i*) Where the non-functioning of any particular tier is due to external factors, these factors should be removed.

(*ii*) A quick analysis of weak CCBs may be made with reference to the flow of credit, recovery performance etc., to identify areas where credit flow is choked by their existence. In such cases, we would recommend that the SCB may open its branches in the concerned district and undertake direct financing of PACS.

(*iii*) Where the working of CCB can be improved, if concerted efforts are made, the bypassing of the institution may be resorted to as a transitional measure, and vigorous steps taken to place it on an even keel.

(*iv*) A more detailed examination of the financial position of CCBs may then be undertaken. Where the functioning of a particular CCB has been jeopardised to such an extent that the possibilities of its rehabilitation within a reasonable period of time, say five years, are remote, the liquidation or merger of the CCB with the SCB may be resorted to.

(*v*) Where the CCB is to be liquidated, the SCB may consider the sponsoring of a RRB as an alternative to the extension of its own branch network and serve the PACS through it. (14.16)

10. There can be, and there is, no difference of opinion that a synchronous flow of production credit and investment credit for all activities covered by the integrated rural development approach has to be ensured. (14.17)

11. The Hazari Committee recommended the integration of the ST and LT co-operative credit structures. So far, no consensus could be reached on this matter in the co-operative movement. However, the suggestion of that Committee to use PACS for chanelling LT loans has been generally accepted. (14.21 to 14.25)

12. The views of SLDBs and SCBs and their national level organisations are not in favour of changing the present structural pattern of co-operative credit. In our view, a dogmatic approach and imposition of a decision from above would defeat the purpose for which integration is proposed *viz.*, integration of two types of credit. Forced integration of institutions would not only go against the democratic character of the movement but might also result in the overall shrinkage of credit due to the choking of channels and the inadequate expertise for handling diverse problems. (14.30)

13. The primary co-operative credit structure is not yet attuned to serve as a multi-purpose credit agency. Whereas the primary level will have to learn about the management of multi-purpose credit system and develop the expertise for this purpose, this level will not be involved in the broader terms of organisation and innovations in the lending system. This will have to be taken up at the higher level. (14.31)

14. At the higher level, CCBs have not yet developed the criterion for multi-purpose lending for production. This tie-up of a production programme with some capital investment of medium-term nature is itself an expert job for which CCBs have yet to train and equip themselves. It is desirable that this role is given to CCBs squarely and they are asked to build up expertise within a stipulated time before asking them to handle still longer term investments. (14.32)

15. Long-term lending has also to be diversified and innovative particularly for increasing the capital resources of the poorer sections. Building up this expertise and developing these programmes through pilot studies and pilot experiments before LDBs establish the norms for long-term lending in these directions, will itself be a long-term effort. (14.32)

16. In all our planning of organisations, an attempt to bring under one organisation multifarious responsibilities, which in their nature are difficult for a single organisation to grasp, has to be avoided. It would often be preferable to have more than one organisation for different purposes and arrange for co-ordination of those organisations so that all of them work together towards given management objectives. We feel that this concept will be more suitable than integration of structures in the present state of development of co-operative institutions and the consensus of co-operative opinion. (14.33)

17. We agree that a beginning may be made at the primary level for integration of credit by making the PACS, the organisation for retailing of all types of credit. We do appreciate that taking into account the present stage of the development of PACS, it may not be feasible to straightaway introduce such a scheme all over the country. The scheme may be initially started on a pilot basis in selected areas which are served by societies having a whole time trained secretary, competent management and a satisfactory balance sheet. Broadly, the functions in respect of long-term credit to be undertaken by the societies will cover collection of applications, their preliminary scrutiny, disbursement of loans and the supervision and recovery thereof for which commission may be allowed by LDBs to cover the cost of such services. Moreover, the PLDBs/branches of state LDBs should also send to the concerned PACS the list of their loanees so that the latter could be enrolled as their members, if they were not members already, so as to meet their requirements of production credit. (14.34)

18. We suggest that the RBI/NABARD may issue guidelines for the selection of PACS, the fixation of commission, the training of secre-

taries and other details and monitor the scheme closely in consultation with state governments and the higher level institutions concerned. (14.34)

19. A point which merits serious consideration is whether any rigid distinction needs to be maintained between the credit disbursed by the short-term and long-term structures in the present situation. In fact, it would be more logical to classify credit into two categories, production credit/working capital credit and investment credit. (14.35)

20. The RBI cannot, under its statute, provide funds for periods longer than 5 years. The funds required for the LDB structure have had to be raised from the market or more recently from IDA through GOI. Institutional specialisation based on such temporary and tenuous grounds need not be continued after the establishment of NABARD which will be competent to handle both types of refinance. Thus, we feel that there should be facility for PACS and their higher level bodies to advance loans upto seven years. Similarly, the long-term structure may be permitted to provide loans for periods of 3 years and above. We recommend that suitable provisions be made by the state government in their Co-operative Societies Acts, for the purpose. (14.35)

21. We note that the ARDC has started providing ST credit with LT loans in some cases. Following this, wherever necessary, LDBs should be allowed to handle short-term credit as part of project lending, that is, as a composite loan. In our view, this arrangement may be the best arrangement under the circumstances. The nature and magnitude of the present credit needs are such that each structure can continue to play its useful role provided it keeps an eye on the functional co-ordination. Each structure has to build up its expertise in such a way that they are complementary to one another. One can even conceive of an informal body of the two institutions at the state level to ensure attention to common problems and co-ordination of different activities such as supervision and recovery of loans. Such a body may help to achieve the main objectives of integration of investment lending with production lending without necessarily bringing the two structures under one management. (14.36)

Chapter 15: Efforts Towards Other Improvements in Short-term Co-operative Credit Structure

1. The rehabilitation programme launched by the Reserve Bank of India, in 1971 to rehabilitate weak CCBs has not been implemented

in all its facets by all concerned. Consequently a number of them are still considered as weak banks. In the changed context, CCBs have to be not only an effective channel for flow of funds for a much wider range of purposes than hitherto, but have also to improve their own capacity as well as that of the PACS to cover the target groups not only in respect of agriculture and allied activities but also cottage and village industries and other avenues of self-employment. In our view, therefore, the focus has now to shift from one of rehabilitation of 'weak' CCBs to one of developing CCBs into capable district level institutions to undertake a wide range of functions. (15.7)

2. Since rural development programmes are being undertaken in all the development blocks in the country and financing of all the beneficiaries under the programmes would involve some risks to the financing institutions, the adequacy of existing arrangements to cover the risks to be taken by CCBs and PACS should be examined and adequate arrangements made to cover the risks by additional contribution to their risk funds, or, if possible, by bringing them within the scope of the Deposit Insurance and Credit Guarantee Corporation. (15.8)

3. In the light of the new tasks and responsibilities devolving on them under the district credit plan and the integrated rural development approach, CCBs will have to strengthen their technical staff for different types of activities. Each CCB will have to review the technical staff needed. Keeping in view the above aspects, we recommend that the state governments and SCBs should prepare action plans for strengthening CCBs. (15.9)

4. The economic viability of the investments can be improved only when raw material supplies and marketing arrangements are taken care of. In so far as co-operative credit is concerned, CCBs will have to use their influence as financiers for bringing together co-operative agencies in charge of supply of raw materials and marketing of products on the one hand and producers' co-operatives, on the other. For this purpose, we recommend that the development wings of CCBs should be appropriately equipped/strengthened. (15.10)

5. In recent years, there has been an increasing trend towards officialisation of the co-operative management by deputing government officials to hold top level positions of chief executives and key personnel in the banks. Large scale deputation of government staff to the banks on a continuing basis can hardly be conducive to the

efficient functioning of these institutions. While the state governments should provide necessary financial and administrative assistance for development of co-operatives, it is felt that their role should not ordinarily extend to manning most of the key posts by government personnel. (15.11)

6. The progress of deposit mobilisation and loan business of CCBs discussed in Chapter 4 has shown that many CCBs have graduated to a level where they should have their own well-trained professional management, supervisory staff and technical personnel. Although in some states there is an awareness of this need for professionalisation of management in CCBs, much remains to be done in all the states. (15.12 and 15.13)

7. While a large number of banks have availed themselves of the training facilities provided by the training colleges and institutions in the country for their staff, what seems to be lacking in respect of professional management in the CCBs is a well thought-out and systematic recruitment policy for staff of various categories and the building up of a cadre of co-operative banks' staff consisting of key personnel and other officers. In the absence of such a policy and a proper mechanism to give effect to it, the best available talent is not always attracted to CCBs. (15.14)

8. Despite the fact that the idea of a cadre for the co-operative banks was mooted by the Rural Credit Survey Committee as far back as in 1954 and despite persistent efforts, the idea of creation of a cadre has not caught on. In the circumstances, we would reiterate the importance of the creation of a proper cadre of professional personnel and urge the state governments to take necessary steps to bring into being such cadres and ensure professional training for the encadred personnel. If in the meantime, government officials are required to be deputed to the banks on a temporary basis, it should be ensured that the officials are properly oriented and trained for the tasks entrusted to them. (15.15 and 15.16)

9. In the light of the recommendations regarding the tasks to be performed by the ground level delivery system and the tasks to be performed by CCBs, there is need for organisational restructuring as well as strengthening of the existing staffing arrangements in many of CCBs. We recommend that CCBs may undertake the restructuring on the lines of the organisational profile given below under which

there must be six divisions under the overall charge of the Managing Director. These are:

(1) Planning and Development Division under a Development Officer;
(2) Operations Division under an Executive Officer;
(3) Accounts Division under a Chief Accountant;
(4) Monitoring Division under a Monitoring Officer;
(5) Technical Division under an Executive Officer (Technical);
(6) Administrative Division under a Manager. (15.17 and 15.18)

10. Reference has been made in Chapter 4 to some of the damaging results of politicisation of the management of co-operatives. If co-operative credit institutions are to function as autonomous bodies and implement effectively national policies in the sphere of rural credit, there is an urgent need for a national consensus amongst political parties to cry halt to politicisation of the co-operatives. As an immediate measure, a vigorous educational programme should be launched to see that office-bearers and members of co-operatives are adequately educated regarding their obligations and responsibilities towards their organisations. Taken up on a sufficiently large scale, a programme of this kind should help develop genuine co-operative leadership. The National Co-operative Union of India may be the appropriate agency for taking initiative in this matter. (15.19)

11. Supersessions of boards of SCBs and CCBs have been ordered often to serve the political ends of the powers that be. The Banking Regulation Act, 1949 (As applicable to Co-operative Societies) places certain duties and responsibilities on the RBI. Obviously, RBI cannot discharge these responsibilities satisfactorily if under colour of law and by application of a State Act, the managements of co-operative banks are changed arbitrarily. The question of law apart, the RBI has a large stake as lender. With a view to preventing politically motivated summary dissolutions of the boards of co-operative banks, as witnessed in recent years, we recommend that a provision be incorporated in the Banking Regulation Act, 1949 (As applicable to Co-operative Societies) making it obligatory on the part of the state government to seek prior consultation with the Reserve Bank of India when it proposes to supersede the boards of managements of co-operative banking institutions. In the case of LDBs which are not covered by the B.R. Act, 1949 (As applicable to Co-operative Societies), the RBI/NABARD should make it a condition for providing financial assistance that supersession of the board of manage-

ment of the concerned LDB should be only with the prior consultation of RBI/NABARD. It would indeed be appropriate if at the same time, the Co-operative Societies Act in each state is also suitably amended making it incumbent on the state government to have prior consultation with the Reserve Bank before resorting to supersession of the boards of management. (15.20)

12. The relatively high cost deposits mobilised by SCBs, on the one hand, and the liberal concessional refinance linked to providing loans on easy terms, on the other, have given rise to problems of management of resources. Representations have been made to us by some of the SCBs that they have been facing a problem of surplus funds which they are unable to utilise for loaning within the co-operative fold. One solution for the high cost deposits remaining surplus with some of the co-operative banks lies in their developing other co-operative business (*e.g.*, agro-processing such as co-operative sugar factories, co-operative fertilisers factories, etc.) to off-set losses arising from utilising a sizeable part of their deposits for agricultural financing. We also recommend that co-operative banks may take the initiative to enter into consortium arrangements with commercial banks for financing agro-industries, including processing units. (15.22 to 15.25)

13. Keeping in view the average interest cost on deposits, the co-operative banks should be allowed to charge higher interest on agricultural loans to large farmers compared to small farmers. For this purpose, no ceiling need be fixed on such interest rates. (15.23)

Chapter 16: Efforts Towards Other Improvements in Long-term Co-operative Credit Structure

1. We agree that the existing long-term co-operative credit structure (federal in some states and unitary in others) need not be disturbed merely for bringing about uniformity. (16.2)

2. The Committee emphasises that if LDBs are to serve as useful and effective channels of investment credit, it is squarely the responsibility of the state governments who are the guarantors of their debentures, to carry out a case-by-case investigation of loans advanced by each of those PLDBs/SLDB branches having no eligibility for fresh lending with a view to identifying wilful defaults, non-utilisation/mis-application of loans and non-completion of investments. On

the basis of such studies rehabilitation programme (as indicated in para 16.3) should be drawn up and implemented within one or two years. (16.3)

3. The Committee is of the view that an effective way of assisting the LDBs to get over the difficulty in realising the overdues is for the state governments themselves to purchase the mortgaged lands in settlement of LDB's claim and arrange to dispose them by sale or by long-term lease to identified target groups like small/marginal farmers. (16.4)

4. In the case of PLDBs/SLDB branches having restricted lending eligibility also, the state governments may conduct case-by-case study for ensuring productive use of credit. (16.5)

5. If rehabilitation programme fails to achieve desired results, the state governments should not hesitate to take action for winding up the units concerned and allowing other institutions under the multi-agency system to take care of the investment credit needs of the area. (16.6)

6. In the case of SLDB branches, Branch Advisory Committees of local people may be constituted. (16.7)

7. The state governments should ensure that a major portion of interest margin between borrowing and lending rates percolates to primary level units of the LDB system. (16.8)

8. The experience of the last 8 years or so, has shown that more time is necessary for the borrowers to adjust themselves to the shorter tenure of loans and the consequent increase in the amount of instalments of repayment. It takes time for the rural borrowers to appreciate and follow the excellent purposes and concepts implicit in the lending discipline. We, therefore, recommend that the existing norms and guidelines in respect of lending disciplines of LDBs be reviewed immediately by the ARDC/RBI in consultation with the GOI in the light of past experience and realities in the field. (16.16)

9. We reiterate that the health of an investment lending system depends largely on the care and attention devoted to appraisal of investment proposals, systematic follow-up after sanction and prompt recovery of dues. The state governments should ensure that LDBs are equipped for these purposes. (16.17)

10. The diversification of lending by LDBs has to be two-pronged-one in the direction of financing such land based activities as plantations, sericulture, horticulture, pisciculture, farm forestry and the other in respect of non-land based purposes like dairying, poultry, farming, piggery, sheep breeding, gobar gas plants and rural warehouses/godowns, cottage industries, rural artisans, development of market yards, etc. (16.19)

11. Technical expertise is sought by LDBs generally from the state government. If the staff concerned are to be loyal and devoted, they have to be direct employees of the lending institution. (16.21)

12. As LDBs have to play a vital role in programme lending to weaker sections, the need for improving the manpower skills at their operating levels can hardly be overemphasised. The ARDC/NABARD should quickly study this problem in depth and provide necessary support to develop the skills of the field-level functionaries of the LDB. (16.23 and 16.24)

13. In the multi-agency set-up of rural finance, rigid classification by the period of term loans is no longer expedient. Hence, the statute should be suitably amended to enable LDBs to provide all kinds of term loans including composite loans. (16.25)

14. With the increasing accent on financing non-land-based activities, the concept of security has to shift from 'land' to assets created/acquired out of the loan. (16.26)

15. For eliminating undue delays arising from time-consuming procedures, the ARDC/NABARD should examine improvements made in some states (Orissa and Rajasthan), for evolving appropriate guidelines in this regard. (16.27)

16. There is a need for devising in the LDBs a procedural system that will allow for variations and adjustments in loan quantum depending upon investment specifications and actual outlay involved including cost escalations on account of price rise during the period of execution of the investment programme. (16.28)

17. The appropriate procedure for disbursement of subsidy would be that the amount of the loan should be exclusive of the quantum of subsidy and the subsidy made available to the borrowers should

be released by development agencies to the lending institutions sufficiently in advance of the disbursement of the loan, so that the latter could disburse it to the borrower along with final instalment of loan for purpose of completing the investment. We urge upon the state governments to ensure compliance with this procedure. A review of the quantum and other aspects of subsidy is necessary. (16.29)

18. In regard to loan repayments, the duration of grace period should be sufficiently long to facilitate repayment out of incremental income generated. This calls for study on a continuous basis by the ARDC/NABARD of the existing terms and procedures to improve them further. (16.30)

19. The SLDB should have an "Evaluation and Monitoring Cell" with adequate staff so as to ensure that resources routed to primary level units are utilised productively and mid-course corrections are effected if required. (16.33)

20. Programme lending, to be productive requires co-ordinated arrangements for supply of necessary physical inputs like cement, electric power, transmission lines, diesel oil, etc., in the case of minor irrigation, quality breed for dairy and poultry, etc. It is the responsibility of the state governments to ensure this. The District Consultative Committee should be used by LDBs to co-ordinate their work with the concerned departments of the state governments in this regard as described in Chapter 8. (16.34)

21. LDBs should invariably provide production finance along with term loans for activities such as plantation, sericulture and poultry. In cases where such composite loans are not to be given, LDBs should ensure that the concerned borrowers become members of PACS and are provided with production credit. If, as recommended earlier, PACS begin to act as agents of LDBs, this process will be greatly facilitated. (16.37)

22. The LDBs Federation may start a dialogue with the representatives of the short-term co-operative credit structure and the state governments to decide the details of co-ordination arrangements as indicated by us in Chapter 14. (16.38)

23. The high level of overdues, if unchecked, may eventually destabilise the entire long-term credit structure. This calls for sustained,

earnest and serious efforts in planning and executing the recovery drive in a concerted manner. Apart from strengthening the machinery for effective post-credit follow-up, the SLDBs should set up a "Recovery Cell" manned by adequate staff to programme and monitor recovery operations. Other steps we visualise include : purchase of mortgaged lands by government, policy of positive assistance by government and active involvement of non-official office-bearers of LDBs in recovery work. (16.39)

OTHER RECOMMENDATIONS

1. In the Interim Report, we had stated that the NAC (LTO) Fund and the NAC (Stabilisation) Fund should remain with the RBI as at present. However, on re-examination of the issue at the time of drafting of the NABARD Bill, we felt that keeping these Funds with the RBI and asking NABARD to present its drawal proposals every time may lead to avoidable delays, inconvenience and confusion of roles. Hence, these two Funds should be transferred to NABARD and form part of the National Rural Credit (LTO) Fund and the National Rural Credit (Stabilisation) Fund, respectively, to be constituted and maintained by NABARD. We have also recommended that the RBI may make annual contributions to the two Funds to be constituted by NABARD. Besides, NABARD would also make such annual contributions to these two Funds as it may be in a position to do. (1.12)

2. As regards urban co-operative banks, the Committee thought it more appropriate to exclude them from the jurisdiction of NABARD as these banks do not play a significant role in rural credit. (1.13)

APPENDICES

APPENDIX I

Reserve Bank of India, Central Office, Bombay-1

THE Sixth Five Year Plan envisages a very important role for institutional credit in achieving targets of rural development in general and of agriculture in particular. At present, in accordance with the multi-agency approach, co-operatives, commercial banks and regional rural banks try to cover, between them, a substantial portion of the credit needs of agriculture. At the national level, the Reserve Bank of India and the Agricultural Refinance and Development Corporation extend considerable support to these institutions by way of refinance and otherwise. Besides, there are some specialised institutions which provide credit and other services for purposes relating to agriculture and rural development. As smooth flow of funds at reasonable rates of interest is a crucial input for development, it is considered necessary to review the existing institutional arrangements and to bring about necessary improvements.

2. Accordingly, the Reserve Bank of India appoints a Committee consisting of the following Members :

(1)	Shri B. Sivaraman	*Chairman*
(2)	Shri G. V. K. Rao	*Member*
(3)	Shri M. Ramakrishnayya ..	*Member*
(4)	Shri M. R. Shroff	*Member*
(5)	Shri L. C. Jain	*Member*
(6)	Smt. S. Satyabhama	*Member*
(7)	Shri K. B. Chore	*Member*
(8)	Sr. H. B. Shivamaggi	*Member-Secretary*

3. The terms of reference of the Committee will be as follows :

(1) To review the structure and operations of the Agricultural Refinance and Development Corporation in the light of the growing need for term loans for agricultural and allied purposes including village industries, marketing, processing and other services relevant to integrated rural development ;

(2) To examine the need for and the feasibility of integrating short-term and medium term credit structure with long-term credit structure at national, State, district and village levels in the context of the intensification of rural development programmes ;

(3) To consider the relative merits of three-tier and two-tier structures for co-operative financing institutions and suggest improvements, if any ;

(4) To study the consultancy services provided by the Agricultural Finance Corporation and suggest improvements for achieving satisfactory co-ordination between it and financing institutions;

(5) To review the role of the Reserve Bank of India in the field of rural credit having due regard to its central banking functions ; and

(6) To make recommendations on the above issues and other related matters.

4. The Committee will devise its own procedure and meet as often as necessary at such places as it may consider necessary. The Secretariat will be provided by the Reserve Bank of India and located in Bombay.

5. The Committee will submit its Report to the Reserve Bank of India on or before 31st December 1979.

(I. G. PATEL)
Governor

March 30, 1979

APPENDIX II

BILL TO ESTABLISH THE NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT (NABARD)

Preliminary

THE Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) set up by the Reserve Bank of India recommended in its Interim Report submitted to the Reserve Bank in November 1979, the setting up of a national level institution to be called the National Bank for Agriculture and Rural Development (NABARD) for providing all types of production and investment credit for agriculture and rural development and also to act as the agency for promoting integrated rural development. CRAFICARD also gave, in its Interim Report, the broad framework of the functional role and responsibilities of NABARD.

2. In a letter to the Governor, Reserve Bank of India, the Chairman of CRAFICARD had indicated that CRAFICARD would like to give precise formulation to its recommendations for the setting up of NABARD in the form of a draft Bill; to facilitate this, CRAFICARD desired to have the reaction of the Reserve Bank and the Government of India on its recommendations concerning the setting up of NABARD, contained in CRAFICARD's Interim Report.

3. While conveying the acceptance in principle by the Government of India and the Reserve Bank of the recommendation to set up NABARD, the Governor, Reserve Bank of India, also conveyed to the Chairman, CRAFICARD that CRAFICARD's suggestion to prepare the draft Bill for the setting up of NABARD was welcome and that early action may be taken by CRAFICARD in this regard and for this purpose, the help of the Reserve Bank staff may also be taken.

4. Accordingly, to assist CRAFICARD in drafting the Bill for the establishment of NABARD, a Working Group was set up in the Reserve Bank with Dr. H. B. Shivamaggi, Member-Secretary, CRAFICARD, as the Convenor and the following as its other members:

Shri H. C. Agarwal	*Jt. Chief Officer,* A.C.D., R.B.I.
,, R. Krishnan	*Dy. Legal Adviser,* Legal Deptt., R.B.I.
,, H. R. Karnik	*Director, A.R.D.C.*
,, J. R. Prabhu	*Dy. Chief Officer,* DBOD, R.B.I.

Sarvashri R. Sundaravaradan (Jt. Chief Officer, R.P.C. Cell), T. K. Velayudham (Director, CRAFICARD Secretariat) and M. S. Deosthali (Asstt. Chief Officer, CRAFICARD Secretariat) worked on the Group as permanent invitees.

5. The first draft of the Bill prepared by the Working Group was considered in the CRAFICARD's meeting held at New Delhi on 28th and 29th January 1980. CRAFICARD considered the final draft of the Bill on the 13th and 14th March 1980 at Bombay.

6. The draft Bill, together with an introductory note explaining the salient features of the draft Bill, as approved by CRAFICARD is appended. As stated in the Interim Report two members of CRAFICARD are not in favour of transferring statutory inspection work from RBI to NABARD.

7. CRAFICARD would like to place on record its deep appreciation of the skill and efforts put in by the Working Group in preparing the draft Bill. But for the hard and intelligent work of the members of the Working Group, it would not have been possible to prepare this Bill in such a short time.

INTRODUCTION TO THE DRAFT BILL TO ESTABLISH THE NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT

The enclosed Draft Bill is based on the recommendations of the Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD), contained in its Interim Report, for the setting up of a national level bank to be known as the National Bank for Agriculture and Rural Development (NABARD) and the further deliberations of CRAFICARD on this subject.

NABARD is conceived as an exercise in decentralisation of the Central Bank's function of providing all kinds of production and investment credit to agriculture, small scale industries, artisans, cottage and village industries, handicrafts and other allied economic activities in an integrated manner with undivided attention, pointed focus and forceful direction. NABARD is also charged with the responsibility of promoting integrated rural development and matters concerned therewith and incidental thereto. It is also conceived that NABARD will work in close unison with the Reserve Bank.

As regards purveying of credit, NABARD will be the principal financial institution providing short-term, medium-term and long-term credit to the institutional agencies purveying rural credit.

NABARD also would cater to the credit requirements of the industrial units in the small-scale, cottage, tiny and decentralised sectors, handicrafts, as also to artisans. It is envisaged that NABARD will be the instrument of social change, which will strive for integrated rural development.

With reference to NABARD, RBI will have the responsibility of spawning, fostering and nurturing the new institution. In its new role pertaining to matters of agriculture and rural development, RBI will guide and assist NABARD.

We now turn to a description of the salient features of the Bill, which is given chapterwise.

Chapter I– Preliminary

Apart from providing for the extent and commencement of NABARD Act, this chapter also deals with the definitional concepts.

In addition to the relevant definitions in the NABARD Act, there is also need for such definitions in the Reserve Bank of India Act and the Banking Regulation Act. Since NABARD will be the principal financing agency for rural development, the relevant definitions, as far as it could be, are aimed to be accommodated in the proposed NABARD Act itself. At the same time, it is also ensured that these deffinitional concepts have the same meaning in all the three statutes. The scheme that is adopted would ensure that should any occasion arise for changing any definition, it would not require separate amendments to all the three enactments.

Mention may be made of clause 2(m) which defines "rural development" and clause 2(j) which defines "primary rural credit society", which are now introduced for the first time. "Rural Development" would include all developmental activities relating to the production of goods or provision of services in rural areas and in particular developmental activities relating to handicrafts, small-scale, village and cottage industries in rural areas. "Rural area" for our purpose would mean a village, town or other locality, the population of which does not exceed 10,000 or such other figure as the Reserve Bank may specifiy. The definition of "primary rural credit society" gives statutory expression to the concept of multipurpose society which may have to be fostered by an institution like NABARD.

Chapter II—Establishment of NABARD

Apart from providing for the establishment of NABARD, this chapter provides that NABARD will, at all times, have equal capital contribution by the Central Government and RBI. This provision and the provision (made in Chapter III) for Deputy Governor of RBI to be the Chairman of NABARD are crucial to forge an organic link between RBI and NABARD.

Chapter III—Management of NABARD

The Board of NABARD will comprise, apart from the Chairman, who will be a Deputy Governor of RBI, and the directors who will be common in the Boards of both RBI and NABARD, experts in rural economics, rural development, men of experience in the working of co-operative and commercial banks and Central and State Government officials. Provision has also been made for the appointment of whole-time directors by the Central Government who will also form part of the Board.

We have also provided for the establishment of an Advisory Board to advise the Board of National Bank on matters of policy in the field of agriculture and rural development. The Advisory Board will comprise men with special knowledge in agricultural credit, agricultural practice, co-operation and rural economics.

We have ensured that the Chief Executive of NABARD (its Managing Director) requires no delegation for exercising his functions, except in areas where, by regulations or by decisions of the Board, it is otherwise indicated. However, the Chief Executive will function under the overall guidance and direction of the Chairman of NABARD.

Chapter IV—Transfer of business to NABARD

While the Agricultural Refinance and Development Corporation will be totally assimilated by NABARD, NABARD will also be vested with the assets and liabilities pertaining to the Reserve Bank's National Agricultural Credit (Long Term Operations) Fund and the National Agricultural Credit (Stabilisation) Fund. The National Bank would correspondingly create and maintain The National Rural Credit (Long-Term Operations) Fund and the National Rural Credit (Stabilisation) Fund, respectively.

Further, NABARD will take over the liability of SCBs and RRBs in respect of loans and advances already extended by RBI at the time of establishment of NABARD under Section 17 (excluding sub-section (4)) of the RBI Act, 1934 with all rights to recover the said dues. Provision is also made for RBI transferring to NABARD such items of property like office premises, staff quarters, etc., which NABARD may immediately require.

Chapter V—Borrowings by NABARD

NABARD may borrow by selling bonds or debentures in the market or borrow from RBI and Central Government. Its bonds and debentures shall be guaranteed by the Central Government as to the repayment of principal and payment of interest. NABARD may also borrow in foreign currency with the approval of the Central Government and in consultation with RBI. It may also borrow from National Industrial Credit (Long Term Operations) Fund maintained by RBI. An enabling provision is made providing for NABARD accepting deposits repayable in a period not less than 12 months, from the Central and State Governments, local authorities, a central land development bank, a state co-operative bank or a scheduled bank and any other person approved by the Central Government in this behalf This provision is intended mainly to enable NABARD to receive deposits, which NABARD may have to keep as incidental to its main business.

Chapter VI—Credit Functions of NABARD

Before suggesting the specific provisions pursuant to which NABARD will be extending all kinds of production and investment credit (short-term, medium-term and long-term), we have considered the existing statutory and other allied constraints subject to which the extension by RBI and ARDC of such form of credit is now hedged. We have thought it necessary to liberalise the statutory constraints, to a large extent, since many of these requirements are basically operational in character and there is no justification for providing a rigid statutory framework which will come in the way of the desired flexibility in the loaning operations of NABARD. NABARD should be the best judge of the situation and its ability to function with optimum efficiency should not in any way be affected by rigid statutory constraints.

Compared to the provisions that were earlier relevant in this context in the RBI Act and the ARDC Act, provisions suggested in the NABARD Act go to rationalise and simplify hem in their application. Consistent with the need for greater emphasis on credit-worthiness of the purpose, we have also reclassified the provisions concerning extension of credit with reference to the purpose for which they have to be extended. The difficulty which ARDC experienced in subscribing to the share capital of financial institutions in which such participation was considered necessary, is also sought to be removed by provisions on the lines of clause 27.

By way of clarification we would like to mention that credit facilities have been broadly classified into two categories viz. production credit and investment credit. Refinance facilities from NABARD in respect of production credit, which would be essentially of a short term nature, covers wide spectrum of activities undertaken in connection with agriculture and rural development and these would mainly be available to state cooperative banks and regional rural banks. While such refinance is not intended for commercial banks, NABARD Bill provides, by way of enabling provision, for such refinance facilities to any financial institution or a class of financial institution (this would cover commercial banks) which are approved by the Reserve Bank in this behalf.

For the sake of convenience investment credit is further sub-divided into medium term and long-term. This has been thought necessary to ensure that the existing facilities to state co-operative banks and regional rural banks for availment of medium-term agricultural credit of the nature of scattered type lending (as against projectivised lending) are not denied (clasuse 25). Such medium term loans are presently given by the RBI through the NAC (LTO) Fund. Commercial banks are not having this facility at present and this position may continue.

Similarly medium term conversion loans for production credit, which has to be given for agricultural purposes and to tide over situations, arising out of natural calamities like drought, famine, etc., is not intended to be extended through commercial banks, though, to provide for any circumstances that may arise in future, we have made provision to cover scheduled banks also (other than RRBs). Provision is also made for rescheduling production loans given to artisans, village and cottage industries, etc. in unforseen circumstances by extending medium term loans to the borrowing institution to repay NABARD loans in respect of production credit extended to it earlier.

Central land development banks as such have no occasion for availing short-term accommodation. To cover their bridging loan requirements, ARDC is now giving them special limits against Government guarantee as part of its extension of long-term credit. This practice may be continued by NABARD. The suggested provisions are adequate to provide for this.

As regards extension of investment credit (long-term), the NABARD Bill takes care of the existing facilities available to co-operatives and commercial banks.

Chapter VII—Other Functions of NABARD

NABARD is charged with the responsibility of co-ordinating its operations with those of other institutions engaged in the field of rural development. Provision has been made to enable NABARD to provide facilities for training, dissemination of information and promotion of research in the field of rural banking, agriculture and rural development. In the discharge of these functions, NABARD may also collect such credit information as it may require and share the same with the Central Government and RBI.

Chapter VIII—Funds, Accounts and Audit

Under the new arrangement, RBI will be the overall credit authority and NABARD will be concerned with the details of management and deployment of rural credit. Considering the relative role of RBI and NABARD, we have considered it advisable to provide for NABARD establishing and maintaining a National Rural Credit (Long Term Operations) Fund and a National Rural Credit (Stabilisation) Fund and for the transfer to these Funds of the National Agricultural Credit (Long Term Operations) Fund and the National Agricultural Credit (Stabilisation) Fund now maintained with RBI. Substantially, the function of these two Funds will continue to be the same, except that the National Rural Credit (Long Term Operations) Fund will also be available for refinancing rural development and rescheduling of loans to artisans, etc. We have also provided for RBI making annual contributions to the National Rural Credit (Long Term Operations) Fund and the

National Rural Credit (Stabilisation) Fund. NABARD will also make such annual contribution to these Funds as it may be in a position to provide for. NABARD is not confined to the resources available in these Funds in extending long-term and medium-term rural credit, though these funds would provide a major part of the sources for the same.

Consistent with the role envisaged for promoting research and development in the field of agriculture and rural development and having regard to the significance of this role and the funds that may be required for this purpose, we have specially provided for NABARD maintaining a Research and Development Fund. For building up the Fund, we have provided that the profit transferable to the Central Government and RBI shall be credited to this Fund for a period of 15 years. This is in line with what RBI has done with reference to dividends payable to it on the shares held in the capital of ARDC. NABARD should also allocate to this Fund every year such sums of money as its Board may consider necessary from out of its annual profits.

In addition, there is also provision for NABARD building up a Reserve Fund and such other funds as its Board may consider necessary from the available resources including any grants which it may receive and which may be earmarked for this purpose.

Chapter IX—Staff

It is necessary that NABARD should have its own cadre of staff. At the same time, the staff now with ARDC and those concerned with such functions of RBI as would be transferred to NABARD may have to form the nucleus for building the initial complement of staff which NABARD would require. For this purpose, provisions on the lines provided at the time IDBI was delinked from RBI have been adopted with necessary adaptations.

Apart from the staff associated with the RBI/ARDC work transferred to NABARD, forming the initial complement of NABARD staff, we have also made an enabling provision under which NABARD will be able to draw from the other staff of RBI, whose experience and expertise NABARD may consider useful in its functioning. We have also suggested provision for continuity of conditions of service and other regulations relating to staff to facilitate NABARD going ahead with its main business and not immediately being bogged down with preliminary organisational details.

Chapter X—Miscellaneous

NABARD will be saved from any liability under the Income-tax Act and the Super Profits Tax Act with reference to any income-profits or gains that may accrue to it or with reference to any amount it may receive. Such a provision is necessary having regard to the objectives of NABARD and the fact that it will be jointly owned by the Central Government and RBI.

For the matters prescribed and for other matters which the Board may consider expedient or necessary, there is provision for Regulations to be made.

The Central Government is given powers to remove any difficulty that may arise in the implementation of the provisions of the Act by an order not inconsistent with the provisions of the Act.

Section 60 of this Chapter provides for amendments to other enactments as set out in the Second Schedule to the NABARD Act.

First Schedule :

Form of declaration of fidelity and secrecy.

Second Schedule—Amendments to other enactments

Amendments to RBI Act, 1934 :

The changes to the definitional clauses follow the principles we have set out earlier. The proposed new sub-section 17(4AA) provides for RBI contributing to the NRC (LTO)

Fund and NRC (Stabilisation) Fund, which are now to be maintained by NABARD. The proposed clause 17(4E) would enable RBI to provide such short-term accommodation, as NABARD may require against securities or otherwise. It is presumed that as regards NABARD's short-term needs, RBI will be providing funds under this provision. This will obviate NABARD being bracketed along with scheduled banks or state co-operative banks with reference to RBI's short-term lending under the several other provisions of Section 17.

State co-operative banks and regional rural banks will be having transactions with RBI pursuant to their general banking business and will be maintaining accounts with RBI.

After the setting up of NABARD, it is presumed that regional rural banks, though they are scheduled banks, will avail of refinance only from NABARD and not from RBI. Similarly, State co-operative banks will hereafter look to NABARD and not to RBI for their credit requirements. However, as a measure of abundant caution, we have thought it safer not to delete the statutory provision which now provides for all scheduled banks (this includes RRBs) and state co-operative banks having access to RBI for obtaining short-term refinance facilities. In the result, the statutory provisions concerning the provision of short-term credit to regional rural banks and state co-operative banks are left to be flexible, so that, if any special occasion arises, the access to RBI is not completely closed.

RBI will also continue to provide accommodation that may be necessary in such special circumstances as are envisaged in Section 18 of the RBI Act.

Under section 33(3), RBI may hold its assets in the Issue Department, inter alia, in the form of such bills and promissory notes payable in India as are eligible for purchase under section 17(2) (a), 17(2)(b), 17(2)(bb) or under section 18(1). As it is, these bills and notes may also include those purchased or discounted by state co-operative banks or other scheduled banks which are drawn or issued for the purpose of financing agricultural operations or the marketing of crops. Consequent on the establishment of NABARD, such bills and notes will be held only by NABARD and not by RBI. Hence, they will cease to be assets available to RBI to be held in its Issue Department. However, if NABARD's promissory notes are made eligible for this purpose (and they should be), there may be no difficulty concerning the assets available to RBI in its Issue Department. We are leaving to RBI to consider the changes if any that may be necessary for this purpose.

We have provided an enabling provision in section 42 of the RBI Act, which would enable RBI to act on a certificate of NABARD on a question whether or not a state co-operative bank or a regional rural bank satisfies the requirements as to share capital and reserves and whether their affairs are being conducted in a manner not detrimental to the interests of the depositors. Since NABARD will be inspecting state co-operative banks and regional rural banks, it would be in a position to issue such a certificate.

Section 45 of the RBI Act deals with institutions which can act as the agent of RBI. Even after nationalisation of the major commercial banks, the statutory provisions are so worded as if only the State Bank of India is to be ordinarily the exclusive agent of RBI. The Banking Commission has recommended that public sector banks should be placed on par with reference to their eligibility to be the agents of RBI. Since the general rule set out in Section 45, which favours only SBI, is not yet relaxed, we feel that opportunity may be availed of to amend Section 45 to place public sector banks on par with SBI in this regard. We are leaving it to RBI to amend Section 45, suitably for this purpose if it agrees with us. However, we have suggested a specific provision in Section 45 which would enable NABARD to act as the agent of RBI.

BBI's role in the field of rural credit as envisaged under section 54 of its Act has now been recast by us consistent with the respective responsibilities hereafter of the RBI and NABARD in this field.

We may also mention that consequent on the provisions which we have suggested in the NABARD Bill, clause 6 of the Banking Laws (Amendment) Bill, 1978, which aims to amend the provisions relating to the National Agricultural Credit (Stabilisation) Fund may become unnecessary. In the provisions we have suggested concerning this Fund, in the NABARD Bill, we have taken care of the objective underlying clause 6 of the Banking Laws (Amendment) Bill, 1978.

Amendments to Banking Regulation Act, 1949

The rationale set out earlier concerning the changes in the definitional concepts will also explain the changes suggested to the definitional clauses in the Banking Regulation Act.

Both in regard to regional rural banks and co-operative banks (other than primary co-operative banks), the amendments suggested aim to achieve that—

(*i*) NABARD will ordinarily be the inspecting authority, which would combine in itself the responsibilities envisaged both for developmental and statutory inspections. It is also provided for RBI being empowered to conduct test inspections, whenever it considers it necessary.

(*ii*) NABARD will receive, in the first instance, applications for opening branches and forward the same to RBI with its comments, since, having regard to the criterion envisaged for sanctioning branch licences, NABARD will be in a position to assist RBI in taking decisions on them; and

(*iii*) NABARD will receive such returns and other data concerning regional rural banks and State Co-operative banks as would facilitate NABARD keeping a close watch over the performance, health and viability of the institutions.

The statutory definition of 'Primary Co-operative bank' is understood as conforming to the description of an urban co-operative bank. As regards such urban co-operative banks, we have considered it as not desirable to vest NABARD with the responsibility for their inspection or any allied regulatory function, since these urban co-operative banks are essentially urban oriented and their contribution to rural development is, as such, negligible. Moreover, their function is more akin to that of commercial banks and hence their inspection etc. should be properly the responsibility of the Reserve Bank. We presume that notwithstanding the statutory allocation of responsibilities, healthy conventions will be developed whereby, with reference to enforcement of banking regulation, both RBI and NABARD will act in mutual consultation with reference to institutions operating in the field of agriculture and rural development.

Consequent on NABARD's role as an inspecting authority under section 35, it may become necessary for NABARD also to take cognisance of any contravention that may occur while proceeding with the inspection. Hence, we have provided for NABARD also being empowered to initiate penal proceedings. It is expected that NABARD will act in consultation with RBI in this regard.

Amendments to Industrial Disputes Act/Payment of Bonus Act

These are consequential.

DICGC Act

The inspections which RBI conducts are also on behalf of the Deposit Insurance and Credit Guarantee Corporation (DICGC). Under its Act, DICGC may request RBI to conduct inspection and RBI may carry it out either through its own officials or entrust the responsibility to any agency, which RBI may determine (Section 36).

In view of this, RBI may designate NABARD as its agent with reference to inspections that NABARD may carry out concerning insured banks. Hence, we have not thought it necessary to suggest any amendment to the DICGC Act for this purpose.

RRB Act

Concerning the Regional Rural Banks Act, we find that no amendment needs to be suggested at this stage. However, the provisions of the RRB Act may have to be reviewed in the light of the recommendations of the Dantwala Committee and the role of NABARD with reference to regional rural banks.

In conclusion, we may also mention that consequent on the provisions contained in the NABARD Bill some of the amendments suggested to the Banking Regulation Act, 1949, in the provisions in the Banking Laws (Amendments) Bill, 1978, may require some modification (example clause 11), and we presume that the Government and the Reserve Bank will keep this in view.

STATEMENT OF OBJECTS AND REASONS

This Bill is intended to provide for the establishment of a national level institution for purveying all types of credit to agriculture, agricultural operations and rural development and for the promotion of integrated rural development.

2. While the new institution, to be called the National Bank for Agriculture and Rural Development (NABARD), would be an independent corporation and follow its own rules and procedure and develop its own culture, it will act in close unison with the Reserve Bank of India and have organic links with the latter. Further, it would, in discharging its functions, be subject to the overall monetary policy which the Reserve Bank may formulate and lay down in its role as the Central Bank and the monetary authority of the country.

3. The Committee appointed by the Reserve Bank of India to Review Arrangements for Institutional Credit for Agriculture and Rural Development, chaired by Shri B. Sivaraman, had suggested the establishment of NABARD. This Bill is based on the Draft Bill prepared by that Committee for this purpose.

4. The Notes explain the various provisions contained in the Bill.

THE NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT BILL, 1980

ARRANGEMENT OF SECTIONS

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Sections

PRELIMINARY

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Chapter III

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CHAPTER VIII

FUNDS, ACCOUNTS AND AUDIT

THE NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT BILL, 1980

No. OF 1980

A Bill to establish the National Bank for Agriculture and Rural Development for promoting integrated rural development;

And for providing all kinds of production and investment credit, with undivided attention pointed focus and forceful direction, to agriculture, small-scale industries, artisans, cottage and village industries, handicrafts and other allied economic activities in rural areas;

And for matters connected therewith and incidental thereto, and further to amend certain enactments.

CHAPTER I

PRELIMINARY

Short title, extent and commencement

1. (1) This Act may be called the National Bank for Agriculture and Rural Development Act, 1980.

(2) It extends to the whole of India.

(3) It shall come into force on such date as the Central Government may, by notification in the Official Gazette, appoint, and different dates may be appointed for different provisions of this Act, and any reference in any provision to the commencement of this Act shall be construed as the reference to the coming into force of that provision.

Definitions

2. In this Act, unless the context otherwise requires,—

(*a*) "agriculture" or "agricultural operations" includes animal husbandry, forestry, dairy and poultry farming, pisciculture, and other allied activities, whether or not taken jointly with agricultural operations;

Explanation I: For the purposes of this clause, "pisciculture" includes the development of fisheries, both inland and marine, catching of fish and all activities connected therewith or incidental thereto;

Explanation 2: Whenever question arises whether a transaction undertaken by the National Bank is for the purpose of providing finance or refinance for the development of "agriculture" or "agricultural operations" as defined in this clause, the decision of the Board shall be final;

(*b*) "Agricultural Refinance and Development Corporation" means the Agricultural Refinance and Development Corporation established under section 3 of the Agricultural Refinance and Development Corporation Act, 1963;

(*c*) "Board" means the Board of Directors of the National Bank;

(*d*) "Central co-operative bank" means the principal co-operative society in a district in a State, the primary object of which is the financing of other co-operative societies in that district:

Provided that in addition to such principal society in a district, or where there is no such principal society in a district, the State Government may declare any one or more co-operative societies carrying on the business of financing other co-operative societies in that district to be a central co-operative bank or banks within the meaning of this definition;

(*e*) "Co-operative society" means a society registered, or deemed to be registered, under the Co-operative Societies Act, 1912, or under any other law relating to co-operative societies for the time being in force in any State;

(*f*) "Crops" includes products of agricultural operations;

(*g*) "central land development bank" means the principal land development bank in a State, the primary object of which is the providing of long-term finance for agricultural development, by whatever name called, registered or deemed to be registered, under the Co-operative Societies Act, 1912, or under any other law relating to co-operative societies for the time being in force in any State:

Provided that, in addition to such principal land development bank in a State, or where there is no such bank in a State, the State Government may declare any co-operative society carrying on business in that State and authorised by the bye-laws of such co-operative society to provide long-term finance for agricultural development to be a central land development bank within the meaning of this Act;

(*h*) "marketing of crops" includes the processing of crops prior to marketing by any agricultural producers or any organisation of such producers;

(*i*) "National Bank" means the National Bank for Agriculture and Rural Development established under section 3 of this Act;

(*j*) "primary rural credit society" means a co-operative society, by whatever name called,—

(1) which has as its object or business the provision of financial accommodation to its members for agriculture or agricultural operations or for the marketing of crops, or for rural development; and

(2) the bye-laws of which do not permit admission of any other co-operative society as member:

Provided that this sub-clause shall not apply to the admission, as a member, of a co-operative society, which is a State co-operative bank or a central co-operative bank by reason of such bank subscribing to the share capital of the co-operative society out of funds provided by the State Government for the purpose;

(*k*) "Prescribed" means prescribed by regulations made under this Act;

(*l*) "regional rural bank" means a regional rural bank established under Section 3 of the Regional Rural Banks Act, 1976;

(*m*) "rural development" includes developmental activities relating to production of goods or provision of services in rural areas and in particular developmental activities relating to handicrafts, small-scale, village and cottage industries;

Explanation 1: "rural area", for the purposes of this clause, means a village, town or other locality, the population of which does not exceed ten thousand or such other figure as the Reserve Bank may specify from time to time;

Explanation 2: Whenever any question arises whether a transaction undertaken by the National Bank is for the purpose of financing or promoting rural development, the decision of the Board shall be final;

(*n*) "Reserve Bank" means the Reserve Bank of India established under Section 3 of the Reserve Bank of India Act, 1934;

(*o*) "scheduled bank" means a bank included in the Second Schedule to the Reserve Bank of India, Act, 1934;

(*p*) "State co-operative bank" means the principal co-operative society in a State, the primary object of which is the financing of other co-operative societies in the State:

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 within the meaning of this definition.

(*q*) words and expressions used herein and not defined but defined in the Reserve Bank of India Act, 1934, shall have the meanings respectively assigned to them in that Act;

(*r*) words and expressions used herein and not defined either in this Act or in the Reserve Bank of India Act, 1934, but defined in the Banking Regulation Act, 1949, shall have the meanings respectively assigned to them in the Banking Regulation Act, 1949.

CHAPTER II

ESTABLISHMENT OF THE NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT AND CAPITAL THEREOF

Establishment and incorporation of National Bank for Agriculture and Rural Development

3. (1) With effect from such date as the Central Government may, by notification in the Official Gazette, appoint, there shall be established for the purposes of this Act, a Corporation to be known as the National Bank for Agriculture and Rural Development.

(2) The National Bank shall be a body corporate with the name aforesaid having perpetual succession and a common seal with power, subject to the provisions of this Act, to acquire, hold and dispose of property and to contract, and may, by that name, sue or be sued.

(3) The head office of the National Bank shall be at Bombay or at such other place as the Central Government may, in consultation with the Reserve Bank, by notification in the Official Gazette, specify.

(4) The National Bank may establish offices, branches or agencies at any place in India, and with the previous approval of the Central Government and in consultation with the Reserve Bank, at any place outside India.

Capital

4 (1) The capital of the National Bank shall be one hundred crores of rupees:

Provided that the Central Government may, in consultation with the Reserve Bank and by notification in the Official Gazette, increase the said capital upto five hundred crores of rupees.

(2) The capital of the National Bank shall be subscribed to by the Central Government and the Reserve Bank in such a manner that at any time their respective contribution to the capital is always of equal amounts.

CHAPTER III

MANAGEMENT OF THE NATIONAL BANK

Management

5. (1) The general superintendence, direction and management of the affairs and business of the National Bank shall vest in a Board of Directors, which shall exercise all powers and do all acts and things which may be exercised or done by the National Bank.

(2) Subject to the provisions of this Act, the Board in discharging its functions, shall act on business principles with due regard to public interest.

(3) Subject to the provisions of sub-section (1) and save as otherwise provided in the regulations made under this Act, the Managing Director shall also have powers of general superintendence, direction and management of the affairs and business of the National Bank and may also exercise all powers and do all acts and things which may be exercised or done by the National Bank.

(4) Any whole-time director appointed under sub-section (3) of Section 6 shall assist the Managing Director in the discharge of his functions under sub-section (3) and perform such duties as the Board may entrust or delegate to him.

(5) In the discharge of his powers and functions under sub-section (3), the Managing Director of the National Bank shall follow such guidance and direction as the Chairman of the Board may provide.

(6) In the discharge of its functions under this Act, the National Bank shall be guided by such directions in matters of policy involving public interest as the Reserve Bank may give to it in writing.

Board of Directors

6.(1) The Board of Directors of the National Bank shall be nominated by the Central Government in consultation with the Reserve Bank, and in addition to the Managing Director appointed under Section 10, shall consist of the following :—

(*a*) a Deputy Governor of the Reserve Bank, who shall be the Chairman of the Board ;

(*b*) two directors from amongst the experts in rural economics, rural development, handicrafts, village and small industries or in any other matter, the special knowledge or professional experience in which, is considered by the Central Government as useful to the National Bank ;

(*c*) three directors with experience in the working of cooperative and commercial banks ;

(*d*) three directors, excluding the Chairman of the Board, nominated from out of the directors of the Central Board of Directors of the Reserve Bank ;

(*e*) three directors nominated from amongst the Central Government officials ; and

(*f*) two directors from amongst the State Government officials.

(2) The Central Government may designate any member of the Board, other than the Chairman and any whole-time director, as the Vice-Chairman of the Board.

(3) The Central Government may also appoint, in consultation with the Reserve Bank, one or more whole-time directors with such designations as may be considered appropriate by that Government and any whole-time director so appointed shall also be a member of the Board.

Term of office and retirement of directors and payment of fees to them

7. (1). A director nominated under clauses (*a*) to (*f*) of sub-section 1 of Section 6 shall hold office for a period of three years :

Provided however the Central Government may, in consultation with the Reserve Bank, remove any such director at any time before the expiry of the said term.

(2) A director of the National Bank shall be paid such fees and allowances as may be prescribed for attending the meetings of the Board or of any of its committees and for attending to any other work of the National Bank :

Provided that no such fees shall be payable to the Chairman, Managing Director, whole-time director or any other director, who is an officer of the Government or of the Reserve Bank.

Disqualifications

8. No person shall be a director who —

(*a*) is, or at any time has been, adjudicated insolvent or has suspended payment of his debts or has compounded with his creditors ; or

(*b*) is of unsound mind and stands so declared by a competent court ; or

(*c*) is or has been convicted of any offence which, in the opinion of the Central Government, involves moral turpitude.

Vacation and resignation of office by directors

9. (1) If a director—

(*a*) becomes subject to any of the disqualifications mentioned in section 8 ; or

(*b*) is absent without leave of the Board for more than three consecutive meetings thereof, his seat shall thereupon become vacant.

(2) Any director nominated under clause (*a*) to clause (*f*) of sub-section 1 of section 6 may resign his office by giving notice thereof in writing to the Central Government and, on such resignation being accepted by the Central Government, shall be deemed to have vacated his office.

Managing Director and whole-time directors

10. (1) The Managing Director and any whole-time director appointed under sub-section (3) of section 6 shall –

(*a*) be appointed by the Central Government in consultation with the Reserve Bank, and except in the case of appointment at the time of establishment of the National Bank also in consultation with the Board,

(*b*) hold office for such term not exceeding five years as the Central Government may, at the time of their appointment, specify and be eligible for reappointment, and

(*c*) receive such salary and allowances and be governed by such terms and conditions of service as the Board may determine with the previous approval of the Central Government and in consultation with the Reserve Bank.

Provided that the Managing Director and any whole-time director appointed at the time of establishment of the National Bank shall receive such salary and allowances and be governed by such terms and conditions of service as the Central Government may, in consultation with the Reserve Bank, determine.

(2) The Central Government may at any time, after consulting the Reserve Bank and the Board, remove the Managing Director or any whole-time director from office.

Casual vacancy in the office of Managing Director

11. If the Managing Director is by infirmity or otherwise rendered incapable of carrying out his duties or is absent on leave or otherwise, in circumstances not involving the vacation of his appointment, the Central Government may, after consultation with the Reserve Bank and the Board, appoint another person to act in his place during his absence.

Meetings of Board

12 (1). The Board shall meet at such times and places and shall observe such rules of procedure in regard to the transaction of business at its meetings as may be prescribed.

(2) The Chairman of the Board, or, in his absence the Vice-Chairman, or if for any reason neither the Chairman nor the Vice-Chairman is able to attend the meeting of the Board, any director nominated by the Chairman in this behalf, and in the absence of such nomination, any director elected by the directors present at the meeting, shall preside at the meeting of the Board.

(3) All questions which come up before any meeting of the Board shall be decided by a majority of votes of the members present and voting, and in the event of an equality of votes, the Chairman of the Board, or, in his absence, the person presiding, shall have a second or casting vote.

Committees of National Bank

13 (1). The Board may constitute an Executive Committee consisting of such number of directors as may be prescribed.

(2) The Executive Committee shall discharge such functions as may be prescribed or may be delegated to it by the Board.

(3) The Board may constitute such other committees, whether consisting wholly of directors or wholly of other persons or partly of directors and partly of other persons as it thinks fit and for such purposes as it may decide and every committee so constituted shall discharge such functions as may be delegated to it by the Board.

(4) A committee constituted under this section shall meet at such times and places and shall observe such rules and procedure in regard to the transaction of business at its meetings, as the Board may specify.

(5) The members of a committee (other than the directors of the Board) shall be paid by the National Bank such fees and allowances as the Board may specify for attending the meetings of the Committee and for attending to any other work of the National Bank.

Advisory Board

14 (1) The Board shall constitute an Advisory Board consisting of such number of directors and such other persons who, in the opinion of the Board, have special knowledge in agricultural credit, agricultural practice, co-operation and rural economics, including those with expert knowledge in small-scale industries, village and cottage industries and handicrafts or with other special knowledge or professional experience which is considered by the Board as useful to the National Bank;

(2) The Advisory Board shall advise the National Bank in such matters as may be referred to the Advisory Board by the National Bank and may discharge such other functions as may be entrusted or delegated to the Advisory Board by the National Bank;

(3) A member of the Advisory Board shall hold office for such term not exceeding five years as the National Bank may specify and be eligible for re-appointment, and receive such fees and allowances as may be

prescribed for attending the meetings of the Advisory Board and for attending to any other work of the National Bank ;

(4) The Advisory Board shall meet at such times and places and shall observe such rules and procedure in regard to transaction of business at its meeting as may be prescribed.

Member of Board or Committee thereof not to participate in meetings in certain cases

15. A director of the Board or a member of the Committee, who has any direct or indirect pecuniary interest in any matter coming up for consideration at a meeting of the Board or a committee thereof, shall, as soon as possible after relevant circumstances have come to his knowledge, disclose the nature of his interest at such meeting, and the disclosure shall be recorded in the minutes of the Board, or of the Committee, as the case may be, and the director or member shall not take any part in any deliberation or decision of the Board or the Committee with respect to that matter.

Chapter IV

TRANSFER OF BUSINESS TO THE NATIONAL BANK

Transfer of assets and liabilities of Agricultural Refinance and Development Corporation

16. (1) On such date as the Central Government, in consultation with the Reserve Bank may, by notification in the Official Gazette, appoint, the entire undertaking of the Agricultural Refinance and Development Corporation (hereinafter in this Chapter referred to as the 'Corporation') including all business, property, assets and liabilities, rights, interests, privileges and obligations of whatever nature, shall stand transferred to and vest in the National Bank.

(2) As compensation for the transfer of the undertaking of the Corporation to the National Bank under sub-section (1), the National Bank shall pay in cash to the shareholders of the Corporation whose names appear on the books of the Corporation, on the date notified under sub-section (1), an amount aggregating the total paid-up capital of the Corporation, and this amount the National Bank shall distribute to the shareholders of the Corporation in proportion to their contribution to such paid-up capital.

(3) The National Bank shall also pay to the shareholders of the Corporation referred to in sub-section (2) an amount calculated at the rate at which the shares of the Corporation were guaranteed as to the payment of minimum dividend under section 6 of the Agricultural Refinance and Development Corporation Act, 1963, for the period, if any, that has expired in the accounting year of the Corporation when the notification is issued under sub-section (1) and this amount the National Bank shall distribute to the shareholders of the Corporation referred to in sub-section (2) in proportion to the shares held by such shareholders on the date notified under sub-section (1) and at the rate at which such shares are guaranteed as to the payment of minimum dividend.

(4) All contracts, deeds, bonds, agreements, powers of attorney, grants of legal representation and other instruments of whatever nature subsisting or having effect immediately before the date referred to in sub-section (1), and to which the Corporation is a party, or which are in favour of the Corporation, shall be of full force and effect against or in favour of the National Bank, as the case may be, and may be enforced or acted upon as fully and effectually as if instead of the Corporation the National Bank had been a party thereto, or as if they are in favour of the National Bank.

(5) If, on the date referred to in sub-section (1), any suit, appeal or other legal proceeding of whatever nature, is pending, by or against the Corporation, the same shall not abate, be discontinued or be in any way

prejudicially affected by reason of the transfer to the National Bank of the undertaking of the Corporation, or of anything contained in this Act, but the suit, appeal or other proceeding may be continued, prosecuted and enforced, by or against the National Bank.

Dissolution of the Corporation

17. On the date notified under sub-section (1) of Section 16 —

(a) the Corporation shall stand dissolved; and
(b) the Agricultural Refinance and Development Corporation Act, 1963 shall be repealed.

Transfer of business from Reserve Bank

18. (1) On such date as the Central Government, may, in consultation with the Reserve Bank, by notification in the Official Gazette, appoint, the assets and liabilities with the Reserve Bank relating to —

(a) the National Agricultural Credit (Long Term Operations) Fund established under section 46A of the Reserve Bank of India Act, 1934, and
(b) the National Agricultural Credit (Stabilisation) Fund established under section 46B of the Reserve Bank of India Act, 1934,

shall stand transferred to the National Bank and form part of the National Rural Credit (Long Term Operations) Fund and the National Rural Credit (Stabilisation) Fund respectively, established and maintained by the National Bank in terms of Sections 43 and 44, respectively.

(2) On such date as the Central Government, may, in consultation with the Reserve Bank, by notification in the Official Gazette, appoint, the loans and advances which the Reserve Bank has granted to state cooperative banks and regional rural banks under Section 17 (excluding sub-section (4)) of the Reserve Bank of India Act, 1934, and which the Reserve Bank may specify by a general or special order, shall, as far as may be, deemed to be loans and advances granted by the National Bank under section 22, and the National Bank shall be obliged to repay to the Reserve Bank, the amount of such liabilities on such terms and conditions as the Central Government may specify, in consultation with the Reserve Bank.

(3) On the date notified under sub-section (1) or (2), as the case may be, the rights, liabilities, interests, privileges and obligations of whatever nature, including the rights and obligations arising by way of purchase, sale and rediscount of any bills of exchange and promissory notes, which are related to the assets and liabilities referred in sub-section (1) or (2), as the case may be, shall stand transferred to and vest in the National Bank.

(4) All contracts, deeds, bonds, agreements, powers of attorney, grants of legal representation and other instruments of whatever nature subsisting, or having effect immediately before the date referred to in sub-section (1) or (2), as the case may be, and relating to the Funds, or loans and advances, so transferred in favour of the National Bank in terms of sub-section (1) or (2), as the case may be, shall be of full force and effect against, or in favour of, the National Bank, as the case may be, and may be enforced or acted upon as fully and effectually as if instead of the Reserve Bank, the National Bank had been a party thereto, or as if they are in favour of the National Bank.

(5) If, on the date referred to in sub-section (1) or (2), as the case may be, any suit, appeal or other legal proceedings of whatever nature concerning the Funds, or loans and advances, so transferred in favour of the National Bank in terms of sub-section (1) or (2), as the case may be, is pending, by or against the Reserve Bank, the same shall not abate, be discontinued, or be in any way prejudicially affected by reason of the transfer to the National Bank, of the Funds, or of the loans or advances, but the suit, appeal or other proceedings may be continued, prosecuted and enforced, by or against the National Bank.

Transfer of certain assets of Reserve Bank

19 (1) On such date as the Central Government may, in consultation with the Reserve Bank, by notification in the Official Gazette, appoint, such premises or portion of premises such as office premises, staff quarters and such other properties of the Reserve Bank as may be specified in the Notification, shall vest in the National Bank;

(2) With reference to any such property as is transferred under sub-section (1), all rights, interests, privileges and obligations of whatsoever nature, shall stand transferred to and vest in the National Bank from the date of such Notification, and in respect of any such transfer, the provisions of sub-sections (4) and (5) of Section 18 shall, as far as may be, apply.

CHAPTER V

BORROWINGS BY THE NATIONAL BANK

Borrowings by the National Bank

20. The National Bank may, for the purpose of carrying out its functions under this Act,

(*a*) issue and sell bonds and debentures carrying interest, which bonds and debentures shall be guaranteed by the Central Government as to the repayment of principal and payment of interest at such rates as may be fixed by the Central Government in consultation with the Reserve Bank at the time the bonds or debentures are issued;

(*b*) borrow money from the Reserve Bank:-

(i) repayable on demand or on the expiry of fixed periods not exceeding eighteen months from the date of the making of the loans or advance, on such terms and conditions including the terms relating to security and purpose as may be specified by the Reserve Bank;

(ii) out of the National Industrial Credit (Long Term Operations) Fund established under section 46C of the Reserve Bank of India Act, 1934;

(*c*) borrow money from the Central Government and from any other authority or organisation or institution approved by that Government, on such terms and conditions as may be agreed upon ;

(*d*) accept from the Central Government, a State Government, a local authority, a central land development bank, a state co-operative bank or a scheduled bank or any other person approved by the Central Government in this behalf, deposits repayable after the expiry of a period which shall not be less than twelve months from the making of such deposit and on such other terms as the National Bank may, with the prior approval of the Reserve Bank specify ; and

(*e*) receive gifts, grants, donations or benefactions from Government or any other source.

Borrowings in foreign currency

21 (1) Notwithstanding anything contained in the Foreign Exchange Regulation Act, 1947, or in any other law for the time being in force relating to foreign exchange, the National Bank may borrow, with the previous approval of the Central Government and in consultation with the Reserve Bank, foreign currency from any bank or financial institution in India or elsewhere.

(2) The Central Government may guarantee loans taken by the National Bank under sub-section (1) as to the repayment of principal and the payment of interest thereon and other incidental charges.

CHAPTER VI

CREDIT FUNCTIONS OF THE NATIONAL BANK

Production credit

22 (1) The National Bank may provide by way of refinance, loans and advances, repayable on demand or on the expiry of fixed periods not exceeding eighteen months, to state co-operative banks, regional rural banks, or to any financial institution or to any class of financial institutions which are approved by the Reserve Bank in this behalf, for financing —

(*i*) agricultural operations or the marketing of crops, or
(*ii*) any other activity in the field of agriculture or rural development, or
(*iii*) the marketing and distribution of inputs necessary for agriculture or rural development, or
(*iv*) bona-fide commercial or trade transactions, or
(*v*) the production or marketing activities of artisans or of small scale industries including village and cottage industries, handicrafts and the industries in the tiny and decentralised sector.

(2) The National Bank may make loans and advances under sub-section (1) against the security of —
(*i*) stocks, funds and securities other than immovable property, in which a trustee is authorised to invest trust money by any law for the time being in force ;
(*ii*) promissory notes supported by documents of title to goods, such documents having been transferred, assigned or pledged to the borrowing institution as security for a loan or advance made for any of the purposes specified in sub-section (1) :

Provided, however, the National Bank may, whenever it considers it necessary to do so, accept, in lieu of the actual assignment of any such security in favour of the National Bank, a declaration in writing from the borrowing institution that it holds such documents of the title to goods as set out in the declaration, and the said declaration also includes such other particulars as may be required by the National Bank.

(3) The National Bank may, whenever it considers necessary to do so, not insist on security in terms of sub-section (2) when, with reference to a state co-operative bank —

(*i*) if it is a scheduled bank, the loan or advance is secured either by bill of exchange or promissory note executed by a central co-operative bank and assigned in favour of the borrowing institution or the loan or advance is fully guaranteed as to the repayment of the principal and payment of interest, by a Government ; and

(*ii*) if it is not a scheduled bank, the loan or advance is fully guaranteed as to the repayment of the principal and payment of interest, by a Government.

(4) Notwithstanding anything contained in sub-section (2) and (3), the National Bank may also make loans and advances repayable on demand or on the expiry of fixed periods not exceeding 18 months against promissory notes of a state co-operative bank or a regional rural bank or an institution approved under sub-section (1) :

Provided that the borrowing institution furnishes a declaration in writing to the effect that it has made loans and advances for the purpose specified in the declaration and the said declaration includes also such other particulars as may be required by the National Bank.

Conversion loan for production credit

23. The National Bank may provide such financial assistance as it may consider necessary by way of making loans and advances to state co-operative banks or regional rural banks or any financial institution or class of financial institutions, which are approved by the Reserve Bank in this behalf, repayable on the expiry of fixed periods not exceeding seven 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 National Bank :

Provided that loans and advances may be made under this section only for the purpose of enabling the state co-operative bank or a regional rural bank or a financial institution or class of financial institution which are approved by the Reserve Bank in this behalf,—

(*i*) to pay any dues to the National Bank for credit extended for financing agriculture or agricultural operations under section 22, or ;

(*ii*) to make to central co-operative banks or primary rural credit societies, loans or advances repayable on the expiry of fixed periods not being less than eighteen months and not exceeding seven years, from the date of making such loan or advance by way of reimbursement of loans and advances made by such co-operative banks or societies for agriculture or agricultural operations or for reimbursement of such loans or advances which have been converted into loans or advances repayable on expiry of fixed periods not being less than eighteen months and not exceeding seven years from the date of conversion :

Provided further such loans and advances may not be made under this section unless the National Bank forms an opinion that owing to drought, famine or other natural calamities, military operations or enemy actions, the making of the said loans and advances are rendered necessary :

Provided further no loan or advance shall be made under this section unless such loan or advance is fully guaranteed as to the repayment of the principal and payment of interest, in the case of loans and advances to state co-operative banks, by the State Government.

Rescheduling of loans to artisans, village industries, etc.

24. The National Bank may provide such financial assistance as it may consider necessary by way of making to state Co-operative banks, regional rural banks or any financial institution or class of financial institutions which are approved by the Reserve Bank in this behalf, loans and advances repayable on the expiry of fixed periods not being less than eighteen months and not exceeding seven years from the date of making such loan or advance, against such securities as may be specified in this behalf by the National Bank and such loans and advances may be made to repay National Bank loans for production credit given under section 22(1)(v) and to enable the borrowing institutions to reschedule such loans made to artisans, small scale industries, including village and cottage industries and industrial units in the tiny and decentralised sector :

Provided that such loans and advances are fully guaranteed as to the repayment of the principal and payment of interest, in the case of loans and advances to state co-operative banks, by the State Government :

Provided further that such guarantee may be waived by the National Bank if other security to the satisfaction of the National Bank is available, or if, for reasons to be recorded by it in writing, the National Bank is satisfied that a guarantee or other security is not necessary:

Provided further that no such loans and advances shall be made under this section unless the National Bank forms an opinion that owing to unforeseen circumstances, the rescheduling of such loans and advances is rendered necessary.

Investment credit — medium term

25. The National Bank shall provide such financial assistance as it may consider necessary by way of making to state co-operative banks, regional rural banks, loans and advances repayable on the expiry of fixed periods not being less than eighteen months and not exceeding seven years from the making of such loan or advance, against such securities as may be specified, in this behalf, by the National Bank. Such loans or advances may be made for agriculture or such other purposes as the National Bank may, from time to time, determine :

Provided that such loans and advances are fully guaranteed as to the repayment of the principal and payment of interest, in the case of loans and advances to state co-operative banks, by a State Government :

Provided further that such guarantee may be waived by the National Bank, if other security to the satisfaction of the National Bank is available, or if, for reasons to be recorded by it in writing, the National Bank is satisfied that the guarantee or other security is not necessary.

Investment credit — Long-term

26. The National Bank may provide such long term financial assistance as it may consider necessary for promoting agriculture and rural development by way of —

(*a*) the making of loans and advances, by way of refinance, on such terms and conditions as the National Bank may think fit to impose, to a central land development bank or a state-co-operative bank or a scheduled bank or any other financial institution approved by the Reserve Bank in this behalf, repayable within a period not exceeding twenty-five years from the date on which they are granted including the rescheduling of such loans and advances ;

(*b*) the purchasing of or selling of, or subscribing to the bonds or debentures of any institution referred to in clause (*a*) repayable within a period not exceeding twenty-five years from the dates on which they are issued ;

(*c*) the making of loans and advances to state co-operative banks and scheduled banks repayable on the expiry of fixed periods not exceeding twenty-five years from the date of making such loans or advances on such terms and conditions as may be specified in this behalf by the National Bank for the purpose of enabling any such institution to make loans or advances to small-scale industries including artisans, village and cottage industries, handicrafts and such other industries in the tiny and decentralised sectors, including the rescheduling of such loans and advances ;

(*d*) the making of loans and advances to central land development banks by way of refinance repayable on demand or on the expiry of fixed periods not exceeding eighteen months, which may be considered as required in connection with any loan or advance made to the central land development bank under clause (*a*), including the rescheduling of such loans and advances.

Purchase and sale of shares

27. The National Bank may contribute to the share capital of, or purchase and sell shares, in any institution concerned with agriculture and rural development, which the Central Government may notify, in consultation with the Reserve Bank.

Loans to State Governments for share capital contribution

28. The National Bank may make loans and advances to State Governments, repayable on the expiry of fixed periods not exceeding twenty years from the date of making such loans and advances, from the National Rural Credit (Long Term Operations) Fund established under section 43 for enabling them to subscribe directly or indirectly to the share capital of a co-operative credit society.

Security for long-term credit

29 (1) No accommodation shall be granted by the National Bank under clauses (*a*) and (*c*) of section 26 and under section 31 and section 33 to an institution other than a scheduled bank unless it is fully and unconditionally guaranteed by the Government as to the repayment of principal and payment of interest :

Provided that no such guarantee shall be required in cases in which security to the satisfaction of the Board is furnished by the borrowing institution.

(2) No accommodation shall be granted by the National Bank under clauses (*a*) and (*c*) of section 26 and section 33 to any scheduled bank unless security to the satisfaction of the Board is furnished by such scheduled bank.

(3) The Board may, for reasons to be recorded by it in writing, decide that no such guarantee or security is necessary in respect of any borrowing under sub-sections (1) or (2), having regard to the nature and scope of the scheme or schemes for which such accommodation is granted by the National Bank.

Amounts and securities to be held in trust

30 (1) Any sums received by a borrowing institution in repayment or realisation of loans and advances refinanced either wholly or partly by the National Bank shall, to the extent of the accommodation granted by the National Bank and remaining outstanding, be deemed to have been received by the borrowing institution in trust for the National Bank, and shall accordingly be paid by such institution to the National Bank, as per the repayment schedule fixed by the National Bank.

(2) Where an accommodation has been granted to a borrowing institution, all securities held, or which may be held, by such borrowing institution, on account of any transaction in respect of which such an accommodation has been granted by the National Bank, shall be held by such institution in trust for the National Bank.

Direct loans

31. The National Bank may make loans and advances otherwise than by way of refinance to any institution as may be approved by the Central Government on such terms and conditions including security and repayable within such period not exceeding twenty-five years.

Commission

32. The National Bank may receive, for the rendering of any of the services mentioned in sections 26, 31 and 33, such commission or other consideration as may be agreed upon.

Issue of guarantees

33. The National Bank may guarantee, with the prior approval of the Central Government and on such terms and conditions as may be agreed upon, deferred payments in connection with the purchase of capital goods —

(*i*) due from a co-operative society approved by the Reserve Bank in this behalf or such other institutions which may, on the recommendation of the Reserve Bank be approved by the Central Government in this behalf, or

(*ii*) due from any other person against the guarantee in favour of the National Bank provided by a central land development bank or a state co-operative bank or a scheduled bank.

Power to impose conditions for accommodation

34. In entering into any transaction under this Chapter with a borrowing institution, the National Bank may impose such conditions as it may think necessary or expedient for protecting the interests of the National Bank.

Power to call for repayment before agreed period

35. Notwithstanding anything contained to the contrary in any agreement, the National Bank may, by notice in writing, require any borrowing institution to which it has granted any loan or advance to discharge forthwith in full its liabilities to the National Bank —

(*a*) if it appears to the Board that false or misleading information in any material particular was given in the application for the loan or advance ; or

(*b*) if the borrowing institution has failed to comply with any of the terms of its contract with the National Bank in the matter of the loan or advance ; or

(*c*) if there is a reasonable apprehension that the borrowing institution is unable to pay its debts or that proceedings for liquidation may be commenced in respect thereof ; or

(*d*) if for any reason, it is necessary to do so to protect the interests of the National Bank.

National Bank to have access to records

36 (1) The National Bank shall have access to all such records of any institution which seeks to avail of any credit facilities from the National Bank and to all such records of any such person who seeks to avail of any credit facilities from such institution, perusal whereof may appear to the National Bank to be necessary in connection with the providing of finance or other assistance to such institution or the refinancing of any loan or advance made to such person by the borrowing institution.

(2) The National Bank may require any institution or person referred to in sub-section (1) to furnish to it copies of any of the records referred to in that sub-section and the institution or the person, as the case may be, shall be bound to comply with such requisition.

Validity of loan or advance not to be questioned

37. Notwithstanding anything contained to the contrary in any other law for the time being in force, the validity of any loan or advance granted by the National Bank in pursuance of the provisions of this Act shall not be called in question merely on the ground of non-compliance with the requirements of such other law as aforesaid or of any resolution, contract, memorandum, article of association or other instrument :

Provided that nothing in this clause shall render valid any loan or advance obtained by any company or cooperative society where such company or cooperative society is not empowered by its memorandum to obtain loans or advances.

National Bank not to grant loans or advances against its own bonds or debentures

38. The National Bank shall not grant any loan or advance on the security of its own bonds or debentures.

CHAPTER VII

OTHER FUNCTIONS OF NATIONAL BANK

Other functions of National Bank

39. The National Bank shall also exercise such powers and functions as are necessary to undertake the following :

National Bank to co-ordinate activities

(*i*) The National Bank shall co-ordinate its operations and the operations of various institutions engaged in the field of rural development and maintain expert staff to study all problems relating to agriculture and rural development and be available for consultation to the Central Government, the Reserve Bank, the State Governments and the other institutions engaged in the field of rural development.

Acting as agent

(*ii*) The National Bank may act as the agent for the Central Government or a State Government or the Reserve Bank in the transaction of any business in respect of loans and advances granted or to be granted, or bonds or debentures purchased or subscribed for, or to be purchased or subscribed for.

Training and research and grants to other institutions for training and research

(*iii*) The National Bank may provide facilities for training, for dissemination of information and the promotion of research including the undertaking of studies, researches, techno-economic and other surveys in the field of rural banking, agriculture and rural development and it may for the said purposes make grants including by way of provision for fellowships, chairs, to any institution.

Any other business

(*iv*) The National Bank may also do all such matters and things as may be necessary or incidental to or consequential upon the discharge of its powers and functions, and the performance of duties, entrusted to the National Bank under this Act, or under any other law for the time being in force.

Deposits and investments

40. The National Bank may invest its funds in promissory notes, stocks or securities of the Central Government or keep the moneys deposited with the Reserve Bank or with any agency of the Reserve Bank or, in consultation with the Reserve Bank, with a state co-operative bank or a scheduled bank.

Sale of property

41. It shall be lawful for the National Bank to undertake the sale and realisation of all property, whether movable or immovable, which may in any way come into the possession of the National Bank.

Credit information

42. The National Bank may, for the purpose of the efficient discharge of its functions under this Act, collect from or furnish to the Central Government, the Reserve Bank or any banking company or such other financial institution as may be notified by the Central Government in this behalf, credit information or other information.

Explanation :—For the purpose of this Section, the expressions "banking company" and "credit information" shall have the same meaning as in Section 45A of the Reserve Bank of India Act, 1934.

CHAPTER VIII

FUNDS, ACCOUNTS AND AUDIT

National Rural Credit (Long Term Operations) Fund

43 (1) The National Bank shall establish and maintain a Fund to be known as the National Rural Credit (Long Term Operations) Fund, to which shall be credited —

(*a*) such sums as may be transferred to the National Bank from the Reserve Bank in terms of clause (*a*) of sub-section (1) of section 18;
(*b*) such sums of money as the Reserve Bank may contribute every year; and
(*c*) such further sums of money as the Board of the National Bank may decide to contribute to this Fund every year.

(2) The amounts in the said Fund shall be applied by the National Bank to provide financial assistance only —

(*a*) by way of loans and advances for financing agriculture and such other purposes as the National Bank may, from time to time, determine in accordance with section 25 ;

(*b*) by way of loans and advances to central land development banks or state co-operative banks or scheduled banks or any other approved financial institution in accordance with clause (*a*) of section 26 ;

(*c*) by way of purchase and sale of bonds and debentures in any approved institution in accordance with clause (*b*) of section 26 ;

(*d*) by way of loans and advances to state co-operative banks or scheduled banks for refinancing loans and advances to artisans, small-scale industries including village and cottage industries, handicrafts, and such other industrial units in the tiny and decentralised sector in accordance with clause (*c*) of section 26 ;

(*e*) by way of loans and advances to State Governments for subscribing directly or indirectly to the share capital of co-operative credit societies in accordance with section 28 ;

(*f*) by way of contributions to the share capital of, or purchasing or selling shares, in any institution in accordance with section 27 ; and

(*g*) by way of loans and advances for enabling rescheduling of loans given for production purposes to artisans, small-scale industries including village, and cottage industries and industrial units in the tiny and decentralised sectors in accordance with section 24 :

Provided, however, the National Bank may also provide such long-term credit from its own other funds or from funds which it may obtain from any other source.

National Rural Credit (Stabilisation) Fund

44 (1) The National Bank shall establish and maintain a Fund to be known as the National Rural Credit (Stabilisation) Fund, to which shall be credited —

(*a*) such sums of money as may be transferred from the Reserve Bank in terms of clause (*b*) of sub-section (1) of section 18 ;

(*b*) such sums of money as the Reserve Bank may contribute every year ; and

(*c*) such further sums of money as the Board of the National Bank may decide to contribute to this Fund every year.

(2) The amounts in the said Fund shall be applied by the National Bank only to provide loans and advances which may be rendered necessary owing to drought, famine or other natural calamities, military operations or enemy actions, in accordance with Section 23.

Research and Development Fund

45 (1) The National Bank shall establish and maintain a Fund to be known as the Research and Development Fund, to which shall be credited —

(*a*) all profits of the National Bank transferable to the Central Government and the Reserve Bank, for a period of fifteen years following the accounting year during which the National Bank is established (instead of being paid to the Central Government or the Reserve Bank, as the case may be);

(*b*) such sums of money as the Board of the National Bank may decide to contribute every year to this Fund from out of its annual profits ; and

(c) such gifts, grants, donations or benefactions which the National Bank may receive and which the Board of the National Bank may earmark for this purpose.

(2) The Research and Development Fund shall be expended on matters of importance to agriculture, agricultural operations and rural development, including the provision of training and research facilities and the making of grants in terms of clause (*iii*) of section 39.

Reserve Fund

46. The National Bank shall establish a Reserve Fund and such other Funds as the Board may consider necessary by transferring such sums as it may deem fit, out of its net annual profits and out of receipts from gifts, grants, donations or benefactions, which it may receive.

Preparation of balance-sheet etc. of National Bank

47 (1) The balance-sheet and accounts of the National Bank shall be prepared and maintained in such form and manner as may be prescribed.

(2) The Board shall cause the books and accounts of the National Bank to be balanced and closed as on the thirtieth day of June, each year.

Disposal of profits

48. After making provision for bad and doubtful debts, depreciation of assets and for all other matters for which provision is necessary or expedient or which is usually provided for by bankers and for the Funds referred to in Sections 43, 44, 45 and 46, the National Bank shall transfer (after the expiry of 15 accounting years following the accounting year during which the National Bank is established) half of the balance to the Central Government and the other half to the Reserve Bank.

Audit

49 (1) The accounts of the National Bank shall be audited by auditors duly qualified to act as auditors under sub-section (1) of section 226 of the Companies Act, 1956, who shall be appointed by the Central Government in consultation wth the Reserve Bank for such term and on such remuneration as the Central Government may fix.

(2) The auditors shall be supplied with a copy of the annual balance-sheet of the National Bank and it shall be their duty to examine it together with the accounts and vouchers relating thereto and they shall have a list delivered to them of all books kept by the National Bank and shall at all reasonable time have access to the books, accounts, vouchers and other documents of the National Bank.

(3) The auditors may, in relation to such accounts, examine any director of the Board or any officer or other employee of the National Bank and shall be entitled to require from the Board or officers or other employees of the National Bank such information and explanation as they may think necessary for the performance of their duties.

(4) The auditors shall make a report to the National Bank upon the annual balance-sheet and accounts examined by them and in every such report, they shall state whether in their opinion the balance-sheet is a full and fair balance-sheet containing all necessary particulars and properly drawn up so as to exhibit a true and fair view of the state of affairs of the National Bank and in case they had called for any explanation or information from the Board or any officer or other employee of the National Bank, whether it has been given and whether it is satisfactory.

(5) The National Bank shall furnish to the Central Government and the Reserve Bank within four months from the date on which the annual accounts of the National Bank are closed and balanced, a copy of its balance-sheet as on the close of that year together with a copy

of the profit and loss account for the year and a copy of the auditors' report and a report of the working of the National Bank during the relevant year, and the Central Government shall, as soon as may be after they are received by it, cause the same to be laid before each House of Parliament and cause the copies of the said balance sheet, profit and loss account and auditors' report to be published in the Official Gazette.

(6) Without prejudice to any thing contained in the preceding sub-sections, the Central Government may, at any time, appoint the Comptroller and Auditor General of India to examine and report upon the accounts of the National Bank and any expenditure incurred by him in connection with such examination and report shall be payable by the National Bank to the Comptroller and Auditor General of India.

Returns

50. The National Bank shall furnish, from time to time, to the Central Government and to the Reserve Bank, such returns as the Central Government or the Reserve Bank may require.

Chapter IX

STAFF

Staff of National Bank

51 (1) The National Bank may appoint such number of officers and other employees as it considers necessary or desirable for the efficient performance of its functions and determine the terms and conditions of their appointment and service.

(2) Without prejudice to the provisions of sub-section (1), it shall be lawful for the National Bank to utilise, and for the Reserve Bank to make available, the services of such staff of the Reserve Bank on such terms and conditions as may be agreed upon between the National Bank and the Reserve Bank.

(3) If on the appointed day or at any time thereafter when any of the functions of the Reserve Bank or of the functions of the Agricultural Refinance and Development Corporation are transferred to the National Bank, it shall be lawful for the National Bank to appoint, with the previous approval of the Reserve Bank, such of the members of the staff of the Reserve Bank whose services were, immediately before the transfer aforesaid, being utilised by the Reserve Bank or by the Agricultural Refinance and Development Corporation, as the case may be, in connection with any of the said functions, and every member of the staff so appointed shall be released by the Reserve Bank and be deemed to have been appointed with effect from the appointed day by the National Bank under sub-section (1) on the same salary, emoluments and other terms and conditions of service to which he was entitled immediately before the date of such appointment :

Provided that every member of the staff aforesaid may, before the expiry of a period of eighteen months from the appointed day, elect to go back to the Reserve Bank by exercising an option in writing to that effect, the option once exercised being final and on the exercise of such option, the Reserve Bank shall, before the expiration of a period of thirty months from the appointed day, take back such member of the staff and on such member being taken back by the Reserve Bank he shall become a member of the staff of the Reserve Bank and shall cease to be a member of the staff of the National Bank.

(4) Any member of the staff of the Reserve Bank who is not appointed in terms of sub-section (3), may, if he so desires, make an application to the Reserve Bank within six months from the appointed day, to be considered for appointment as a member of the staff of the National Bank :

(*i*) the Reserve Bank may, in consultation with the National Bank, consider such application having regard to the suitability of the person so applying, the availability of vacancies in the National Bank, the exigencies of service in the Reserve Bank and the National Bank and such other factors as may be considered relevant in this regard, and, if the Reserve Bank is satisfied having regard to these factors, recommend his appointment to the National Bank, and thereupon,

(*ii*) the National Bank may, within eighteen months from the appointed day, appoint such a person applying under this sub-section, as a member of the staff of the National Bank, and on such appointment, such a person shall be deemed to be appointed in the National Bank in terms of sub-section (3) :

Provided however, the proviso to sub-section (3) and sub-section (5) shall not be applicable in respect of such a person.

(5) Notwithstanding anything contained elsewhere in this Act or in any other law or in any contract, for the time being in force, for a temporary period, not being a period exceeding eighteen months from the appointed day, if the Reserve Bank in consultation with the National Bank considers it necessary, in the interest of the National Bank to promote any member of the staff of the National Bank to a post in the Reserve Bank, it shall be lawful for the Reserve Bank to transfer on promotion any such member of the staff from the National Bank to the Reserve Bank, and on such transfer to the Reserve Bank, each such member of the staff shall be deemed to be a member of the Reserve Bank staff and shall be entitled to the same salary, emoluments and other conditions of service to which he was entitled immediately before the date of such transfer, including benefits, if any, arising directly out of such promotion :

Provided that every member of the staff who is transferred as aforesaid may, before the expiry of a period of eighteen months from the appointed day elect to go back to the National Bank by exercising an option in writing to that effect, the option once exercised being final, and on the exercise of such option, the National Bank shall, before the expiration of a period of thirty months from the appointed day take back such member of the staff and on such member being taken back by the National Bank, he shall become a member of the staff of the National Bank and shall cease to be a member of the Reserve Bank staff.

(6) On the appointed day, an officer or other employee of the Agricultural Refinance and Development Corporation, who is not a member of the staff of the Reserve Bank, shall be appointed by the National Bank with effect from the said date, on the same salary, emoluments and other conditions of service to which he was entitled immediately before the appointed day.

(7) Notwithstanding anything contained in any other law or in any agreement, for the time being in force, no member of the staff shall be entitled to claim any compensation for, or in relation to any matter concerning, his transfer, appointment or as the case may be, return, under sub-sections (3) to (5) and no claim in respect thereof shall be entertained by any court, tribunal or other authority.

(8) The service conditions, the regulations relating to Provident Fund and the rules relating to Gratuity and Compassionate Gratuity in force on the appointed date, as applicable to the staff of the Reserve Bank, shall be deemed to be the conditions of service, Provident Fund Regulations and rules relating to Gratuity and Compassionate Gratuity as applicable to the staff of the National Bank, as far as may be, unless and until the National Bank alters or amends the same in such manner as it may consider necessary.

Chapter X

MISCELLANEOUS

Obligation as to fidelity and secrecy

52 (1) The National Bank shall not, except as otherwise required by this Act or any other law, divulge any information relating to, or to the affairs of, its constituents except in circumstances in which it is, in accordance with the law or practice and usage customary among bankers, necessary or appropriate for the National Bank to divulge such information.

(2) Every director, member of a committee, auditor or officer or other employee of the National Bank or of the Reserve Bank, whose services are utilised by the National Bank under the provisions of this Act, shall, before entering upon his duties, make a declaration of fidelity and secrecy in the form set out in the First Schedule to this Act.

Defects in appointment not to invalidate acts, etc.

53 (1) No act or proceeding of the Board or of any committee of the National Bank shall be questioned on the ground merely of the existence of any vacancy in, or defect in the constitution of, the Board or the committee, as the case may be.

(2) No act done by any person acting in good faith as a director of the Board or as a member of a committee of the National Bank shall become invalid merely on the ground that he was disqualified to be a director or that there was any other defect in his appointment.

Protection of action taken under the Act

54. No suit or other legal proceeding shall lie against the National Bank or any director or any officer or other employee of the National Bank or any other person authorised by the National Bank to discharge any functions under this Act for any loss or damage caused or likely to be caused by anything which is in good faith done or intended to be done in pursuance of this Act or of any other law or provision having the force of law.

Indemnity to directors

55(1) Every director shall be indemnified by the National Bank against all losses and expenses incurred by him in, or in relation to, the discharge of his duties, except such as are caused by his own wilful act or default.

(2) A director shall not be responsible for any other director or for any officer or other employee of the National Bank or for any loss of expense resulting to the National Bank from the insufficiency or deficiency in value or title to any property or security acquired or taken on behalf of the National Bank or the insolvency or wrongful act of any debtor or any person under obligation to the National Bank for anything done in good faith in the execution of the duties of his office in relation thereto.

Exemption from income-tax

56. Notwithstanding anything to the contrary contained in the Income-tax Act, 1961, the Super Profits Tax Act, 1963 or in any other enactment for the time being in force relating to income-tax, super-tax or super profits tax or any other tax on income, profits or gains, the National Bank shall not be liable to pay income-tax, super-tax, super profits tax or any other tax in respect of any income, profits or gains derived or any amount received by the National Bank.

Penalties

57(1) Whoever in any return, balance-sheet, or other document or in any information required or furnished by or under or for the purposes of any provision of this Act, wilfully makes a statement which is false in any material particular, knowing it to be false, or wilfully omits to make a material statment, shall be punishable with imprisonment for a term which may extend to three years and shall also be liable to fine.

(2) If any person fails to produce any book, account or other document, or to furnish any statement or information which, under the provisions of this Act, it is his duty to produce or furnish, he shall be punishable with a fine which may extend to two thousand rupees in respect of each offence and in the case of a continuing failure, with an additional fine which may extend to one hundred rupees for every day during which the failure continues after conviction for the first such failure.

Offences by companies

58(1) Where an offence has been committed by a company, every person who, at the time the offence was committed, was in charge of, and was responsible to the company for the conduct of the business of the company, as well as the company, shall be deemed to be guilty of the offence and shall be liable to be proceeded against and punished accordingly:

Provided that nothing contained in this sub-section shall render any such person liable to any punishment provided in this Act, if he proves that the offence was committed without his knowledge or that he exercised all due diligence to prevent the commission of such offence.

(2) Notwithstanding anything contained in sub-section (1), where an offence under this Act has been committed by a company and it is proved that the offence has been committed with the consent or connivance of, or is attributable to any neglect on the part of any director, manager, secretary or other officer of the company, such director, manager, secretary or other officer shall also be deemed to be guilty of that offence and shall be liable to be proceeded against and punished accordingly.

Explanation: For the purposes of this section—

(*a*) "company" means any body corporate and includes a firm or other association of individuals; and
(*b*) "director" in relation to a firm, means a partner in the firm.

Power of Board to make regulations

59(1) The Board may, with the previous approval of the Central Government and in consultation with the Reserve Bank, make regulations not inconsistent with this Act to provide for all matters for which provision is necessary or expedient for the purpose of giving effect to the provisions of this Act.

(2) In particular and without prejudice to the generality of the foregoing power, such regulations may provide for—

(*a*) the fees or allowances that may be paid to the directors or member of the Advisory Board;
(*b*) the times and places of the meetings of the Board or the Executive Committee or the Advisory Board constituted under this Act and the procedure to be followed at such meetings including the quorum necessary for the transaction of business;
(*c*) the number of directors constituting the Executive Committee and the functions that such committee shall discharge;
(*d*) the manner and terms of issue and redemption of bonds and debentures by the National Bank;
(*e*) the conditions which the National Bank may impose in granting loans and advances;
(*f*) the manner and conditions subject to which the National Bank may borrow in foreign currency;
(*g*) the form and manner in which the balance sheets and the accounts of the National Bank shall be prepared or maintained;
(*h*) the forms of returns and statements which the National Bank may require under this Act;

(*i*) the duties and conduct, salaries, allowances and conditions of service of officers and other employees;
(*j*) the establishment and maintenance of provident or other benefit funds for employees of the National Bank;
(*k*) for such other matters for which the Board may consider it expedient or necessary to provide for by way of regulations; and
(*l*) generally, the efficient conduct of the affairs of the National Bank.

(3) Any regulation which may be made by the Board under this Act may be altered or rescinded by the Board in the exercise of its powers under this Act.

(4) Any regulation made under this Act shall have effect from such earlier or later date as may be specified in the regulation and shall be published in the Official Gazette.

Amendment of certain enactments

60. The enactments specified in the Second Schedule to this Act shall be amended in the manner directed and such amendments shall take effect from the dates specified therein.

Power to remove difficulty

61. If any difficulty arises in giving effect to the provisions of this Act, the Central Government may, by order, do anything not inconsistent with such provisions, for the purpose of removing the difficulty.

Bankers Books Evidence Act to apply to books of National Bank

62. The National Bank shall be regarded as a bank for the purposes of the Bankers Books Evidence Act, 1891.

Liquidation of National Bank

63. No provision of law relating to the winding up of companies or corporations shall apply to the National Bank and the National Bank shall not be placed in liquidation save by order of the Central Government and in such manner as it may direct.

THE FIRST SCHEDULE

(See Section 52 (2))

Declaration of fidelity and secrecy

I do hereby declare that I will faithfully, truly and to the best of my skill and ability execute and perform the duties required of me as director, auditor, officer or other employee (as the case may be) of the National Bank for Agriculture and Rural Development and which properly relate to the office or position held by me in the said National Bank.

I further declare that I will not communicate or allow to be communicated to any person not legally entitled thereto any information relating to the affairs of the National Bank for Agriculture and Rural Development or to the affairs of any person having any dealing with the said National Bank nor will I allow any such person to inspect or have access to any books or documents belonging to or in the possession of the National Bank for Agriculture and Rural Development and relating to the business of the said National Bank or the business of any person having any dealing with the said National Bank.

(Signature)

Signed before me.

NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT
(Second Schedule)

SECOND SCHEDULE
(See Section 60)

Amendments to certain Enactments

PART I

Amendments to the Reserve Bank of India Act, 1934 (2 of 1934)

Amendments	Date on which the amendment shall have effect
(1)	(2)
1. In Section 2,–	
(*a*) Clauses (*a*), (*ai*), (*bi*), (*bii*), (*biii*), (*biv*), (*bv*), (*bviii*), (*ci*), (*cia*), (*cii*), (*ciii*), (*civ*), (*cv*), and (*f*) shall be omitted.	Date of establishment of the National Bank
(*b*) After clause (*cc*), insert the following clause as clause (*ccc*) : "(*ccc*) "National Bank" means the National Bank for Agriculture and Rural Development established under the National Bank for Agriculture and Rural Development Act, 1980".	-do-
(*c*) After clause (*b*), insert the following as clause (*bi*) : "(*bi*) "co-operative bank", "co-operative credit society",, "director", "primary agricultural credit society", "primary co-operative bank", "primary credit society" shall have the meanings respectively assigned to them in Part V of the Banking Regulation Act, 1949".	-do-
(*d*) After clause (*bi*), insert the following as clause (*bii*) : "(*bii*) "Agriculture", "central co-operative bank", "co-operative society", "crops", "marketing of crops", "pisiculture", "regional rural bank", "state co-operative bank" shall have the meanings respectively assigned to them in the National Bank for Agriculture and Rural Development Act, 1980".	-do-

(1)	(2)
2. In Section 17,—	
(a) For the existing sub-section (4AA), the following shall be substituted :	Date of establishment of the National Bank
"(4AA) making of annual contributions to the National Rural Credit (Long Term Operations) Fund and the National Rural Credit (Stabilisation) Fund established and maintained by the National Bank under Sections 43 and 44, as the case may be, of the National Bank for Agriculture and Rural Development Act, 1980".	
(b) For the existing sub-section (4E), the following shall be substituted :	-do-
"(4E) the making to the National Bank of loans and advances repayable on demand or on the expiry of fixed period not exceeding eighteen months from the date of making of the loan or advance, either—	
(i) against the security of stocks, funds and securities (other than immovable property) in which a trustee is authorised to invest trust money by any law for the time being in force in India ; or	
(ii) on such other terms and conditions as the Bank may specify".	
(c) In sub-section (8A), the expression "Agricultural Refinance Corporation" shall be substituted by the expression "National Bank".	-do-
3. In Section 42, —	
(a) In Explanation occurring after sub-section (1), the expression "Agricultural Refinance Corporation" shall be substituted by the expression "the National Bank".	-do-
(b) The following shall be inserted as sub-section (6A) :	-do-
"(6A) In considering whether a state co-operative bank or a regional rural Bank should be included in or excluded from the Schedule, it shall be competent for the Reserve Bank to act on a certificate from the National Bank on the question whether or not a State co-operative Bank or a regional rural bank, as the	

		(1)	(2)
		case may be, satisfies the requirements as to paid-up capital and reserves or whether its affairs are being conducted in a manner not detrimental to the interests of its depositors".	
	4.	In Section 45, before the Explanation, the following shall be inserted as sub-section (3) :	Date of establishment of the National Bank
		"(3) Notwithstanding anything contained in sub-sections (1) and (2), the Reserve Bank may appoint the National Bank as its agent for such purposes and with reference to such classes of financial institutions as the Bank may specify, at all places in India or at places which the Bank may specify."	
	5.	Existing Sections 46A and 46B shall be deleted and the following shall be substituted as Section 46A :	-do-
Contribution to NRC(LTO) Fund and NRC (Stabilisation) Fund		"46A. The Bank shall contribute every year such sums of money as it may consider necessary to do so to the National Rural Credit (Long Term Operations) Fund and the National Rural Credit (Stabilisation) Fund maintained by the National Bank under Sections 43 and 44 respectively, of the National Bank for Agriculture and Rural Development Act, 1980."	
	6.	In sub-section (2) of Section 46C, the following shall be inserted as clause (c) :	-do
		"(c) the making to the National Bank of loans and advances or the purchasing of bonds and debentures issued by the National Bank on such terms and conditions as the Bank may specify".	
	7.	The existing section 54 shall be substituted by the following :	-do-
Rural Credit and Development		"54. The Bank may maintain expert staff concerning rural credit and development and in particular —	
		(*a*) tender expert guidance and assistance to the National Bank;	
		(*b*) conduct special studies in such areas as it may consider it necessary to do so for promoting integrated rural development."	

PART II

Amendments to the Banking Regulation Act, 1949
(10 of 1949)

Amendment (1)	Date on which amendment shall take effect (2)
1. In Section 5, the following clauses shall be inserted — (*i*) Clause (ha) : "(ha) "The National Bank" means the National Bank for Agriculture and Rural Development established under the National Bank for Agriculture and Rural Development Act, 1980". (*ii*) Clause (la) : "(la) "regional rural bank" means a regional rural bank established under Section 3 of the Regional Rural Banks Act, 1976".	Date of establishment of the National Bank
2. In Section 23, the following shall be inserted as sub-section (4A) : "(4A) any regional rural bank requiring the permission of the Reserve Bank under this Section shall forward its application to the Reserve Bank through the National Bank which shall give its comments on the merits of the application and send it to the Reserve Bank".	-do-
3. In Section 24, the following shall be inserted as sub-section (4) : "(4) A copy of return which a regional rural bank is required to furnish to the Reserve Bank in terms of sub-section (3) shall be furnished to the National Bank".	-do-
4. In Section 25, the following shall be inserted as sub-section (2A) : "(2A) A copy of the returns which a regional rural bank is required to furnsih to the Reserve Bank in terms of sub-section (2) shall be furnished to the National Bank".	-do-

(1)		(2)
5.	The existing Section 26 shall be numbered as sub-section (1), and the following shall be inserted as sub-section (2) : "(2) A copy of the return which a regional rural bank is required to furnish to the Reserve Bank in terms of sub-section (1) shall be furnished to the National Bank".	Date of establishment of the National Bank
6.	In Section 27, the following shall be inserted as sub-section (3) : "(3) Every regional rural bank shall submit a copy of the return which it submits to the Reserve Bank in terms of sub-section (1) also to the National Bank and the powers under sub-section (2) may also be exercised by the National Bank with reference to regional rural banks."	-do-
7.	In Section 28, after the words "the Reserve Bank" the words "or the National Bank" shall be inserted".	-do-
8.	In Section 31, the following shall be added after the proviso : "Provided further that a regional rurai bank shall furnish the returns also to the National Bank".	-do-
9.	In sub-section (3) of Section 34A, after the words "the Industrial Development Bank of India" the words "National Bank" shall be inserted".	-do-
10.	In Section 35, the following shall be added as sub-caluse (6) : "(6) For the purpose of this section, a reference to the Reserve Bank shall be regarded as the reference to the National Bank with reference to regional rural banks and the National Bank shall exercise the powers in this behalf subject to such general or special directions, which the Reserve Bank may give to the National Bank".	-do-
11.	After Section 35, the following shall be inserted as proviso : "Provided, however, this sub-section shall not be regarded as coming in the way of the Reserve Bank directly exercising the powers under this Section with reference to a regional rural bank, whenever it considers it necessary to do so".	-do-

(1)	(2)
12. In Section 47, wherever the words "the Reserve Bank" occur, the words "the Reserve Bank or the National Bank as the case may be," shall be inserted.	Date of establishment of the National Bank
13. Section 56 shall be amended as stated below :	-do-

(i) The existing sub-clause (i) of clause (c) shall be substituted by the following :

"(c) in Section 5, —

(i) after clause (cc), the following clauses shall be inserted, namely :-

"(cci) "co-operative bank" means a state co-operative bank, a central co-operative bank and a primary co-operative bank";

"(ccii) "co-operative credit society" means a co-operative society, the primary object of which is to provide financial accommodation to its members and includes a co-operative land mortgage bank" ;

"(cciii) "director" in relation to a co-operative society includes a member of any committee or body for the time being vested with the management of the affairs of that society" ;

(cciv) "primary agricultural credit society" means a co-operative society —

(1) the primary object or principal business of which is to provide financial accommodation to its members for agricultural purposes or for purposes connected with agricultural activities (including the marketing of crops) ; and

(2) the bye-laws of which do not permit admission of any other co-operative socioty as a member ;

Provided that this sub-clause shall not apply to the admission of a co-operative bank

(1)	(2)
as a member by reason of such co-operative bank subscribing to the share capital of such co-operative society (out of funds provided by the State Government for the purpose) ;	Date of establishment of the National Bank
"(*ccv*) "primary co-operative bank" means a co-operative society, other than a primary agricultural credit society, —	-do-
(1) the primary object or principal business of which is the transaction of banking business ;	
(2) the paid-up share capital and reserves of which are not less than one lakh of rupees; and	
(3) the bye-laws of which do not permit admission of any other co-operative society as a member ;	
Provided that this sub-clause shall not apply to the admission of a co-operative bank as a member by reason of such co-operative bank subscribing to the share capital of such co-operative society out of funds provided by the State Government for the purpose;	
"(*ccvi*) "primary credit society" means a co-operative society, other than a primary agricultural credit society, —	-do-
(1) the primary object or principal business of which is the transaction of banking business ;	
(2) the paid-up share capital and reserves of which are less than one lakh of rupees ; and	
(3) the bye-laws of which do not permit admission of any other co-operative society as a member ;	

(1)	(2)
Provided that this sub-clause shall not apply to the admission of co-operative bank as a member by reason of such co-operative bank subscribing to the share capital of such co-operative society out of funds provided by the State Government for the purpose ;	Date of establishment o the National Bank
Explanation : If any dispute arises as to the primary object or principal business of any co-operative society referred to in clauses (*cciv*), (*ccv*) and (*ccvi*), the determination thereof by the Reserve Bank shall be final ;	
"(*ccvii*)"central co-operative bank", "co-operative society", "director", "primary rural credit society", "state co-operative bank" shall have the meanings respectively assigned to them in the National Bank for Agriculture and Rural Development Act, 1980;	-do-
(*ii*) The existing clause (*p*) shall be numbered as item (*i*) of this clause and the following shall be inserted as clause item (*ii*):	-do-
"(*ii*) In Section 23, the following sub-section shall be inserted as sub-section(6):	
"(6) a y co-operative bank, other than a primary co-operative bank, requiring the permission of the Reserve Bank under this section shall forward its application through the National Bank which shall give its comments on the merit of the application and send it to the Reserve Bank"."	
(*iii*) In clause (*q*), the following shall be inserted as item (*iii*):	-do-
"(*iii*) In Section 24, the following shall be inserted as sub-section(4):	
"(4) A copy of the return which a co-operative bank, other than a primary co-operative bank is required to furnish in terms of sub-section (3) shall also be furnished to the National Bank"."	

(1)	(2)
(*iv*) The following shall be inserted as clause (*ri*): "(*ri*) In sub-section (2) of Section 26, the expression "regional rural bank" shall be substituted by the expression "co-operative bank other than a primary co-operative bank"."	Date of establishment of the National Bank
(*v*) The following shall be inserted as clause (*rii*): "(*rii*) In Section 27, in the place of sub-section (3), the following shall be substituted: "(3) Every co-operative bank, other than a primary co-operative bank, shall submit a copy of the return which it submits to the Reserve Bank, in terms of sub-section (1) also to the National Bank and the powers under sub-section (2) may also be exercised by the National Bank with reference to co-operative banks, other than primary co-operative banks"."	-do-
(*vi*) The existing clause (*t*) shall be numbered as item (*i*) of clause (*t*) and the following shall be inserted as item (*ii*): " (*ii*) In Section 31, the following shall be substituted as the second proviso: "Provided further that a co-operative bank other than a primary co-operative bank, shall furnish the returns also to the National Bank".	-do-
(*vii*) In clause (*w*), the following shall be inserted as item (*iv*): "(*iv*) In sub-section (6) of Section 35, the expression "regional rural bank" wherever it occurs shall be substituted by the expression "co-operative bank other than primary co-operative bank"."	-do-
(*viii*) The following shall be inserted as clause (*zji*): "(*zji*) In Section 54, after the expression "Reserve Bank" wherever it occurs, the expression "or the National Bank" shall be inserted".	-do-
(*ix*) In the Third Schedule given in clause (*zi*), after the expression "Reserve Bank" wherever it occurs, the expression "the National Bank" shall be inserted.	-do-

PART III

Amendment to the Industrial Disputes Act, 1947
(14 of 1947)

Amendment (1)	Date on which amendment shall take effect (2)
In Section 2, in clause (*a*), for the words and figures "Agricultural Refinance Corporation established under Section 3 of the Agricultural Refinance Corporation Act, 1963 (10 of 1963), substitute the words and figures "the National Bank for Agriculture and Rural Development established under Section 3 of the National Bank for Agriculture and Rural Development Act, 1980.	Date of establishment of the National Bank

PART IV

Amendment to the Payment of Bonus Act, 1965
(21 of 1965)

Amendment (1)	Date on which amendment shall take effect (2)
In Section 32, in item (*d*) of clause (*ix*), for the expression "Agricultural Refinance Corporation", substitute the expression "the National Bank for Agriculture and Rural Development".	Date of establishment of the National Bank

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NOTES ON CLAUSES

Clause 2 provides for the definition of the expressions used in the Bill. The definitions of agriculture, agricultural operations and rural development are reasonably wide to cover all significant areas of concern to rural development. The definition of primary rural credit society gives statutory expression to the concept of multi-purpose society.

Clause 3 provides for the establishment of the National Bank for Agriculture and Rural Development and its branches.

Clause 4 provides for the ownership of the National Bank. It will be jointly owned by the Central Government and the Reserve Bank of India in such manner that any time their respective contribution to the capital of the National Bank is equal. The capital of the National Bank will be Rs. 100 crores, which may be increased upto Rs. 500 crores by the Central Government in consultation with the Reserve Bank.

Clauses 5 and 6 provide for the management of the National Bank. Its Board of Directors would be chaired by a Deputy Governor of the Reserve Bank. The Board will also have three other directors who will be common to the Boards of the Reserve Bank and the National Bank. This will ensure an organic link between the National Bank and the Reserve Bank. There will also be representation for experts in rural economics, rural development, handicrafts, village and cottage industries, men of experience in the working of co-operative and commercial banks and Central and State Government officials.

Clauses 7, 8 and 9 provide for the term of office and retirement of directors, their disqualification, and vacation and resignation of office.

Clause 10 read with clause 6 provide for the appointment of the Managing Director by the Central Government in consultation with the Reserve Bank and also of such number of whole-time directors as that Government may consider it necessary.

Clause 11 provides for the filling up of casual vacancy in the office of the Managing Director.

Clause 12 provides for the meetings of the Board and observance of rules and procedures in this regard.

Clause 13 provides for the formation of an Executive Committee and such other committees as the Board of National Bank may consider necessary.

Clause 14 provides for constituting an Advisory Board consisting of such number of directors and such other persons as the National Bank may decide, who have special knowledge in agricultural credit, agricultural practice, co-operation and rural economics, small-scale, village and cottage industries and handicrafts, etc. to advise the National Bank on such matters as may be referred to the Advisory Board by the National Bank.

Clause 15 provides for a director of the Board or of a committee not participating in meetings, in which any matter, in which he has a direct or indirect pecuniary interest, comes up for consideration.

Clause 16 provides for the transfer of assets and liabilities of the Agricultural Refinance and Development Corporation to the National Bank. As compensation for the transfer of the said undertaking, the shareholders of the Agricultural Refinance and Development Corporation will be paid an amount aggregating the total paid-up capital of the Corporation and they will also be paid proportionate dividend for the period that has expired since the closure of the previous accounting year at the rate at which the shares of the Corporation are guaranteed for a minimum dividend.

Clause 17 provides for the dissolution of ARDC and the repeal of the Agricultural Refinance and Development Corporation Act, 1963.

Clause 18 provides for the transfer of assets and liabilities from the Reserve Bank to the National Bank with reference to National Agricultural Credit (Long Term Operations) Fund and the National Agricultural Credit (Stabilisation) Fund now maintained in the Reserve Bank. It also provides for the transfer of the assets and liabilities relating to the loans and advance which the Reserve Bank have provided to the state co-operative banks and regional rural banks under section 17, excluding sub-clause (4), of the Reserve Bank of India Act, 1934.

Clause 19 provides for transfer of certain assets of the Reserve Bank to the National Bank such as office premises, staff quarters, etc. which NABARD may immediately require.

Clause 20 enables the National Bank to raise resources by issuing and selling bonds and debentures, which are to be guaranteed by the Central Government and carrying interest at such rates as the Central Government in consultation with the Reserve Bank may fix. The National Bank may also avail of short-term borrowing from the Reserve Bank and from the National Industrial Credit (Long Term Operations) Fund maintained by the Reserve Bank. It may also borrow from the Central Government and other institutions approved by that Government and take short-term deposits from Government or other authorities and banks as incidental to its general business. It is also enabled to accept grants, donations and benefactions from Government and any other sources.

Clause 21 provides for the National Bank borrowing in foreign currency with the previous approval of the Central Government and in consultation with the Reserve Bank.

Clause 22 provides the purposes for which short-term credit may be extended by way of refinance by the National Bank, the forms of securities which may be obtained therefor, and the requirements as to the security that may be waived. This clause provides for National Bank extending short-term credit for agriculture or marketing of crops or any other activities in the field of agriculture and rural development or the marketing and distribution of inputs necessary for agriculture or rural development or trade transactions or the production or marketing activities of small scale industries including those of artisans village and cottage industries and the industries in the tiny and decentralised sectors.

Clause 23 provides for the National Bank providing financial accommodation for the conversion of short-term loans and advances given to state co-operative banks or scheduled banks with reference to financial accommodation which they may have given to central co-operative banks and primary rural credit societies and the repayment of which is rendered difficult owing to drought, famine, other natural calamities, enemy operations.

Clause 24 provides for the rescheduling of production loans and advances given to state co-operative banks or regional rural banks where the repayment of such loans is rendered difficult owing to unforeseen circumstances.

Clause 25 relates to medium-term investment credit for agriculture purposes and the National Bank can provide refinance facilities in respect of such medium term agricultural loans to the state co-operative banks and the regional rural banks.

Clause 26 provides for the National Bank extending long-term financial assistance by way of refinance to central land development banks, state co-operative banks and scheduled banks and any other financial institutions approved by the Reserve Bank in this behalf. The long-term credit so extended may also be provided by way of refinance for the accommodation to small scale industries, handicrafts and such other industries in the tiny and decentralised sector.

Clause 27 provides for the National Bank contributing to the share capital or purchasing and selling shares in such financial institutions as may be notified by the Central Government in consultation with the Reserve Bank.

Clause 28 provides for National Bank making loans and advances to State Governments for subscribing directly or indirectly to the share capital of a co-operative credit society.

Clause 29 provides for the security which the National Bank may obtain for extending long-term credit and for the Board relaxing the requirements as to security.

Clause 30 provides that the amounts received by a borrowing institution and any securities which a borrowing institution may hold while relending the moneys borrowed from the National Bank, shall be held in trust for the National Bank.

Clause 31 enables the National Bank to make direct loans to an institution which is approved by the Central Government.

Clause 32 provides for the National Bank receiving such commission and other consideration as may be agreed upon while it extends long-term credit, direct loans and while issuing guarantees.

Clause 33 provides for the National Bank guaranteeing, with the prior approval of the Central Government, deferred payments in connection with the purchase of capital goods, due from a co-operative society or due from any other persons against any counter-guarantee in favour of the National Bank provided by a central land development bank or a state co-operative bank or a scheduled bank.

Clause 34 enables the National Bank to impose such terms as it may consider necessary for protecting its interests, in extending financial accommodation or issuing guarantees.

Clause 35 provides for the circumstances in which the National Bank may recall any financial accommodation before the date due for its repayment.

Clause 36 provides for the National Bank having access to all the records of a borrowing institution, which may be considered necessary in connection with providing financial or other assistance.

Clause 37 provides that the validity of the loans and advances extended by the National Bank shall not be questioned merely on the ground of non-compliance with any requirement of any resolution, contract etc. But, this does not validate any loan or advance where the company or co-operative society is not empowered by its Memorandum to obtain loans and advances.

Clause 38 provides that the National Bank shall not grant loans or advances against its own bonds and debentures.

Clause 39 provides for the other functions of the National Bank. This provides that the National Bank shall co-ordinate the operations of various institutions in the field of rural development and maintain expert staff to study problems relating to rural development and be available for consultation to the Central Government, the Reserve Bank, State Government and other institutions.

The National Bank may also act as agent for the Central Government, the Reserve Bank or a State Government in respect of loans or advances granted or to be granted.

The National Bank may provide facilities for training and research and make grants to other institutions for this purpose.

The National Bank may also do all such matters as are necessary or incidental to the discharge of the powers and functions entrusted to it under this Act or under any other law for the time being in force.

Clause 40 provides that the National Bank may invest its funds in promissory notes, stocks and securities of the Central Government or keep the moneys deposited with the Reserve Bank or any agency of the Reserve Bank.

Clause 41 provides for the National Bank acquiring property, both movable and immovable and undertaking sale and realisation thereof.

Clause 42 provides National Bank furnishing to or obtaining from the Central Government, the Reserve Bank or any banking company or any other institution, such credit information as it may consider necessary for the efficient discharge of its functions under this Act.

Clause 43 provides for the establishment in the National Bank of the National Rural Credit (Long Term Operations) Fund now maintained with the Reserve Bank and for the Reserve Bank and the National Bank transferring to this Fund annually such sums of money as they decide to contribute from out of their annual profits. The National Bank is also enabled to provide long-term credit from out of its own funds or from funds which it may obtain from other sources.

Clause 44 provides for the National Bank establishing and maintaining the National Rural Credit (Stabilisation) Fund now maintained with the Reserve Bank and for the Reserve Bank and the National Bank annually contributing such sums of money as they may decide to contribute from out of their annual profits.

Clause 45 provides for a Research and Development Fund to be established and maintained in the National Bank. The profits that may be available for transfer to the Central Government and the Reserve Bank for a period of 15 years following the establishment of National Bank are to be credited to this Fund and the National Bank may also make annual allocations to this Fund from out of its annual profits and also by earmarking for this purpose sums out of the grants, donations or benefactions which it may receive. This Fund will be expended on matters of importance to agriculture, agricultural operations and rural development, including the provision of training and research, etc.

Clause 46 provides for the establishment of a Reserve Fund and such other Funds as the Board of the National Bank may consider necessary.

Clause 47 provides for the preparation of the balance sheet and accounts of the National Bank in the form and manner prescribed under the regulations made under this Act.

Clause 48 provides for the disposal of the profits of the National Bank by transferring, after providing for bad and doubtful debts, depreciation and appropriation to the Funds which are required to be maintained, the remaining amount annually to the Central Government and the Reserve Bank.

Clause 49 provides for the audit of the accounts of the National Bank.

The auditor will be appointed by the Central Government, in consultation with the Reserve Bank. The Central Government may also, at any time, appoint the Comptroller and Auditor General of India to examine and report on the accounts of the National Bank.

Clause 50 provides for the National Bank furnishing such returns as the Reserve Bank or the Central Government may require.

Clause 51 provides for the National Bank developing its own cadre of staff. Initially, the staff working with the Agricultural Refinance and Development Corporation and those associated with the functions of the Reserve Bank being transferred to the National Bank will form the nucleus of the staff of the National Bank.

Clause 52 provides for the obligations as to fidelity and secrecy on the part of its directors, members of committees, auditor, officers and other employees.

Clause 53 provides that any defect in the appointment shall not invalidate the constitution of the Board or any committee.

Clause 54 protects action taken by any director or officer of the National Bank which is done in good faith and done in accordance with the provisions of this Act or any other law.

Clause 55 provides for indemnity of the directors of the National Bank, except with reference to losses caused due to acts or defaults which are wilful.

Clause 56 exempts the income, profits and amounts received by the National Bank from liability to income-tax or super profits tax. Having regard to the ownership of the National Bank by the Central Government and the Reserve Bank and the objectives of the National Bank, such exemption is considered necessary.

Clause 57 provides for penalties concerning providing false statements furnished to the National Bank or concerning any failure to produce books or other documents required by the National Bank.

Clause 58 provides for the responsibility of companies and their directors and the consequences of any failure in this regard.

Clause 59 provides for the Board of the National Bank framing regulations for all matters for which provision is necessary or expedient for the purpose of giving effect to the provisions of the Act and for other matters such as fees and allowances to be paid to directors, procedures concerning meetings of the Board or of the Executive Committee and other matters.

Clause 60 amends the Reserve Bank of India Act, the Banking Regulation Act, the Industrial Disputes Act and the Payment of Bonus Act in the manners set out in the Second Schedule to the Bill.

Clause 61 enables the Central Government to remove any difficulty in implementing the provisions of the Act by an order, which is not inconsistent with the provisions of the Act.

Clause 62 provides for Bankers Books Evidence Act being made applicable to the books of the National Bank.

Clause 63 deals with the liquidation of the National Bank.

FIRST SCHEDULE

The First Schedule gives the form for the declaration of fidelity and secrecy

SECOND SCHEDULE

Amendments to Reserve Bank of India Act, 1934

Amendments to the RBI Act provide for the RBI making loans and advances to the National Bank repayable on demand or on expiry of fixed period not exceeding eighteen months.

The amendment also provides for the transfer of the National Agricultural Credit (Long Term Operations) Fund and the National Agricultural Credit (Stabilisation) Fund now maintained by RBI to the National Rural Credit (Long Term Operations) Fund and the National Rural Credit (Stabilisation) Fund, which will be established and maintained by the National Bank and to which RBI will also make annual contributions.

The National Bank is also empowered to act as the agent of the Reserve Bank for such purposes and with reference to such classes of financial institutions as the Reserve Bank may specify.

Reserve Bank is also enabled to make to the National Bank loans and advances or purchase of bonds and debentures of the National Bank from out of the National Industrial Credit (Long Term Operations) Fund now maintained in the Reserve Bank.

The amendments also provide for the Reserve Bank maintaining an expert staff concerning rural credit and development and in particular rendering expert guidance and assistance to the National Bank and conduct special studies in such areas as it may consider necessary to do so for promoting integrated rural development.

The other amendments are mainly consequential to the setting up of the National Bank and division of responsibilities of the Reserve Bank and the National Bank.

Amendments to the Banking Regulation Act, 1949

It has been ensured that the definitions relevant to agriculture, agricultural operations and rural development in the NABARD Act, RBI Act and the Banking Regulation Act have the same meaning and are understood in the same sense in all the three statutes.

The provisions concerning other amendments to the Banking Regulation Act ensure that —

(*i*) with reference to regional rural banks and co-operative banks (other than primary co-operative banks) the National Bank will be the inspecting authority which will combine in itself the responsibility envisaged both for developmental and statutory inspections. This however, does not preclude Reserve Bank from conducting test inspections, whenever it considers necessary to do so ;

(*ii*) the National Bank will receive, in the first instance, applications for opening branches and forward the same to the Reserve Bank with its comments, since having regard to the criterion envisaged for sanctioning branch licences, the National Bank will be in a position to assist the Reserve Bank in taking decisions on them ; and

(*iii*) the National Bank will receive such returns and other data concerning regional rural banks and state co-operative banks as would facilitate National Bank keeping a close watch over the performance, health and viability of the institutions.

Amendments to the Industrial Disputes Act, 1947 and the Payment of Bonus Act, 1965

These are consequential.

APPENDIX—III

A NOTE ON NABARD'S RELATIONS WITH THE RBI AND OTHER INSTITUTIONS

Though it is difficult to foresee, at this stage, all the facets of NABARD's relations with (1) The Reserve Bank of India, (2) credit institutions *viz.* commercial banks, co-operative banks and RRBs, and (3) other institutions connected with rural development *viz.*, AFC, NCDC, REC and IDBI, an attempt has been made in this note to indicate broadly the lines on which, according to the Committee, the relations between them could develop. The note is, therefore, indicative and not conclusive.

A. NABARD AND RBI

Evolution of proper and correct relation between NABARD and the RBI is crucial to the smooth and efficient functioning of NABARD and of the entire institutional rural credit system of which NABARD will now be the leader. In the Committee's view, expressed in its interim report, there has to be close and organic links between NABARD and the RBI. Three specific recommendations have been made for this purpose: (i) The RBI should hold 50 per cent shares in NABARD, (ii) a Deputy Governor of RBI should be the Chairman of NABARD and (iii) three of the Directors on the Board of NABARD should be from amongst the RBI Directors. These are indeed basic to the national level arrangement envisaged by us.

Further, NABARD has been conceived as an exercise in decentralisation at the national level. It follows that several items of work have to be passed on by the RBI to the new Bank.

It is essential for this exercise that the Central Bank of the country should be and be seen to be fully behind NABARD. An attempt has been made in the following paragraphs to indicate some of the more important facets of the relationship between NABARD and the RBI.

Overall Relationship

(1) As it should be obvious, the relationship between NABARD and the RBI should be conceived as an evolving one; that is, it has to be a process of devising modalities in the light of needs and problems as they emerge or the situations as they develop. This also means that the working relationship between NABARD and the RBI has to be built up, right from the start, on healthy conventions and practices.

(2) While NABARD will take over all the policy and operational matters relating to rural credit presently handled by the RBI and the ARDC, it will be in constant touch and consultation with the RBI which, being the Central Banking authority, has the responsibility for the national credit and monetary policy.

(3) As a corollary of the above, henceforward, the RBI's role in rural credit will be limited to the laying down of overall controls and directives on rural credit to the extent that these relate to its overall functions and responsibilities as credit and monetary authority. NABARD will be free to set its own policies and carry out its own operations subject to the controls and directives laid down by the RBI and the consultations that are considered necessary under law or otherwise.

(4) The new role of the RBI, as indicated in the amendment to Section 54 of the RBI Act, would be to take such measures including studies which would help to strengthen NABARD as a national bank for agriculture and rural development. It has also been suggested (as provided in the Bill) that the RBI should contribute out of its profits to the LTO Fund for agriculture and the Stabilisation Fund now to be transferred to and built-up in NABARD.

Operational Relationship

(5) The RBI will provide NABARD with adequate funds to ensure that investment, production and institutional marketing activities in the rural sector do not suffer for want of

funds. At the same time, it is to be recognised that the quantum of funds to be made available by the RBI in a given year and the rate of interest at which such funds will be made available will depend on the particular economic and monetary situation prevailing at the time. While NABARD would make advance estimates of its requirement of funds and apply for the same to the RBI, the RBI in turn, will scrutinise the demand for funds from NABARD in the light of its own assessment of the rural credit needs as a part of its overall assessment of the credit situation and availability of resources.

(6) The manner in which funds required by NABARD are made available to it by the RBI is equally important. Ordinarily, the RBI should be concerned only with the total quantum of finance to be made available to NABARD while leaving the micro-level operations such as the terms and conditions governing its lendings and other details of rural credit management to NABARD. However, the RBI may suggest to NABARD norms and conditions for on-lending whenever necessary so as to ensure compliance with the over-all credit and monetary policy. The consultation procedures and the organic links earlier outlined should be relied upon for evolving proper methods in these matters in preference to rigid stipulations.

(7) As regards lending operations which attract stipulations under the Credit Authorisation Scheme, the RBI may continue to handle such cases. Similarly, though NABARD would be concerned in giving credit support to institutional marketing, the activities involving price support operations, procurement of commodities, etc. may be regulated by RBI as part of its credit policy.

(8) There has also to be a provision for interim or temporary accommodation (over and above the regular arrangements) for specific period, to enable NABARD to meet unforeseen demands for credit.

(9) NABARD should have access to market borrowing as in the case of other financial institutions, but the quantum of borrowing as well as the terms of borrowing are to be as approved by the RBI. This is in line with the existing arrangements regarding market borrowing programmes between the RBI and Government-owned financial institutions.

(10) Since NABARD will be depending on the RBI for most of its funds, it is but logical that NABARD will bank only with RBI. All its balances, funds and operating accounts will have to be maintained with the RBI. Such a centralised arrangement would enable both NABARD and the RBI to have a unified view of the funds position. This would also facilitate advance action on the part of NABARD with regard to its cash management.

(11) As regards interest rates, needless to say that the interest rate structure is the responsibility of the RBI which keeps in mind the social objectives and social costs involved while deciding on the interest rate pattern. In this connection, the two points which need to be reiterated are: (*a*) concessional lending to co-operatives and RRBs should continue and (*b*) the RBI has to ensure that the rates of lending to the ultimate borrowers are uniform and comparable. Within this broad framework, NABARD should be free to adjust the margins available to the different tiers in the rural credit system.

(12) As recommended in the interim report, while the RBI will be the statutory authority for the inspection of co-operative banks and RRBs under the Banking Regulation Act, it is advantageous and convenient to entrust the work of statutory inspection and its follow-up to NABARD which in any case has to undertake assessment on similar lines of the institutions financed by it. However, based on the findings of the statutory inspection conducted and reports issued by NABARD, it will be for the RBI to initiate any action under the Banking Regulation Act. In this sense, the RBI acts as the ultimate authority. The RBI may, in addition, undertake certain test inspections on its own at long intervals so that it can monitor NABARD's performance on the one hand, and make its own probes more selective, incisive and meaningful for the broader policy concerns of a Central Bank. This arrangement, in our view, would help to avoid needless duplication of work which is inherent in a system in which the regulatory authority (the RBI) tries to ensure that the affairs of a bank are carried on without detriment to the interests of depositors, and the lending Bank (NABARD) tries to satisfy itself that the on-lending operations have been conducted with due care and diligence. The distinction that is sometimes sought to be drawn between the regulatory authority's statutory inspection and the lender's appraisal of on-lending operations is, in our opinion, not real or substantial, at any rate not real enough to justify the

duplication and the consequent load on and inconvenience to the institutions concerned. Further, it must be remembered that the best and surest method of follow up is for the lender to take the results of inspection into account while making operational decisions such as credit limits, penal rates of interest, etc. It is not prudent to invoke for this purpose every now and then, the drastic powers of the regulatory authority such as, moratorium, refusal of licence, etc. This aspect has, in fact, been highlighted to us in evidence by those in the RBI who had hitherto combined the roles of a regulatory authority and a lender.

(13) All statutory returns to be filed by SCBs and CCBs will continue to be received directly by the RBI.

(14) Licensing of banks and bank branches will continue with the RBI. Since NABARD would be directly interested in the proper spread of rural banking facilities, it is but appropriate that the RBI consults NABARD before any action is taken in this regard. The best operational arrangement would be for the NABARD to receive applications and work out the plan for establishment of rural branches of different wings of the rural credit system and send the same with its comments to the RBI for consideration and necessary action.

(15) Issue of policy directives in terms of the RBI and Banking Regulation Acts will continue to be with the RBI. But in all such matters it is desirable that there is consultation between the RBI and NABARD.

(16) As a development bank for the rural sector, NABARD will have special responsibility to ensure that the training facilities for the bank staff engaged in rural lending are adequate. To the extent that the training schemes are sponsored and financed by the ARDC, these will automatically stand transferred to NABARD. This is a field in which the RBI should continue to take active interest and take necessary measures to strengthen the efforts of NABARD for improving and expanding the training facilities for project and programme lending. It follows that the College of Agricultural Banking of the RBI has to be transferred to NABARD.

The various provisions made in the Bill on NABARD are based on these broad relationships between NABARD and the RBI, outlined by us in the previous paragraphs.

B. RBI, NABARD AND COMMERCIAL BANKS

In the context of two stipulations on the lending priorities of the commercial banks viz. (*a*) 40 per cent of their credit should be for the priority sector by 1985 and (b) the credit-deposit ratios of rural and semi-urban branches are to reach 60 per cent, the role of commercial banks in rural credit will continue to expand significantly. This is the field where NABARD will be directly concerned and hence a proper arrangement has to be made to ensure that all the credit institutions engaged in rural credit follow a uniform framework of operations as is broadly the position today. The following points need to be emphasised :

(1) Since the commercial banks will be catering to the credit needs of all the sectors besides the rural sector, it is but logical that they remain under the direct supervision of the RBI.

(2) However, when the RBI is to issue instructions to the commercial banks relating to their rural credit operations, it may consult NABARD with a view to ensuring that the rural credit policy followed by all the credit agencies is more or less uniform.

(3) For the commercial banks, their resources constitute one general pool for various lending purposes. Following this, when any refinance is to be provided to them, it is generally made available by the RBI as general refinance without any reference to sectoral deployment. However, if any occasion arises to provide separate refinance facility specifically for rural purposes such as the "small farmers' window" at present, NABARD may be consulted to ensure uniformity in approach.

(4) So far as the term lending operations of commercial banks for agriculture and rural development are concerned, banks obtain refinance from NABARD and as such, they will be under direct supervision and guidance of NABARD for this purpose.

(5) Since in many districts, bank lending would be mostly rural lending, NABARD will have to keep close track of implementation of district credit plans. Hence NABARD may be represented on the RBI's High Power Committee on the Lead Bank Scheme.

C. RBI, NABARD AND CO-OPERATIVES

In the co-operative sector, there are rural co-operatives and non-rural co-operatives like the urban co-operative banks. NABARD will not be concerned with non-rural co-operatives. Among the rural co-operatives, there are credit co-operatives and functional co-operatives. Although NABARD's link with rural co-operatives will be mainly through credit channels, it is expected to take an active interest in the development of all rural co-operatives as organisational framework for the development of rural sector. The relationship between NABARD and co-operatives can be broadly considered under three heads *viz.* organisational, functional and operational.

Organisational Relationship

(1) NABARD will be directly concerned with the health of both the short and long-term wings of the co-operative credit structure and the integration of the activities of these two wings.

(2) For the above purpose, NABARD has to be in constant touch with the state governments and continue the RBI's present practice of holding annual discussions with each state government.

(3) It has also to forge links with the National Federation of State Co-operative Banks and the National Co-operative Land Development Banks' Federation.

(4) NABARD has also to actively participate in the various national forums such as the Consultative Committee on Co-operation, Annual Conference of State Ministers of Co-operation, Conference of Registrars of Co-operative Societies, Indian Co-operative Congress, etc.

Functional Relationship

(1) As a part of its endeavour to improve the co-operative credit system, NABARD will continue the RBI's efforts in the rehabilitation and reorganisation of all the rural credit agencies.

(2) One of the major weaknesses of the co-operative credit structure has been the lack of businesslike approach to management of co-operative banks handling rural credit. NABARD has to provide the necessary leadership to improve the management systems of these banks and to ensure that proper management cadres are built up. NABARD has to guide the different levels of co-operative credit system in matters relating to recruitment and training of staff.

(3) The co-operative credit institutions are being given assistance under various schemes of the Government of India and the state governments. NABARD may have to collaborate in the formulation and implementation of all such schemes.

Operational Relationship

(1) For the short-term co-operative credit structure, NABARD will extend different lines of credit for production, processing and marketing of both agricultural and non-agricultural activities.

(2) The existing relationship between Land Development Banks and ARDC will continue broadly on the same lines after NABARD comes into being. The present practice of periodical inspection of LDBs may be continued by NABARD.

(3) NABARD will also assume the responsibility for mobilisation of financial support from various agencies to the ordinary debenture floatations of Land Development Banks on the basis of overall clearance given by RBI.

(4) Although NABARD will not be directly linked with non-credit co-operatives, it will take active interest in the development of co-operative marketing and processing societies, handloom and other industrial co-operatives, other functional societies, etc., be-

cause the ultimate success of a credit system depends on how and to what extent credit is linked with non-credit services. NABARD therefore will forge links with all national-level bodies of these organisations such as National Co-operative Consumers' Federation, National Federation of Co-operative Sugar Factories, NAFED, National Co-cperative Dairy Federation, etc.

RBI and Co-operatives

The following four items relating to co-operatives will continue to be dealt with by the RBI :

(1) As the short-term accommodation to the State Co-operative Banks against the pledge of government and trustee securities is for general banking business and not for any specific purpose, The RBI has to contirue to provide this kind of accommodation to the State Co-operative Banks.

(2) The RBI will also have to continue to provide accommodation that may be necessary in such special circumstances as are envisaged in Section 18 of the RBI Act.

(3) The RBI has to support NABARD and help it in forging proper relationship with the State Government on matters relating to co-operative development.

(4) The statutory returns relating to co-operative banks will continue to be the responsibility of RBI.

D. RBI, NABARD AND RRBs

The RRBs have been designed to cater exclusively to the credit needs of weaker sections of rural community. As such, they will form an important arm available to the commercial banks who have sponsored them and to NABARD which will have to devise ways and means for reaching the poorer among the rural community. The following points therefore need to be mentioned to establish proper relationship between NABARD and RRBs.

(1) At present, the shares in the RRBs are held by the Central Government, sponsor bank and State Government in the proportion of 50:35:15, respectively. The Dantwala Committee, however, recommended that the RBI should hold the share in place of the GOI. If and when this recommendation is accepted, it is suggested that NABARD may hold the share in RRBs instead of the RBI.

(2) The present arrangement to provide concessional refinance to RRBs has to continue. For this purpose, The RBI has to provide a separate line of credit to NABARD.

(3) Since sponsor banks have an important role to play in developing RRBs into stable and viable entities, it is important that the vital links between these two banks are maintained until the RRB system stabilises and can progress without any outside support.

(4) The Steering Committee on RRBs which at present is constituted in the RBI may in future be located in NABARD.

E. NABARD AND GOVERNMENT

Being the national level institution dealing with rural credit, NABARD will have to forge close links with the GOI and state governments to ensure that a common co-ordinated approach in all matters having a bearing on rural credit is adopted. To fulfil this purpose the following aspects of relationship have to be noted.

(1) NABARD has to be closely associated in the work relating to the preparation of the Five-Year Plans, particularly in regard to rural credit and development. It has also to be associated in the annual Plan discussions held by the Planning Commission with the state governments.

(2) As NABARD is required to tender expert advice and guidance to the GOI and state governments on all policies and programmes relating to rural credit, it is essential that NABARD is represented on all the national and state level bodies concerned with rural development. An active backing by the Reserve Bank will help NABARD in this respect.

(3) As is the practice followed by the RBI at present, NABARD should also regularly hold annual round of discussions with the state governments to discuss the progress in the improvement of the rural credit structure and problems faced by the system.

(4) One of the present problems relating to co-operative credit system is how to make it more flexible to meet the present needs of diversified rural development programme. Hence, as a matter of convention state governments should consult NABARD while effecting amendments to the Co-operative Societies Act and other laws relating to rural credit. In turn, it is necessary that NABARD examines the existing legislative provisions relating to co-operative societies and rural credit with a view to pinpointing the hurdles and suggesting appropriate provisions to ensure smooth working of rural credit agencies.

F. NABARD AND OTHER INSTITUTIONS

NABARD's relationship with other institutions, specially with the AFC, the IDBI, the NCDC and the REC will be important from the point of NABARD's own effectiveness in achieving the objectives laid down for its functioning.

NABARD and AFC

The Committee is of the view that the AFC should work as an independent consultancy organisation with a specific charter of objectives so that it is in a position to meet the requirements of banks, backward groups of borrowers and backward areas. The three points which require to be stressed are:

(1) In order to ensure that the AFC plays an effective and expanded role in rural development NABARD will have to ensure that there is an automatic working relationship between the two. For this purpose, an agreement may have to be worked out between NABARD and the AFC, specifying the nature and scope of work to be done by the AFC on behalf of NABARD and the AFC adhering to the norms stipulated by NABARD.

(2) A proper forum should be provided where NABARD, the AFC, on-lending banks and the GOI/state governments come together regularly to discuss various common problems relating to project preparation to avail of refinance from NABARD.

(3) The AFC should be represented on the advisory and technical committees of NABARD.

NABARD and IDBI

Since March 1978, the IDBI has set up a Small and Village Industries Wing followed by a Small and Village Industries Credit Committee. In January 1979, IDBI extended its automatic refinance scheme to cover composite loans upto Rs. 25,000 advanced to artisans, village and cottage industries. Since NABARD is also concerned with rural industries as a part of its overall responsibility to promote integrated rural development, it is necessary that NABARD and the IDBI take steps to co-ordinate their activities in this field. For this purpose, NABARD has to be represented on the IDBI Committee referred to above.

NABARD and REC

NABARD will take the place of ARDC on the Board of the REC.

NABARD and NCDC

NCDC is for the development of non-credit co-operative institutions while NABARD will be concerned with the development of co-operative credit institutions in the rural sector. The following two aspects of relationship may be taken care of.

(1) NABARD may be represented on the Governing Council as well as the Executive Committee on the NCDC in place of the RBI.

(2) Similarly the NCDC should be appropriately represented in NABARD's bodies in the Advisory Board and other Committees relating to co-operatives which may be set up by NABARD.

(3) The block capital requirements of non-credit co-operative institutions would be financed by the NCDC while the working capital needs would be financed by NABARD. A close co-ordination in the lending operations of the NCDC and NABARD is therefore essential. This coordination is equally important at the field level.

APPENDIX IV

QUESTIONNAIRES ISSUED BY THE COMMITTEE

I QUESTIONNAIRE (For Field level Discussions)

(a) *At the Block level*

1. Has the block identified the agriculture, animal husbandry, horticulture, forestry fisheries, village industries and services sector and self-employment sectors which are to be tackled in the rural development programme?

2. Who all were involved in the selection of the programmes and the location of each one of them? Have individual families to be benefited by each programme identified by name? Any difficulty in doing this?

3. How have the credit requirements for each of the programmes been assessed? Has there been any assessment of the needs of the individual families aggregated to the block level or is it a subjective assessment and requirement of a macro level?

4. When will the block be in a position to organise familywise appraisal of credit requirements — Long, Medium and Short — for the programmes of rural development accepted for the block?

5. What are the credit institutions purveying credit in the block? List them out, and give for each, the area of operation.

6. Is there any area in the block which is dependent for credit on one institution alone or is there a multiplicity of organisations from whom the borrower can seek loans?

7. Are there any rules or operational conventions that a person cannot seek credit from more than one credit institution? What are the present conventions or rules on the subject?

8. If a single lender system is being observed, what are the difficulties in that system in meeting the requirements of identified families for the right amount of credit in time — long, medium and short — *viz*., non-credit-worthiness of the co-operative system either short-term or long-term, inability of the commercial bank to cover the area or families, farmers service society, if any, being ineffective and regional rural bank, if any, not sufficiently geared for the work?

9. For landholders, what are the institutions which are available for the necessary credit — long, medium and short?

10. For landless labour, for subsidiary occupations including self-employment in services sector, is there any credit availability? If not what are the difficulties?

11. For village industries and artisans, what is the system or systems of credit available? Is there any system developed so far to cover this sector of rural development in the block? If not, have you any ideas on the subject?

(b) *At the District level*

1. Is there a district credit co-ordination committee? If so, who are the members? If not, what is the method followed to co-ordinate the efforts of the various credit institutions in the district?

2. What are the credit institutions purveying credit in the district — long, medium and short term? List them out with the areas of operation.

3. Is a multi-institutional system followed for credit required or are there rules or conventions by which a borrower has to seek credit from only one institution for either long, or short-term credit or both? How can a multi-institutional system be organised? What are the difficulties?

4. How are the credit requirements of the district assessed? Is credit disaggregated into the requirements of the various developmental programmes, comprehensive agriculture, industries, modern and village and services or is it a macro exercise?

5. Are credit requirements built up from grassroot programmes and families or is it still a macro subjective analysis ?

6. It has been the experience that sanction of limits for short-term, or long-term credit in the cooperative sector has always been under-utilised. Will this be correct for the district? If so, what are the errors in the assessment or what are the difficulties in reaching the limits that have been assessed?

7. Are limits based on detailed disaggregation built up from requirements from the primaries or is it again an imposed central system?

8. Are the credit appraisals of primaries based on the capacity of the system to purvey the credit? For example, the creditworthiness of the system may not be sufficient to bear the credit ?

9. What is the present position about the co-operative classification of the district co-operative bank and the primary co-operative credit units in the district? What is the record of availing of sanction credit limits of the district bank and the primaries in the last 10 years? Can some reasons for the fluctuations in individual units be analysed?

10. Does the co-operative system purvey credit for landless labourers, artisans, village industries and services sector and self-employment sector? If not, is there any thinking on the subject? Is the co-operative system availing of the Reserve Bank offer in the ACD to support the village industries? If not, why not?

11. Where primaries, either short-term credit units or long-term credit units, are incapable of absorbing credit due to past performance, have the members of these institutions alternative credit institutions to which they can go? Has there been any thinking on this? What are the difficulties ?

12. The ARDC whilst sanctioning long-term credit for developmental programmes has in the past provided for absorbing arrears of the co-operative system where such arrears can be absorbed in the productivity arising out of the development. Has this facility of the ARDC been utilised in the district in the past? If not, what are the difficulties?

13. Can the facilities in-built by the ARDC in their long-term lending for absorbing existing arrears be worked out by commercial banks suitably for credit to individual borrowers or groups where the co-operative system has made itself ineffective? Is there any thinking on this?

14. Is there any effective link up between organised/supervised programmes of development and lending for the same by the commercial banking system? If not, is there any difficulty in organising such guided development programmes, supervised technically and administratively and in monitoring their implementation by the administrative structure?

15. Can such a guided system be worked out at block level under the integrated rural development programme in the district? Has there been any thinking on this or any difficulties foreseen?

16. How far has the lead bank in the district been able to give the leadership in bringing the banking institutions into the credit purveying system for the development programmes of the district? Is there any thinking on this subject? How can it be made more effective?

17. Are there any farmers service societies in the district and, if so, what is the present judgement about their working ?

18. Has the system of seconding a primary co-operative credit society to a commercial bank been worked out in the district? What is the experience in the same?

19. Various suggestions have been made for improving the co-operative credit system where one of the units, the apex bank, the central bank or the primary, is ineffective. Has there been any working out in the district of such recommendations in the past? If so, with what results?

20. Have the Talwar Committee recommendations about helping the banking system to purvey credit been implemented in full in the district, particularly the right to use the Revenue Recovery Act? What are the difficulties, if any, in the implementation?

21. What is the machinery in the district to bring together the developmental departments and the credit institutions to go for a mutual division of responsibility and performance? Has there been any thinking on this?

(c) At the State level

1. Is the State accepting a multi-institutional system of credit for long, medium and short term credit for its development programmes?

2. Is there a focus in the Secretariat to consider the problems of requirements as a whole and dividing responsibility amongst various credit institutions? If so, what is the system?

3. Is there an annual credit plan for the development sector affecting rural development *i.e.* comprehensive agriculture, industries including village and cottage industries, services including self-employment sector and supporting institutions? If so, is the credit plan built up from below or made at macro level on a subjective basis on past performance?

4. Is there a two-way system of considering the problems of the credit institutions at the grassroot level in co-operatives, commercial banks and other credit institutions? If not, is there any thinking about introduction of such a system?

5. The questionnaires to the block-level and district-level may be seen. The policy issues raised therein and the planning issues will be discussed at the state-level meeting.

6. Has the integrated rural development approach been accepted for comprehensive development of a block? Are there any difficulties in the concept or the working instructions of the same? Can they be spelt out?

7. Has any effort been made to link up the credit requirements of an integrated rural development plan with the credit institutions? If such an attempt was made, what are the difficulties faced?

8. Particularly, how is the State looking at the problem of finding credit support for small industries of the tiny kind, village and cottage industries and various tertiary sector employment in the rural area? What are the types of attempts made and with what results?

II MAILED QUESTIONNAIRE

(a) Issued to the State Co-operative Banks and their Federation

The integrated rural development programme aims at combining programmes and credit for the economic activities of the rural poor covering (*a*) comprehensive agriculture (*b*) tiny, village and cottage industries (*c*) rural services including marketing and (*d*) infrastructure for production and services. The imperative for this programme is that multi-purpose and multi-term credit is available to the farmer, the artisan and the self-employed at one place close to their own village. The multi-purpose primary co-operative with the necessary facilities to provide credit will be the main unit for this programme. The following questions may be answered against this background.

Structure of co-operative credit

(*i*) Is the existing co-operative credit structure in the State strong and competent enough to participate effectively in the credit-based integrated rural development strategy spelt out in the Sixth Five Year Plan? Please give reasons for your answer.

(*ii*) In some states, already some changes are taking place, as for example, through intensive branch banking, to take credit nearer to villages. Please indicate such changes taking place in your State and the results thereof. In such circumstances, can any one of the tiers of the short-term co-operative credit structure be by-passed/ dispensed with, and if so, how and for what purposes? If the three-tier structure is a must, how can the cost of credit to ultimate borrowers be reduced?

(*iii*) What changes would you suggest in the working of multi-agency approach so that all agencies operate harmoniously?

(*iv*) Is co-operative credit for the rural sector really expanding, particularly in the context of the fact that credit limits sanctioned by the RBI are not fully utilised? What are the reasons for the slow growth of credit? How can the rate of growth of credit be accelerated?

(*v*) Has the advent of Regional Rural Banks adversely affected the business of central co-operative banks in any way? What changes would you suggest in the working of RRBs so that they work in harmony with central co-operative banks?

(*vi*) Should the co-operative credit structure continue to have two wings — the ST structure and the LT structure? If you favour a merger what organisational arrangements are necessary to ensure that the multi-purpose and multi-term credit needs of borrowers are available at one contact point?

(*vii*) What are the arrangements now obtaining in your state to ensure that a borrower of long-term credit from LDB gets supporting short-term production credit from co-operatives for reaping the full benefit of his investment?

(*viii*) Do you think the programme for rehabilitation of weak central co-operative banks has achieved the desired objectives? If not, what in your opinion, are the directions in which the programme needs modification?

(*ix*) Do you consider the norms for reorganisation of primary agricultural credit society as satisfactory? If not, what modifications would you suggest to make the base level institutions financially viable and organisationally efficient?

(*x*) Is it necessary or feasible for central co-operative banks to take to direct financing of individuals in areas where the societies are either dormant or ineligible for fresh finance? Are there any legal or administrative regulations in your state which hamper the growth of co-operative rural credit? How can these be removed?

(*xi*) Theoretically, FSS were considered ideal. But in practice, have they succeeded? What changes/measures are needed to make them work or work better?

(*xii*) With reference to a critical assessment of the working of LAMPS, can you suggest measures to improve their progress and performance?

(*xiii*) What are your arguments against the continuance or the extension of the scheme of financing of PACS by commercial banks? Is there a case to cede PACS to commercial banks/RRBs on a blockwise basis?

Co-ordination with development programmes

(*xiv*) Is the existing machinery or arrangements in the State for co-ordinating the development programmes of the state governments with the provision of co-operative credit satisfactory? Do you have any suggestions to improve the arrangements?

Resources and loan operations

(*xv*) What are the steps needed for curtailing the dependence of co-operative lending agencies on borrowings from higher financing agencies?

(*xvi*) What is the cost of your deposits? Is the cost higher/lower than that in the case of commercial banks? Give reasons.

(*xvii*) What are the difficulties in using the resources available to you effectively? How can you absorb the increased cost of funds raised through deposits, and provide funds to farmers at the present level of interest rate?

(*xviii*) What are the functions of a branch of an apex bank/central co-operative bank with reference to services provided to members— types of loans, discounting of bills, transfer of funds, etc.?

(*xix*) Does the opening of a branch reduce costs and add to efficiency/efficacy by way of better supervision over loans?

(*xx*) Do you favour the introduction of a cash credit system for crop production finance? What are its particular merits?

(*xxi*) What are the legislative safeguards and administrative arrangements necessary to ensure that the entries in pass book/credit card issued in some states to farmers are up-to-date and provide legal validity from the security point of view of institutional lending agencies?

(*xxii*) Have the legal provisions for creation of (*a*) a charge on land by members in favour of the society and (*b*) creation of charge in favour of society on crops, been really adequate to facilitate prompt disbursement of credit in adequate measure and to ensure recovery? Give reasons.

Co-ordination

(*xxiii*) In your view, what is the best arrangement to co-ordinate the lending activities of the short-term co-operative credit structure with commercial banks, land development banks and the concerned government development departments/agencies?

(*b*) *Issued to the State Co-operative Land Development Banks and their Federation*

Structure

(*i*) In your opinion, which pattern—unitary or federal—irrespective of the size of the state, is in the interest of larger and better lending by the LDB? Please give detailed reasons.

Resources

(*ii*) Does the impediment to increased lending by the LDBs arise from paucity of resources or other factors? What remedial measures in your opinion are necessary to overcome them?

(*iii*) Have you examined the Integration Committee's proposal for LDBs to obtain funds from ARDC by way of loans, instead of by way of ARDC's subscription to the special development debentures? Have you made any concrete move in this direction ?

(*iv*) What is your view on the recommendations of the Integration Committee for substituting the system of the LDB's debenture floatation linked to mortgage of land by the system of bonds in the case of programmes not covered under ARDC Schemes?

Lending

(*v*) The integrated rural development programme (IRDP) requires diversified lending. Are you in a position to diversify and cover these needs? If not ,what are the difficulties of LDBs in diversifying their operations?

(*vi*) What are your plans/expectations of the LDB's share in ARDC's perspective programme? What steps are necessary to ensure that LDBs continue to maintain their importance as the dominant purveyors of long-term credit?

(*vii*) Are you satisfied about the proper utilisation of loans and the efficiency/adequacy of supervisory and follow-up arrangements for verification and guidance to improve crop yields? Please give details. What organisational set up do you have for technical consultancy, supervision and monitoring?

Multi-Agency

(*viii*) In the multi-agency approach, co-operatives are handicapped to the extent that they cannot provide multi-purpose and multi-term credit. Do you feel that restrictions on them to provide multi-purpose and multi-term credit should be removed? Give reasons for your reply.

(*ix*) Do you not think that commercial banks' ability to meet both the short and long-term credit requirements of cultivators puts them in an advantageous position *vis-a-vis* LDBs? How does the co-operative credit system counter this arrangement?

Integration

(*x*) Has there been any re-thinking by you on the issue of integrating the S.T./M.T. credit structure with L.T. credit structure as recommended by the Integration Committee? What were your earlier arguments and the present arguments if any, for/against integration at the national, state, district and village levels in the context of the intensification of rural development programmes?

ARDC

(*xi*) What are your views on the present structure and operations of ARDC? Is the existing structure adequate to discharge the commitments under IRDP? Do you have any suggestions in the light of the experience gained thus far, and in the light of suggestions received from the member-LDBs?

Overdues

(*xii*) Is it correct to assume that overdues arise due to lack of project approach, supervision and consultancy services and consequent lack of productivity? What measures have the LDBs taken so far to rectify these shortcomings and to recover the overdues? Can you specify what the state government should do in this regard?

Co-ordination

(*xiii*) In your view what is the best arrangement to co-ordinate lending activities of Land Development Banks with commercial banks, other co-operative credit agencies and the concerned government development departments/agencies?

(*xiv*) The District Credit Plan has been devised as an instrument to integrate lending programmes of commercial and co-operative banks with the district development plans. To what extent has this succeeded? What are the defects in the present approach and how to rectify them?

Staff

(*xv*) It is reported that SLDBs do not have their own/adequate technical staff to undertake project preparation and to provide technical consultancy to borrowers. Can you explain the present position and proposals in this regard?

(*xvi*) Is the present staff position of the SLDB/PLDBs at the district/branch level satisfactory to enable them to undertake larger lending to weaker sections (small farmers, agricultural labourers and rural artisans) and in the context of area/project approach? If not, indicate the problems in this regard.

General

(*xvii*) What is your reaction to the suggestion to depoliticise the co-operative institutions suggested in some quarters, in so far as the LDBs are concerned?

(*c*) *Issued to the Commercial Banks*

Multi-Agency Approach

(*i*) Are the lending activities by the institutional credit agencies oriented to ensure that the same agricultural and other rural borrowers do not borrow from more than one agency? What steps would you suggest to improve the arrangements?

(*ii*) What are the steps taken by the bank to ensure that credit purveyed by it led to increased production? What are the gaps in the system that need to be filled to achieve the objective?

(*iii*) Which of the approach—specialisation in meeting particular type of credit needs such as ST, MT and LT or provision of multi-term credit (by institutional credit agencies) is, in your view, better suited to Indian conditions and why?

Financing poorer sections in rural areas

(*iv*) Has your bank faced any difficulties, financial, procedural, practical etc., in extending credit to small/marginal farmers, agricultural labourers, artisans etc., in rural areas? What are they and how, in the opinion of the bank, can these be overcome?

(*v*) What are the steps taken by your bank to ensure that the assistance given to small farmers etc., has really been availed by those who are below the poverty line as defined in the Sixth Plan? What more steps are needed?

(*vi*) What special advantages does your bank see in the area approach to lending? How can this be improved to ensure wider coverage of the target groups?

Recovery of loans

(*vii*) What is the experience of your bank in recovery of loans in rural areas? How have you reoriented your lending policies to prevent recurrence of recovery problems in the future?

(*viii*) What specific remedies would you suggest to deal with the problems of poor recoveries or high overdues?

Supervised Credit

(*ix*) Has your bank evolved any scheme to provide supervised credit—credit and technical consultancy services—to clientele pursuing agricultural/rural activities? What advantages did this approach reveal in its working as compared to normal lending?

(*x*) Has your bank been able to get competent staff to handle supervised credit, in particular, technical consultancy and monitoring?

(*xi*) Has your bank made any special efforts like the Agricultural Development branches of the SBI or the Gram Vikas Kendras of the Bank of Baroda or Rural Service Centres of the Dena Bank? Please detail your experience of such or similar schemes in your bank *vis-a-vis* normal lending for agricultural/rural activities?

(*xii*) In the context of the advantages of a supervised system for rural credit, what rationalisation could be worked out regarding the field staff of various banks at the field level to avoid duplication of efforts?

(*xiii*) At the district level, what has your bank, as the Lead Bank, done to take up leadership in co-ordinating the efforts of all banks? Is it possible to conceive of the Lead Bank co-ordinating the technical/supervisory functionaries of all banks? How best can this be done?

In relation to the State Government

(*xiv*) What assistance do you require from the state government departments to increase your lending in rural areas ?

(*xv*) With reference to the legislation enacted on the basis of Talwar Committee Report, what further assistance do you need from the state government in respect of recovery of loans ?

(*xvi*) What is your experience with the pass books/credit cards issued to agriculturists by the state government in regard to facilitating lending and in preventing duplication of credit ? What are your suggestions to make them more useful and effective ?

Financing Primary Agricultural Credit Societies

(*xvii*) What are the actual field level problems faced in financing farmers through primary agricultural co-operative credit societies ceded to your bank ? Do you have suggestions to extend the scheme to other areas and to make it more effective ?

(*xviii*) Under the scheme of ceding primary agricultural co-operative credit societies to commercial banks, how have you tackled the problem of old overdues of members? Have you thought of absorbing the old overdues in a new loan for productive purpose ? Unless some such arrangement is thought of, how can these people be helped ?

In relation to the Agricultural Finance Corporation Ltd.

(*xix*) What have been the types of projects of agricultural development for which your bank has availed of consultancy assistance from the Corporation?

(*xx*) How would you react to the suggestion that the Corporation concentrates on preparation/appraisal of schemes in special development programme areas of Government like CADP, DPAP, Tribal Area Development, Comprehensive Area Development, etc.

(*xxi*) What other role, in your view, can the Corporation play in the years to come in the commercial bank financing of agriculture ?

In relation to the Agricultural Refinance and Development Corporation (*ARDC*)

(*xxii*) Are there any procedural or other difficulties in availing of refinance from ARDC ? What suggestions would you make to make this facility more automatic, as for example, in the case of the IDBI?

General

(*xxiii*) How best in your view can the activities of commercial banks, co-operative credit agencies and the government development agencies be co-ordinated?

(*xxiv*) Is the District Credit Plan sufficient device to integrate lending programmes of commercial and co-operative banks with the district development plans? How can the defects, if any, in the present approach be rectified?

III—CHECK LISTS PREPARED BY THE COMMITTEE FOR DISCUSSIONS

(*a*) *On the Agricultural Refinance and Development Corporation* (*ARDC*)

Ownership Pattern

1. Is any change in the share capital ownership necessary for expanding the nature and size of operations of ARDC? Is the IDBI pattern more suitable? Is it necessary for the GOI/RBI to fully own the ARDC in order to ensure unconditional exemption from payment of income-tax ?

2. Under Sec. 2(f) (i), SLDB, SCB or any scheduled Bank has to be a shareholder of the ARDC for being classified as an eligible institution. Is this stipulation necessary in the present context? If it is to be done away with, do you consider it desirable to prescribe certain conditions for including any institution in the category of "eligible institutions"? If so, specify them.

Business of the ARDC

3. Do you consider Sec. 22 rather restrictive in the present context and if so what changes do you suggest in regard to the following:

(*a*) Contribution to the share capital of institutions relevant to the promotion of agricultural development *e. g.* Rural Insurance Corporation, Consultancy Organisation, etc.

(*b*) Undertaking consultancy work outside India, particularly in view of the role of the ARDC in securing World Bank assistance etc.

(*c*) Sanction of direct loans.

(*d*) Promotion of activities ancillary to agricultural development and covered by the term, 'rural development' *e. g.* village industries, artisans, rural services including marketing, infrastructure development for production, etc.

(*e*) Provision of short-term loans generally, or to those who are sanctioned term loans with the aid of the ARDC.

4. How is it that though the Act now provides for direct financing, no institution has been approved for the purpose? What class of institutions and purposes in your opinion can be generally approved for direct financing by the ARDC? What should be the criterion for approval of institutions for this facility? At what rate would the ARDC provide funds directly to such institutions and what arrangements could be considered for servicing such direct loans?

Composition of Board and its powers

5. Do you think that there is need to specify the powers of the Chairman and M. D. in the Act instead of leaving it to delegation by Board? Is there any need for the Board to delegate more powers to the Managing Director/Chairman? Please specify.

6. What changes in the composition and size of the Board are desirable to make it more broad-based and professional? Experts from which particular spheres would you advocate for being represented in the Board?

Staff

7. The ARDC requires staff expert in project appraisal and monitoring. What is the proportion of Staff in the ARDC trained in this field?

8. It is understood that the ARDC has indicated to the RBI its preference to develop its own cadres in all levels instead of drawing the required personnel from the RBI as hitherto. What are the reasons for this proposal? And at what stage is this proposal at present?

Relations with The AFC

9. How many schemes appraised by the AFC have been financed by the ARDC so far? Have you felt the need for the ARDC's independent appraisal of those schemes already appraised by the AFC? If yes, please explain with reference to concrete cases.

10. It is contended that the ARDC and the AFC should work as two wings of a single system. What is your view about future role of the AFC? What changes would you suggest in the working of the AFC if it is to work on the lines required by the ARDC?

11. It has been sugested that the AFC should be merged with the ARDC and organised as its consultancy wing. There is also a view that it is advantageous to have a separate consultancy agency outside the ARDC. With what view do you agree? If you agree to merge, how do you propose to achieve it?

LDBs' Operations

12. In what way can we improve the drawal of refinance from the ARDC by LDBs some of which have been revealing a declining trend of late ? Do you think that the switch over from the procedure of subscription to debentures by provision of refinanec by way of loans may help?

13. How do you react to the statement that the RBI/ARDC's inflexible regulations have adversely affected the LDB's operations which in turn wean away the farmers from the co-operatives to commercial banks? What line of action would you suggest to ensure that the co-operative channel is not choked?

Short-term Financing

14. At present, LDBs are required to go to apex co-operative banks or commercial banks for their short-term accommodation. Cannot the ARDC provide such finance to LDBs ? If so, at what rate can the funds be given?

15. There is no restriction in the ARDC Act on advancing ST credit for ensuring fuller return from LT loans given. To what exent, ST loans have been given by the ARDC along with LT loans? Can this facility be expanded ? If not, what are the difficulties of the ARDC in this respect?

IRDP

16. Please give a statewise list of the number of block-level banking plans for agricultural investments prepared uptil now following the action initiated by the ARDC therefor under the IRDP.

17. It has been suggested that the ARDC should be the team leader for preparation of banking and credit plans in areas where the administration is weak. The Committee is also of the view that at the block level, the ARDC shold look after the targeted programmes in both ST and LT. How do you react to these proposals?

Overdues of Commercial Banks

18. Are there any data available to indicate the extent of overdues of commercial banks individually on their agricultural loaning under the ARDC Schemes? How is it proposed to ensure lending discipline by such commercial banks whose recovery on agricultural lending has been very poor ?

19. Overdues of agricultural loans seem to be rising both in LDBs and commercial banks the difference being one of degree only due perhaps to the latter's late start in the venture. What are your suggestions for curbing this unhealthy trend?

Financing of Rural and Agro-based Industries

20. Should the ARDC start financing rural artisans and rural industries, rural services including marketing and infrastructure development for production? What changes are required in the ARDC Act if the scope of the ARDC is to be expanded to cover rural industries?

21. Both the IDBI and the ARDC now finance agro-based industries. Please indicate to which type of agro-based industries in the tiny sector would the ARDC like to provide refinance assistance especially in the context of the IRDP. What type of demarcation of the area of financing in this sphere by the IDBI and the ARDC could be stipulated for avoiding overlapping of activities? The IDBI has set up a Small and Village Industries Wing in 1978 to evolve appropriate policy framework and identify areas for immediate action to promote the growth of such industries. The bank has also set up four different

departments (*viz.*, small and Village Industries Development Department, Refinance of Industrial Loans Department, SFCs and other State Level Agencies Department and Regional and Backward Area Development Department) for the various aspects of the task. Should not the ARDC have a separate section on agro-based industries?

Developmental Role

22. For a growing national institution like the ARDC, there should be specialised wings to take care of existing as well as future activities. What are the ARDC's plans in this regard? What are the ARDC's plans for the utilisation of its Research and Development Fund?

Operations

23. What are the problems faced by the ARDC in enlarging and carrying out its functions effectively and expeditiously in the existing framework?

24. To what extent has the ARDC given loan assistance to the small farmers, agricultural labourers and other low-income rural households?

25. Under refinance from the ARDC, is there any provision to make availalbe some amount for absorbing arrears of the co-operative system so that existing borrowers could be given investment loans ? If so, to what extent this facility has been extended to LDBs ?

26. What are the various arrangements made/steps taken by the ARDC to ensure effective link with the state governments in its various lending activities?

Delegation of Powers

27. From January 1979, powers of sanction of certain specified schemes have been delegated to some of the officers under you and the Regional Directors to a limited extent. What is your assessment of this delegation of powers in operation? Has this resulted in expeditious sanction and implemention of schemes to an appreciable extent? Has any suggestion been made from any quarters for changing the system of release of funds which is now controlled by Head Office ?

28. To what extent the retrospective refinance scheme can be considered as the automatic type of refinance scheme ? Is it possible to make any change in the existing refinance arrangement so as to ensure speedier (almost automatic) sanction of schemes in the case of certain types of schemes or certain backward areas?

ARDC and ADBI

29. Do you think that in the context of the IRDP and the emphasis on development of rural industries, time is now opportune for the setting up of an ADBI or RDBI with the ARDC as the nucleus?

30. Assuming that the ARDC will continue its present role, what legal, administrative and other steps will be required to make its role more effective? If the ARDC is to assume the role of ADBI/RDBI what structural, constitutional, financial and administrative measures would be necessary ?

(b) On the Agricultural Finance Corporation

Consultancy done in the past

1. Over the years, consultancy provided to commercial banks by AFC has declined, while consultancy provided to Governments has increased. What are the reasons for this trend?

2. It appears that the AFC has been taking up all kinds of work including preparation of district credit plans and implementation of schemes. In the present context, how do you visualise the role of the AFC particularly in relation to the ARDC?

3. There are a number of schemes prepared by the AFC, but, for which, financiers have not yet been found. Is the non-identification of financiers for these schemes due to the fact that these are infrastructural in nature and, therefore, not bankable, or because the schemes are located in areas where the spread of bank offices is thin and therefore cannot be taken up? In either case, does this not mean that the AFC has spent its efforts on schemes for which the base for implementation is not ready? Please explain the actual position and difficulties in this regard.

AFC and Lead Bank Scheme

4. What is the actual work the AFC has undertaken regarding district credit plans? Do you think that the AFC can be entrusted with the responsibility for preparing the credit plans on behalf of Lead Banks in all districts and also for providing consultancy services at district level?

Consultancy in the future

5. Many of the banks have established their own staff for project preparation and hence do not seek assistance from the AFC. What is the best way of laying down a well-defined role for the AFC?

6. The consultancy services provided by the AFC, over a decade of its working indicate that it has spread its net far and wide, functionally and spatially. In this context, how would the AFC react to:

(*a*) confining its consultancy services to specific activities in agriculture, as for example, forestry, horticulture, marketing, processing, etc.

(*b*) confining its consultancy services to specific areas in the country, as for example, backward areas/tribal areas, areas under Command/Comprehensive Area Development Programmes.

(*c*) confining its consultancy services to specific activities in specific areas.

7. Do you not think that an arrangement on the lines indicated in (6) will lead to clearer division of work between commercial banks and the AFC?

8. The AFC had not yet had the occasion to assist Regional Rural Banks. Since RRBs are constituted in backward areas to cater to specific target groups, how would the AFC react to specialising in preparing projects/schemes for RRBs?

9. Do you not think that the innovative approach exhibited by the AFC will be sustained better if the AFC is assigned the role of developing projects/schemes in respect of the eastern/north-eastern regions of the country?

AFC and ARDC

10. The AFC has suggested that with an understanding to be reached with the ARDC and business planning done jointly, the pipeline of the ARDC for refinance could be kept filled on a continuing basis. It is also stated that there is need for a more definitive role for the AFC in ARDC supported projects. Against this background please specify.

(*a*) the role visualised for the AFC in the ARDC's business plan — is it by way of assistance to banks in preparation of schemes or preparation of projects/areas as indicated by the ARDC — the why and how of it?

(*b*) the role visualised for the AFC in the ARDC supported projects — command field performance at the micro level.

11. It has been suggested that for better co-ordination and optimum utilisation of available manpower, the AFC should be merged in the ARDC and organised as a consultancy wing. Another suggestion is that the AFC should be reconstituted as a wholly owned subsidiary of the ARDC, like the Technical Consultancy Organisations set up by the IDBI? What are your reactions to these suggestions? If you are in favour of keeping the AFC as a separate institution, please specify your reasons.

AFC and IRDP

12. IRDP, being multi-dimensional in its approach, to what extent in terms of activities covered by it, and in respect of how many of IRDP blocks, could the AFC undertake block level planning?

(*c*) *On a National Level Credit Institution for intensifying the developmental and co-ordination efforts for integrated rural development.*

While there is a consensus on the need to establish an integrated rural credit system at the primary level, different views are held on the question of bringing about similar integration at higher levels. The points listed below are aimed at examining the need for and the concept of an integrated credit institution at the national level in the context of Integrated Rural Development Programme which aims at assisting the rural poor by combining programme and credit for (*a*) comprehensive agriculture, (*b*) tiny, village and cottage industries, (*c*) rural services including marketing and (*d*) infrastructure for production and services.

Background

1. At present, we have three institutions dealing with agricultural finance at the national level *viz.*, the ARDC, the AFC and the ACD of RBI. In your view, what are the main achievements/shortcomings in the functions and working of these institutions? In particular, what are your difficulties in obtaining funds from these institutions with special reference to increasing your lending activities for (*a*) farm production (*b*) investment lending for agricultural development and (*c*) for improving the quality of your lending?

2. Do you think that the ARDC/AFC/ACD could help you more than in the past to increase your involvement in farm lending? And are they, in your opinion, well equipped, to assist you in implementing IRDP?

Concept of ADBI (Agricultural Development Bank of India)

3. In the context of IRDP, how would you look at the proposal for the establishment of a new national level institution, ADBI, with particular reference to

(*i*) overall need for it and the areas or activities in which its need is specially felt,

(*ii*) whether the ARDC and the AFC alone should be merged together to form ADBI,

(*iii*) whether the ARDC, the AFC and the ACD should be merged to form ADBI,

(*iv*) pattern of ownership of share capital of ADBI as compared with the present ownership of share capital of the ARDC/AFC,

(*v*) loan business of ADBI as compared to the present lending pattern in the ARDC /ACD, and

(*vi*) sources of funds of ADBI as compared with the present sources of funds of the ARDC/ACD.

4. There is also demand for a National Co-operative Bank. How do you look at this demand *vis-a-vis* the term of reference to our Committee 'to examine the need for and the feasibility of integrating short-term and medium-term credit structure with long-term credit structure at the national ...... levels in the context of intensification of rural development programmes'?

5. The emphasis in rural banking has now changed from agricultural credit to rural credit. It, however, appears that there is a view favouring the establishment of a separate Apex Financial Institution for tiny and decentralised industrial sectors. Do you agree? What in your view would be the scope and need for ADBI financing non-agricultural activities in the rural sector?

Functions of ADBI

6. Should ADBI

(*a*) undertake all types of financing, short-term, medium-term and long-term for various purposes, including marketing and processing of rural produce or

(*b*) confine itself to agricultural finance for production/investment purposes only or

(*c*) confine itself only to investment finance for rural activities including agriculture?

7. In what form, should ADBI raise its resources — deposits, bonds, loans, etc.?

ADBI and RBI

8. If ADBI is to take up also short-term financing in the rural sector, what should be the nature of the link between ADBI and the RBI? Should it be a subsidiary of the RBI or should it be owned jointly by the RBI and the Govt. of India or should it be owned by the RBI/Govt. of India/co-operatives/commercial banks?

9. If ADBI is established as an independent institution, what should be the nature of relationship between the RBI and ADBI in regard to rural credit?

ADBI and Commercial Banks

10. At present, commercial banks obtain refinance for agricultural investment purposes from the ARDC and for agricultural short-term lending from the RBI. If ADBI is established, what shoul be the relationship between commercial banks and ADBI on the one side and with the RBI on the other?

11. Commercial banks are getting some services from the AFC. Please state whether

(*a*) the commercial banks are satisfied with the present services of the AFC and

(*b*) whether the ADBI would be capable of giving such services.

ADBI and Co-operatives

12. If ADBI is established, would there be any need for restructuring the rural banking set up with special reference to

(i) whether it is desirable for ADBI to establish direct contact with DCCBs or should work through Apex Banks only,

(*ii*) relationship between ADBI and Apex Banks in respect of the latter's borrowings,

(*iii*) whether ADBI can act as a balancing centre, and

(*iv*) the working arrangements between PLDBS and PACS ?

ADBI and Monetary and Credit Policy

13. Do you consider it necessary that the ADBI should also purvey short-term credit which is at present being purveyed by the RBI ?

14. Will the creation of a specialised national level institution, exclusively in charge of a major segment of the economy, affect the implementation of overall monetary policy?

(*d*) *On points for discussion with the state governments*

1. How have the credit requirements for each of the programmes under IRD been assessed ? Is it based on assessment of individual family needs aggregated to the block level, or, is it a subjective assessment of requirement at a macro level ? Does the State Government have any time-frame within which it will be able to appraise familywise credit needs for the accepted programmes of rural development in a block ?

2. While assessing the available credit supply, does the Government have any mechanism to consult the institutional credit agencies, or, is the amount of credit needed allocated among the credit agencies on an *ad-hoc* basis ? Give details.

3. Does the State Government assess as to which of the institutional credit agencies will support the different programmes and, to what extent, with reasons therefor ?

4. In this context, what is Government's view on the present working arrangements under the multi-agency approach, and also about the suggestion that there is need for a single point of contact to service the farmers' credit needs ?

5. What, in the State Government's view, is the best arrangement to co-ordinate the lending activities of commercial banks with co-operative banks, on the one hand, and, with the programmes of the development departments, on the other hand ?

6. What is the present system of credit availability for the non-land-holder class (village industries, landless labourer etc.) ? Which credit institution, according to the Government is more suitable to finance this group ?

7. Has the Government assessed the type of activity that a particular credit agency can finance better at the block level and accordingly planned for the credit agency stregnthening itself in the block ?

8. To what extent do the Block authorities assist the co-operatives/commercial banks and the borrowers with regard to technical know-how ? Has the Govt. ensured that expertise is available at the block level for the activities to be financed by these banks ?

9. In the view of Government, have the District Consultative Committees and State Co-ordination Committee proved useful ? What changes should be made in their composition/working to make them more effective ? Is there a focus in the Secretariat to consider the problems of credit requirements as a whole and dividing the responsibility, among various credit institutions ? How is this done ?

10. RBI (Dept. of Banking Operations and Development) advised State Governments to set up a Lead Bank Cell in each district to assist the Lead Bank. Has this been done ? What is the experience of this arrangement ?

11. To what extent is the State Government machinery at the State, district and block level in a position to assist co-operative and commercial banks in the preparation of bankable schemes ?

12. Does the State Government have any machinery to monitor the implementation of the ARDC schemes in the State, particularly, from the point of view of achieving the yearly targets in each scheme, removal of obstacles to implementation, co-ordinating services where necessary, identifying complementary investments necessary to make the initial investment more remunerative etc. ? Give details.

13. Has the State Government completed the programme of reorganisation of primaries ? What, if any, are the procedural, legal, administrative, etc., difficulties encountered in implementing the reorganisation programme ? How have these been sorted out ?

14. Is the long-term co-operative credit structure in the State legally entitled to lend for non-land based activities ? If not, what arrangements do the Government envisage for meeting long-term credit needs of activities that are not land based ?

15. Has the State Government examined the feasibility of reorganised PACS taking up work relating to investment credit such as collection of loan applications, preliminary scrutiny, disbursement of instalments, routine verification and recoveries of loans ?

16. In the context of the above query, the State Government may please detail its considered view on the Hazari Committee report and if it is in favour of it, the method by which the integration could be brought about at any/all level/s.

17. Is it possible for the existing short-term credit structure which is, by and large obsessed with agriculture, to react to the concept of Integrated Rural Development with its emphasis on credit for landless labour, artisans, village industries and services sector and self employment sector ?

18. What is the judgement on the working of Farmers Service Societies in the State ?

19. Various suggestions have been made for improving the short-term co-operative credit system where one of the units in the structure is ineffective. Has any of the recommendations been worked out in the State and with what results ?

20. What steps have been taken by the Government to increase the involvement of commercial banks including RRBs in rural credit and with what results ?

21. Can the State attempt an appraisal of the performance of RRBs and in the light of such appraisal, indicate the possible future course of action with regard to them from the point of view of credit purveyal to the small/marginal farmers, artisans etc., in other parts of the State.

22. Has the State Government taken legal, administrative and procedural steps recommended by Talwar Committee to ensure that co-operative banks and commercial banks are on par with each other, that is to say competitive, *vis a vis* the borrower ? If not, give reasons therefor. In particular, has the right to use Revenue Recovery Act to recover the dues of commercial banks, been given effect ? If not, why ?

23. How far have the lead banks in the State been able to lead banking institutions into purveying credit for the development programmes of the State ? In what manner could the scheme be altered to make it more effective ?

24. Can the State Government suggest any particular step/s that banks can take within the existing frame-work, to increase their involvement in the State as a whole, any particular part of the state, any particular segment of the population, any particular activity etc., and how ?

25. How can an effective link up between State Government programmes of area development and lending to the bankable activities by commercial/co-operative banks be built-up ? To what extent can difficulties of technical and administrative supervision and monitoring of progress be jointly done by the administrative structure and the participating banks?

26. Has the Government examined Hazari Committee's proposal that LDBs should obtain funds from the ARDC by way of loans, instead of by way of subscription by the ARDC to LDB's special development debentures ? Has Government made any concrete move in this direction ?

27. What is the Government's view on the recommendation of Hazari Committee for substituting the system of LDB's debentures floatation linked to mortgage of land by the system of bonds in the case of programmes not covered by ARDC schemes ?

(*e*) *On points for discussions with Co-operative/Commercial Banks on field level arrangements*

1. At the block level, are the sectors to be tackled under the rural development programmes identified, according as these are connected with agriculture, animal husbandry, horticulture, forestry, village industries, services and self-employment ?

2. In the selection of programmes for financing by credit institutions, and, the locations in which they will finance the activities identified, is there scope for increasing/improving the involvement of the credit institutions and how ?

3. Are there areas, where the bank is functioning, which are dependant for credit on only one institution or are all areas served by more than one institution ? How have credit needs for the identified programmes been met in the former case, and, in the latter case, how do credit institutions ensure that beneficiaries are able to meet their multi-term credit needs at one contact point ?

4. What are the operational rules or conventions by which credit institutions make sure that an individual does not secure credit for the same purpose from more than one credit institution ? How can the existing arrangements be improved ?

5. If the system of one borrower-one credit agency, that is often suggested, is being observed/is to be observed, how does it fulfil the objective of meeting the multi-term credit needs of the identified families if, for example, co-operatives are unable to lend due to being ineligible for fresh credit, inability of commercial banks due to the area being vast,FSS being ineffective, and, RRB, if any, not being sufficiently geard up for the work?

6. What is the present system of credit availability for the non-land-holder class (village industries, artisans, landless labour, self employed)? Which of the institutional credit agencies are able to finance this group and why? What arrangements are needed to increase/improve the credit availability to this sector?

7. Do the credit institutions feel that any particular type of activity/investment could be better financed by any particular credit institution and, if so, reasons therefor ? What would be the logical culmination of this approach?

8. What is the extent of dependance of credit institutions on the Government agencies in regard to technical know-how for formulation of schemes for financing ? Is it possible to identify the areas in which credit institutions' dependance on Government will be continued for quite some time as compared to others in respect of which the credit institutions can develop expertise on their own in the short run ?

9. It is said that credit institutions have to develop their own expertise of the type that is constantly needed by the beneficiary as part of their effort to provide extension and ensure end-use of credit, while extension of a generic nature should be the responsibility of the State. Is it possible to draw such a distinction and has the bank attempted to achieve this ?

10. Technical staff employed by the co-operative system is reportedly of small size. How could co-operatives overcome this handicap ?

11. Have you evolved any norms, over the years, in regard to the number of technical personnel required to service the beneficiaries and what is your experience in this regard? Is it possible to conceive, organise and bring into position a cadre of technical persons common to all credit institutions so as to ensure supervision over end use of loans of all the institutions and extension ? What will be the difficulties in implementing such a scheme?

12. How far have the lead banks been able to lead the credit institutions into purveying credit for the development programmes in their jurisdiction ? What are your suggestions to improve the working of the scheme ?

13. How effective are the District Consultative Committees and State level co-ordination committee ? What changes would you suggest to make these committees more effective from the point of view of improving credit facilities to the target groups, removal of impediments, if any, to credit institutions increasing the rapport between different banks and between banks and the district level administration ?

14. Is there scope for any change in the multi-agency approach to rural credit to make it work more harmoniously and at the same time more effectively ?

15. What are the existing arrangements to co-ordinate the lending activities of land mortgage/development banks with those of the short term co-operative credit structure and of co-operatives with those of commercial banks ? How can these be improved to ensure that their efforts are more complementary to each other ?

16. Has the programme of reorganisation of primary societies in the State been completed ? What, if any, are the procedural, legal, administrative etc., difficulties encountered in implementing the programme ?

17. Have you examined the feasibility of the reorganised primaries taking up work relating to investment credit such as collection of loan applications, preliminary scrutiny, disbursement of instalments, routine verification and recoveries ?

18. In the context of the above query, please detail your considered views on the Hazari Committee report and if in favour of it, the method by which the integration could be brought about at any/all level/s.

19. Is it possible for the existing short-term credit structure which is by and large, obsessed with agriculture to react to the concept of Integrated Rural Development with its emphasis on credit for landless labour, artisans, village industries and services sector and self employment sector ?

20. Various suggestions have been made for improving the short-term co-operative credit system where one of the units in the three-tier structure is ineffective. Has any of the recommendations been worked out in the State and with what results ?

21. Is the long-term co-operative credit structure legally entitled to lend for non-land based activities ? If not, what arrangements do you envisage for meeting long-term credit needs of activities that are not land-based ?

22. Is it possible for CCBs to finance individuals direct in areas where PACS are either dormant or ineligible for fresh finance ? Are there any legal or administrative regulations that come in the way of such an arrangement ? How can these be removed ?

23. Have the FSS, which were theoretically considered ideal, been successful ? What changes/measures are needed to ensure better performance by them ?

24. Against a critical assessment of the working of LAMPS, can you suggest measures to improve their progress and performance ?

25. What are your arguments for extension or discontinuance of the scheme of ceding PACS to commerical banks ? Is there a case to cede PACS to banks including RRBs on a blockwise basis ?

26. In the light of an appraisal of the performance of RRBs, indicate the possible future course of action with regard to them from the point of view of credit purveyal to the small/marginal farmers, artisans etc., in other parts of the State.

27. Does the opening of a branch of the bank in a rural/semi-urban area add to the efficiency/effectiveness in lending and in better supervision ?

28. Is a cash credit system better suited to finance crop production and why ?

29. Is a pass book system likely to be more useful to avoid dual financing and if so what are the legal, administrative steps needed to make it effective ?

30. Has the State Government taken legal, administrative and procedural steps recommended by Talwar Committee to ensure that co-operative ba ks and commercial banks are on par with each other, that is to say competitive, *vis-a-vis* the borrower ? If not, give reasons therefor. In particular, has the right to use Revenue Recovery Act to recover the dues of commercial banks, been given effect ? If not, why ?

31. How can an effective link up between State Government programmes of area development and lending to the bankable activities by co-operative/commercial banks be built-up? To what extent can difficulties of technical and administrative supervision and monitoring of progress be jointly done by the administrative structure and the participating banks ?

(*f*) *On points for discussion with the National Level Co-operative Institutions*

Primary Co-operatives

1. How has the programme of reorganisation of PACS fared ? How can the procedural, legal, administrative problems etc., if any, be overcome to ensure quicker completion of reorganisation ?

2. Why is deposit mobilisation not pickingup at the primary level ? What steps are needed to encourage and intensify deposit mobilisation efforts by PACS ?

3. What steps/additional steps are required to ensure credit availability for the non-land holder class—village industries, artisans, landless labour, self-employed—from the credit cooperatives ?

4. How are the specialised primaries—functional societies, FSS, LAMPS—functioning ?

District Central Co-operative Banks

5. What role do CCBs play and what role do you envisage for them in the IRDP? What organisational and managerial changes are needed to enable them to function as higher level promotional bodies for the primary societies and for diversification of credit?

6. How best can CCBs get involved to a greater extent in district credit planning and ensure performance by co-operatives of the part assigned to them?

7. How far has the scheme for rehabilitation of CCBs succeeded? In what way has the working of CCBs improved?

8. There was a proposal for a common cadre for CCBs and SCBs. How far has it progressed?

State Co-operative Banks

9. How can the management of co-operative credit institutions be progressively professionalised at the apex, district and primary level?

10. What additional measures are needed for increasing the involvement of apex banks in reorganisation of the co-operative system, professionalisation of management, greater mobilisation of deposits at PACS level and diversification of lending?

Long-term Credit

11. What steps are needed to ensure complementarity of lending between the ST and LT co-operative structures and between co-operatives and commercial banks?

12. What preconditions and steps are needed to make PACS take up work relating to investment credit such as collection of loan applications, preliminary scrutiny, disbursement of instalments, routine verification and recoveries on behalf of LDBs?

Marketing and Processing

13. Co-operative marketing of agricultural produce has succeeded only in respect of some commodities and in some areas. Is it possible to replicate the experience with reference to other commodities/other areas and under what conditions and circumstances?

14. There is a point of view that non-credit support by way of input supplies and guaranteed market are more important than supply of credit, even if it be at a concessional rate of interest. Such efforts have succeeded particularly in dairy. Is it possible to replicate the experience in respect of other commodities and under what circumstances?

15. Marketing is the single major problem of cottage/village industries and rural artisans. How can the co-operative marketing structure assist marketing of these products and more importantly communicate changes in tastes etc., of the market to the producers in turn?

16. Why have not attempts to link credit with marketing succeeded? How can the performance in this be improved?

Other Issues

17. Overdues is a major problem in many states. What measures would be necessary to recover the overdues and also to ensure that such a situation does not arise in future?

18. How can the existing operational rules or conventions be improved to ensure that an individual does not secure credit for the same purpose from more than one credit institution?

19. Technical staff employed by the co-operative system is small and they depend upon governmental expertise. Is the arrangement satisfactory and how can this be improved?

20. What is the nature of technical staff with CCBs, SCBs, SLDBs and PLDBs? What are the problems in this regard?

21. How can an effective link between State Government programmes of area development and lending to the bankable activities by banks be built up? To what extent can technical and administrative supervision and monitoring of progress be jointly done by the administrative structure and banks ?

22. Are you satisfied with the present arrangements for training in co-operative credit etc.? Do you have any suggestions for improving the facilities ?

Statement 2·1 : Number of Operational Holdings by Major Size Classes, State-wise : 1970-71 and 1976-77

('000)

State	Total Holdings		Large (10 Ha and above)		Medium (Between 4 to 10 Ha)		Semi-Medium (Between 2 to 4 Ha)		Small (Between 1 to 2 Ha)		Marginal (Below 1 Ha)	
	1970-71	1976-77	1970-71	1976-77	1970-71	1976-77	1970-71	1976-77	1970-71	1976-77	1970-71	1976-77
1	2	3	4	5	6	7	8	9	10	11	12	13
Andhra Pradesh	5,421	6,154	234	209	689	752	942	1,072	1,065	1,252	2,492	2,868
Assam	1,964	2,254	8	8	94	96	275	296	467	510	1,120	1,344
Bihar	7,577	9,936	135	83	544	519	915	928	1,109	1,191	5,874	7,215
Gujarat	2,433	2,713	234	194	601	671	555	632	464	541	579	656
Haryana	914	999	74	72	211	221	205	210	173	187	250	308
Karnataka	3,551	3,811	219	199	623	631	789	818	840	888	1,081	1,274
Madhya Pradesh	5,299	6,061	492	455	1,167	1,267	1,067	1,266	891	1,095	1,683	1,978
Maharashtra	4,951	5,764	514	426	1,229	1,352	1,087	1,340	878	1,142	1,242	1,505
Rajasthan	3,726	4,365	521	506	803	874	772	867	691	799	940	1,320
Tamil Nadu	5,314	6,112	59	46	325	306	696	683	1,109	1,126	3,125	3,931
Kerala	2,823	3,501	4	4	27	34	126	114	268	280	2,398	3,069
Orissa	3,407	3,576	49	36	309	233	453	601	1,121	1,041	1,476	1,666
Meghalaya	150	170	*	1	7	14	36	45	52	51	55	59
West Bengal	4,216	5,267	4	2	184	134	558	546	942	1,083	2,328	3,502
Uttar Pradesh	15,639	16,971	112	86	733	704	1,652	1,627	2,69	2,781	10,453	11,773
Himachal Pradesh	609	621	7	8	38	43	86	95	123	136	355	340
Tripura	250	247	+	+	7	8	22	33	47	60	174	145
Manipur	80	141	neg.	neg.	1	2	12	20	34	49	33	70
Nagaland	93	103	13	25	30	34	26	20	16	15	9	10
Jammu & Kashmir	979	979	1	1	24	24	86	86	155	155	713	713
Punjab	1,375	1,504	69	61	248	253	281	279	260	273	518	637
Sikkim	—	31	—	@	—	4	—	7	—	8	—	11
All Union Territories including Mizoram	239	243	17	14	40	30	40	39	39	42	103	118
All India Total	71,012	81,524	2,767	2,437	8,099	8,207	10,681	11,643	13,432	14,705	36,200	44,532

* 3 hundred ; + 6 hundred ; @ 9 hundred

Source : Agricultural Census, 1976-77 ; Government of India, Ministry of Agriculture.

STATEMENT 2·2 : NUMBER OF RURAL HOUSEHOLDS AND RURAL LABOUR HOUSEHOLDS

('000)

Zone/State	All Rural Households		Rural Labour Households		Scheduled Caste Households		Scheduled Tribe Households	
	1964-65	1974-75	1964-65	1974-75	1964-65	1974-75	1964-65	1974-75
1	2	3	4	5	6	7	8	9
ALL India	**70,385**	**82,083**	**17,843**	**24,835**	**6,881**	**9,124**	**1,827**	**2,562**
Central Zone	*18,786*	*21,229*	*3,381*	*4,347*	*1,681*	*2,084*	*455*	*537*
Uttar Pradesh ..	12,820	15,148	2,046	2,887	1,282	1,693	35	44
Madhya Pradesh ..	5,966	6,081	1,335	1,460	399	392	420	493
East Zone	*18,167*	*21,671*	*5,369*	*7,637*	*2,177*	*2,790*	*700*	*1,074*
Bihar	7,690	8,896	2,433	3,239	1,111	1,340	134	230
Orissa	3,483	5,896	988	1,517	324	409	282	422
West Bengal	4,809	4,147	1,640	2,286	681	868	216	336
Assam	1,885	2,159	274	476	51	112	60	33
South Zone	*14,839*	*17,050*	*5,049*	*7,125*	*1,790*	*2,448*	*178*	*192*
Andhra Pradesh	6,171	7,456	2,115	2,939	721	1,002	135	130
Tamil Nadu	6,193	6,304	1,892	2,792	818	1,138	17	30
Kerala	2,475	3,234	1,041	1,364	251	302	26	32
West Zone	*11,459*	*13,679*	*3,288*	*4,709*	*733*	*1,114*	*438*	*710*
Gujarat	2,980	3,404	551	1,007	128	224	169	279
Maharashtra	4,974	6,085	1,693	2,232	327	497	233	385
Karnataka	3,504	4,068	1,044	1,455	279	394	36	44
North Zone	*7,134*	*8,455*	*757*	*1,018*	*500*	*687*	*56*	*49*
Rajasthan	3,568	3,967	271	256	119	139	42	45
Punjab }	2,657	1,820	462	465	372	384	14	2
Haryana }		1,372		222		132		

Source : Reproduced from Table 2·1 (pages 22 to 25) of Rural Labour Enquiry Report, 1974-75, mimiographed Final Report, 1978

STATEMENT 2·3 : INDEBTED RURAL LABOUR HOUSEHOLDS

(Percentages)

Zone/State	Indebted Rural Labour Households		Scheduled Caste House-holds		Scheduled Tribe House-holds	
	1964-65	1974-75	1964-65	1974-75	1964-65	1974-75
1	2	3	4	5	6	7
ALL INDIA	59·2	65·4	65·0	70·1	45·5	48·8
Central Zone	*65·8*	*65·9*	*73·0*	*70·5*	*55·5*	*55·7*
Uttar Pradesh	69·6	68·3	74·1	71·2	67·9	51·4
Madhya Pradesh	60·0	61·2	69·5	67·4	53·9	56·1
Eastern Zone	*56·2*	*50·0*	*59·0*	*62·9*	*37·1*	*39·6*
Bihar	68·0	70·8	70·0	75·2	25·5	47·6
Orissa	47·1	56·8	50·2	58·4	44·1	41·7
West Bengal	48·3	59·1	46·7	50·8	38·6	36·0
Assam	32·5	28·7	43·1	32·9	23·1	26·8
Southern Zone ..	*62·1*	*76·4*	*64·8*	*80·6*	*56·9*	*61·4*
Andhra Pradesh	65·1	74·2	69·6	79·0	57·8	62·2
Tamil Nadu	59·5	74·8	62·2	81·5	72·2	73·1
Kerala ..	60·7	84·0	60·0	82·1	42·4	47·2
Western Zone	*49·7*	*55·8*	*57·5*	*60·7*	*39·6*	*51·7*
Gujarat	36·4	56·2	39·8	58·4	34·8	56·4
Maharashtra ..	46·2	50·0	52·1	53·8	39·4	45·9
Karnataka	62·5	64·5	71·9	70·8	63·5	73·9
Northern Zone	*73·0*	*70·6*	*76·2*	*75·4*	*82·2*	*82·4*
Rajasthan	71·2	77·3	81·6	80·6	90·5	85·5
Punjab }		72·9	75·4	75·3		100·0
Haryana }	72·6	65·5	29·2	77·0	57·6	50·0

Source : Rural Labour Enquiry Report, 1974-75.

STATEMENT 2·4 : PERCENTAGE SHARE OF THE THREE LOWEST ASSET GROUPS IN ALL HOUSEHOLDS AND IN TOTAL VALUE OF ASSETS (AS ON 30-6-1971)

State		Average value of agricultural assets per household (Rs. '000)	Estimated Number of Households ('000)	Aggregate value of Assets (Rs. crores)	Asset Group in Rs.					
					Upto 500		500 — 1,000		1,000 — 2,500	
					a	b	a	b	a	b
1		2	3	4	5	6	7	8	9	10
Punjab	.. ..	53·6	1,551	4,936·4	2·3	0·02	4·3	0·1	16·5	0·9
Haryana	.. ..	34·8	1,058	2,871·0	3·2	0·03	4·5	0·1	13·0	0·8
Himachal Pradesh	..	14·6	460	1,042·7	1·1	0·01	0·8	0·03	3·3	0·3
Gujarat	.. ..	13·8	3,774	4,858·8	9·3	0·1	7·2	0·4	15·1	1·9
Maharashtra	.. ..	13·2	5,994	7,002·4	11·7	0·2	9·6	0·6	14·2	2·0
Uttar Pradesh	.. ..	12·5	13,709	18,549·9	4·2	0·1	5·6	0·3	14·2	1·8
Bihar	.. ..	12·5	8,630	11,070·1	8·9	0·2	9·6	0·5	16·9	2·2
Jammu & Kashmir	..	10·8	558	851·0	0·4	..	1·0	0·1	5·3	0·7
Karnataka	.. ..	10·4	4,174	4,187·0	14·8	0·3	7·5	0·5	14·8	2·5
Rajasthan	.. ..	10·2	3,131	3,993·1	2·7	0·1	3·7	0·2	11·9	1·6
Madhya Pradesh	..	9·6	5,015	6,222·3	8·1	0·2	7·6	0·5	14·0	2·3
Andhra Pradesh	..	9·5	6,690	5,406·0	19·6	0·6	11·6	1·0	16·9	3·4
Tamil Nadu	.. ..	8·4	6,433	4,391·7	25·5	0·9	12·6	1·3	16·0	3·9
Kerala	.. ..	8·4	2,604	3,024·5	8·9	0·1	6·9	0·4	18·8	2·7
West Bengal	.. ..	7·0	6,081	4,458·1	18·1	0·5	11·8	1·1	17·1	3·9
Assam	.. ..	6·4	1,937	1,517·0	9·8	0·3	6·3	0·6	16·7	3·7
Orissa	.. ..	5·5	3,672	2,211·8	13·6	0·5	9·4	1·1	20·2	5·7
ALL INDIA	..	11·2	77,035	87,131·6	11·3	0·2	8·4	0·5	15·5	2·3

(*a*) Proportion of households in the asset-group (*b*) Share of total assets owned by households in this asset group.

Note : Reproduced from AIDIS Report Table 2·2 page 19. For presentation of data, states have been arranged in the descending order of the average value of agricultural assets per household.

STATEMENT 4·1 : DIRECT INSTITUTIONAL FINANCE FOR AGRICULTURE

(Amount in Rs. crores)

Credit Institution	Loans and Advances issued during the year ended June 30					
	1975	1976	1977	1978R	1979P	1980E
1	2	3	4	5	6	7
Co-operatives	1,039 (2,160)	1,187 (2,357)	1,430 (2,796)	1,444 (3,074)	1,560 (3,353)	1,744 (3,758)
Of which :						
(*a*) Short term[1]	750 (904)	881 (1,012)	1,016 (1,216)	1,058 (1,348)	1,111 (1,473)	1,218 (1,625)
(*b*) Term loans[2]	289 (1,256)	305 (1,345)	414 (1,580)	386 (1,726)	449 (1,880)	526 (2,133)
Government[3] .. (Short-term) ..	77 (N.A.)	82 (N.A.)	82 (N.A.)	98 (N.A.)	119 (N.A.)	153 (N.A.)
Scheduled Commercial Banks[4]	274 (563)	405 (790)	508 (1,031)	569 (1,340)	800 (1,825)	1,045 (2,455)
Of which :						
(*a*) Short-term ..	146 (246)	212 (364)	254 (451)	288 (547)	365 (759)	470 (1,025)
(*b*) Term loans	128 (317)	192 (426)	254 (580)	281 (793)	435 (1,065)	575 (1,430)
Regional Rural Banks	N.A.	2 (N.A.)	16 (N.A.)	44 (N.A.)	101 (N.A.)	100* (112)**
Total	1,390 (2,723)	1,675 (3,147)	2,037 (3,827)	2,155 (4,414)	2,580 (5,177)	3,042 (6,325)
Of which :						
(*a*) Short-term ..	974 (1,150)	1,177 (1,376)	1,369 (1,667)	1,488 (1,894)	1,696 (2,232)	1,941 (2,762)
(*b*) Term loans ..	417 (1,573)	498 (1,771)	668 (2,160)	668 (2,520)	884 (2,945)	1,101 (3,563)

Source : Report on Currency and Finance, 1979-80

Note : Figures in brackets denote outstanding at the end of the year.

R = Revised. P = Provisional. E = Estimate. N.A. = Not available.

1 = Relates to primary agricultural credit societies.

2 = Relates to primary agricultural credit societies and land development banks.

3 = Financial year data based on State Budgets.

4 = Relates to financial year.

* Includes term loans of Rs. 56 crores.

** Includes term loans of Rs. 63 crores.

STATEMENT 4·2: PER HECTARE TOTAL (SHORT-TERM, MEDIUM-TERM AND LONG-TERM) AGRICULTURAL CREDIT FROM CO-OPERATIVES AND COMMERCIAL BANKS (INCLUDING RRBs), STATE-WISE POSITION 1974-75 AND 1977-78

State	Total cropped area ('000 ha.) 1975-76	Gross irrigated area ('000 ha.) 1975-76	Number of operational holdings ('000) 1976-77	Percentage of gross irrigated area to total cropped area in the state 1975-76	Per hectare gross credit issued during		Per hectare credit outstanding at the end of	
					1977-78 Rs.	1974-75 Rs.	1977-78 Rs.	1974-75 Rs.
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Kerala	2,981	327	3,501	11·0	343	254	580	334
Tamil Nadu	7,235	3,376	6,112	46·7	341	300	673	390
Punjab	6,255	4,619	1,504	73·8	273	177	352	237
Haryana	5,451	2,742	999	50·0	234	140	354	173
Gujarat	10,198	1,535	2,713	15·1	178	260	367	347
Maharashtra	19,664	2,171	5,764	11·0	175	226	306	230
Karnataka	11,159	1,707	3,811	15·3	164	144	330	190
Andhra Pradesh ..	12,958	4,528	6,154	35·9	162	107	363	168
Uttar Pradesh ..	23,098	9,231	16,971	40·0	124	62	223	140
West Bengal	7,958	1,541	5,267	19·4	110	37	188	69
Orissa	7,733	1,481	3,576	19·2	75	34	133	78
Rajasthan	17,164	2,934	4,365	17·1	60	34	101	49
Jammu & Kashmir ..	923	371	979	40·2	56	57	149	59
Madhya Pradesh ..	21,356	1,896	6,061	8·9	52	52	130	88
Bihar	11,287	3,363	9,936	29·8	47	32	151	78
Himachal Pradesh ..	924	153	621	16·6	38	56	219	148
Assam	3,177	572	2,254	18·0	6	3	43	29
All India	1,70,995	42,876	81,524	25·1	134	112	255	158

Sources: (1) Agriculture in Brief—17th Edition.
(2) Statistical Statements Relating to the Co-operative Movement in India.
(3) Reserve Bank of India

STATEMENT 4·3 : RANKING OF STATES ACCORDING TO PERCENTAGE OF AGRICULTURAL LOANS ISSUED IN EACH STATE TO TOTAL AGRICULTURAL LOANS ISSUED SEPARATELY BY CO-OPERATIVES (INCLUDING LDBs) AND COMMERCIAL BANKS.

	Agricultural Loans Issued During 1974-75 By				Agricultural Loans Issued During 1977-78 By			
	Co-operatives		Commercial Banks		Co-operatives		Commercial Banks	
Rank								
1.	Maharashtra ..	(25·8)	Tamil Nadu ..	(16·2)	Maharashtra ..	(18·2)	Andhra Pradesh ..	(16·0)
2.	Gujarat ..	(15·4)	Andhra Pradesh	(14·5)	Uttar Pradesh ..	(13·3)	Uttar Pradesh ..	(10·8)
3.	Tamil Nadu ..	(10·4)	Karnataka ..	(12·7)	Tamil Nadu ..	(10·1)	Tamil Nadu ..	(10·7)
4.	Karnataka ..	(7·5)	Maharashtra ..	(10·7)	Gujarat ..	(8·7)	Karnataka ..	(10·6)
5.	Uttar Pradesh ..	(7·4)	Kerala ..	(9·6)	Andhra Pradesh	(7·3)	Kerala ..	(7·3)
6.	Punjab ..	(6·1)	Uttar Pradesh ..	(7·8)	Punjab ..	(7·2)	Punjab ..	(6·9)
7.	Madhya Pradesh	(6·0)	Gujarat ..	(5·9)	Karnataka ..	(6·9)	Maharashtra ..	(5·9)
8.	Andhra Pradesh ..	(5·7)	Madhya Pradesh	(4·6)	Haryana ..	(6 ·1)	Gujarat ..	(4·9)
9.	Haryana ..	(4·2)	Punjab ..	(3·9)	Madhya Pradesh	(5·2)	West Bengal ..	(4·5)
10.	Rajasthan ..	(3·0)	Haryana ..	(3·1)	Rajasthan ..	(4·7)	Rajasthan ..	(4·2)
11.	Kerala ..	(2·8)	Rajasthan ..	(3·1)	Kerala ..	(3·6)	Haryana ..	(4·0)
12.	Bihar ..	(1·9)	Bihar ..	((2·6)	West Bengal ..	(3·6)	Madhya Pradesh	(4·0)
13.	West Bengal ..	(1·4)	West Bengal ..	(2·1)	Orissa ..	(2·6)	Bihar ..	(3·7)
14.	Orissa ..	(1·4)	Orissa ..	(1·2)	Jammu & Kashmir	(2·4)	Orissa ..	(3·4)
15.	Himachal Pradesh	(0·3)	Himachal Pradesh	(0·4)	Bihar ..	(1·8)	Himachal Pradesh	(0·5)
16.	Jammu & Kashmir	(0·3)	Jammu & Kashmir	(neg.)	Himachal Pradesh	(0·6)	Jammu & Kashmir	(0·3)
17.	Assam ..	(neg.)	Assam ..	(neg.)	Assam ..	(neg.)	Assam ..	(neg.)
	ALL INDIA ..	(100·0)	ALL INDIA ..	(100·0)	ALL INDIA ..	(100·0)	ALL INDIA ..	(100·0)

STATEMENT 4·4 : GENERAL PROGRESS OF PRIMARY AGRICULTURAL CREDIT SOCIETIES

(Amount in Rs. crores)

Items	1970-71	1977-78
Number of Societies (lakhs)	1·61	1·16
Of which :		
Active	1·41	1·07
Dormant	0·20	0·09
State-partnered	0·29	0·45
Percentage of villages covered by active societies	86·0	90·9
Membership (million)	31	47·9 (26·3)
Percentage of rural population covered by membership of active societies	40·4	44·0
Borrowing membership (million)	11·2	16·5 (8·2)
Percentage of borrowing membership to total membership	36·0	34·4
Indebted membership (million)	N.A.	22·8
Percentage to total membership	N.A.	47·6
Paid-up share capital	205·74	420·69
Of which contributed by state government	16·94	57·09
Deposits held	69·46	165·16
Of which from members	47·38	112·85
Borrowings outstanding	675·19	1,616·13
Number of societies borrowing (lakhs)	N.A.	0·88
Total working capital	1,153·40	2,712·42
(*a*) Percentage of deposits to working capital	6	6·1
(*b*) Percentage of borrowings to working capital	58·5	59·6
Number of societies advancing loans (lakhs)	1·17	0·90
Loans issued :		
Short-term	519·27	1,109·01
Medium-term	58·54	160·47
Of which conversion/rephasement	Nil	62·27
Long-term	Nil	0·97
Cash credit	0·07	2·20
Total loans and advances	577·88	1,272·65

STATEMENT 4.4: GENERAL PROGRESS OF PRIMARY AGRICULTURAL CREDIT SOCIETIES—*Concld.*

(Amount in Rs. crores)

Items	1970-71	1977-78
Loans outstanding :		
Short-term	647·21	1,347·59
Medium-term	137·27	445·98
Of which conversion/rephasement	—	199·55
Long-term	—	4·50
Total	784·48	1,798·07
Overdues :		
Short-term	283·37	659·80
Medium-term	39·03	149·47
Long-term	—	0·35
Total	322·40	809·62
Percentage of overdues to demand	39·5	43·3
Percentage of overdues to loans outstanding	41·1	45·0
Average per society :		
(*i*) Membership	193	412
(*ii*) Borrowing membership	70	142
(*iii*) Share capital (Rs. thousand)	13	36
(*iv*) Deposits (Rs. thousand)	4	14
(*v*) Loans issued (Rs. thousand)	36	109
(*vi*) Loans outstanding (Rs. thousand)	49	155
Average per member :		
(*i*) Share capital Rs.	61	76
(*ii*) Deposits Rs.	15	24
(*iii*) Loans advanced per borrowing member Rs. ..	514	772

Source : Statistical Statements Relating to the Co-operative Movement in India—Part I.

Figures in bracket indicate membership/borrowing membership of weaker sections *viz.*, small farmers holding lands upto 2 hectares each, agricultural labourers and rural artisans.

STATEMENT 4·5: OPERATIONS OF PRIMARY AGRICULTURAL CREDIT SOCIETIES—1978-79*

(Amount in Rs. lakhs)

Region/State	No. of societies	Membership ('000)	Borrowing membership ('000)	Paid-up capital	Reserves
	1	2	3	4	5
Northern Region					
Haryana	2,406	1,056	617	1,587	78
Himachal Pradesh	2,296	568	114	432	147
Jammu & Kashmir	1,431	388	83	133	44
Punjab	3,183	1,616	1,066	2,456	791
Rajasthan	5,180	2,690	1,117	2,692	211
Chandigarh@	32	4	1	2	1
Delhi	162	28	4	40	10
North Eastern Region					
Assam £	3,239	2,194	16	468	39
Manipur	715	167	9	70	2
Meghalaya	180	42	11	37	1
Nagaland	181	8	2	16	—
Tripura	396	114	15	65	42
Eastern Region					
Bihar	6,034	4,650	1,867	918	101
Orissa	2,945	2,200	503	1,303	318
West Bengal	6,598	2,192	1,299	1,100	280
Andaman & Nicobar Islands	45	4	3	6	7
Central Region					
Madhya Pradesh	5,592	3,002	913	3,454	1,511
Uttar Pradesh	8,625	7,886	3,144	5,316	1,043
Western Region					
Gujarat	7,758	1,825	749	4,935	2,620
Maharashtra	18,474	5,130	1,356	9,045	2,306
Goa, Daman & Diu@ ..	140	66	9	26	13
Dadra Nagar Haveli	11	5	1	3	1
Southern Region					
Andhra Pradesh	7,059	4,864	1,494	2,023	607
Karnataka	5,349	3,158	723	3,121	1,196
Kerala	1,616	3,004	1,348	2,254	1,009
Tamil Nadu	4,789	4,907	2,458	4,009	2,259
Pondicherry	60	25	5	32	20
Lakshadweep	7	4	2	4	3
All India	94,503	51,797	18,926	45,547	14,663
Average per society (Rs. thousand)	—	548	200	48	—
Average per member (Rs.) ..	—	—	—	88	—

* Provisional
@ Data relate to 1976-77
£ Date relate to 1977-78

STATEMENT 4·5: (*Contd.*)

(Amount in Rs. lakhs)

Region/State	Owned Funds	Deposits	Borrowings	Total working capital	Loans and Advances during the year		
					ST	MT	Total
	6	7	8	9	10	11	12
Northern Region							
Haryana	1,665	203	8,293	10,878	9,205	685	9,890
Himachal Pradesh	579	1,042	433	2,485	220	430	650
Jammu & Kashmir	177	31	1,471	1,956	198	47	245
Punjab	3,247	2,495	6,440	13,288	12,133	82	12,215
Rajasthan	2,903	457	9,053	14,336	6,418	771	7,189
Chandigarh	3	4	7	14	3	—	3
Delhi	50	28	11	243	44	—	44
North Eastern Region							
Assam	507	64	724	1,351	87	56	143
Manipur	72	6	270	329	37	5	42
Meghalaya	38	5	57	134	57	—	57
Nagaland	16	26	56	109	36	2	38
Tripura	107	4	215	407	36	14	50
Eastern Region							
Bihar	1,019	231	4,251	7,121	2,090	390	2,480
Orissa	1,621	172	4,523	8,363	3,069	877	3,946
West Bengal	1,380	182	5,474	9,682	4,659	398	5,057
Andaman & Nicobar Islands	13	—	16	28	2	—	2
Central Region							
Madhya Pradesh	4,965	796	12,350	21,795	7,247	1,007	8,254
Uttar Pradesh	6,359	1,406	18,037	33,367	15,785	2,155	17,940
Western Region							
Gujarat	7,555	925	22,200	31,925	11,500	3,000	14,500
Maharashtra	11,351	891	28,387	42,524	13,857	2,285	16,142
Goa, Daman & Diu	39	—	59	139	36	10	46
Dadra Nagar Haveli	4	—	16	20	4	—	4
Southern Region							
Andhra Pradesh	2,630	624	10,482	18,970	8,452	1,143	9,595
Karnataka	4,317	920	11,986	18,897	6,785	992	7,777
Kerala	3,263	9,181	5,949	22,240	8,398	3,804	12,202
Tamil Nadu	6,268	1,449	21,776	34,090	11,006	1,242	12,248
Pondicherry	52	1	154	252	100	—	100
Lakshadweep	7	1	9	19	5	6	11
All India	60,207	21,144	172,699	295,615	121,469	19,401	140,870
Average per society (Rs. thousand)	—	22	—	—	—	—	149
Average per member (Rs.)	—	41	—	—	—	—	745

STATEMENT 4·5 : (*Concld.*)

(Amount in Rs. lakhs)

Region/State	Loans outstanding			Loans overdue			% of over-dues to out-standing
	ST	MT	Total	ST	MT	Total	
	13	14	15	16	17	18	19
Northern Region							
Haryana	7,341	659	8,000	2,497	505	3,002	37·5
Himachal Pradesh ..	545	859	1,404	250	181	431	30·7
Jammu & Kashmir ..	482	431	913	214	120	334	36·5
Punjab	6,725	358	7,083	3,618	135	3,753	53·0
Rajasthan	7,695	1,535	9,230	3,719	400	4,119	44·6
Chandigarh	5	4	9	2	2	4	22·5
Delhi	139	6	145	—	—	—	—
North Eastern Region							
Assam	686	110	796	581	25	606	76·1
Manipur	165	12	177	128	7	135	76·3
Meghalaya	163	—	163	130	—	130	79·7
Nagaland	61	24	85	33	14	47	55·3
Tripura	150	36	186	111	16	127	68·3
Eastern Region							
Bihar	4,615	563	5,178	3,359	426	3,785	73·1
Orissa	3,644	1,925	5,569	1,212	849	2,061	37·0
West Bengal	7,434	982	8,416	3,777	187	3,964	47·1
Andaman & Nicobar Islands	12	7	19	11	7	18	94·7
Central Region							
Madhya Pradesh ..	10,598	3,129	13,727	5,986	1,481	7,467	54·4
Uttar Pradesh ..	17,523	4,074	21,597	8,635	1,321	9,956	46·1
Western Region							
Gujarat	15,850	6,950	22,800	6,450	2,550	9,000	39·5
Maharashtra	22,229	8,435	30,664	11,653	4,532	16,185	52·8
Goa, Daman & Diu ..	40	28	68	18	9	27	39·7
Dadra Nagar Haveli ..	12	1	13	11	—	11	84·6
Southern Region							
Andhra Pradesh ..	11,069	4,020	15,089	3,596	1,070	4,666	30·9
Karnataka	8,904	3,988	12,892	4,831	1,509	6,340	49·2
Kerala	9,465	4,726	14,191	2,138	516	2,654	18·7
Tamil Nadu	15,633	6,571	22,204	10,251	1,643	11,894	53·6
Pondicherry	118	—	118	80	—	80	67·8
Lakshadweep	6	9	15	1	2	3	20·0
All India	151,309	49,442	200,751	73,292	17,507	90,799	45·2
Average per society (Rs. thousand) ..	—	—	212	—	—	—	—
Average per member Rs.	—	—	—	—	—	—	—

Source: Reserve Bank of India.

STATEMENT 4·6: SHORT-TERM AND MEDIUM-TERM LOANS ISSUED BY PRIMARY AGRICULTURAL CREDIT SOCIETIES

(Amount in Rs. lakhs)

Region/State	1970-71		1977-78		Percentage variation	
	Total Loans issued	No. of borrowing members ('000)	Total Loans issued	No. of borrowing members ('000)	Col.(3) over Col.(1)	Col.(4) over Col.(2)
	1	2	3	4	5	6
Northern Region						
Haryana	1,567	370	7,665	555	389·2	50·0
Himachal Pradesh ..	492	216	609	172	23·8	– 20·4
Jammu & Kashmir ..	182+	105+	323@	94	77·5	– 10·5
Punjab	5,710	1,079	8,716	874	52·6	– 19·0
Rajasthan	1,633	553	6,142	1,008	276·1	82·3
North Eastern Region						
Assam	208	53	143	16	– 31·3	–69·8
Manipur	7	5	36	8	414·3	60·0
Meghalaya	N.A.	N.A.	68@	15	—	–
Nagaland	1	–	33	2	3,200·0	—
Tripura	48	21	37	11	– 22·9	– 47·6
Eastern Region						
Bihar	1,246	910	1,933@	719	55·1	– 21·0
Orissa	874	312	3,044	476	248·3	52·6
West Bengal	559	270	5,161	1,054	823·3	290·4
Central Region						
Madhya Pradesh..	5,141	960	6,564	861	27·7	– 10·3
Uttar Pradesh ..	5,134	1,362	15,797	2,872	207·7	110·9
Western Region						
Gujarat	8,934	699	13,876	743	55·3	6·3
Maharashtra ..	11,493	1,329	16,259	1,325	41·5	–
Southern Region						
Andhra Pradesh	2,875	913	9,426	1,313	227·8	43·8
Karnataka	3,809	735	7,631	765	100·3	4·1
Kerala	3,010	678	8,394	1,229	178·9	81·3
Tamil Nadu	4,737	616	14,935	2,353	215·3	282·0
All India	57,782	11,233	127,045	16,493	119·7	46·7

Source: Statistical Statements Relating to the Co-operative Movement in India.
+ Data relate to 1969-70.
@ Data relate to 1976-77

STATEMENT 4·7 : STATE-WISE POSITION OF PRIMARY AGRICULTURAL CREDIT SOCIETIES AND THEIR OPERATIONS AS ON 30 JUNE 1978

Region / State	Total No. of PACS	Of which viable	No. of PACS working at profit	No. of PACS working at loss	No. of PACS working without loss or profit	No. of PACS having fulltime secretary	Others (Part-time, Group/ Honorary)
	1	2	3	4	5	6	7
Northern Region							
Haryana ..	2,430	2,152	1,423	793	214	2,119	311
Himachal Pradesh ..	2,349	518	2,107	206	36	1,382	967
Jammu & Kashmir†	1,415	1,160	1,027	194	194	706	522
Punjab	9,800	3,485	6,625	2,574	601	3,769	4,847
Rajasthan	5,149	3,296	3,454	1,105	590	3,652	1,481
Chandigarh† ..	32	—	17	8	7	5	27
Delhi	276	—	—	—	—	31	71
North Eastern Region							
Assam ..	3,239	13	707	1,998	534	753	2,486
Manipur ..	708	98	19	79	610	40	668
Meghalaya†	329	173	65	108	156	41	288
Nagaland ..	191	15	46	52	93	56	36
Tripura ..	358	—	49	211	98	123	235
Eastern Region							
Bihar†	16,500	—	5,141	9,558	1,801	2,264	14,236
Orissa	3,151	1,778	2,146	963	42	2,967	184
West Bengal.. ..	7,918	5,613	4,606	2,232	1,080	5,474	3,606
Andaman & Nicobar Islands	45	—	22	21	2	—	43
Central Region							
Madhya Pradesh ..	7,119	3,348	5,482	1,517	120	5,534	1,088
Uttar Pradesh ..	8,701	6,146	6,495	1,568	638	7,703	669
Western Region							
Gujarat	7,896	3,004	3,851	3,370	675	5,579	2,317
Maharashtra ..	18,572	3,732	6,385	11,714	473	4,386	14,186
Goa, Daman & Diu†	140	3	86	54	—	109	31
Dadra Nagar Haveli	11	1	5	6	—	11	—
Southern Region							
Andhra Pradesh ..	8,111	5,439	4,781	2,762	568	4,262	3,849
Karnataka ..	5,184	3,945	2,082	2,876	226	4,659	525
Kerala	1,630	1,321	905	691	34	1,539	73
Tamil Nadu ..	4,802	4,205	2,723	1,935	144	4,355	447
Pondicherry ..	62	1	37	25	—	62	—
Lakshadweep ..	7	7	6	1	—	4	3
All India	1,16,125	49,453	60,292	46,621	8,936	61,585	53,196

Source : Statistical Statements Relating to the Co-operative Movement in India.

† Data relate to 1976-77

Note : Data in respect of Mizoram Not Available.

STATEMENT 4·8 : PRIMARY AGRICULTURAL CREDIT SOCIETIES: AVERAGES PER SOCIETY FOR 1970-71 AND 1977-78

(Amount in Rs. thousands)

Region / State	Membership		Borrowing Membership		Share Capital		Deposits	
	1970-71	1977-78	1970-71	1977-78	1970-71	1977-78	1970-71	1977-78
	1	2	3	4	5	6	7	8
Northern Region								
Haryana	98	405	60	228	6	56	1	7
Himachal Pradesh ..	172	235	85	73	9	17	17	41
Jammu & Kashmir	254†	269	95†	66	4†	9	(0·7)†	2
Punjab	140	163	105	89	11	20	17	25
Rajasthan	163	462	71	196	9	45	2	8
Chandigarh ..	143	125	71	31	7	7	9	10
Delhi	117	94	102	18	12	15	8	8
North Eastern Region								
Assam ..	131	677	18	5	4	14	2	2
Manipur ..	144	198	11	11	3	7	(0·2)	(0·5)
Meghalaya ..	—	158	—	46	—	7	—	1
Nagaland ..	30	68	Neg.	10	4	10	(0·1)	5
Tripura ..	192	260	52	31	6	14	1	1
Eastern Region								
Bihar	160	166	53	44	3	5	2	(0·3)
Orissa	375	696	83	151	14	41	4	6
West Bengal ..	91	250	24	133	3	14	(0·6)	2
Andaman & Nicobar Islands	45	89	23	22	6	13	(0·05)	(0·07)
Central Region								
Madhya Pradesh ..	211	401	97	121	16	45	4	12
Uttar Pradesh ..	213	877	53	330	8	56	2	13
Western Region								
Gujarat	158	229	83	94	30	61	6	12
Maharashtra ..	157	264	66	71	26	46	2	5
Goa, Daman & Diu	363	471	42	64	10	18	1	(0·4)
Dadra Nagar Haveli	182	455	182	182	2	28	—	—
Southern Region								
Andhra Pradesh ..	150	576	61	162	7	25	2	8
Karnataka	206	603	85	148	16	58	4	17
Kerala	794	1,642	318	754	44	116	44	341
Tamil Nadu ..	541	991	102	490	25	77	7	25
Pondicherry ..	192	468	82	129	18	52	1	2
Lakshadweep ..	200	429	—	143	14	47	7	17
All India ..	193	412	70	142	13	36	4	14

† Data relate to 1969-70.

STATEMENT 4·8—(*Concluded*)

(Amount in Rs. thousands)

Region / State	Working capital		Loans issued		Loans outstanding	
	1970-71	1977-78	1970-71	1977-78	1970-71	1977-78
	9	10	11	12	13	14
Northern Region						
Haryana	41	468	25	317	30	295
Himachal Pradesh ..	44	95	19	26	30	56
Jammu & Kashmir	79†	140	16†	23	28†	67
Punjab	74	122	56	89	49	69
Rajasthan	49	244	21	119	30	153
Chandigarh ..	28	38	10	27	18	27
Delhi	64	92	15	11	37	59
North Eastern Region						
Assam ..	28	42	7	4	21	25
Manipur ..	11	29	1	5	7	16
Meghalaya ..	—	57	—	2	—	47
Nagaland ..	10	25	5	17	2	10
Tripura ..	36	89	12	10	17	46
Eastern Region						
Bihar	18	34	7	12	12	22
Orissa	98	306	23	97	56	167
West Bengal ..	22	124	5	65	16	94
Andaman & Nicobar Islands	14	61	8	23	12	44
Central Region						
Madhya Pradesh ..	116	276	52	92	85	171
Uttar Pradesh ..	48	339	20	182	33	221
Western Region						
Gujarat	157	391	106	18	113	276
Maharashtra ..	113	216	57	88	82	159
Goa, Daman & Diu	30	100	9	33	12	48
Dadra Nagar Haveli	20	196	12	79	8	112
Southern Region						
Andhra Pradesh ..	40	215	19	116	25	158
Karnataka	89	357	44	149	58	249
Kerala	305	1,080	141	519	169	527
Tamil Nadu ..	142	666	78	311	97	432
Pondicherry ..	129	404	78	220	86	259
Lakshadweep ..	45	243	26	173	23	178
All India ..	72	234	36	109	49	155

Source : Statistical Statements Relating to the Co-operative Movement in India.
† Data relate to 1969-70

STATEMENT 4.9: POSITION OF OVERDUES AT THE LEVEL OF PACS

(Amount in Rs. crores)

Region / State	As at the end of June: 1971 — Loans outstanding	1971 — Amount of overdues	1971 — Percentage of overdues to Demand	1971 — Percentage of overdues to Loans outstanding	1978 — Loans outstanding	1978 — Amount of overdues	1978 — Percentage of overdues to Demand	1978 — Percentage of overdues to Loans outstanding
	1	2	3	4	5	6	7	8
Northern Region								
Haryana ..	18·51	8·70	38·1	47·0	71·58	29·83	31·1	41·7
Himachal Pradesh ..	7·73	1·67	31·0	21·6	13·08	4·28	44·3	32·7
Jammu & Kashmir	3·09	1·86	57·4	60·2	9·44	2·35	50·5	24·9
Punjab	50·64	20·57	26·8	40·6	68·01	29·00	27·2	42·6
Rajasthan	23·67	10·33	42·8	43·6	79·00	36·11	41·2	45·7
North Eastern Region								
Assam	6·30	4·98	80·6	79·0	7·96	6·06	89·9	76·1
Manipur	0·30	0·30	76·5	100·0	1·12	0·58	88·4	52·1
Meghalaya	N.A.	N.A.	N.A.	—	1·56	1·26	86·5	80·6
Nagaland	—	—	—	—	0·18	0·09	38·3	48·8
Tripura	0·70	0·20	N.A.	28·6	1·63	1·15	83·7	70·6
Eastern Region								
Bihar	19·92	12·52	55·9	62·9	36·48	28·61	68·9	78·4
Orissa	21·07	13·84	61·2	65·7	52·58	22·89	49·8	43·5
West Bengal ..	17·63	12·43	71·5	70·5	74·71	31·81	47·1	42·6
Central Region								
Madhya Pradesh ..	83·86	35·81	46·7	42·7	121·38	75·31	54·2	62·0
Uttar Pradesh ..	85·56	44·92	49·2	52·5	191·93	91·35	41·7	47·6
Western Region								
Gujarat	95·74	20·68	20·9	21·6	218·01	90·33	41·9	41·4
Maharashtra ..	164·83	61·84	40·1	37·5	294·47	157·52	54·4	53·5
Southern Region								
Andhra Pradesh ..	38·09	17·10	41·8	44·9	128·33	42·71	37·8	33·3
Karnataka	49·93	21·53	40·4	43·1	129·00	63·43	47·9	49·2
Kerala	36·11	10·71	31·8	29·7	85·90	25·19	26·4	29·3
Tamil Nadu ..	58·82	21·78	33·7	37·0	207·26	68·55	35·7	33·1
ALL INDIA ..	784·48	322·40	39·5	41·1	1,798·07	809·62	43·3	45·0

Source : Statistical Statements Relating to the Co-operative Movement in India.

STATEMENT 4·10 : CREDIT ACTIVITY OF NON-CREDIT SOCIETIES AS ON 30 JUNE 1978

(Amount in Rs. crores)

Type of Societies	No. of societies	No. of societies advancing loans	Amount advanced	Amount out-standing as on 30-6-78
	1	2	3	4
Marketing and Processing Societies				
Cotton Marketing	103	32	4·27	4·81
Fruits and Vegetables Marketing Societies	362	55	1·67	2·45
Arecanut Marketing Societies	17	10	2·60	1·17
Tobacco Marketing Societies ..	27	5	0·04	1·63
Coconut Marketing Societies ..	24	9	0·12	0·10
Sugarcane Supply Marketing Societies	26	—	—	0·03
Central Sugarcane Supply Marketing Societies	208	166	13·17	15·00
Sugar factories	186	29	7·07	11·83
Cotton Ginning and Processing Societies	229	27	2·99	1·28
Other Agricultural Processing Societies ..	619	77	0·45	0·96
Co-operative Cold Storage	77	N.A.	N.A.	0·38
Farming Societies	9,697	N.A.	2·02	4·89
Functional Societies				
Milk Supply Societies	20,703	N.A.	5·24	10·54
Ghee Societies	120	N.A.	-nil-	1·00
Poultry Societies	1,033	N.A.	0·27	1·01
Other Livestock Societies	1,379	N.A.	0·16	0·90
Livestock Products Societies	52	N.A.	—	0·63 (lakhs)
Fisheries Societies	4,358	N.A.	1·23	3·86
Forest Labourers Societies	1,407	N.A.	0·32	0·19
Primary Tribals Labourers Societies ..	1,064	N.A.	0·27	0·10
Non-Tribals Labourers Societies ..	343	N.A.	0·06	0·08
Sericulture Societies	206	N.A.	N.A.	0·34

Source : Statistical Statements Relating to the Co-operative Movement in India, 1977-78— Part II— Non-Credit Societies.

STATEMENT 4·11 : OPERATIONS OF MAJOR FUNCTIONAL CO-OPERATIVES 1970-71 AND 1977-78

(Amount in Rs. lakhs)

		Milk supply unions	Milk supply socie-ties	Poultry societies	Other live-stock socie-ties	Fishe-ries socie-ties
		1	2	3	4	5
Number of societies	1970-71	148	11,909	811	648	4,327
	1977-78	167	20,703	1,033	1,379	4,358
Membership ('000)	1970-71	31	10,23	38	23	4,67
	1977-78	44	18,72	56	54	5,41
Total Sales	1970-71	60,51	53,68	1,76	35	4,00
	1977-78	2,05,85	1,29,94	4,87	2,07	5,08
Loans and advances to members	1970-71	1,43	4,01	25	11	43
	1977-78	97	5,24	27	16	1,23
Loans outstanding at end-June	1970-71	1,50	4,88	33	22	3,60
	1977-78	1,41	10,54	1,01	90	3,86
Loans overdue at end-June	1970-71	34	1,70	7	13	1,05
	1977-78	14	3,17	26	32	2,69
Percentage of overdues to out-standing loans	1970-71	23	35	21	59	29
	1977-78	10	30	26	36	70

Source : Statistical Statements Relating to the Co-operative Movement in India—Part II—Non-Credit Societies.

STATEMENT 4·12: INDUSTRIAL CO-OPERATIVE BANKS, JUNE 30 1978

(Amount in Rs. Lakhs)

State	No. of apex or central industrial banks	Membership		Paid-up Capital	Deposits	Borrowings outstanding		Loans outstanding	
		Industrial Co-operative Societies	Individuals			From RBI	Govt. & others	S. T.	M. T.
Rajasthan ..	1+	249	527	13	1,56	—	4	43	8
Tamil Nadu ..	1+(3)	303	34	63	1,46	—	13	1,49	60
Gujarat	2@(26)	146	8,891	54	12,51	—	27	5,64	1,24
Maharashtra ..	1@(9)	617	334	61	2,93	62	—	2,86	7
Karnataka ..	4@(39)	866	36,575	1,59	3,14	3,62	2,48	6,87	3,56

Source : Statistical statements relating to the Co-operative Movement in India.

(Figures in bracket indicate the number of offices of the banks)

+ State level bank

@ District level banks

STATEMENT 4·13 : LOANS ISSUED BY THE PRIMARY LAND DEVELOPMENT BANKS/BRANCHES OF SLDB DURING THE FINANCIAL YEARS 1974-75 TO 1978-79

(Amount in Rs. crores)

Region/States	1974-75	1975-76	1976-77	1977-78	1978-79
	1	2	3	4	5
Northern Region					
Haryana	6	11	10	19	16
Himachal Pradesh	(0·18)	(0·24)	(0·27)	(0·18)	(0·27)
Jammu & Kashmir	(0·32)	(0·24)	(0·21)	(0·20)	(0·24)
Punjab	11	13	19	16	20
Rajasthan	44	7	9	13	14
North Eastern Region					
Assam	(0·07)	(0·21)	(0·22)	(0·62)	(0·57)
Tripura	(0·02)	(0·10)	(0·02)	(0·01)	(0·06)
Eastern Region					
Bihar	15	18	19	8	5
Orissa	3	3	5	6	7
West Bengal	2	4	7	9	10
Central Region					
Madhya Pradesh	15	14	18	16	10
Uttar Pradesh	33	22	36	48	49
Western Region					
Gujarat	10	9	3	4	3
Maharashtra	19	25	18	19	18
Southern Region					
Andhra Pradesh	17	27	31	40	57
Karnataka	13	21	22	19	11
Kerala	3	4	7	8	9
Tamil Nadu	16	19	17	12	12
Pondicherry	(0·08)	(0·06)	(0·08)	(0·08)	(0·06)
All India	174	187	224	240	244

Source : Reserve Bank of India.

STATEMENT 4·14 : PURPOSE-WISE ADVANCES OF LDBs DURING 1977-78

(Amount in Rs. lakhs)

Region/State	Total long-term loans advanced	Percentage of loans advanced for			
		Minor irrigation purposes	Loans for farm mechanization	Land development	Orchards & plantations
	1	2	3	4	5
Northern Region					
Haryana	16,49	31	51	5	1
Himachal Pradesh ..	38	18	11	3	26
Jammu & Kashmir ..	20	10	50	10	15
Punjab	16,26	30	49	6	—
Rajasthan	14,06	82	16	0·1	—
North Eastern Region					
Assam	89	35	15	16	34
Tripura	1	82	—	10	—
Eastern Region					
Bihar	7,13	61	28	10	—
Orissa	6,23	N.A.	N.A.	N.A.	N.A.
West Bengal	10,32	80	5	8	2
Central Region					
Madhya Pradesh	10,49	91	9	0·3	—
Uttar Pradesh	51,11	87	12	—	—
Western Region					
Gujarat	4,12	31	37	—	—
Maharashtra	14,61	50	10	0·5	0·9
Southern Region					
Andhra Pradesh	51,00	63	12	5	1
Karnataka	13,76	61	3	—	—
Kerala	8,31	29	1	33	24
Tamil Nadu	13,29	23	20	1	0·2
Pondicherry	6	83	9	—	—
All India	238,72	60	17	4	1

Source : Statistical Statements Relating to the Co-operative Movement in India.

STATEMENT 4·15 : CLASSIFICATION OF PLDBs/BRANCHES OF SLDBs ACCORDING TO LEVELS OF OVERDUES

Region/State	Number of banks with percentage of overdues to demand													
	As on 30-6-1975							As on 30-6-1976						
	upto 25	26 to 35	36 to 45	46 to 55	56 to 60	over 60	Total	upto 25	26 to 35	36 to 45	46 to 55	56 to 60	over 60	Total
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Northern Region														
Haryana	29	—	—	—	—	—	29	29	—	—	—	—	—	29
Himachal	2	2	1	2	—	8	15	2	4	1	5	—	5	17
Jammu & Kashmir ..	9	4	5	1	1	1	21	3	3	6	3	2	4	21
Punjab	32	6	1	—	—	—	39	37	4	1	1	—	—	43
Rajasthan . ..	12	7	9	4	1	2	35	29	3	3	—	—	—	35
North Eastern Region														
Assam	1	3	1	5	1	5	16	10	1	2	1	1	2	17
Eastern Region														
Bihar	49	37	18	10	2	1	117	117	7	3	—	—	—	127
Orissa	5	4	9	11	8	18	55	46	—	3	2	3	1	55
West Bengal	16	6	1	—	—	—	23	26	—	—	—	—	—	26
Central Region														
Madhya Pradesh ..	11	15	5	9	1	2	43	42	1	—	—	2	—	45
Uttar Pradesh	130	50	15	9	4	1	209	198	12	2	2	—	—	214
Western Region														
Gujarat	10	6	12	19	9	126	182	78	20	29	18	12	25	182
Maharashtra ..	84	52	57	48	15	15	271	86	67	40	32	18	23	266
Southern Region														
Andhra Pradesh	150	16	14	11	1	4	196	151	21	12	10	4	3	201
Karnataka	92	21	34	15	2	12	176	119	16	12	11	6	12	176
Kerala	21	3	4	1	—	—	29	27	1	2	—	—	—	30
Tamil Nadu	154	22	20	16	3	8	223	135	24	38	14	5	7	223
All India	807	254	206	161	48	203	1,679	1,135	184	154	99	53	82	1,707

STATEMENT 4·15 (*Concld.*)

Region/State	Number of banks with percentage of overdues to demand												
	As on 30-6-1977							As on 30-6-1978					
	upto 25	26 to 35	26 to 45	46 to 55	56 to 60	over 60	Total	upto 25	26 to 35	36 to 45	46 to 55	Above 55	Total
	1	2	3	4	5	6	7	8	9	10	11	12	13
Northern Region													
Haryana	29	—	—	—	—	—	29	29	—	—	—	—	29
Himachal Pradesh ..	—	2	2	1	4	8	17	4	4	2	1	6	17
Jammu & Kashmir ..	3	3	2	5	2	6	21		—Not available—			—	
Punjab	29	7	5	2	—	—	43	34	8	1	—	—	43
Rajasthan	22	3	7	1	2	—	35	21	1	2	10	1	35
North Eastern Region													
Assam	15	—	—	—	—	2	17	15	—	—	—	2	17
Eastern Region													
Bihar	19	17	26	28	22	17	129	30	15	30	52	2	129
Orissa	46	2	1	3	2	1	55	44	3	4	2	2	55
West Bengal	——Not available——						26	25	—	1	—	—	26
Central Region													
Madhya Pradesh	15	4	11	6	7	2	45	4	9	8	12	12	45
Uttar Pradesh	165	28	13	6	1	2	215	195	15	8	1	2	221
Western Region													
Gujarat ..	11	14	23	37	18	79	182	18	25	29	42	68	182
Maharashtra ..	37	37	55	68	17	55	269	——Not available——					
Southern Region													
Andhra Pradesh ..	168	8	7	13	3	6	205	154	18	12	12	9	205
Karnataka	103	29	10	12	13	4	176	113	29	25	6	3	176
Kerala	28	—	1	1	—	—	30	29	—	—	1	—	30
Tamil Nadu	35	30	38	39	21	60	223	39	24	47	47	66	223
All India	756	184	201	222	112	242	1,717	754	151	169	188	173	1,435

Source : Reserve Bank of India.

STATEMENT 4·16 : STATE-WISE DISTRIBUTION OF COMMERCIAL BANK OFFICES

Region/State	July 19, 1969			June 30, 1980		
	Total No. of offices	Of which		Total No. of offices	Of which	
		Rural	Semi-urban		Rural	Semi-urban
	1	2	3	4	5	6
Northern Region						
Haryana ..	174	51 (29)	111 (64)	746	387 (52)	271 (36)
Himachal Pradesh	41	29 (71)	12 (29)	324	264 (81)	60 (19)
Jammu & Kashmir ..	35	7 (20)	8 (23)	394	252 (64)	45 (11)
Punjab	354	116 (33)	128 (36)	1,544	800 (52)	434 (28)
Rajasthan	369	147 (40)	132 (36)	1,471	830 (56)	365 (25)
Chandigarh	21	—	21 (100)	78	9 (12)	—
Delhi	274	—	—	837	40 (5)	1 (0·1)
North Eastern Region						
Assam	74	20 (27)	38 (51)	466	254 (55)	164 (35)
Manipur	2	—	2 (100)	35	22 (63)	2 (6)
Meghalaya	7	2 (29)	5 (71)	55	30 (55)	25 (45)
Nagaland	3	3 (100)	—	35	20 (57)	15 (43)
Tripura	5	1 (20)	4 (80)	77	52 (68)	25 (32)
Arunachal Pradesh	—	—	—	19	19 (100)	—
Mizoram	—	—	—	12	8 (67)	4 (33)

STATEMENT 4.16: (*Contd.*)

	1	2	3	4	5	6
Eastern Region						
Bihar	274	47 (17)	145 (53)	1,907	1,151 (60)	476 (25)
Orissa	100	25 (25)	59 (59)	815	534 (66)	163 (20)
West Bengal	505	42 (8)	149 (30)	2,040	696 (34)	447 (22)
Andaman & Nicobar	1	—	—	12	8 (67)	—
Central Region						
Madhya Pradesh	344	77 (22)	163 (47)	1,842	1,014 (55)	449 (24)
Uttar Pradesh	753	174 (23)	306 (41)	3,740	1,987 (53)	783 (21)
Western Region						
Gujarat	758	233 (31)	288 (38)	2,243	969 (43)	625 (29)
Maharashtra	1,125	156 (14)	340 (30)	3,320	1,052 (32)	735 (22)
Dadra & Nagar Haveli	—	—	—	4	4 (100)	—
Goa, Daman & Diu	87	59 (68)	28 (32)	232	157 (68)	72 (31)
Southern Region						
Andhra Pradesh	571	134 (23)	238 (42)	2,477	1,224 (49)	635 (26)
Karnataka	761	237 (31)	316 (42)	2,636	1,284 (49)	598 (23)
Kerala	605	157 (26)	309 (51)	2,191	1,000 (45)	856 (39)
Tamil Nadu	1,066	142 (13)	540 (51)	2,814	1,008 (36)	820 (29)
Lakshadweep	—	—	—	5	5 (100)	—
Pondicherry	12	1 (8)	2 (17)	48	21 (44)	8 (17)
TOTAL	8,321	1,860 (22)	3,344 (40)	32,419	15,101 (47)	8,078 (25)

Figures in bracket are percentages to total

STATEMENT 4·16: (*Concld.*)

Region/State	APPBO (000)		Average Rural population per R/SU branch
	19-7-69	30-6-80	30-6-1980 ('000)
	7	8	9
Northern Region			
Haryana	56	13	14
Himachal Pradesh	85	11	11
Jammu & Kashmir	114	12	14
Punjab	41	9	10
Rajasthan	69	18	20
Chandigarh	7	3	4
Delhi	10	5	11
North Eastern Region			
Assam	202	31	35
Manipur	497	31	42
Meghalaya	144	18	18
Nagaland	139	15	15
Tripura	311	20	20
Arunachal Pradesh	—	25	25
Mizoram	—	28	28
Eastern Region			
Bihar	206	30	36
Orissa	212	27	31
West Bengal	87	22	33
Andaman & Nicobar ..	115	10	11
Central Region			
Madhya Pradesh	116	23	27
Uttar Pradesh	118	24	29
Western Region			
Gujarat..	34	12	15
Maharashtra	44	15	23
Dadra & Nagar Haveli ..	—	19	19
Goa, Daman & Diu ..	8	4	4
Southern Region			
Andhra Pradesh	74	18	21
Karnataka	38	11	14
Kerala	35	10	11
Tamil Nadu	37	15	20
Lakshadweep	—	6	6
Pondicherry	31	10	11
All India	65	17	21

Source : Reserve Bank of India.

STATEMENT 4·17: STATE-WISE FREQUENCY DISTRIBUTION OF DISTRICTS ACCORDING TO POPULATION PER BANK OFFICE AND PER RURAL/SEMI-URBAN OFFICE, JUNE 1980

Region/State	No. of districts in the State	NUMBER OF DISTRICTS WHERE THE POPULATION PER BANK OFFICE WAS: 17,000 or less		18,000 to 21,000		22,000 to 30,000		31,000 and above	
		appbo	appr/subo	appbo	appr/subo	appbo	appr/subo	appbo	appr/subo
	1	2	3	4	5	6	7	8	9
Northern Region									
Haryana	12	11	9*	1	2*	—	—	—	—
Himachal Pradesh* ..	13	11	11	1	1	—	—	—	—
Jammu & Kashmir	14	10	10	2	2	2	2	—	—
Punjab	12	12	12	—	—	—	—	—	—
Rajasthan	26	11	6	8	10	6	9	1	1
Chandigarh	1	1	1	—	—	—	—	—	—
Delhi	1	1	1	—	—	—	—	—	—
North Eastern Region ..									
Assam	10	1	1	—	—	3	2	6	7
Manipur	6	1	1	1	1	1	1	3	3
Maghalaya	5	1	1	—	—	2	2	2	2
Nagaland	7	3	3	2	2	1	1	1	1
Tripura	3	—	—	3	3	—	—	—	—
Arunachal Pradesh* ..	5	1	1	1	1	1	1	2	2
Mizoram	3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a..	n.a.
Eastern Region									
Bihar*	32	2	1	—	—	10	7	19	23
Orissa	13	1	—	—	—	7	7	5	6
West Bengal ..	16	2	1@	1	—	5	5	8	9
Andaman & Nicobar ..	2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Central Region									
Madhya Pradesh	45	9	5	7	7	13	12	16	21
Uttar Pradesh ..	56	12	6	8	7	18	16	18	27
Western Region									
Gujarat..	19	13	12	3	4	2	2	1	1
Maharashtra	26	8	4@	5	3	12	15	1	3
Dadra & Nagar Haveli	1	—	—	1	1	—	—	—	—
Goa, Daman & Diu ..	1	1	1	—	—	—	—	—	—
Southern Region									
Andhra Pradesh ..	23	8	2	7	9	7	11	1	1
Karnataka	19	13	13	5	3	1	3	—	—
Kerala	11	11	11	—	—	—	—	—	—
Tamil Nadu††	16	10	4@	3	4	3	5	—	—
Lakshadweep	1	1	1	—	—	—	—	—	—
Pondicherry	1	1	1	—	—	—	—	—	—
TOTAL	400	156	119	59	60	94	101	84	107

Source: Reserve Bank of India
@ Excludes Bombay/Madras/Calcutta
* Data not available for one district
†† APPR/SUBO not available for two districts

Statement 4·18 : Performance of Lead Banks in Opening Offices in their Lead Districts as at end June, 1980

Name of the Lead Bank	No. of Lead Dists. allotted	No. of offices opened upto 30-6-1980		Percentage of Offices opened in Lead Districts
		Total	Of which, in Lead Dists.	
	1	2	3	4
BANKS IN THE PUBLIC SECTOR				
State Bank Group	111	5,114	1,309	26
Allahabad Bank ..	9	717	173	24
Bank of Baroda ..	30	1,014	507	50
Bank of India	32	979	453	46
Bank of Maharashtra	5	946	170	34
Canara Bank ..	18	860	315	37
Central Bank of India	46	1,109	438	39
Dena Bank ..	10	542	188	35
Indian Bank	9	540	170	31
Indian Overseas Bank ..	7	557	115	21
Punjab National Bak	41	986	438	44
Syndicate Bank	19	694	298	43
Union Bank of India ..	8	850	149	18
United Bank of India	23	621	318	51
United Commercial Bank	24	760	346	46
Andhra Bank	5	412	132	32
Punjab & Sind Bank	1	470	34	7
BANK IN THE PRIVATE SECTOR				
Bank of Rajasthan Ltd.	*	128	18	14
	398	16,849	5,571	33

Source : Reserve Bank of India

* District Udaipur has been allotted jointly to two banks, namely, State Bank Bikaner and Jaipur and Bank of Rajasthan Ltd. The latter bank has no other district as its lead district.

STATEMENT 4·19 : COVERAGE OF RURAL AREAS AND C. D. BLOCKS BY SCHEDULED COMMERCIAL BANKS

Region/State	Total Number of CD Blocks in the State	Total Number of inhabited villages	Number of R/Su branches of commercial banks as on 30-6-80	Average number of villages per CD Block	Average number of R/Su branches per CD Block	Average number of inhabited villages per R/Su branch
	1	2	3	4	5	6
Northern Region						
Haryana	87	6,731	658	77	8	10
Himachal Pradesh	69	16,916	324	245	5	52
Jammu & Kashmir	75	6,503	297	87	4	22
Punjab	117	12,188	1,234	104	11	10
Rajasthan	232	33,305	1,195	144	5	28
Chandigarh	1	26	9	26	9	3
Delhi	5	243	41	49	8	6
North Eastern Region						
Assam	134	21,995	418	164	3	53
Manipur	26	1,949	24	75	1	81
Meghalaya	24	4,583	55	191	2	83
Nagaland	21	960	35	46	2	27
Tripura	17	4,727	77	278	5	61
Arunachal Pradesh	48	2,973	19	62	—	156
Mizoram	20	229	12	11	1	19
Eastern Rregion						
Bihar	587	67,566	1,627	115	3	42
Orissa	314	46,992	697	150	2	67
West Bengal	335	38,074	1,143	114	3	33
Andaman & Nicobar	5	390	8	78	2	49
Central Region						
Madhya Pradesh	458	70,883	1,463	155	3	48
Uttar Pradesh	876	1,12,561	2,770	128	3	41
Western Region						
Gujarat	218	18,275	1,594	84	7	11
Maharashtra	296	35,778	1,787	121	6	20
Dadra & Nagar Haveli	1	72	4	72	4	18
Goa, Daman & Diu	12	409	229	34	19	2
Southern Region						
Andhra Pradesh	324	27,221	1,859	84	6	15
Karnataka	175	26,826	1,882	153	11	14
Kerala	144	1,268	1,856	9	13	0·7
Tamil Nadu	374	15,735	1,828	42	5	9
Lakshadweep	5	10	5	2	1	2
Pondicherry	4	333	29	83	7	11
TOTAL	5,004	5,75,936*	23,179	115	5	25

Sources : 1. Guidelines for Intensive Development of Blocks under the Programme of IRDP, Vol. II (Annexes) Ministry of Agriculture and Irrigation (Dept. of Rural Development, New Delhi, Page 7).

2. Census of India, 1971, Table A-III

* Includes 215 villages of Sikkim

STATEMENT 4·20 : VILLAGE ADOPTION SCHEME : RANKING OF STATES ACCORDING TO SELECT CRITERIA, DECEMBER 1977

Average population per Rural/Semi-urban branch ('000 ommitted)		No. of villages adopted as percentage of total number of villages		No. of accounts per village		Amount outstanding per village (Rs. in thousands)	
1	2	3	4	5	6	7	8
Goa	(4)	Kerala	(66·6)	Kerala	(121)	Andhra Pradesh	(193)
Chandigarh	(6)	Delhi	(58·4)	Andhra Pradesh	(78)	Maharashtra	(97)
Punjab	(11)	Mizoram	(33·3)	Pondicherry	(68)	Kerala	(79)
Delhi	(11)	Goa	(27·4)	Tamil Nadu	(54)	Tamil Nadu	(73)
Kerala	(12)	West Bengal	(24·9)	Meghalaya	(50)	Karnataka	(71)
Himachal Pradesh	(12)	Tripura	(23·1)	Orissa	(40)	Haryana	(56)
Pondicherry	(13)	Haryana	(20·2)	Karnataka	(29)	Punjab	(54)
Haryana	(16)	Andhra Pradesh	(19·6)	Maharashtra	(26)	Meghalaya	(53)
Gujarat	(16)	Pondicherry	(19·5)	Bihar	(22)	Gujarat	(52)
Karnataka	(16)	Punjab	(16·8)	Uttar Pradesh	(20)	Delhi	(46)
Jammu & Kashmir	(17)	Chandigarh	(15·4)	Goa	(20)	Orissa	(40)
Nagaland	(18)	Tamil Nadu	(14·0)	Haryana	(19)	Pondicherry	(36)
Meghalaya	(21)	Karnataka	(12·6)	Punjab	(19)	Bihar	(33)
Tripura	(23)	Rajasthan	(10·6)	West Bengal	(18)	Rajasthan	(33)
Tamil Nadu	(25)	Gujarat	(10·0)	Mizoram	(18)	Goa	(31)
Maharashtra	(27)	Uttar Pradesh	(8·8)	Delhi	(18)	Uttar Pradesh	(28)
Rajasthan	(27)	Manipur	(7·7)	Manipur	(16)	Manipur	(27)
Andhra Pradesh	(27)	Maharashtra	(7·6)	Tripura	(16)	Madhya Pradesh	(23)
Arunachal	(36)	Assam	(6·4)	Nagaland	(16)	Nagaland	(23)
Orissa	(38)	Madhya Pradesh	(5·8)	Gujarat	(12)	West Bengal	(23)
Madhya Pradesh	(38)	Himachal Pradesh	(4·9)	Himachal Pradesh	(12)	Mizoram	(14)
West Bengal	(39)	Bihar	(3·9)	Jammu & Kashmir	(11)	Jammu & Kashmir	(14)
Assam	(39)	Orissa	(3·7)	Rajasthan	(11)	Himachal Pradesh	(13)
Uttar Pradesh	(40)	Jammu & Kashmir	(2·4)	Assam	(9)	Chandigarh	(11)
Manipur	(44)	Nagaland	(1·4)	Madhya Pradesh	(8)	Assam	(10)
Bihar	(47)	Meghalaya	(1·3)	Chandigarh	(5)	Tripura	(9)
Mizoram	(55)	Arunachal Pradesh	(0·5)	Arunachal Pradesh	(5)	Arunachal Pradesh	(5)

Source : Reserve Bank of India

STATEMENT 4·21 : IMPORTANT INDICATORS OF THE SCHEME OF FINANCING PACS BY COMMERCIAL BANKS, JUNE 1978

(Amount in Rupees lakhs)

State	No. of partici-pating commer-cial banks	No. of Districts	No. of partici-pating branches	No. of PACS taken over	No. of PACS financed	Membership		Borrow-ing members ('000)	Loans disbursed 1977-78	
						Total ('000)	Of which increase since in-ception of the scheme ('000)		S.T.	M.T.
	1	2	3	4	5	6	7	8	9	10
Andhra Pradesh	13	13	107	510	316 (62)	1,05	66	64 (61)	6,43	41
Assam	8	8	82	230	201 (87)	5,06	0·36	29 (6)	33	26
Bihar ..	4	4	8	39	19 (49)	6	1	2 (33)	10	—
Haryana	5	8	24	129	123 (95)	53	25	30 (57)	3,62	39
Jammu & Kashmir	7	5	12	130	51 (39)	38	2	18 (47)	24	5
Karnataka	13	11	105	515	344 (67)	283	110	119 (42)	4,98	82
Madhya Pradesh	10	17	48	250	184 (74)	73	21	38 (52)	1,10	11
Maharashtra	7	18	67	273	169 (62)	59	8	27 (46)	2,67	59
Orissa	7	6	19	95	74 (78)	56	17	24 (43)	32	8
Tripura ..	4	3	27	47	44 (94)	16	2	9 (56)	23	13
Uttar Pradesh	8	13	35	144	125 (87)	1,24	43	72 (58)	1,88	24
West Bengal ..	7	15	130	696	567 (81)	1,40	73	94 (67)	2,86	72
TOTAL	24	121	664	3,058	2,217 (72)	14,60	3,68	5,27 (36)	24,78	3,79

STATEMENT 4·21 (*Concld.*)

(Amount in Rs. Lakhs)

State	Loans outstanding as on 30-6-1978			Demand	Overdues	Percentage of overdues to demand	No. of PACS not financed even once	No. of PACS having ful-time paid secretaries	No. of PACS to which finance discontinued due to overdues
	S.T.	M.T.	C.C.						
	11	12	13	14	15	16	17	18	19
Andhra Pradesh	9,76	1,09	22	12,54	9,28	74	36 (7)	297 (58)	45 (9)
Assam	63	44	30	69	52	75	2 (1)	179 (78)	—
Bihar	16	—	—	14	9	69	9 (23)	6 (15)	11 (28)
Haryana	3,64	1,01	8	5,50	2,78	51	2@ (2)	117 (91)	3@ (2)
Jammu & Kashmir	34	13	—	41	16	38	32@ (25)	40 (31)	18 (14)
Karnataka	12,18	2,25	23	14,16	9,72	69	36 (7)	463 (90)	92 (18)
Madhya Pradesh	2,17	1,00	1	2,50	1,84	74	2 (1)	175 (70)	64 (26)
Maharashtra	3,53	94	25	3,83	2,12	55	12 (4)	156 (57)	34 (12)
Orissa	60	11	14	62	35	56	N.A.	89 (94)	N.A.
Tripura	20	10	1	26	16	60	N.A.	13 (28)	1 (2)
Uttar Pradesh	1,61	43	4	3,26	1,42	44	—	136 (94)	14 (10)
West Bengal	3,13	1,10	5	3,32	2,02	61	1,22 (18)	242 (35)	7 (1)
Total	37,94	8,60	1,34	47,24	30,47	64	2,53 (8)	1,913 (62)	289 (9)

@Data incomplete

(Figures in brackets indicate percentage to respective total)

Source : Reserve Bank of India

STATEMENT 4·22: STATE-WISE FREQUENCY DISTRIBUTION OF DISTRICTS BASED ON CREDIT DEPOSIT RATIOS OF RURAL AND SEMI-URBAN OFFICES AS AT END JUNE 1979

State/Union Territories	Total No. of districts	Rural Offices: CD Ratio for all rural offices	Rural Offices: No. of districts where CD ratio of rural offices was 60% or less	Semi-Urban Offices: CD Ratio for all semi-urban offices	Semi-Urban Offices: No. of districts where CD ratio of semi-urban offices was 60% or less
	1	2	3	4	5
NORTHERN REGION	73(61)	40	46	48	41
Haryana	11(11)	67	4	62	5
Himachal Pradesh	12(6)	32	10	22	6
Jammu & Kashmir	10(5)	26	10	50	4
Punjab	12(12)	25	10	37	10
Rajasthan	26(26)	81	11	66	15
Chandigarh	1(1)	24	1	10	1
Delhi	1(—)	203	—	—	—
NORTH EASTERN REGION	39(20)	30	34	34	19
Assam	10(9)	30	10	39	9
Manipur	6(1)	52	4	12	1
Meghalaya	5(3)	18	5	19	2
Nagaland	7(2)	7	7	35	2
Sikkim	— (1)	—	—	3	1
Tripura	3(3)	78	—	40	3
Arunachal Pradesh	5(—)	11	5	—	—
Mizoram	3(1)	3	3	8	1
EASTERN REGION	61(58)	53	40	32	46
Bihar	31(29)	62	24	35	22
Orissa	13(13)	87	3	55	9
West Bengal	15(15)	35	12	24	14
Andaman & Nicobar Islands ..	2(1)	38	1	20	1
CENTRAL REGION	101(96)	55	59	51	72
Madhya Pradesh	45(44)	66	20	55	33
Uttar Pradesh	56(52)	53	39	50	39
WESTERN REGION ..	47(45)	43	30	43	37
Gujarat	19(18)	34	16	37	15
Maharashtra ..	25(25)	68	12	50	20
Dadra & Nagar Haveli	1(—)	64	—	—	—
Goa, Daman & Diu ..	2(2)	23	2	47	2
SOUTHERN REGION ..	71(67)	78	19	59	34
Andhra Pradesh	21(21)	104	1	66	7
Karnataka	19(19)	70	5	64	10
Kerala	11(11)	54	7	46	8
Tamil Nadu	15(14)	89	2	67	7
Lakshadweep	1(—)	8	1	—	—
Pondicherry	4(2)	90	3	36	2
ALL INDIA	392(347)	54	228	47	249

Source : Report on Trend and Progress of Banking in India 1979-80.
Nos. in brackets (*Col.* 1) are No. of districts having semi-urban centres.

STATEMENT 4·23 : SCHEDULED COMMERCIAL BANKS' ADVANCES TO PRIORITY SECTORS

(No. of accounts in thousands)
(Amount in rupees crores)

	As on the last Friday	Public Sector Banks		All Scheduled Commercial Banks	
		No. of accounts	Amount outstanding	No. of accounts	Amount outstanding
	1	2	3	4	5
AGRICULTURE	June 1969	165	162 (5)	268	188 (5)
	June 1979	6,871	2,221 (14)	7,548	2,459 (13)
Of which : Direct	June 1969	160	40 (1)	257	54 (1)
	June 1979	5,932	1,678 (10)	6,550	1,825 (10)
Indirect	June 1969	5	122 (4)	11	134 (4)
	June 1979	939	543 (4)	998	634 (3)
SMALL SCALE SECTOR	June 1969	53	257 (9)	60	294 (8)
	June 1979	815	2,447 (15)	966	2,820 (15)
Of which: Road and water transport operators	June 1969	2	6	3	8
	June 1979	226	386 (2)	252	457 (2)
Small Scale Industries ..	June 1969	51	251 (8)	57	286 (8)
	June 1979	589	2,061 (13)	713	2,333 (12)
Setting up Industrial Estates	June 1969	—	—	—	—
	June 1979	—	—	1	30
OTHER PRIORITY SECTORS	June 1969	42	22 (1)	N.A.	N.A.
	June 1979	2,019	539 (3)	2,198	629 (3)

STATEMENT 4.23—*Concld.*

	1	2	3	4	5
Of which:					
Retail trade and small business	June 1969	33	19 (1)	N.A.	N.A.
	June 1979	1,313	413 (2)	1,447	483 (2)
Professionals and self-employed	June 1969	8	2	N.A.	N.A.
	June 1979	672	119 (1)	715	138 (1)
Education	June 1969	1	1	N.A.	N.A.
	June 1979	34	7	36	8
TOTAL	June 1969	260	441 (15)	328	505 (14)
	June 1979	9,705	5,207 (32)	10,712	5,908 (31)
TOTAL BANK CREDIT	June 1969		3,016		3,599
	June 1979		16,220		19,116

(Figures in bracket indicate percentages to total)

Note : Data for June 1979 are provisional.

Source : Currency and Finance Report, 1979-80 Reserve Bank of India.

STATEMENT 4·24 : STATEWISE DETAILS OF PRIORITY SECTOR ADVANCES TO SCHEDULED CASTES/SCHEDULED TRIBES—OUTSTANDINGS AS ON THE LAST FRIDAY OF MARCH 1979

(Amount in lakhs of rupees)

State/Union Territory	Agriculture			Other types of direct finance	Retail Trade	Small business
	Direct		Indirect			
	Short Term	Term Loan				
	1	2	3	4	5	6
NORTHERN REGION						
Haryana	27	1,29	1,91	1,42	6	9
Himachal Pradesh	23	34	—	26	6	4
Jammu & Kashmir	—	3	2	3	..	1
Rajasthan	76	7,88	3	1,35	26	28
Chandigarh	—	—	—	..	3	2
Delhi	1	6	..	2	1	4
Punjab	89	83	44	1,93	33	11
NORTH EASTERN REGION						
Assam	8	7	57	9	17	18
Manipur	3	8	16	3	8	2
Meghalaya	4	..	..	..	8	5
Nagaland	—	..	—	..	4	2
Sikkim	—	—	—	—	..	—
Tripura	22	10	26	8	4	3
Arunachal Pradesh	—	—	—	—	..	—
Mizoram	—	—	—	—	..	..
EASTERN REGION						
Bihar	27	52	8	27	32	39
Orissa	38	29	29	99	7	7
West Bengal	2,13	1,84	2,48	1,03	49	19
Andaman & Nicobar Islands ..	..	—	—	..	4	2
CENTRAL REGION ..						
Madhya Pradesh	21	1,49	17	18	50	52
Uttar Pradesh	99	1,81	27	1,01	37	39
WESTERN REGION						
Gujarat	79	2,05	84	2,54	23	32
Maharashtra	62	1,32	13	1,19	54	54
Goa, Daman & Diu	..	1	—	..	1	1
Dadra & Nagar Haveli ..	..	—	—	—	..	1
SOUTHERN REGION						
Andhra Pradesh	2,10	1,09	34	1,48	29	33
Karnataka	1,23	40	49	1,01	28	16
Kerala	66	7	..	25	10	6
Tamil Nadu	2,11	34	18	1,42	18	14
Pondicherry	2	..	—	3	..	..
Lakshadweep	—	—	—	1	1	..
TOTAL	14,03	21,92	8,69	16,61	4,61	4,02

Source : Reserve Bank of India
Note : Figures may not add up due to rounding
.. Denote less than 50,000

STATEMENT 4.24 (*Concld.*)

(Amount in lakhs of rupees)

State/Union Territory	Pro-fess-ionals & Self-emplo-yed	Educa-tional Loans	Small Scale Indus-tries	Crafts-men & other quali-fied entre-preneurs	Small road & water trans-port opera-tors	Setting up of indus-trial estates	Total
	7	8	9	10	11	12	13
NORTHERN REGION							
Haryana	14	..	63	11	10	—	6,03
Himachal Pradesh ..	6	1	19	—	2	—	1,21
Jammu & Kashmir ..	—	—	41	..	..	—	51
Rajasthan	54	1	95	42	32	—	12,81
Chandigarh	1	..	13	—	1	—	21
Delhi	1	..	24	1	10	—	50
Punjab	21	..	1,63	32	19	—	6,89
NORTH EASTERN REGION							
Assam	9	..	48	18	12	—	2,03
Manipur	1	—	2	..	9	—	53
Meghalaya	2	..	4	—	36	—	59
Nagaland	..	—	..	—	5	—	11
Sikkim	—	—	..	—	..	—	—
Tripura	1	—	2	1	3	—	80
Arunachal Pradesh ..	1	—	—	—	4	—	5
Mizoram	1	—	—	—	6	—	8
EASTERN REGION							
Bihar	44	1	1,23	18	1,59	—	5,31
Orissa	8	..	14	1	14	—	2,46
West Bengal	26	1	138	11	2,11	—	12,02
Andaman & Nicobar Islands	..	—	1	—	1	—	8
CENTRAL REGION							
Madhya Pradesh ..	27	1	44	22	2,13	—	6,14
Uttar Pradesh	67	1	1,89	19	38	—	7,98
WESTERN REGION							
Gujarat	84	1	47	2	59	—	8,68
Maharashtra	55	3	1,93	2	50	—	7,37
Goa, Daman & Diu ..	1	..	..	..	..	—	5
Dadra & Nagar Haveli ..	1	—	—	—	..	—	1
SOUTHERN REGION							
Andhra Pradesh ..	31	2	71	6	65	—	7,38
Karnataka	47	1	30	1	10	—	4,46
Kerala	23	..	94	4	6	—	2,42
Tamil Nadu	35	3	11	2	8	—	4,96
Pondicherry	..	..	..	—	..	—	6
Lakshadweep	..	..	—	—	..	—	2
TOTAL	5,60	17	14,30	1,95	9,86	—	101,75

Source : Reserve Bank of India

Note : Figures may not add up due to rounding

.. Denote less than 50,000

STATEMENT 4·25 : STATEWISE DETAILS OF PRIORITY SECTOR ADVANCES— OUTSTANDINGS AS ON THE LAST FRIDAY OF MARCH 1979

(Amounts in lakhs of Rs)

State/Union Territory	Direct to Agriculture		In-direct to Agri-culture	Allied activi-ties	Retial Trade	Small business
	Short term loans	Term loans				
	1	2	3	4	5	6
NORTHERN REGION						
Haryana	6,44 (2,31)	71,63 (19,60)	17,19	6,30	8,18	1,58
Himachal Pradesh	2,21 (1,82)	2,41 (1,69)	19	2,66	4,14	71
Jammu & Kashmir	1,62 (75)	97 (46)	1,87	1,73	6,64	69
Rajasthan	6,17 (1,58)	60,54 (8,61)	16,03	8,56	11,40	3,29
Chandigarh	8 (3)	25 (12)	17,58	1,12	1,71	26
Delhi	2,90 (25)	2,80 (32)	19,39	4,00	15,42	2,58
Punjab	21,00 (5,04)	87,24 (5,16)	32,16	12,78	14,28	1,90
NORTH EASTERN REGION						
Assam	1,60 (1,11)	2,11 (67)	9,48	1,82	6,90	2,32
Manipur	20 (20)	24 (7)	33	8	70	18
Meghalaya	63 (58)	1 (1)	1	6	1,01	12
Nagaland	8 (3)	3 (2)	8	3	21	12
Sikkim	—	—	—	—	1	—
Tripura	88 (82)	53 (40)	33	25	90	46
Arunachal Pradesh	—	1 (—)	—	..	1	—
Mizoram	—	—	—	1	..	3
EASTERN REGION						
Bihar	15,25 (9,51)	51,37 (18,96)	45,96	5,31	16,05	4,65

STATEMENT 4.25 (*Contd.*)

	1	2	3	4	5	6
Orissa	17,78 (11,34)	13,09 (8,97)	8,52	5,14	8,31	2,32
West Bengal	30,73 (25,15)	40,33 (18,44)	32,38	5,19	23,12	5,82
Andaman & Nicobar Islands..	3 (—)	4 (3)	28	3	34	8
CENTRAL REGION						
Madhya Pradesh ..	11,82 (3,00)	66,45 (10,33)	19,34	5,26	15,68	5,64
Uttar Pradesh	31,13 (14,38)	133,73 (29,55)	85,24	22,17	35,93	10,85
WESTERN REGION						
Gujarat	31,54 (6,59)	42,86 (7,57)	28,23	22,19	18,57	5,24
Maharashtra	49,94 (16,53)	85,18 (14,18)	131,61	41,56	48,80	14,31
Goa, Daman & Diu	89 (60)	86 (59)	70	4,83	3,00	1,05
Dadra & Nagar Haveli ..	1 (—)	1 (—)	—	1	2	1
SOUTHERN REGION						
Andhra Pradesh ..	177,81 (105,31)	41,68 (21,58)	40,20	35,23	23,15	6,72
Karnataka	60,61 (28,84)	62,01 (13,43)	46,25	37,36	37,78	11,84
Kerala	43,21 (35,70)	19,84 (13,24)	6,42	19,94	27,38	9,24
Tamil Nadu	110,33 (79,33)	30,16 (8,04)	18,59	44,37	32,50	10,54
Pondicherry	3,73 (2,23)	1,15 (49)	50	1,45	66	11
Lakshadweep	—	—	..	..	1	..
TOTAL ..	628,63 (353,03)	817,51 (202,54)	578,86	289,44	362,78	102,65

Source : Reserve Bank of India
Note : Figures may not add up due to rounding
.. Denote less than 50,000
Figures in brackets indicate loans to farmers with holding upto 5 acres.

STATEMENT 4·25 (*Concld.*)

(Amount lakhs of Rs.)

State/Union Territory	Pro-fess-ionals & Self-employ-yed	Educa-tional Loans	Small Scale Indus-tries	Crafts-men & other quali-fied entre-pre-neurs	Small road & water trans-port opera-tors	Setting up of indus-trial estates	Total
	7	8	9	10	11	12	13
NORTHERN REGION							
Haryana	1,73	15	75,89	2,00	10,33	–	1,98,29
Himachal Pradesh ..	55	2	6,10	9	2,99	19	23,60
Jammu & Kashmir ..	1,56	..	9,55	60	11,06	–	35,89
Rajasthan	3,88	18	54,77	4,01	14,36	1,04	1,84,07
Chandigarh	27	11	9,37	86	1,54	45	33,63
Delhi	3,68	26	1,41,37	4,30	17,46	6,00	2,20,42
Punjab	2,33	12	1,57,61	3,54	15,30	1,13	3,48,23
NORTH EASTERN REGION							
Assam	2,31	2	14,11	81	8,60	–	49,89
Manipur	4	..	24	3	1,25	–	3,26
Meghalaya	13	1	35	1	1,41	–	3,75
Nagaland	3	–	54	..	60	–	1,73
Sikkim	–	–	1	–	4	–	7
Tripura	14	..	74	4	2,18	–	6,39
Arunachal Pradesh ..	1	–	..	–	24	–	27
Mizoram	1	–	2	–	41	–	48
EASTERN REGION							
Bihar	3,64	17	56,15	3,55	35 84	2	2,38,57
Orissa	1,93	6	20,55	77	12,23	55	89,49
West Bengal	6,25	27	1,86,00	1,03,67	49,24	12	3,76,20
Andaman & Nicobar Islands ..	6	..	6	–	16	–	1,03
CENTRAL REGION							
Madhya Pradesh ..	4,94	11	58,50	4,80	29,24	–	2,21,57
Uttar Pradesh	10,22	1,15	1,82,10	6,11	37,07	1,18	5,61,51
WESTERN REGION							
Gujarat	8,28	49	1,89,04	5,90	34,56	10,67	4,03,79
Maharashtra	22,42	1,54	4,21,08	15,18	62,19	14	8,92,87
Goa, Daman & Diu ..	1,37	2	12,21	45	6,36	–	31,97
Dadra & Nagar Haveli	1	..	38	–	5	–	51
SOUTHERN REGION							
Andhra Pradesh ..	8,50	55	1,27,43	5,19	13,30	1,97	4,65,32
Karnataka	18,37	1,72	1,41,59	8,52	32,04	20	4,47,95
Kerala	13,75	73	1,19,81	2,96	21,65	5,95	2,95,36
Tamil Nadu	13,57	1,04	2,42,76	6,18	18,89	2	5,32,24
Pondicherry	28	2	3,61	26	35	–	12,39
Lakshadweep	..	..	–	–	..	–	2
TOTAL	1,30,25	8,74	22,31,91	86,52	4,40,92	29,63	56,80,73

Source : Reserve Bank of India
Note : Figures may not add up due to rounding.
.. Denote less than 50,000

STATEMENT 4·26 : RECOVERY POSITION OF DIRECT FINANCE TO AGRICULTURE—JUNE 1978

State/Union Territories	PERCENTAGE OF RECOVERY TO DEMAND				
	S.B.I. Group	Nationalised Banks	Public Sector Banks	Other Indian Scheduled Commercial Banks	All India Scheduled Commercial Banks
	1	2	3	4	5
NORTHERN REGION					
Haryana	67·6	68·4	68·0	65·9	67·9
Himachal Pradesh	49·0	43·3	46·7	61·7	46·8
Jammu & Kashmir	60·1	71·7	63·0	47·3	62·6
Punjab	78·9	72·3	75·4	80·4	76·4
Rajasthan	53·9	45·6	49·7	57·3	50·0
Chandigarh	0·0	34·4	33·0	63·6	34·9
Delhi	39·1	31·0	34·0	81·8	49·0
NORTH EASTERN REGION					
Assam	38·3	24·1	29·7	39·1	29·8
Manipur	69·8	27·9	28·9	100·0	30·1
Meghalaya	28.9	20·4	26·2	—	26·2
Nagaland	73·4	40·2	69·0	100·0	69·2
Tripura	42·1	44·7	44·6	—	44·6
Arunachal Pradesh	42·9	—	42·9	—	42·9
Mizoram	43·9	—	43·9	—	43·9
Sikkim	—	—	—	—	—
EASTERN REGION					
Bihar	46·2	26·9	35·8	70·8	35·8
Orissa	47·7	30·7	41·6	47·5	41·8
West Bengal	53·9	36·4	41·0	21·8	40·9
Andaman & Nicobar Islands..	—	0·7	0·7	—	0·7
CENTRAL REGION					
Madhya Pradesh ..	39·6	38·2	38·8	65·4	38·9
Uttar Pradesh	65·7	50·0	56·5	51·3	56·5
WESTERN REGION					
Gujarat..	36·5	41·0	40·2	80·0	40·2
Maharashtra	67·9	28·5	38·1	30·9	37·9
Dadra & Nagar Haveli	—	36·1	36·1	—	36·1
Goa, Daman & Diu ..	79·2	76·0	76·8	35·4	76·3
SOUTHERN REGION					
Andhra Pradesh	77·0	43·0	59·3	52·8	57·9
Karnataka	43·9	47·7	46·4	58·8	47·4
Kerala	68·5	60·1	64·1	81·3	68·4
Tamil Nadu	61·4	47·7	52·1	59·9	53·0
Lakshadweep	—	83·3	83·3	—	83·3
Pondicherry	56·2	84·8	77·3	43·6	76·9
ALL INDIA	61·5	43·4	50·2	60·8	51·2

STATEMENT 4·27 : PROGRESS OF REGIONAL RURAL BANKS

(As at the end of December)

State	1975			1976			1977			1978			1979		
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Andhra Pradesh	—	—	—	3	52	8	3	155	8	3	232	8	4	253	9
Assam	—	—	—	1	9	3	1	18	3	1	30	3	1	42	3
Bihar	1	2	2	4	40	10	7	122	15	7	210	15	10	373	18
Gujarat	—	—	—	—	—	—	—	—	—	2	2	2	2	14	2
Haryana	1	2	1	2	40	4	2	45	4	2	55	4	2	71	4
Himachal Pradesh	—	—	—	1	1	3	1	11	3	1	21	3	1	26	3
Jammu & Kashmir	—	—	—	1	20	4	1	35	4	1	38	4	2	47	8
Karnataka	—	—	—	3	27	6	3	78	6	4	131	7	4	191	7
Kerala	—	—	—	2	8	3	2	68	3	2	96	3	2	134	3
Madhya Pradesh	—	—	—	3	27	6	4	89	8	4	131	8	7	188	11
Maharashtra	—	—	—	1	2	4	1	28	4	1	44	4	1	65	4
Orissa	—	—	—	4	43	5	4	112	5	4	146	5	4	176	5
Rajasthan	1	1	2	3	49	7	3	90	7	3	153	7	4	206	8
Tamil Nadu	—	—	—	—	—	—	1	25	2	1	50	2	1	64	2
Tripura	—	—	—	1	1	3	1	22	3	1	24	3	1	29	3
Uttar Pradesh	2	4	3	8	129	10	10	218	13	10	304	13	10	420	13
West Bengal	1	4	3	3	41	8	4	71	11	4	87	11	4	121	11
Total	6	13	11	40	489	84	48	1187	99	51	1754	102	60	2420	114

Source : Reserve Bank of India

A — No. of RRBs

B — No. of Branches.

C — No. of districts covered

STATEMENT 6·1 : SALIENT FEATURES OF SAMPLES ADBs

(Dec. 31, 1978 : Amount in Rs. 000s)

Sr. No.	No. of villages in Jurisdiction	No. of villages in which loans are given	Aggregate deposits	DIRECT LOAN TO SMALL FARMERS		GOLD AND SILVER LOANS	
				No.	Amount Rs.	No.	Amount Rs.
1	2	3	4	5	6	7	8
1	68	102	36,92	2,655	1,98,20	—	—
2	186	179	17,89	5,826	69,80	—	—
3	249	186	31,68	2,500	50,20	21	67
4	32	32	68,96	921	13,66	1,160	32,03
5	400	333	25,69	1,060	34,68	—	—
6	1,156	246	11,44	1,966	25,35	155	2,73
7	148	148	11,83	413	18,92	120	2,72
8	150	150	11,10	731	6,83	96	2,45
9	64	81	20,82	—	1,81,27	—	4,79
10	190	182	12,35	311	6,70	1,418	19,80
11	234	234	16,18	6,215	83,15	18	25
12	231	103	20,54	10,315	70,20	—	—
13	224	106	17,38	121	1,49	—	—
14	167	98	31,59	1,495	27,48	—	—
15	74	69	16,96	2,864	22,28	427	10,92
16	308	80	29,94	4,314	37,23	1,062	12,74
17	30	26	12,34	793	14,87	522	9,96
18	192	192	29,67	6,060	66,62	3,072	10,00
19	45	42	14,35	2,286	36,67	896	23,57
20	133	133	13,03	609	10,88	7	4
21	157	140	13,12	—	—	—	5
22	159	104	3,76	3,751	34,05	—	—

STATEMENT 6·1—(*Contd.*)

Sr. No.	Consumption Loans No.	Consumption Loans Amt (Rs.)	DRI Loans No.	DRI Loans Amt. (Rs.)	Total Loans Outstanding No.	Total Loans Outstanding Amt. (Rs.)	Total Loans Outstanding Demand	Total Loans Outstanding Recovery	Total Income	Total Expen-diture	Profit / Loss
	9	10	11	12	13	14	15	16	17	18	19
1	—	—	268	12,03	2,985	2,11,47	1,22,46	87,23	22,42	15,89	+ 6,53
2	—	—	765	4,17	9,003	1,60,06	60,81	36,82	15,15	14,07	+ 1,08
3	—	—	101	56	4,709	1,37,16	76,23	64,30	15,09	11,72	+ 3,37
4	281	141	400	2,08	3,285	67,04	29,61	28,70	13,04	12,49	+ 55
5	—	—	619	4,28	5,797	2,32,71	84,27	35,41	25,54	17,49	+ 8,05
6	7	13	25	11	3,755	92,16	34,00	28,39	10,82	10,03	+ 79
7	—	—	122	6,11	1,932	69,92	32,71	6,28	9,06	8,34	+ 72
8	—	—	150	1,39	2,534	73,36	22,67	17,74	10,47	9,83	+ 64
9	—	—	—	7,65	—	1,99,58	1,10,53	59,25	20,11	15,57	+ 4,54
10	—	—	134	89	4,533	1,88,73	93,75	17,62	24,55	15,34	+ 9,21
11	—	—	1,179	6,30	10,312	1,79,06	1,18,39	80,06	19.22	16,59	+ 2,63
12	—	—	810	4,07	18,981	1,41,53	41,27	11,41	17,39	15,56	+ 1,82
13	—	—	405	3,02	4,006	1,04,14	19,51	10,56	9,11	8,25	+ 86
14	—	—	647	5,28	2,552	74,40	20,85	5,30	7,48	7,44	+ 4
15	140	70	44	22	5,318	99,64	48,99	34,09	6,10	9,30	— 3,20
16	484	242	1,121	5,63	10,944	1,08,35	43,50	26,56	9,19	16,87	— 7,68
17	700	350	32	24	3,209	57,96	31,49	25,45	5,15	5,72	— 57
18	2,000	676	N.A.	N.A.	16,381	1,43,92	44,00	38,64	15,85	15,97	— 12
19	84	32	45	23	4,326	93,41	5,86	5,33	10,82	14,07	— 3,25
20	—	—	165	40	2,406	42,05	18,37	8,64	5,63	6,31	— 68
21		27		850		59,92	25,10	12,93	5,41	5,91	— 50
22	—	—	—	—	6,263	50,38	5,87	13,55	4,08	6,12	— 2,24

STATEMENT 6·2 : SAMPLE ADBs : INCOME AND EXPENDITURE

Sr. No.	No. of loan accounts	Amount outstanding (Rs. '000s)	Income per Rs. 100/- outstanding: On loans and discounts	On funds lent to H. O.	Total	Expenditure per Rs. 100/- outstanding: Interest on deposits	Interest on loans from H.O.	Salaries and others	Total	Excess of Income over expenditure (+) of expenditure over income (—)
1	2	3	4	5	6	7	8	9	10	11
Profit-making ADBs										
1	2,985	21,147	9·55	1·05	10·60	1·01	4·80	1·70	7·51	+3·09
2	9,003	16,006	8·53	0·93	9·46	0·72	4·33	3·73	8·79	+0·67
3	4,709	13,716	9·29	1·71	11·00	1·41	4·77	2·36	8·54	+2·46
4	3,285	6,704	9·83	9·62	19·45	8·10	5·52	5·01	18·63	+0·82
5	5,797	23,271	10·09	0·88	10·97	0·75	5·12	1·65	7·52	+3·45
6	3,755	9,216	10·42	1·31	11·73	1·07	5·20	4·80	11·07	+0·67
7	1,932	6,992	11·91	0·98	12·89	0·78	5·97	5·36	12·11	+0·78
8	2,534	7,336	12·71	1·94	14·65	1·13	6·36	5·89	13·38	+1·27
9	—	19,958	9·67	0·39	10·06	0·31	5·00	2·48	7·79	+2·27
10	4,533	18,873	12·57	0·43	13·00	0·36	5·48	2·67	8·51	+4·49
11	10,312	17,906	10·09	0·65	10·74	0·44	5·78	3·45	9·67	+1·07
12	18,981	14,153	10·98	1·30	12·28	1·07	4·93	4·98	10·98	+1·30
13	4,006	10,414	7·39	1·31	8·70	0·99	3·92	3·00	7·91	+0·79
14	2,552	7,440	8·02	1·82	10·04	1·38	4·36	4·24	9·98	+0·06
Loss incurring ADBs										
15	5,318	9,964	4·38	1·74	6·12	1·25	2·25	5·83	9·33	— 3·21
16	10,944	10,835	7·40	1·08	8·48	0·59	5·59	9·36	15·56	— 7·08
17	3,209	5,796	7·76	1·12	8·88	1·00	4·11	4·76	9·87	—0·99
18	16,381	14,392	7·73	3·28	11·01	2·65	4·11	4·34	11·10	—0·09
19	4,326	9,341	9·30	2·28	11·58	2·03	8·83	4·20	15·06	— 3·48
20	2,406	4,205	11·06	2·33	13·39	1·90	5·54	7·56	15·00	— 1·61
21	—	5,992	7·28	1·75	9·03	1·10	3·47	5·29	9·86	— 0·83
22	6,263	5,038	7·56	0·49	8·05	0·41	4·18	7·95	12·54	— 4·49

STATEMENT 10·1 : DISBURSEMENT OF REFINANCE — REGIONWISE

(Amount in Rs. crores)

Region and Principal States	DISBURSEMENTS DURING 1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	Upto 30-6-1980*
	1	2	3	4	5	6	7	8
Northern	*15·9*	*18·5*	*34·7*	*43·1*	*36·6*	*54·2*	*109·9*	*360·9*
Haryana	8·0	10·8	15·7	17·7	11·1	21·0	39·5	140·1
Punjab	4·9	4·1	13·1	17·3	11·8	16·3	50·2	144·4
Rajasthan	2·8	3·5	5·4	7·9	13·1	16·2	18·1	70·8
Others	0·1	0·2	0·6	0·2	0·6	0·8	2·1	5·3
North-Eastern	*0·3*	—	*0·1*	*0·8*	*3·1*	*2·8*	*3·1*	*11·3*
Assam	0·3	—	0·1	0·7	2·7	2·4	2·9	10·0
Others	—	—	—	0·1	0·3	0·4	0·2	1·3
Eastern	*6·2*	*10·8*	*18·2*	*28·5*	*36·8*	*41·7*	*47·6*	*194·4*
Bihar	5·9	9·3	13·2	16·9	18·6	22·5	24·7	115·2
Orissa	0·1	0·8	3·4	5·7	8·2	8·8	13·1	40·4
West Bengal	0·2	0·7	1·6	5·9	10·0	10·5	9·8	38·8
Central	*21·4*	*30·8*	*45·3*	*63·3*	*59·9*	*65·4*	*93·1*	*410·2*
Madhya Pradesh	6·5	12·3	19·3	26·1	16·7	16·7	36·5	140·9
Uttar Pradesh	14·9	18·5	26·0	37·2	43·2	48·8	56·6	269·3
Western	*20·6*	*17·9*	*26·0*	*23·5*	*33·6*	*40·3*	*63·1*	*280·4*
Gujarat	7·9	4·3	3·3	4·0	13·2	15·2	25·0	108·7
Maharashtra	12·7	13·6	22·5	19·3	19·7	24·3	36·9	168·4
Goa	—	0·1	0·2	0·2	0·7	0·8	1·2	3·3
Southern	*33·5*	*28·3*	*46·8*	*61·6*	*64·4*	*80·4*	*95·5*	*481·0*
Andhra Pradesh	4·2	8·9	12·9	21·2	38·5	49·6	61·9	226·2
Karnataka	11·0	10·1	19·5	21·9	13·2	14·3	13·9	118·1
Kerala	1·0	1·0	2·1	2·5	3·7	9·6	10·0	32·5
Tamil Nadu	17·1	8·2	12·3	15·9	8·9	6·9	9·6	103·9
Others	0·1	0·2	—	—	—	—	0·1	0·3
All Regions	97·8	106·4	171·2	220·8	234·3	284·9	412·2	1,738·2

* Cumulative since the inception of ARDC.

STATEMENT 10·2 : DISBURSEMENT OF REFINANCE BY ARDC — PURPOSEWISE

(Amount in Rs. lakhs)

Purpose	Upto 30 June 1969	DURING 1969-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80†	Upto 30 June 1979	Upto 30 June 1980†
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Minor Irrigation	12,81 (42·1)	1,56,31 (83·0)	85,30 (87·2)	83,78 (78·7)	1,08,18 (63·2)	1,42,10 (64·4)	1,43,27 (61·1)	1,71,06 (60·1)	2,26,80 (55·0)	9,02,64 (67·7)	11,29,44 (65·0)
Land development	13,88 (45·5)	12,36 (6·6)	1,78 (1·8)	2,01 (1·9)	4,92 (2·9)	5,87 (2·7)	4,08 (1·8)	11,40 (4·0)	9,66 (2·3)	56,12 (4·2)	65,78 (3·8)
Farm mechanization	14 (0·5)	2,81 (1·5)	3,75 (3·9)	12,23 (11·5)	45,75 (26·7)	51,77 (23·4)	28,75 (12·3)	41,35 (14·5)	92,09 (22·3)	1,86,73 (14·0)	2,78,82 (16·0)
Plantation/Horticulture ..	2,07 (6·7)	7,03 (3·7)	2,19 (2·2)	2,00 (1·9)	3,07 (1·8)	5,16 (2·3)	7,87 (3·4)	12,07 (4·2)	21,10 (5·1)	41,59 (3·1)	62,69 (3·6)
Poultry/Sheep breeding/ Piggery	1 (0·1)	21 (0·1)	9 (0·1)	65 (0·6)	68 (0·4)	66 (0·3)	2,12 (0·9)	3,65 (1·3)	10,58 (2·6)	8,09 (0·6)	18,67 (1·1)
Fisheries	56 (1·8)	1,44 (0·8)	86 (0·9)	1,78 (1·7)	2,43 (1·4)	1,96 (0·9)	5,40 (2·3)	7,86 (2·8)	10,27 (2·5)	22,28 (1·7)	32,55 (1·9)
Dairy development ..	—	65 (0·4)	82 (0·8)	1,58 (1·5)	2,88 (1·7)	3,54 (1·6)	3,95 (1·7)	6,46 (2·3)	10,16 (2·5)	19,94 (1·5)	30,10 (1·7)
Storage and Market yards	1,00 (3·3)	7,53 (3·9)	2,93 (3·0)	2,37 (2·2)	3,19 (1·9)	9,53 (4·3)	37,77 (16·1)	27,14 (9·5)	15,18 (3·7)	91,43 (6·9)	1,06,61 (6·1)
Forestry	—	—	—	—	—	18 (0·1)	50 (0·2)	84 (0·3)	1,22 (0·3)	1,52 (0·1)	2,74 (0·2)
Agricultural aviation ..	—	—	12 (0·1)	—	5 (—)	—	—	—	—	17 (—)	17 (—)
Integrated cotton development project	—	—	—	—	—	5 (—)	58 (0·2)	2,55 (0·9)	6,33 (1·5)	2,55 (0·2)	1,28* (0·1)
Gobar gas plants ..	—	—	—	—	—	—	1 (—)	37 (0·1)	81 (0·2)	38 (—)	1,19 (0·1)
Others ..	—	—	—	—	—	—	—	12 (—)	803 (2·0)	12 (—)	8,15 (0·4)
TOTAL ..	30,47 (100·0)	1,88,34 (100·0)	97,84 (100·0)	1,06,40 (100·0)	1,71,15 (100·0)	2,20,82 (100·0)	2,34,30 (100·0)	2,84,87 (100·0)	4,12,23 (100·0)	13,33,56 (100·0)	17,38,19* (100·0)

Note Figures in brackets denote percentages of the total.

* Excludes short-term disbursements under ICDP.

† Additional data not furnished in the Interim Report.

STATEMENT 11·1 : RESERVE BANK CREDIT TO CO-OPERATIVE SECTOR

Over-all Position

(Amount in Rs. crores)

Year (July-June)	Short-term credit	Medium-term credit	Long-term credit	Total credit
1	2	3	4	5
1972-73 :				
Limits	513·4	83·9	46·3	643·5
Drawals	741·5	68·9	48·7	859·1
Repayments.. ..	751·0	31·9	5·0	787·9
Outstandings ..	162·7	86·6	100·1	349·4
1973-74 :				
Limits	502·1	34·4	31·0	567·5
Drawals	664·2	48·3	31·0	743·5
Repayments ..	656·6	31·7	9·1	697·3
Outstandings ..	170·4	72·3	122·0	364·6
1974-75 :				
Limits	613·9	117·3	48·4	779·6
Drawals	997·7	59·8	48·4	1,105·8
Repayments ..	892·7	34·5	12·2	939·4
Outstandings ..	276·2	99·2	158·2	533·6
1975-76 :				
Limits	751·2	65·1	73·5	889·9
Drawals	1,033·6	49·0	73·5	1,156·2
Repayments.. ..	1,127·6	53·5	17·3	1,198·4
Outstandings ..	182·2	94·7	214·1	491·0
1976-77 :				
Limits	812·6	147·0	81·3	1,041·0
Drawals	904·8	87·6	80·5	1,072·9
Repayments ..	827·2	47·6	23·7	898·5
Outstandings ..	259·9	134·3	270·9	665·6
1977-78 :				
Limits	845·4	117·7	86·1	1,049·2
Drawals	1,227·9	115·2	85·8	1,428·9
Repayments.. ..	1,163·1	88·7	29·1	1,280·9
Outstandings ..	324·7	161·3	327·6	813·6
*1978-79 :**				
Limits	960·7	69·1	94·1	1,123·9
Drawals	1,380·8	48·5	94·1	1,523·4
Repayments.. ..	1,427·7	90·7	37·4	1,555·8
Outstandings ..	277·8	119·1	384·3	781·2
*1979-80 :**				
Limits	943·9	149·0	105·4	1,198·3
Drawals	998·2	108·9	100·3	1,207·4
Repayments.. ..	1,054·0	69·3	46·0	1,169·3
Outstandings ..	222·0	158·7	438·6	819·3

* Additional data not furnished in the Interim Report.

Source : Reports on Currency and Finance, RBI.

Statement 11·2 : Reserve Bank Credit to Co-operative Sector

Short-term Credit

(Amount in Rs. Crores)

<table>
<tr><th>Year (July-June)</th><th>Seasonal agricultural operations[1]</th><th>Marketing of crops other than cotton and kapas[2]</th><th>Marketing of cotton and kapas[3]</th></tr>
<tr><td>(1)</td><td>(2)</td><td>(3)</td><td>(4)</td></tr>
<tr><td>1972-73 :</td><td></td><td></td><td></td></tr>
<tr><td>Limits</td><td>415·5</td><td colspan="2">52·8</td></tr>
<tr><td>Drawals</td><td>596·7</td><td>9·3</td><td>113·6</td></tr>
<tr><td>Repayments</td><td>603·8</td><td>9·4</td><td>111·9</td></tr>
<tr><td>Outstandings</td><td>144·9</td><td>0·6</td><td>2·9</td></tr>
<tr><td>1973-74 :</td><td></td><td></td><td></td></tr>
<tr><td>Limits</td><td>430·8</td><td colspan="2">40·6</td></tr>
<tr><td>Drawals</td><td>618·7</td><td>12·9</td><td>6·6</td></tr>
<tr><td>Repayments</td><td>612·8</td><td>10·7</td><td>8·6</td></tr>
<tr><td>Outstandings</td><td>150·8</td><td>1·9</td><td>0·9</td></tr>
<tr><td>1974-75 :</td><td></td><td></td><td></td></tr>
<tr><td>Limits</td><td>489·5</td><td colspan="2">40·3</td></tr>
<tr><td>Drawals</td><td>811·8</td><td>18·1</td><td>46·9</td></tr>
<tr><td>Repayments</td><td>751·2</td><td>19·6</td><td>37·5</td></tr>
<tr><td>Outstandings</td><td>212·2</td><td>0·5</td><td>10·3</td></tr>
<tr><td>1975-76 :</td><td></td><td></td><td></td></tr>
<tr><td>Limits</td><td>611·9</td><td colspan="2">37·4</td></tr>
<tr><td>Drawals</td><td>899·7</td><td>—</td><td>21·9</td></tr>
<tr><td>Repayments</td><td>965·3</td><td>0·5</td><td>31·9</td></tr>
<tr><td>Outstandings</td><td>146·6</td><td>—</td><td>0·2</td></tr>
<tr><td>1976-77 :</td><td></td><td></td><td></td></tr>
<tr><td>Limits</td><td>696·3</td><td>0·2</td><td>22·8</td></tr>
<tr><td>Drawals</td><td>818·8</td><td>4·6</td><td>—</td></tr>
<tr><td>Repayments</td><td>736·2</td><td>4·4</td><td>0·2</td></tr>
<tr><td>Outstandings</td><td>229·2</td><td>0·3</td><td>—</td></tr>
<tr><td>1977-78 :</td><td></td><td></td><td></td></tr>
<tr><td>Limits</td><td>748·8</td><td>0·5</td><td>13·5</td></tr>
<tr><td>Drawals</td><td>994·2</td><td>0·5</td><td>1·1</td></tr>
<tr><td>Repayments</td><td>934·1</td><td>0·3</td><td>1·1</td></tr>
<tr><td>Outstandings</td><td>289·3</td><td>0·5</td><td>—</td></tr>
<tr><td>1978-79 :*</td><td></td><td></td><td></td></tr>
<tr><td>Limits</td><td>799·5</td><td>19·3</td><td>49·8</td></tr>
<tr><td>Drawals</td><td>1,228·1</td><td>3·4</td><td>0·1</td></tr>
<tr><td>Repayments</td><td>1,265·3</td><td>3·9</td><td>0·1</td></tr>
<tr><td>Outstandings</td><td>252·1</td><td>—</td><td>—</td></tr>
<tr><td>1979-80* :</td><td></td><td></td><td></td></tr>
<tr><td>Limits</td><td>782·7</td><td>1·4</td><td>55·6</td></tr>
<tr><td>Drawals</td><td>935·2</td><td>—</td><td>—</td></tr>
<tr><td>Repayments</td><td>1,002·8</td><td>—</td><td>—</td></tr>
<tr><td>Outstandings</td><td>184·5</td><td>—</td><td>—</td></tr>
</table>

1. (*a*) At ½% below Bank Rate for 1972-73 to 1975-76 and 2% below Bank Rate for 1976-77 and 1977-78; (*b*) At ½% below Bank Rate from 1973-74 subject to a rebate of 1½% as per Rebate Scheme excepting under Section 17(4)(*a*) which continued to be at 2% below Bank Rate; (*c*) At 2% below Bank Rate from 1975-76 (at 3% below Bank Rate from 1-3-1978) subject to recovery of an additional interest of 1½% as per linking scheme. *2.* At 3% above Bank Rate from 1974-75 to 1977-78 and at Bank Rate from 1-6-1978. *3.* Including monopoly procurement cotton; at 3% above Bank Rate from 1974-75 to 1977-78 and at Bank Rate from 1-6-1978.

* Additional data not furnished in the Interim Report.

STATEMENT 11·2 (*Concluded*)

Year (July-June)		Purchase and distribution of fertilisers[4]	Production and marketing of handloom products[5]	Financing other cottage and small scale industries§	Purchase and sale of yarn§	Loans to ARDC[6]	Against pledge of sugar[7]
		5	6	7	8	9	10
1972-73							
Limits ..	..	14·8	14·0	0·6	0·9	15·0	–
Drawals	..	7·5	9·1	0·3	0·1	4·9	–
Repayments	..	13·5	10·9	0·2	0·1	1·2	–
Outstandings	..	2·8	7·7	0·1	0·1	3·7	–
1973-74							
Limits ..	..	–	14·5	0·8	0·4	15·0	–
Drawals	..	–	13·4	0·3	0·3	12·9	–
Repayments	..	2·8	16·1	0·3	0·3	4·9	–
Outstandings	..	–	5·0	0·2	–	11·6	–
1974-75							
Limits ..	..	28·2	15·7	2·5	0·7	15·0	22·0
Drawals	..	22·5	29·4	1·3	0·5	–	67·1
Repayments	..	3·7	23·4	0·3	0·4	11·6	45·1
Outstandings	..	18·8	11·1	1·3	0·1	–	22·0
1975-76							
Limits ..	..	47·1	20·0	4·8	0·6	15·0	14·5
Drawals	..	62·9	34·3	2·5	0·1	1·7	10·5
Repayments	..	61·8	33·9	1·6	0·1	–	32·5
Outstandings	..	19·9	11·1	2·3	0·1	1·7	–
1976-77							
Limits ..	..	33·3	26·4	6·7	0·6	10·0	7·8
Drawals	..	21·2	35·8	3·9	0·3	–	20·2
Repayments	..	31·2	32·2	2·4	0·1	1·7	18·8
Outstandings	..	9·9	15·0	3·9	0·2	–	1·4
1977-78							
Limits ..	..	12·6	43·8	7·1	1·6	10·0	7·5
Drawals	..	23·6	167·3	4·7	0·9	–	35·6
Repayments	..	30·5	158·6	3·9	0·6	–	34·0
Outstandings	..	3·0	23·7	4·7	0·5	–	3·0
*1978-79**							
Limits ..	..	6·0	50·9	16·5	2·7	10·0	6·0
Drawals	..	8·3	125·9	12·8	1·4	–	0·8
Repayments	..	10·1	133·5	9·3	1·7	–	3·8
Outstandings	..	1·2	16·1	8·2	0·2	–	–
*1979-80**							
Limits ..	..	6·5	58·0	24·9	4·8	10·0	–
Drawals	..	2·7	41·9	17·8	0·6	–	–
Repayments	..	1·8	31·4	17·8	0·2	–	–
Outstandings	..	2·1	26·6	8·2	0·6	–	–

4. At 2% above Bank Rate upto 1973-74, at 3% above Bank Rate upto 1977-78 and 1% above Bank Rate from 1-6-1978.
5. At 2½% below Bank Rate from 1-3-1978.
6. At Bank Rate.
7. 3% above Bank Rate.

§ Data relate to April-March.
* Additional data not furnished in the Interim Report.

Source: Reports on Currency and Finance, Reserve Bank of India.

STATEMENT 11·3— RESERVE BANK CREDIT TO CO-OPERATIVE SECTOR

Medium-term Credit

(Amount in Rs. crores)

Year (July-June)	Agricultural purposes[1]*	Conversion of short-term loans[1]*	Purchase of shares in Co-op. sugar factories and processing societies[2]*
1	2	3	4
1972-73			
Limits	8·7	73·3	1·6
Drawals	—	68·1	0·8
Repayments	7·4	24·1	0·3
Outstandings	16·9	68·7	1·1
1973-74			
Limits	11·8	22·5	0·2
Drawals	6·0	41·3	1·0
Repayments	10·4	20·8	0·4
Outstandings	20·0	51·2	1·2
1974-75			
Limits	9·9	106·9	0·5
Drawals	4·6	55·0	0·2
Repayments	8·8	25·4	0·3
Outstandings	15·7	82·6	1·0
1975-76			
Limits	11·6	50·5	3·0
Drawals	7·2	41·8	—
Repayments	7·5	45·6	0·4
Outstandings	15·4	78·7	0·6
1976-77			
Limits	14·9	130·4	1·7
Drawals	9·3	77·8	0·5
Repayments	7·7	39·6	0·3
Outstandings	17·0	117·0	0·8
1977-78			
Limits	21·3	95·4	1·0
Drawals	12·2	102·9	0·1
Repayments	7·0	81·4	0·3
Outstandings	22·2	138·5	0·6
1978-79@			
Limits	27·6	40·7	0·8
Drawals	15·9	32·4	0·2
Repayments	10·4	80·0	0·3
Outstandings	27·7	90·9	0·5
1979-80@			
Limits	32·2	116·8	—
Drawals	21·4	87·5	—
Repayments	12·6	56·4	0·3
Outstandings	36·5	122·0	0·2

1. At $2\frac{1}{2}$% below Bank Rate from 1-3-1978.
* Data relate to calendar years 1972 to 1979.
2. At Bank Rate.
@ Additional data not furnished in the Interim Report.
Source: Report on Currency and Finance RBI.

STATEMENT 11·4 : RESERVE BANK CREDIT TO CO-OPERATIVE SECTOR
Long-term Credit

(Amount in Rs. crores)

Year (July-June)	Loans to State Governments for contribution to share capital of Co-operative credit institutions†1	Loans to ARDCs2
1	2	3
1972-73		
Limits	16·3	30·0
Drawals	18·7	30·0
Repayments	4·5	0·5
Outstandings	65·6	34·5
1973-74		
Limits	8·0	23·0
Drawals	8·0	23·0
Repayments	5·6	3·5
Outstandings	68·0	54·0
1974-75		
Limits	8·4	40·0
Drawals	8·4	40·0
Repayments	6·4	5·8
Outstandings	70·0	88·2
1975-76		
Limits	13·5	60·0
Drawals	13·5	60·0
Repayments	7·5	9·8
Outstandings	75·7	138·4
1976-77		
Limits	31·3	50·0
Drawals	30·5	50·0
Repayments	7·9	15·8
Outstandings	98·3	172·6
1977-78		
Limits	21·1	65·0
Drawals	20·8	65·0
Repayments	8·3	20·8
Outstandings	110·8	216·8
*1978-79**		
Limits	19·1	75·0
Drawals	19·1	75·0
Repayments	9·1	28·3
Outstandings	120·8	263·5
*1979-80 **		
Limits	20·4	85·0
Drawals	15·3	85·0
Repayments	12·2	33·8
Outstandings	123·9	314·7

1. At 6% for 1974-75 and 1975-76.
† Data relate to April-March.
2. At 4½ % to 4¾% upto 1975-76 and 6% from 1976-77 onwards.
* Additional data not furnished in the Interim Report.

Source: Reports on Currency and Finance, RBI.

STATEMENT 13·1 : YEAR-WISE SCHEMES FORMULATED/APPRAISED BY AFC ON CONSULTANCY BASIS—1968-79

Title of the scheme	1968 to 1973		1974		1975		1976	
	a	b	a	b	a	b	a	b
	1	2	3	4	5	6	7	8
Minor Irrigation	14	9·70	115	8·11	10	7·22	4	1·18
Land Development/Soil Conservation/On-farm Development	2	0·09	2	0·61	12	11·76	84	3·33
Horticultural Crops	16	4·56	7	1·21	2	0·13	3	49·04
Fisheries	10	3·34	4	0·27	4	0·28	5	0·31
Dairy Development	13	1·85	13	6·98	9	4·82	5	2·60
Storage/Market	5	1·19	8	1·90	5	0·90	2	0·20
Plantation/Special Crops	—	—	—	—	2	3·92	3	5·60
Crop Loan Schemes	12	12·70	5	7·13	16	13·81	4	3·87
Animal Husbandry, Poultry Farming/Sheep breeding/piggery	13	1·03	5	1·11	3	3·10	8	0·32
Agro-service centre	2	0·18	3	*	7	1·52	2	0·13
Agro-Industries	4	14·77	9	1·68	9	1·93	7	0·76
Forest Development	—	—	3	4·40	2	5·97	1	—
Seed Development	—	—	—	—	3	1·90	—	—
Infrastructural Development/others	3	0·03	25	1·55	17	0·40	17	0·17
Electrification	31	125·65	—	—	—	—	4	8·34
Rural Industries	—	—	—	—	—	—	—	—
Composite Agricultural Schemes	—	—	—	—	—	—	—	—
Rural Housing	—	—	—	—	—	—	—	—
Allied Agricultural Activities .. .. .. (Gobar Gas Plants, Mechanical Composite Plants, Modern Abattoirs etc.)	—	—	—	—	—	—	—	—
Studies for financing cyclone affected areas ..	—	—	—	—	—	—	—	—
Study for financing flood affected areas	—	—	—	—	—	—	—	—
TOTAL	125	175·09	199	34·95	101	57·66	149	74·85

Source : Agricultural Finance Corporation.

* Government Funds. a = No. of schemes. b = Estimated Bank loan requirement in crores of rupees.

STATEMENT 13·1 : (*Concld.*)

Title of the scheme	1977		1978		1979		1968-1979	
	a	b	a	b	a	b	a	b
	1	2	3	4	5	6	7	8
Minor Irrigation	12	3·02	4	1·95	5	2·11	164	32·29
Land Development/Soil Conservation/On-farm Development	12	3·54	7	11·67	14	9·40	133	40·40
Horticultural Crops	14	20·38	—	—	12	1·27	54	76·59
Fisheries	1	0·04	1	0·10	8	1·52	33	5·86
Dairy Development	13	1·38	3	1·74	10	3·73	66	23·10
Storage/Market	2	1·16	—	—	4	2·66	26	8·01
Plantation/Special Crops	1	1·36	2	3·39	4	8·79	12	23·06
Crop Loan Schemes	2	11·80	—	—	6	9·40	45	58·71
Animal Husbandry, Poultry Farming/Sheep breeding/piggery	7	24·00	11	1·87	21	1·66	68	33·09
Agro-service centre	2	0·80	3	0·81	3	0·11	22	3·55
Agro-Industries	16	0·59	—	—	1	0·19	46	19·92
Forest Development	—	—	2	4·42	—	—	8	14·79
Seed Development	—	—	—	—	—	—	3	1·90
Infrastructural Development/others	51	39·37	11	3·48	13	—	137	45·00
Electrification	1	1·00	1	2·40	5	13·03	42	150·42
Rural Industries	—	—	11	0·34	14	0·49	25	0·83
Composite Agricultural Schemes	—	—	19	28·08	25	11·95	43	40·03
Rural Housing	—	—	1	0·54	—	—	1	0·54
Allied Agricultural Activities (Gobar Gas Plants, Mechanical Composite Plants, Modern Abattoirs etc.)	—	—	9	4·12	9	0·17	18	4·29
Studies for financing cyclone affected areas ..	3	109·25	—	—	—	—	3	109·25
Study for financing flood affected areas	—	—	1	53·51	—	—	1	53·51
TOTAL	137	217·69	86	118·42	154	66·48	951	745·14

Source : Agricultural Finance Corporation.

a = No. of schemes. b = Estimated Bank loan requirement in crores of rupees.

STATEMENT 15·1 : STATEMENT SHOWING DEPLOYMENT OF RESOURCES BY STATE CO-OPERATIVE BANKS DURING THE CO-OPERATIVE YEAR 1978-79

(Amount in Rs. Crores)

Particulars	Maharashtra		Gujarat		Tamil Nadu		Karnataka		Kerala		Orissa	
	A. Oct. 1978	B. May 1979	A. Oct. 1978	B. Apr. 1979	A. Jan. 1979	B. June 1979	A. Nov. 1978	B. May 1979	A. Feb. 1979	B. May 1979	A. June 1979	B. Apr. 1979
	1	2	3	4	5	6	7	8	9	10	11	12
Owned resources Total ..	316·30	361·43	117·65	125·24	101·31	129·23	47·18	52·14	31·54	42·04	31·97	28·35
Commitments (Total) ..	96·58	112·17	35·20	37·09	31·65	41·88	14·55	16·01	9·50	12·98	9·64	8·54
Loanable resources	219·72	249·26	82·45	88·15	69·66	87·35	32·63	36·13	22·04	29·06	22·33	19·81
Borrowings	43·59	19·44	58·62	29·79	114·15	84·73	50·73	16·15	17·30	10·01	15·26	10·18
Total loans and advances ..	272·27	276·22	141·57	121·37	187·62	177·44	86·78	60·03	37·26	33·47	42·63	33·24
(a) Of which, agricultural ..	108·70	52·93	67·71	59·97	127·76	107·09	54·24	32·48	20·86	13·52	27·18	20·17
(b) Of which, non-agricultural	163·57	223·29	73·86	61·40	59·86	70·35	32·54	27·55	16·40	19·95	15·45	13·07
Own involvement	228·68	256·78	82·95	91·58	73·47	92·71	36·05	43·88	19·96	23·46	27·37	23·06
(a) Agricultural	82·68	45·42	16·84	38·35	38·30	72·46	11·97	25·18	5·91	8·62	12·62	10·79
(b) Non-agricultural	146·00	211·36	66·11	53·23	35·17	20·25	24·08	18·70	14·05	14·84	14·75	12·27

A : Peak level of borrowings from the R.B.I.

B : Lowest level of borrowings from the R.B.I.

Source : Reserve Bank of India.