PROCEEDINGS OF THE SIXTH MEETING

OF THE

Standing Advisory Committee on Agricultural Credit

RESERVE BANK OF INDIA
BOMBAY

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INTRODUCTION

The Standing Advisory Committee on Agricultural Credit was constituted in July 1951 for advising the Reserve Bank on matters pertaining to its Agricultural Credit Department and subjects allied to those matters. At the fifth meeting of the Committee held at Bombay in January 1956, the Chairman indicated that steps would be taken by the Reserve Bank to re-constitute the Committee as a smaller body on the lines recommended by the All-India Rural Credit Survey Report.

This re-constitution was made by the Reserve Bank on 7 September 1956. The Governor of the Reserve Bank is the Chairman of the Committee. The Deputy Governor in charge of rural credit is the Vice-Chairman. The other members of the re-constituted Committee are Shri Krishan Chand, I.C.S. (representative of the Ministry of Food and Agriculture, Government of India); Shri Tarlok Singh, I.C.S. (representative of the Planning Commission, Government of India); Prof. D. G. Karve (Chairman of the Standing Sub-Committee of the Central Committee for Co-operative Training) and Shri J. C. Ryan, Chief Officer of the Agricultural Credit Department of the Reserve Bank of India (Member-Secretary).

In addition, the Committee may co-opt other members, including Registrars of Co-operative Societies; and the co-option in each case may be either for a period of time or for the purposes of a particular meeting. The functions of the Committee will be to offer detailed advice to the Reserve Bank on matters pertaining to its Agricultural Credit Department and on subjects allied to those matters.

2. The sixth meeting of the Standing Advisory Committee on Agricultural Credit was held at Bombay on 21 February 1957. The following members and invitees attended the meeting:

Shri K. G. Ambegaokar (*Chairman*)
Shri B. Venkatappiah (*Vice-Chairman*)
Prof. D. G. Karve (*Member*)

Shri V. L. Mehta
Chairman
All-India Khadi and Village
Industries Board

Shri R. G. Saraiya
Chairman
Bombay State Co-operative Bank

Shri G. Parameswaran Pillai
Chairman
Kerala State Co-operative Bank

Shri B. P. Patel, I.C.S.
Managing Director
State Bank of India

Shri M. P. Bhargava
Co-operation Adviser
Ministry of Food and Agriculture
Government of India

Shri K. Subrahmanyam Nayudu, I.A.S.
Registrar of Co-operative Societies
Andhra Pradesh

Shri F. N. Rana, I.A.S.
Registrar of Co-operative Societies
Bombay State

Shri G. Jagatpati, I.A.S.
Registrar of Co-operative Societies
Madhya Pradesh

Shri J. C. Ryan (*Member-Secretary*)

Among the officers of the Reserve Bank who attended the meeting were Dr B. K. Madan, Economic Adviser to the Reserve Bank; Shri T. K. Ramasubramaniam, Chief Officer of the Department of Banking Development; Shri N. D. Nangia, Officer-on-Special Duty of the Department of Banking Development; Shri B. N. Mehta, Officer-in-Charge of the Legal Division; Shri T. Satyanarayana Rao and Shri M. S. Menon, Deputy Chief Officers of the Agricultural Credit Department and Shri V. M. Jakhade, Director of Rural Economics of the Department of Research and Statistics.

3. This brochure gives the Notes circulated in connexion with the Meeting and the Proceedings of the Meeting. The Notes as circulated to the members for the Meeting have been suitably abridged. The subjects included in the Agenda are given below:

1. Review of action taken on certain items discussed or conclusions reached at the fifth meeting of the Standing Advisory Committee on Agricultural Credit held in January 1956.

2. Co-ordination of policies of the State Bank of India and the co-operative banks and societies.

3. General policy regarding subscriptions to the debentures of and loans to land mortgage banks from the National Agricultural Credit (Long-term Operations) Fund.

4. Co-operative advances and the price situation.

5. Liberalization of remittance facilities to co-operative banks.

6. Finance to state co-operative banks for importing machinery for co-operative sugar factories and for working capital of co-operative processing societies.

7. Policy regarding rate of interest on medium-term loans.

8. Review of the progress of co-operative development plans under the Second Five Year Plan.

9. Maintenance of minimum weekly balances with the Reserve Bank.

10. Central co-operative banks acting as agents of the central land mortgage bank in areas where primary land mortgage banks have not been organized.

11. Collection on a uniform basis of data concerning co-operative societies by co-operative departments.

12. The co-operative movement and rural savings.

NOTE ONE

REVIEW OF ACTION TAKEN ON CERTAIN ITEMS DISCUSSED OR CONCLUSIONS REACHED AT THE FIFTH MEETING OF THE STANDING ADVISORY COMMITTEE ON AGRICULTURAL CREDIT HELD IN JANUARY 1956

THIS Note is intended to give an idea of the action taken on some of the important recommendations and suggestions made at the last meeting of the Standing Advisory Committee on Agricultural Credit and to indicate the present position in respect of some of the other items discussed.

1. Reorganization of apex co-operative institutions arising from the reorganization of States

The Standing Advisory Committee had recommended that the Agricultural Credit Department of the Reserve Bank should study in advance the problems that were likely to arise out of the proposed reorganization of States. While this was being done, the need for discussing the problems with the representatives of the apex co-operative institutions and officials in the States which were likely to be affected by the reorganization was felt and accordingly the Reserve Bank convened an Informal Conference on 14 and 15 May 1956. At the Conference, a broad measure of agreement was reached with regard to the solution of the numerous problems of reorganization confronting the different apex co-operative institutions. The Conference also agreed that four *ad hoc* committees should be set up for taking such steps as might be necessary for assisting in the early formulation of an agreed solution of the problems connected with division and amalgamation.

The four *ad hoc* committees were set up and they did useful work in connexion with the reorganization of apex co-operative institutions. While the process of division of the institutions may be said to be almost over, that of amalgamation of two or more apex co-operative institutions in some of the States after reorganization, as for example, in Bombay, Madhya

Pradesh, Punjab and Andhra, remains incomplete. It is expected that the States concerned will take immediate steps to bring about amalgamation at an early date with a view to having ultimately only one state co-operative bank or one central land mortgage bank in each State, an objective agreed to at the Informal Conference.

2. The State Bank of India and Co-operative Banks

This subject forms a separate item of the Agenda for this Meeting.

3. Co-operative finance and Government finance in Community Project Areas and National Extension Service Blocks

(*i*) The Committee had stressed the need for co-ordination between co-operative development and the activities of the National Extension Service Blocks and Community Project Areas. With a view to examining the actual position prevailing in this respect and the problems arising with regard to co-ordination, it was suggested that a study might be made of conditions in a few selected National Extension Service Blocks and Community Project Areas. Reports regarding the execution of Pilot Projects under the integrated scheme have been received and officers of the Agricultural Credit Department will be deputed for a study of this question on suitable occasions.

(*ii*) The Committee had recommended that in States where separate additional staff for the development of Co-operation in the National Extension Service Blocks and Community Project Areas was not provided, steps might be taken to provide the staff so as to accelerate the pace of development of the co-operative movement. The Community Projects Administration, who were requested to take necessary action in the matter, informed the Agricultural Credit Department that in accordance with the recommendation of the fourth Development Commissioners Conference held at Simla in May 1955, they had advised the State Governments that the existing officer for Co-operation and *panchayat*, provided in the Community Development and National Extension Schemes, should be a whole-time officer for Co-operation, leaving the *panchayat* work to be handled by the *panchayat* officers of the State Governments maintained at district, sub-divisional, Project and Block levels. The replies received from the State Governments in this regard, copies of which were sent to the Agricultural Credit Department by the Community Projects Ministry, revealed that most of the States had implemented or agreed to implement the above recommendation.

4. *Education of non-officials*

The Committee had recommended that the work of training and education of the members, *panchayatdars* and directors of co-operative institutions in co-operative principles and practices which was very necessary for the successful implementation of the integrated credit scheme, should be carried out through the state co-operative unions, which for this purpose should receive such guidance and assistance by way of co-ordinated common services as the All-India Co-operative Union was in a position to render. Appropriate action on this recommendation has been taken. The Government of India have since sanctioned a scheme sent by the All-India Co-operative Union.

5. *Surplus funds vis-a-vis fixation of credit limits for central and state co-operative banks*

The Committee's recommendation was that central banks should have only one mode of investment of surplus funds, *viz.*, deposits with the apex bank. This, however, did not imply that the central banks should not make investments in Government securities. The issue of a general circular in this regard is under consideration.

6. *Interest rates and margins at different levels*

The question of drawing up a programme on the lines recommended by the Committee has been held over until the state co-operative banks affected by the reorganization have settled the problems arising therefrom. In Uttar Pradesh, however, a definite programme has been drawn up.

7. *Charging interest on loans from the Reserve Bank*

Following the recommendation of the Committee, the Reserve Bank has decided to charge interest on its loans to state co-operative banks with half-yearly rests.

8. Audit and Supervision

The Committee had recommended that audit and supervision of co-operative institutions should be kept independent of each other and that while supervision should be the responsibility of the central financing agencies, audit should be under the co-operative department. The recommendation was communicated to Uttar Pradesh, Punjab and Jammu and Kashmir where audit was not done by the co-operative department.

9. Provision for adequate non-official representation in Committees concerned with policies

The Committee had expressed the hope that, in committees concerned with matters of policies arising out of co-operative development, etc., provision would be made for adequate non-official representation. The Ministry of Food and Agriculture, who were requested to take necessary action in this respect, informed the Agricultural Credit Department that provision had been made for co-option of an expert on Co-operation (or a representative of the State Government whenever necessary), on the Committee set up by the Government of India with a view to evolving a co-ordinated policy for rural credit development. Adequate representation for non-officials has also been provided on the National Co-operative Development and Warehousing Board set up under the Agricultural Produce (Development & Warehousing) Corporations Act 1956 and the All-India Warehousing Corporation.

10. Contributions to the share capital of credit agencies

(*a*) The recommendations of the Committee that once a decision was taken to set up a large-sized credit society the State's contribution to the share capital should come in its entirety and that even in the case of central financing agencies the contribution should be substantial were taken into account by the States which have so far applied to the Reserve Bank for loans from the National Agricultural Credit (Long-term Operations) Fund. These were also duly considered by the Reserve Bank in sanctioning the loans.

(*b*) At the last meeting of the Committee, Shri A. H. B. Tyabji of the Government of India in the course of the discussion relating to contribution to the share capital of co-operative credit agencies, suggested that in addition to the contribution to the share capital of large-sized credit societies, contribution might be made to the share capital of small credit societies also on an experimental basis. As agreed to at the meeting, this question was examined by the Agricultural Credit Department. It was felt that it would not be a feasible proposition for the State to partner thousands of small credit societies. The Second Conference of State Ministers on Co-operation held at Mussoorie in July 1956 also did not favour State partnership in small credit societies. It recommended that "while the principle of State partnership and financial assistance for the managerial staff provided under the Second Five Year Plan will be extended only to large-sized co-operative societies which may either be newly formed or brought into being as a result of reorganization, the formation of smaller societies at village level with fair prospects of functioning as effective units may be permitted consistently with the main programme. Small societies should, however, continue to receive financial and other assistance as at present and should also be strengthened."

11. Finance for processing concerns

This subject forms a separate item of the Agenda for this Meeting.

12. National Agricultural Credit (Stabilization) Fund

The Committee had suggested that the Agricultural Credit Department should take up the work of framing rules of procedure for granting loans out of this Fund. Accordingly a draft set of rules was prepared. It was, however, felt that in view of the fact that such loans were to be granted only under extraordinary conditions, the rules might be finalised with reference to applications for the grant of loans out of this Fund when they came up.

13. National Agricultural Credit (Relief & Guarantee) Fund

The Committee had recommended that the Government of India should establish a National Agricultural Credit (Relief and Guarantee) Fund as recommended by the Rural Credit

Survey Committee. The Committee, however, added that, in the event of the Central Government not agreeing to establish the Fund, they should undertake to provide assistance in case of famine or other natural calamities in the same manner as if the Fund had been constituted, and that this should be unambiguously announced by the Government of India. Further, the Committee recommended that the rules and regulations governing such assistance should be laid down in advance.

The Government of India, who were requested to take necessary action in the matter, have decided that such a Fund need not be set up and that individual cases for relief of such a nature should be disposed of on merits. The question of framing proper rules is, it is stated, under their consideration.

14. Liberalization of credit limits in respect of finance from the Reserve Bank

The Committee had recommended liberalization of the standards followed by the Reserve Bank in fixing credit limits to co-operative banks. The Committee also stated that in view of the varying conditions in different States and as between different institutions, the need for flexibility should be kept in mind in interpreting the term 'owned capital' and in fixing the credit limits as multiples thereof. In pursuance of these recommendations a circular letter was issued by the Agricultural Credit Department.[1]

15. National Co-operative Development Fund and the National Warehousing Development Fund

The Standing Advisory Committee had urged that measures for the early establishment of the National Co-operative Development and Warehousing Board, and the setting up of a National Co-operative Development Fund etc. at the Centre as recommended by the Rural Credit Survey Committee might be taken without any further delay. The suggestion was forwarded to the Ministry of Food and Agriculture, Government of India, for necessary action. The Agricultural Produce (Development and Warehousing) Corporations Act 1956 was

[1] Appendix One.

passed in June 1956. The Act provides for the constitution of a National Co-operative Development and Warehousing Board and Central and State Warehousing Corporations as well as the National Co-operative Development Fund and the National Warehousing Development Fund. The Board was set up on 1 September 1956. It consists of representatives of the Central Government, the Reserve Bank of India, the State Bank of India, the Chairman, Forward Markets Commission, and nine non-official members. The Board has already sanctioned loans and grants to some State Governments in respect of their schemes of co-operative development for 1956-7.

16. Interest on loans from the National Agricultural Credit (Long-term Operations) Fund for participation in the share capital of co-operative credit institutions and conditions regarding repayment

The Reserve Bank of India carefully examined and accepted, in general, the terms and conditions recommended by the Standing Advisory Committee governing the loans to be made by the Bank to State Governments for contribution to the share capital of co-operative credit institutions from the National Agricultural Credit (Long-term Operations) Fund. These were communicated to State Governments in a circular letter.[1]

17. Medium-term loans to agriculturists to enable them to purchase shares in co-operative sugar factories

The recommendation of the Committee was considered by the Reserve Bank of India and in pursuance of it, section 46A(2) (*b*) of the Reserve Bank of India Act was amended to read as under (the words in italics constituting the amendment).

> "the making to State co-operative banks of loans and advances, repayable on the expiry of fixed periods not being less than fifteen months and not exceeding five years from the date of making such loan or advance, against such securities as may be specified in this behalf by the Bank *and such loans and advances may be made for agricultural purposes or for such other purposes connected with the*

[1] Appendix Two.

agricultural activities as the Central Board may, from time to time, by regulation or otherwise, determine."

It has been decided to make advances to state co-operative banks, to enable them to finance agriculturists to purchase shares of co-operative sugar factories. A circular letter giving the terms and conditions for sanctioning medium-term loans out of the National Agricultural Credit (Long-term Operations) Fund to state co-operative banks for the above purpose, has been issued to all Registrars of Co-operative Societies.[1]

18. Methods and manner of contribution to the share capital of co-operative credit institutions

As recommended by the Committee, the legal and technical problems that are likely to arise with regard to the method of indirect participation by the State Government in the share capital of co-operative credit institutions are being examined.

19. Standards of Fluid Resources

A circular letter was issued by the Agricultural Credit Department indicating a few modifications regarding standards of fluid resources to be maintained by co-operative banks, as recommended by the Committee. These modifications are as follows:

(1) Undrawn cash credits available with state co-operative banks against Government and Trustee Securities might be treated by the central banks as their fluid resources to the full extent of the credit available.

(2) Fifty per cent of the undrawn cash credit available from state co-operative banks against co-operative paper could also be treated as fluid cover by central co-operative banks.

20. Investment of Reserve Fund of co-operative institutions

The Committee recommended the modes of investment of the Reserve Fund of institutions at different levels of the co-operative structure. These were communicated by the Agricultural Credit Department to the Registrars of Co-operative Societies by means of a circular letter.[2]

[1] Appendix Three. [2] Appendix Four.

21. Treatment of accrued interest in the balance sheet

The Committee recommended that all the States might adopt either of the two practices viz., (1) profits may include unrealised interest but specific provision should be made for overdue interest such as 'Overdue Interest Reserve' or 'Interest Suspense Account'; or (2) interest which is actually realised during a co-operative year plus interest accrued but not overdue minus accrued interest outstanding at the end of the previous year be taken to profit which is available for distribution. A letter was addressed to the Registrars of Co-operative Societies of Ajmer, Assam, Pepsu, Rajasthan and West Bengal, where the co-operative institutions did not follow either of the two practices, to consider the above recommendations and issue instructions to co-operative institutions in their States to adopt either of the practices.

22. Audit classification of central banks — suggestion of the Madras Registrar

A circular letter was issued to all the Registrars conveying the recommendation of the Committee that one of the criteria for placing a central financing agency in class A should be that at least 50 per cent of the loans issued during the year should be for short-term purposes.

23. Purpose-wise registers of loans by co-operative credit institutions and forms for the Statistical Statements relating to the Co-operative Movement in India

The Committee had recommended that the work relating to these items should be finalised after a scrutiny by a small sub-committee consisting of Shri V. Sivaraman (Deputy Chief Officer, Agricultural Credit Department), Shri Y. B. Gaitonde (Manager, Bombay State Co-operative Bank), and Shri G. R. Palkar (Chief Auditor and Financial Adviser, Co-operative Department, Bombay State). The Committee has submitted its report.

24. Remittance facilities — suggestions of Sarvashri Varde and Subrahmanyam

This subject has been placed before the current meeting of the Standing Advisory Committee for consideration. Note Five deals with it.

25. *Extension of the period of medium-term loans granted by the Reserve Bank to five years*

A circular was issued to all the Registrars of Co-operative Societies conveying the Bank's decision agreeing to the recommendation of the Standing Advisory Committee that where a state co-operative bank applied for a five-year loan, of the total loan sanctioned, a part, extending up to 25 per cent, might be up to five years, while the rest could be for three years as usual.

26. *Financial accommodation from the Reserve Bank of India to co-operative urban banks for bona-fide commercial or trade transactions*

With a view to ascertaining the part played by urban banks in the finance of small-scale and cottage industries so as to consider the request that they might be on a par with central financing agencies for the purposes of facilities available under section 17(2)(*a*) of the Reserve Bank of India Act, a circular was issued calling for information regarding loan operations from the urban banks. The replies received so far are under examination.

27. *Training at a co-operative institute and rural bias as qualifications essential for recruitment to co-operative departments and institutions in addition to minimum academic qualifications*

The Committee was of the opinion that provisions similar to those mentioned above should be included in the recruitment rules of all States and preference should be given to candidates who possessed the minimum required qualifications for the posts concerned, and had the further qualification of co-operative training. This question was also considered by the Central Committee for Co-operative Training at its meeting held on 18 January 1956. The Committee felt that every State should prescribe, in addition to a basic academic qualification, the completion of a recognised course of training as an essential qualification for services in the co-operative departments and institutions. The Government of India have requested all the State Governments to take action on this suggestion. The replies received so far from the various States show that they have agreed to the suggestion.

28. Study of land mortgage banks

The Standing Advisory Committee supported the recommendation of the Conference on Marketing and Co-operation convened by the Ministry of Food and Agriculture, Government of India, at Hyderabad in November 1955 that a small technical committee should be appointed by the Reserve Bank to enquire into the technical, legal and administrative problems connected with the organization and expansion of land mortgage banking. The Standing Advisory Committee also recommended that the Reserve Bank might immediately establish contacts with all the central land mortgage banks and obtain information and other data for the working of the technical committee. Accordingly, a questionnaire was addressed to the various States having land mortgage banks for eliciting necessary information in this regard. The replies received so far are being examined.

29. Reconstitution of the Standing Advisory Committee on Agricultural Credit and constitution of an Advisory Council

At the fifth meeting of the Standing Advisory Committee the Chairman had indicated that steps would be taken early to reconstitute the Committee and constitute an Advisory Council on the lines recommended by the All-India Rural Credit Survey Committee. Accordingly, the Standing Advisory Committee was reconstituted by the Reserve Bank. Suggestions were also made to the Government of India regarding the formation of an Advisory Council on Co-operation by the Government of India.

NOTE TWO

Co-ordination of policies of the State Bank of India and the co-operative banks and societies

The All-India Rural Credit Survey Committee had recommended that the State Bank of India should endeavour to be responsive to the needs of co-operative institutions connected with credit and, especially, marketing and processing. The Committee emphasized in this context that it was of course the Reserve Bank, primarily, which would continue to lend to state co-operative banks and through them to central banks etc. The Committee also recommended that the branch extension of the State Bank should be co-ordinated and, wherever possible, positively associated with the development of co-operative credit, from the point of view especially of the provision of cheap remittance facilities.

2. At the fifth meeting of the Standing Advisory Committee on Agricultural Credit the question of the co-ordination of the roles of the State Bank of India and the co-operative banks in respect of rural finance was one of the items discussed. The Committee's conclusions were as follows:

> " . . . Co-ordination between the two should be both territorial and functional. With regard to the territorial aspect, it was felt that while the State Bank should necessarily establish its branches at all district headquarters, so far as the opening of branches elsewhere in the district was concerned, it might give a relatively low priority to centres where well-established co-operative banks were functioning. In its functional aspect, co-ordination would imply that all co-operative societies should normally be financed by co-operative central banks only and in cases where the central banks and the apex bank cannot provide the necessary finance the State Bank of India may, with the concurrence of the apex bank, finance the co-operative societies for such period and such purposes as may be agreed upon. This

co-ordination may extend to an agreement regarding the rates of interest charged by the respective institutions on loans and advances of a similar nature."

3. The State Bank of India has recently decided upon extending some assistance to co-operative banks. The measures contemplated relate mainly to advances against Government Securities and advances against re-pledge of goods at certain concessional rates. Interest on advances against Government Securities to co-operative banks would be charged at 1/2 per cent below the State Bank Advance Rate, with a minimum of 3 per cent per annum irrespective of the amount advanced or the place where the advance is granted. Interest on advances against re-pledge of goods will be levied at 1/2 per cent below the usual rate charged to borrowers locally, or 1 per cent above the State Bank Advance Rate, whichever is lower. Further, in addition to the facilities already available to co-operative institutions under the Reserve Bank's Remittance Facilities Scheme, the State Bank will give to co-operative central financing agencies (including apex banks) the facility of free remittances once a week for remitting funds to up-country branches, particularly in rural areas. Co-operative banks will also be given some concession with regard to the purchase and collection of cheques and bills.

In the context of the provision of these facilities, the State Bank has made it clear that it will not grant the advance unless the prospective borrower produces a letter from the co-operative central financing agency concerned indicating that such facilities may be availed of from the State Bank. Under this arrangement, it is envisaged that business which the co-operative banks can undertake will remain with them. The services of the State Bank will be utilized when similar services are not available in the co-operative sector.

It may be stated at the outset that the facilities proposed to be provided by the State Bank to the co-operative banks in furtherance of its objective of being responsive to the needs of these institutions mark a happy change of attitude on the part of the State Bank and are to be welcomed. Nevertheless, the emergence of the State Bank as an active participant in the field of co-operative credit is likely to raise a number of problems affecting the discipline of the co-operative credit structure unless proper co-ordination between the State Bank and the co-operative banking structure is ensured. The Standing Advisory Committee may consider this question and give its views in the matter. In this connexion, the following points are mentioned to serve as a basis for discussion:

(1) There are certain facilities which the State Bank can provide to co-operative banks without raising the question of the discipline of the co-operative banking structure. For instance, co-operative banks require credit facilities from the State Bank for maintaining fluid resources, that is, ready money to meet the demands of depositors for refund of their deposits. Such facilities may be given in the form of cash credits against Government Securities to the required extent. In view of the urgency of the need for such ready money on certain occasions and of the proximity of the branch of the State Bank of India, cash credits would be necessary and valuable and might, therefore, be extended. There may also be certain schemes in the co-operative sector requiring finance of an order which may be beyond the resources of the local co-operative financing bank, for instance, funds for co-operative sugar factories, co-operative spinning and weaving mills etc. The State Bank of India may, in such cases, usefully supplement the finance available from co-operative banks.

(2) There are several regions in the country where central financing agencies are undeveloped and are unable to provide the requisite amount of finance to affiliated societies. In such cases, the State Bank may have a real and positive role to play in the provision of credit facilities, even though it will have to be ensured that there is no overlapping of jurisdiction between the State Bank and the co-operative banks.

(3) The question will assume a different aspect as regards areas where co-operative central financing agencies are strong and are able to provide the necessary funds to affiliated societies. In such cases, it will be desirable to adhere rigidly to the convention that financing, if any, by the State Bank, may be done only through the state co-operative bank.

It might thus be necessary to demarcate the areas where the State Bank can provide funds on account of the inability of the co-operative central financing agencies to provide such funds to affiliated co-operative societies and also to define the areas where the State Bank need not enter, because of the relatively developed financial position of the central financing agencies. In short, what seems to be necessary is that the State Bank should lend to co-operative banks in defined contexts (e.g., emergency loan for maintaining the level of fluid resources); in an agreed manner (e.g., through state co-operative banks only or with their prior knowledge or in accordance with a specific understanding reached with individual apex banks); and in complete co-ordination and co-operation with the Reserve Bank.

The question of the relative rates of interest charged by the State Bank and co-operative banks also requires consideration. The rates should be such that there is no inducement to co-operative banks to seek financial accommodation from the State Bank rather than from their co-operative financing bank.

4. Reference may next be made to the arrangements for the maintenance of contacts between the State Bank and the co-operative banking organizations at different levels. It may be recalled that the All-India Rural Credit Survey Committee had suggested that to facilitate the expansion of the co-operative banks below the district level, the State Bank should, if so desired, make provision for accommodating the branch of the State-partnered central co-operative bank of the district or (as the case may be) of the State-partnered apex co-operative bank. Further, the State Bank of India could act at 'sub-divisional places' as the banker of the State-partnered co-operative bank wherever such an arrangement is convenient to the co-operative institution concerned. Further, in so far as State-partnered co-operative banking institutions at district headquarters are concerned, the local agent of the State Bank should be nominated as one of the members of the Board of the central bank concerned.

While most of these suggestions would arise for consideration at a later stage when the extension of the State Bank and of co-operative banks below the district level has made some progress, the State Bank has agreed in principle to the appointment of its agents as *ex-officio* directors on the boards of central co-operative banks, subject to certain terms and conditions.

NOTE THREE

General policy regarding subscription to debentures of and loans to central land mortgage banks

The funds required by central land mortgage banks for their business are mainly obtained by floating debentures. In the early stages of the working of these banks, the practice followed was to keep open a series of debentures for subscription throughout the year. But this affected the popularity of the debentures and, in practice, proved to be an impediment to their ready marketability. The practice soon developed of issuing debentures once a year for fairly large amounts during favourable periods. Further, it was recognized that the correct practice would be to obtain and accumulate the mortgages first and then float debentures on their security.

The responsibility of the State Government in creating conditions favourable for the working of central land mortgage banks was also recognized from the beginning. State Governments undertook to guarantee the debentures as regards the repayment of principal and payment of interest so that these debentures could be successfully floated. In view of this guarantee, the State Government obtained control over the mortgages transferred to the central land mortgage bank by the affiliated primaries and on other properties of the bank, through a Trustee appointed by them. The mortgages obtained by the primary land mortgage banks and transferred to the central land mortgage bank (and those obtained in some cases by the central land mortgage bank direct) vested in the Trustee. No mortgage or charge ranking in priority to or *pari passu* with the moneys secured by the mortgages and the other properties could be created by the bank without the written consent of the Trustee.

In the circumstances, when the question of interim financial accommodation to the central land mortgage banks to enable them to accumulate mortgages before floating the debentures arose, it was natural for the central land mortgage banks to look to the State Government for providing the necessary accommodation. Thus, in Madras and Andhra, where co-operative land mortgage banking is relatively well developed, the State Government accepted the responsibility not only of guaranteeing the debentures, but also of providing the interim accommodation. Thus, while the money market was the source for long-term funds, the State Government provided the short-term resources and helped the central land mortgage banks to tide over the short period between the accumulation of mortgages in sizable amounts and the issue of debentures by them.

The debentures floated by central land mortgage banks have been subscribed mostly by co-operative banks and societies, commercial banks, insurance companies, charitable institutions, local bodies and the general public and partly by the Reserve Bank which from 1948, adopted a policy of contributing to the debentures to make up the shortfall in public subscriptions up to 10 per cent of each issue. This percentage was raised to 20 in 1950. Towards the end of 1953, the Government of India also agreed to purchase, along with the Reserve Bank, up to 20 per cent of an issue under a 'joint purchase scheme'

2. In the context of the development of long-term agricultural credit through co-operatives contemplated under the Second Five Year Plan, central land mortgage banks will need vastly increased funds for their business. The Conference of the State Ministers for Co-operation held at New Delhi in April 1955 recommended a target of Rs 25 crores by the co-operative land mortgage banks to be reached by 1960-1. Reference may be made in this context to certain factors, having a bearing on the question of the land mortgage banks having adequate long-term resources. First, with the vast borrowing programme of the Central and State Governments envisaged under the Second Five Year Plan, and with the intensive campaign by Government for tapping small savings, it is possible that the debentures of central land mortgage banks may not receive the necessary response from the money market. It may also be noted that the demands on the market might become

larger with the emergence of other institutions such as the Financial Corporations, etc., whose debentures also enjoy Government guarantee. Second, the life insurance companies used to contribute to the debentures of land mortgage banks. Owing to nationalization of the companies, the advantage which individual central land mortgage banks had, by way of contact with particular insurance companies, is no longer available. Third, the Government of India which, to some extent, provided funds for the purchase of debentures under the 'joint purchase scheme' discontinued the practice with effect from 1 April 1956 as no provision for this has been made under the Second Five Year Plan. Fourth, even though the State Bank of India has indicated that it would support co-operative land mortgage bank debentures by subscribing to them in suitable lots, it has not yet adopted any definite policy in this regard. Fifth, the Reserve Bank of India Act has been recently amended providing for the establishment of a National Agricultural Credit (Long-term Operations) Fund which can be applied, among other purposes, for subscription to the debentures of and making loans to central land mortgage banks.

3. As important as the question of finding adequate long-term resources for central land mortgage banks, is that regarding their requirements of short-term credit. While the responsibility of the State Governments in the matter of providing interim financial accommodation to central land mortgage banks to enable them to accumulate mortgages before floating debentures may be noted, the needs of the banks may outstrip the capacity of the State Governments to provide such accommodation inasmuch as the ways and means position of the State Governments is becoming increasingly tighter. For instance, it has been pointed out by the Registrar of Co-operative Societies of Andhra Pradesh that the Central Land Mortgage Bank has a programme of lending Rs 76 lakhs in 1956-7. However, the overdraft credit limit at present enjoyed by the bank with the State Government is Rs 45 lakhs only. This was exhausted in November 1956. The bank approached the State Government for an additional limit of Rs 23 lakhs, but Government did not find it possible to accede to this

request. In this context, it was suggested by the Registrar of Co-operative Societies that the interim accommodation required by the bank might be provided by the Reserve Bank. One of the arguments advanced in support of this request is that, in principle, the responsibility for providing the interim finance should be borne by the normal banking channels. The recommendation of the Conference on Marketing and Co-operation convened by the Government of India at Hyderabad in November 1955 has also been cited. This recommendation was as follows:

> "... the central land mortgage banks should utilise their share capital and the overdraft accommodation available from the State Government to finance initial business, on the strength of which mortgage can be obtained and debentures raised on their security. If additional accommodation of a temporary nature is required for this purpose, loans from the Long-term Operations Fund of the Reserve Bank should be made available at concessional rate of interest, comparable to the rate of interest on medium-term loans to state co-operative banks."

A similar Conference held at Jaipur in February 1956 emphasized the view that the State Government should hold itself responsible for the provision of temporary accommodation (i.e. pending issue of debentures). The Conference also expressed the hope that where a very substantial increase in the volume of such accommodation made it necessary for the State Government to seek ways and means of getting assistance from the Reserve Bank, this would be readily forthcoming; it was further hoped that the rate of interest on such accommodation, normal or additional, would be as low as possible, e.g. as on the short-term loans given for agricultural purposes by the Reserve Bank.

It may be observed that while the recommendation of the Jaipur Conference contemplates the interim accommodation in terms of assistance to State Governments from the Reserve Bank, the recommendation of the earlier Hyderabad Conference contemplates such accommodation being given to central land mortgage banks out of the Long-term Operations Fund. In both cases, however, it is expected that the accommodation would be forthcoming from the Reserve Bank at a concessional rate.

The feasibility of the Reserve Bank being of assistance in the matter may be examined briefly. One of the purposes for which the Reserve Bank's National Agricultural Credit (Long-term Operations) Fund can be utilized is to give loans to central land mortgage banks; but the loans contemplated are long-term loans extending up to 20 years. The type of interim accommodation required by central land mortgage banks is not only for a short-term but is also of a cash credit type enabling the banks to borrow as and when required and repay as soon as debentures are floated. It does not, therefore, seem appropriate to use the Fund for purposes of a short-term nature. The nature of accommodation required and the constitution of central land mortgage banks seem to indicate the desirability of the accommodation being provided by the State Government. As mentioned earlier, the control over the mortgages and other properties of the bank is vested in the Trustee appointed by the State Government and it is the Trustee who can exercise proper supervision and control over the utilization of any overdraft or interim accommodation provided to the bank for the purpose of enabling it to accumulate mortgages. The Trustee is usually the Registrar of Co-operative Societies and the State Government can ensure through him that a fresh Government advance is not taken by the bank unless the advance taken earlier has been fully utilized for the purpose intended. Under the terms of the agreement between the bank and the Government, it is generally laid down that the bank shall not take an advance from the Government more than once a month and shall communicate to Government its requirements for any month at least a fortnight in advance. Under these arrangements and because of the proximity of the Registrar to the bank, it is possible for the State Government to exercise proper control over the use of the temporary overdraft by the bank. It would appear, therefore, that the responsibility for providing the interim accommodation to central land mortgage banks might have to be shouldered by the State Governments.

Reference may be made in this context to the question of the State Bank of India or the state co-operative bank providing the required accommodation to the central land mortgage banks against the guarantee of the State Government. which may be necessary in view of the peculiar nature of the business of the banks. While the possibility of either of the two agencies supplying the short-term funds no doubt exists, it would appear that it would be difficult either for the State Bank or the state co-operative bank to devise a satisfactory mechanism for exercising a proper check on the utilization of the advances drawn against any credit limits sanctioned by them.

The Standing Advisory Committee may consider the problems regarding meeting the long-term and short-term credit requirements of the central land mortgage banks in a satisfactory manner to which a brief reference has been made in this Note and give its advice in the matter.

NOTE FOUR

Co-operative advances and the price situation

The last few years have witnessed a significant expansion in the volume of agricultural finance made available by co-operative credit agencies on account of the co-ordinated and many-sided efforts put forth by the Reserve Bank of India, State Governments and, above all, the co-operative institutions. The outstandings in respect of loans advanced by primary agricultural credit societies have risen from Rs 24·96 crores at the end of 1949-50 to Rs 59·79 crores at the end of 1955-6. Similarly, the outstanding advances of central co-operative banks and state co-operative banks have increased during the same period from Rs 28·92 crores and Rs 14·12 crores to Rs 54·34 crores and Rs 34·77 crores respectively. These figures, however, only represent the progress achieved as a result of various measures for the reorganization and development of the co-operative credit structure taken, roughly, between the years 1950 and 1954 but do not reflect the impact of subsequent steps in the same direction, which is yet to make itself felt. Of these recent developments, the more significant relate to the formulation and implementation of the integrated scheme of rural credit which is now incorporated in the plans drawn by the various States for co-operative development as part of the Second Five Year Plan, the liberalization by the Reserve Bank, of its standards for the fixation of credit limits for co-operative central banks and the extension of the crop loan system so as to cover a larger section of the cultivating population and meet their needs in a more adequate measure. Apart from these factors which are likely to lead to a further expansion in the volume of co-operative credit, account has also to be taken of the implications, in this respect, of the emphasis placed on achieving a sizable increase in agricultural production during the period of the Second Five Year Plan. Considerable importance is attached by the Government of

India in the Planning Commission as well as the Ministry of Agriculture to meeting the demand for credit facilities which is implicit in the programme of rural development generally and the larger production targets in particular. To ensure that development is not handicapped on this account, the Second Five Year Plan envisages a considerable increase of co-operative agricultural credit; the short-term loans are to rise from an estimated level of about Rs 30 crores in 1954-5 to Rs 150 crores by the end of 1960-1, medium-term loans from Rs 10 crores to Rs 50 crores and long-term loans from Rs 3 crores to Rs 25 crores. For 1957-8, in particular, the present target is that agricultural credit societies should lend about Rs 80 crores, of which about Rs 50 crores might be refinanced by the Reserve Bank.

2. Co-operative agricultural credit has not only increased in recent years but also carries the seeds of further expansion on planned lines. Thus, on the one hand, attempts are being made to ensure that the fulfilment of targets of production is not handicapped by the lack of credit, while at the same time, there have been in evidence, on the other hand, inflationary pressures in the economy, chiefly associated with rising prices and excessive bank credit. The steep rise in prices of agricultural commodities witnessed during the last year prominently bears this out. The index number of prices (year ended August 1939 = 100) rose from 333·8 on 14 January 1956 to 389·9 on 12 January 1957, in the case of food articles and from 453·8 to 522·0 in the case of industrial raw materials. This trend is considered to have derived its momentum, at least in part, from the accumulation of stocks with traders and cultivators, and, therefore, in so far as it aids such speculative holding of stocks, the availability of easy accommodation from banks on the security of produce is likely to aggravate an inflationary situation. It is in such a context, when bank advances against certain types of produce were found to be unduly large in comparison with the levels which had obtained during the corresponding period of the previous year, that the Reserve Bank of India took certain steps for restricting advances of scheduled banks against agricultural produce of different types. On 17 May 1956 a directive was issued to these banks

prohibiting them from increasing the credit limits or granting fresh advances in excess of Rs 50,000 against the security of paddy and rice and also requiring them to increase the margins by not less than 10 per cent of the value of the commodities. Partly as a result of the efforts made by the banks and partly as a result of the operation of seasonal factors, the level of such advances was brought down considerably by the middle of October. These restrictions were, in fact, withdrawn in the middle of November 1956, so that banks might meet the genuine requirements of traders and producers for financing the movement of the crop, which was to be then harvested, from the production centres to the markets and the temporary storage of such produce.[1] A corresponding situation in respect of bank advances against wheat and other grains and grams and other pulses led to the issue of a similar directive by the Reserve Bank on 13 September 1956 to check the rise in such advances. The problem of ensuring that no excessive or easy credit facilities are available to individuals for the speculative holding of agricultural commodities has gained in significance and urgency with every rise in prices of such commodities which has been witnessed in recent months. This tendency has been most pronounced recently in the case of rice, wheat and groundnut. While a machinery exists for continually watching the situation as it develops and for taking corrective action as soon as it is necessary, in so far as advances of commercial banks are concerned, the position in respect of similar finance made available from other sources of credit is not always clear.

3. It is in this context that considerable attention has come to be given to the question whether, and to what extent, the funds advanced by co-operative institutions to individuals are likely to have been employed for financing the speculative holding of stocks of agricultural commodities. It is felt that this can happen in several different ways. In the first instance, it is stated that the steadily increasing operations of co-operative credit institutions, especially the state co-operative banks and central banks, suggest the probability, especially where

[1] The restrictions on advances against paddy and rice were re-imposed with effect from 9 February 1957.

they finance individuals direct, that they might be placing adequate funds in the hands of the borrowers — traders or big cultivators — to enable them to withhold stocks from the market. The reportedly poor arrivals in the markets apparently confirm that such withholding of stocks is actually taking place. It is also argued that some of the flourishing co-operative urban banks have several traders among their clientele and that the loan operations of these banks are also, in a corresponding measure, adding to the inflationary pressures in the economy. Further, the co-operative marketing societies, it is suggested, by making loans on the pledge of produce are enabling the big cultivators to hold stocks for long periods, which would have otherwise been unloaded on the market and eased the price situation. It is considered by some observers that even advances by primary agricultural credit societies, though ostensibly intended for production purposes and largely used for the same, are, in part, being utilized for the holding of stocks, by the agriculturists, especially the big cultivators among them. In the same connexion, it is argued that the concessional rate of 2 per cent below the Bank Rate at which the Reserve Bank provides finance to state co-operative banks, against credit limits fixed on a liberal basis, for financing seasonal agricultural operations and the marketing of crops, has the effect of stimulating excessive borrowing, part of which might be utilized for holding, or trading in, agricultural produce. In the following paragraphs, it is proposed to consider various aspects of these points of view, with reference to the different types of co-operative institutions and the steps, if any, which might be thought of, for ensuring that the expanding volume of co-operative credit is not utilized for purposes which might result in aggravating the inflationary situation. It may be mentioned that data for the co-operative year 1955-6 are not yet available in a final form and figures given in this note are, therefore, provisional, incorporating as they do, for some States, data for an earlier year where the latest figures have not yet been received.

4. The outstanding advances made by state co-operative banks and central co-operative banks to individuals stood at Rs 2·63 crores and Rs 3·48 crores respectively as at the

end of June 1956. Ordinarily, these institutions do not finance individuals, except on the security of fixed deposits held by them. In some cases, however, they lend direct, instead of through primary credit societies, to individual agriculturists who, for one reason or the other, cannot be served by the primary societies. Advances by the state co-operative bank in Assam to tea gardens, those by the central banks of Madhya Pradesh to agriculturists direct, and the loans made by the co-operative banks of Bombay to big cultivators are prominent examples of this practice. Other advances to individuals, e.g., traders, are negligible. The policy of the Reserve Bank has been to discourage the lending to individuals by central financing agencies. As a result, such advances have steadily declined in several States over the last few years. It may be generally stated that advances to individuals by state and central co-operative banks do not constitute a significant factor in support of speculative holding of commodities.

5. Advances made by co-operative urban banks to individuals during the year 1955-6 amounted to Rs 31·21 crores. These advances are largely to middle class individuals such as employees in offices etc., and, to a limited extent, to artisans. From a quarterly return being received from co-operative urban banks in respect of the security-wise breakdown of their advances, it is seen that, as at the end of December 1956, of the total outstanding advances of Rs 2·14 crores of 75 banks which reported data, only those to the extent of Rs 0·05 crore (or about 2 per cent) were made against the security of marketable goods other than products of small-scale industries. On the whole, the advances of urban banks seem to be of limited significance in the context of the problem under consideration.

6. The advances made to individuals by co-operative marketing societies during 1955-6 are indicated below:

	(Rs in crores)
Primary marketing societies	8·87
District and central marketing societies ..	5·81
State marketing societies	0·64

At the outset, it may be mentioned that the amount shown above for district and central marketing societies is largely accounted for by the cane unions of Uttar Pradesh which advance production credit and by the district co-operative federations of the same State whose credit sales are shown as loans; hence, these are not relevant for the purpose. It is clear that the volume of advances to individuals by marketing societies, as a whole, is relatively small, especially in comparison with similar advances made by commercial banks. It has to be remembered, in this connexion, that co-operative marketing, and, as allied to it, the making of loans to cultivators by such societies on the pledge of produce, have made little progress in India, except in a few centres. The advances made by such societies seek to give the cultivator the staying power without which he would be forced to sell his produce to the trader immediately after harvest at relatively unremunerative prices. Thus, while these loans place the cultivator in a better bargaining position *vis-a-vis* the trader, it is not as if, in their absence, the stocks would necessarily have been unloaded on the market; they would have been hoarded with speculative intent by the trader who would have obtained possession of them. Besides, there is a maximum borrowing power up to which alone any individual member can be financed, irrespective of what he is entitled to obtain on the basis of the value of produce pledged. In the model bye-laws of co-operative marketing societies in Madras, for instance, a sum of Rs 2,000 is laid down as this limit which can be enhanced, in special cases, to Rs 10,000 with the consent of the financing central co-operative bank. Further, the figures of advances given above do not relate to amounts advanced at any particular time but to advances made at various times during the year against different crops. These various factors suggest that the inflationary potential of the advances of marketing societies is negligible, especially when considered in comparison with similar advances by scheduled banks, the volume of which is determined almost solely by the value of produce pledged and not restricted by any maximum borrowing power fixed per individual, as in the case of co-operatives.

7. The outstanding advances of primary agricultural credit societies amounting to about Rs 59·79 crores at the end of 1955-6 constitute the most important sector of the advances

made to individuals by the co-operative banking system. These loans are largely by way of production credit and, in part, for consumption purposes and cannot, in any significant degree, represent accommodation which can be used for the accumulation of stocks. Loans against the pledge of produce, by primary credit societies are exceptional and negligible. Even taking the production loans, individual loans are generally small, the average loan per member being Rs 100 or less, even in co-operatively developed States. Even big agriculturists cannot get large loans as the maximum borrowing power of the society as well as the members is restricted under the bye-laws. The individual maximum borrowing power does not ordinarily exceed Rs 1,000. Further, the finance provided to an individual is also related to (and hence limited by) the estimate of his production credit requirements arrived at on the basis of his acreage, crop raised, outlay on seed, manure, etc. and by an assessment of his repaying capacity, as represented by the value of his crop, only up to a fraction of which he will be financed. Expansion of co-operative credit, in volume, which has taken place so far, represents mainly the bringing into co-operatives, of a larger number of agriculturists and, only to a small extent, an improvement in the size of loans made. It does not help the bigger agriculturists to withhold sizeable stocks of produce from the market. Incidentally, it should also be noted that this credit plays an important role in stimulating agricultural production and to that extent should, in fact, be considered to be non-inflationary in effect.

8. In the light of what has been stated above, the concessional rate at which financial accommodation is provided by the Reserve Bank for agricultural purposes does not also seem to constitute a factor of significance in relation to the financing of the speculative accumulation of stocks. It may be emphasized here that, though this finance from the Reserve Bank is provided, in the first instance, at a relatively low rate to the state co-operative banks, it reaches the cultivator, who is the ultimate borrower, only at a rate comparable to that charged by commercial banks on similar advances. The concession is, in fact, extended mainly because the funds have to pass through several intermediaries, viz., state co-operative banks,

central co-operative banks and primary credit societies, each of which has to maintain a suitable margin to cover its own costs. Even in Bombay and Madras, which are among the States where there has been maximum improvement in this regard, the usual rate charged to the ultimate borrower, the cultivator, is 7 13/16 per cent and 6 1/4 per cent respectively. Elsewhere, it is much higher. It does not, therefore, seem that the concessional finance of the Reserve Bank helps to make funds available from co-operatives for the speculative holding of agricultural produce, at rates far lower than those charged by other sources of credit for similar purposes.

9. From the considerations set out in the preceding paragraphs it seems reasonable to conclude that the credit operations of the co-operative institutions of different types relevant for the purpose are, at any rate for the present, not likely to be of any significance in the context of the accumulation or holding of stocks of produce which is pushing up agricultural prices. Only a small part of the entire advances discussed above is against the security of agricultural produce. At any rate, even such portion of co-operative advances as might be considered to have been available for financing the holding of agricultural produce would be negligible in comparison with the advances of scheduled banks against such produce, the outstandings of which amounted to Rs 170·14 crores as at the end of June 1956.

10. It is obvious that, for meeting the requirements of the programmes for increased agricultural production and in fulfilment of the plans drawn up for co-operative development as part of the Second Five Year Plan, the volume of co-operative credit for agricultural purposes will expand further in the coming years. In this context, it may be noted that, simultaneously, a large volume of cheap credit is expected to be made available through *taccavi* loans to agriculturists. While it is broadly true that the inflationary potential of such expansion, in the sense of making speculative holding of stocks possible, is not of significance, especially when juxtaposed against the magnitude of similar advances by commercial banks, at the same time, in the context of the expansion of

co-operative credit which is envisaged, it is important to see, through appropriate measures for the purpose, that any direct or indirect effects of an inflationary nature are minimized. It is of the foremost importance, in this connexion, to ensure, firstly, that the funds provided for seasonal agricultural operations are actually employed for purposes of production and, secondly, that credit of this category is not disbursed in such excessive measure and on such terms as to make its diversion to other uses possible. The answer to the former problem is to make adequate and effective arrangements for supervision; as for the latter, one suitable measure would be to fix the individual maximum borrowing power on a realistic basis, taking into account not only the crop outlay of the bigger cultivators but also the funds they can find for the purpose from their own resources. The problem in the credit society as well as the marketing society, in this context, is to see that the big cultivator-cum-trader (or the agriculturist money-lender, as the case might be) does not obtain such large funds from these institutions as to be able to use them for a sizable holding of stocks with a speculative intent. This danger will be minimized to the extent that the medium and small cultivators have an effective voice in running the society and are able to have their needs fully met by it, and it is to be hoped that the State partnership in co-operatives proposed under the Second Five Year Plan will significantly contribute towards this end. It is also necessary to see that no credit facilities are extended to traders by marketing societies, wherever that might be the case at present, to howsoever a limited extent. It seems also important that the bye-laws of marketing societies should incorporate a provision, wherever it does not already exist, which will make the loan to an individual member on the pledge of produce subject to a maximum borrowing power per individual, irrespective of the value of produce pledged. It is implicit in the objective of a marketing society that it should, through its loans on the pledge of produce, impart to the cultivator that staying power which will help him to obtain a fair return for his crop. These precautions are only proposed for ensuring that this legitimate facility does not lend itself to abuse by individuals who are attempting to hold stocks with a view to speculation. It has, however, to be noted that a largely expanded programme of co-operative marketing is an integral part of the scheme of development of co-operative credit. Without it, the recovery of the large volume of production credit supplied by co-operatives would not be possible. This implies a corresponding increase in the volume of marketing finance also. The problem of ensuring that such finance would only help the orderly marketing of produce to the advantage of the agriculturists and not aggravate the general upward trend of prices requires very careful consideration. In the same connexion, emphasis should also be placed on the elimination of direct financing of individuals by co-operative central financing agencies, which, though on the decline, still persists in a significant measure in certain States. An endeavour should be made to see that the big cultivator is able to satisfy his credit requirements through an appropriate primary organization, which would be financed by the central co-operative bank. Advances to traders etc., should be given up. It is on the Registrars of Co-operative Societies and the managements of co-operative credit and marketing institutions that a special responsibility rests for ensuring that the operation of the co-operative credit structure, which is being assisted by the State and State-associated institutions in many ways, is not taken advantage of, even in the smallest measure, for purposes which would accentuate inflationary conditions and defeat the broader objectives of national policies. In this connexion, it is necessary to obtain more detailed and frequent information from co-operative banks, and credit and marketing societies, than is at present available so that the situation in this regard can be more fully understood and more closely watched than hitherto. Such information is urgently required in the context of the study and regulation of the overall credit structure which is a primary responsibility of the Reserve Bank of India. Attention is being devoted to this question by the Agricultural Credit Department. The Standing Advisory Committee may consider the various aspects of the problem and offer any suggestions which they consider would help in taking appropriate measures.

NOTE FIVE

Liberalization of remittance facilities to co-operative banks

The Standing Advisory Committee at the fifth meeting held on 16 and 17 January 1956 considered the following proposals made by the Registrar of Co-operative Societies, Andhra, and the Managing Director of the Bombay State Co-operative Bank, regarding the liberalization of the remittance facilities available to co-operative institutions:

Proposals of the Registrar of Co-operative Societies, Andhra

(*i*) The Andhra State Co-operative Bank may be allowed to remit moneys free of charge twice or thrice a week from Vijayawada to Madras.

(*ii*) The affiliated co-operative central banks may be allowed to make remittances free of charge once a week to the account of the Andhra State Co-operative Bank, Vijayawada, either with the State Bank of India, Vijayawada, or with the Reserve Bank of India, Madras.

(*iii*) The Andhra State Co-operative Bank and its affiliated central banks may be allowed to draw amounts free of charge when the hundies executed by the latter are rediscounted by the former with the Reserve Bank of India.

Proposals of the Managing Director of the Bombay State Co-operative Bank

(*i*) As the co-operative central financing agencies have to conduct their operations mainly on deposit banking and as the apex bank is a repository of the surplus funds available in the co-operative movement, it is necessary that the free remittance facility is extended to remittances from Bombay to the mofussil centres, i.e., the facility should be not only from the mofussil to Bombay but also *vice versa*. This will facilitate movement of funds between the apex bank and the central financing agencies for seasonal demand and enable the banks to use the surplus funds within the co-operative movement. It would also enable the central financing agencies to draw upon the Reserve Bank loans without the extra cost on remittances from Bombay.

(*ii*) The central financing agencies, in their programme of development of agricultural credit, have to open branches in the districts and they are required to remit cash from their head office to their branches and *vice versa*. This entails both risk and cost to the central financing agencies. It may be considered if the facility for free transfer of funds from the sub-treasury to the account of the district bank with the State Bank of India at the district headquarters and *vice versa* could be arranged.

2. The Committee was of the view that these proposals should be recommended to the Reserve Bank of India for consideration. These proposals have accordingly been examined by the Bank and action has been taken in the manner indicated below:

(*i*) The Andhra Registrar's first request is met by the step taken recently by the Reserve Bank of India to liberalize further the scheme of remittance facilities. According to this measure, the number of times the state co-operative banks are entitled to remit, an amount of Rs 5,000 or a multiple thereof from any place at which there is an agency of the Reserve Bank to any account which the state co-operative bank maintains with the Reserve Bank, free of charge, has been increased from two to three a week, with effect from 1 October 1956. For this purpose, central co-operative banks and industrial co-operative banks affiliated to the state co-operative bank will be treated as branches of the latter.

(*ii*) As regards the second request of the Andhra Registrar, the Reserve Bank has decided that weekly free remittances from the central co-operative banks should be permitted either to the account of the state co-operative bank with the Reserve Bank or to that maintained by the head office of the state co-operative bank at an agency. The agency banks are now being consulted in the matter and further action based on the outcome of the consultations will be taken in due course.

(*iii*) The third request of the Registrar of Co-operative Societies, Andhra, and the first request of the Managing Director of the Bombay State Co-operative Bank, viz., that reverse transfer facilities for remittances should be made available, are similar excepting that whereas the Andhra Registrar has requested for such facility only in respect of the funds obtained by central co-operative banks from the Reserve Bank, the Managing Director is of the view that the facility should include all remittances made in the ordinary course of business of central financing agencies. The arguments in favour of these proposals are:

(*a*) State co-operative banks have been assigned a very important role in the field of rural credit in the Second Five Year Plan and they have been handling large amounts of advances from the Reserve Bank, which are likely to increase as the recommendations of the Rural Credit Survey are fully implemented.

(*b*) As repositories of the surplus funds of the central co-operative banks, and as the balancing centres of the co-operative movement in each State, the state co-operative banks will have to be given all reasonable assistance for the easy flow of funds from, and to, the central banks. A saving in the cost of transmission of funds both ways would provide an incentive for the central banks to deposit their surpluses with the apex banks rather than with local commercial banks.

3. In respect of these proposals, the following points have to be taken into account:

(*i*) The remittance facilities scheme has been formulated by the Reserve Bank to facilitate the transfer of funds between different centres in the country so as to secure the most economical use of available financial resources. Liberalization of these facilities would, therefore, be unobjectionable, but the present proposals, being restricted to co-operative banks, would amount to a discrimination against scheduled banks. Co-operative banks are already receiving preferential treatment from the Reserve Bank in certain respects, e.g., (*i*) they are eligible for a rebate of 2 per cent on advances for seasonal agricultural operations and the marketing of crops under section 17(2) (*b*), (4) (*a*) and (4) (*c*) of the Reserve Bank of India Act, (*ii*) the state co-operative banks are required to maintain only 2 1/2 per cent and 1 per cent of their demand and time liabilities respectively with the Reserve Bank of India as minimum balances, while scheduled banks are required to maintain 5 per cent and 2 per cent of demand and time liabilities as balances.

(*ii*) If the reverse transfer facilities are allowed from the offices of the Reserve Bank to branches, sub-offices etc., in the case of scheduled banks and to central co-operative banks in the case of state co-operative banks, even at the rate of one free remittance per week, it would throw such heavy work on the offices of the Reserve Bank that it would be very difficult for them to cope with it, even with a sizable addition to the staff. Similarly, it will throw considerable extra work on the agencies for the encashment of such remittances.

4. In view of these considerations the Standing Advisory Committee may consider:

(*a*) Whether reverse remittance facilities should be accorded to co-operative banks free of charge in respect of remittances of loans from the Reserve Bank of India. (As credit limits sanctioned by the Reserve Bank can be operated upon as cash credits, or used for reimbursement by the state co-operative bank, to restrict the benefit of free remittances to loans from the Reserve Bank, it may be necessary to stipulate that such benefit will extend only to actual drawals from the Reserve Bank, subject to a maximum of the total credit limit sanctioned in the year.)

(*b*) Whether such facilities be accorded in respect of all the remittances.

(*c*) Whether in view of the administrative difficulties involved in either of the above, the free remittances be limited to, say, twice a week in multiples of Rs 5,000 without restriction as to maximum.

5. As regards the request for the grant of free remittances to the central co-operative banks for transfer of funds from their accounts with the agencies at district headquarters to their branches at sub-treasury centres and *vice versa*, it would be necessary to consult the various State Governments as the proposals would involve the issue of remittances at par by the sub-treasuries. The reference to the State Governments was postponed pending the reorganization of States. Now that the States have been reorganized, the matter will be referred to them. A decision in the matter therefore has to be postponed until the views from the States are received.

NOTE SIX

Finance to state co-operative banks for import of machinery for co-operative sugar factories and for working capital of co-operative processing societies

The Bombay State Co-operative Bank recently approached the Reserve Bank as regards the possibility of obtaining finance from the Bank in connexion with the loans made by it to co-operative sugar factories for the import of machinery. An approach was also made by the Bombay State Co-operative Bank to the Reserve Bank for financial accommodation with regard to working capital of co-operative processing societies including co-operative sugar factories. The issues involved, with special reference to the legal position, are indicated in this note to serve as a basis for discussion.

2. It may be recalled that at the fifth meeting of the Standing Advisory Committee on Agricultural Credit held in January 1956, the general question of financial help to co-operative processing societies was discussed. The conclusions of the Committee on this subject were as follows:

> " The establishment of co-operative sugar factories and other processing societies occupies a very important place in the Second Five Year Plan and consequently the arrangements for providing finance both for block and working capital for such concerns assume significance. In this connexion, attention was drawn to certain difficulties experienced in Bombay where the state co-operative bank had been asked to provide, interim finance to co-operative sugar factories, as the conditions imposed by the Industrial Finance Corporation before it could finance these societies were such that funds would not be immediately available to the societies. This matter should be taken up with the authorities concerned to see whether the position of the state co-operative bank can be adequately protected by relaxing some of the relevant conditions or by a Government guarantee or by the

Government agreeing to provide the balance of the share capital required so as to make up the short-fall in private subscriptions."

Reference may also be made to the first Seminar on Co-operative Sugar Factories held at Pravaranagar in April 1956 under the presidentship of Prof. D. R. Gadgil. The Seminar passed the following Resolution on the subject of financial assistance to co-operative sugar factories:

"The present policy of Industrial Finance Corporation for granting loans to co-operative sugar factories was discussed and it was noted that whatever the procedure of disbursement of loans, the Industrial Finance Corporation was prepared to grant loans to the extent of 60 per cent of the value of the block capital. This was considered satisfactory. While appreciating the Corporation's helpful attitude in this matter so far, it was considered that there should be no hesitation hereafter on the part of the Corporation in sanctioning long-term loans to co-operative sugar factories on the ground that the Corporation had already invested a large amount in the sugar industry. Once it was accepted that all industrial expansion, specially in the co-operative sector, is a part of the planned economy, the Corporation should be prepared to act up to its full responsibility for financing, among others, co-operative sugar factories so long as this development proceeded according to the plan and the co-operatives satisfied normal tests laid down by Government and the Corporation. It was felt that in the absence of alternative means of raising capital, the refusal on the part of the Industrial Finance Corporation to finance a sugar co-operative would amount, in effect, to a veto on its establishment."

Against the background of these recommendations, a brief reference is made below to the alternative methods of providing finance to state co-operative banks by the Reserve Bank for the import of machinery for co-operative sugar factories.

Loans under section 17(4)(c)

The first method is to consider sanctioning a loan to a state co-operative bank against the guarantee of the State Government under section 17(4)(*c*) of the Reserve Bank of India Act. The sub-section does not specify the purposes for which loans could be granted. However, loans under that sub-section are at present given for seasonal agricultural operations and the marketing of crops for a period of 12 months. In view of the fact that the accommodation required is for a short period, the period of the loan may not be allowed to be more than 12 months for these loans sanctioned under section 17(4)(*c*) against Government guarantee. Another consideration is that the loan has to be guaranteed as to repayment of the principal and payment of interest by a State Government. It might be contended in this regard that, it would not be reasonable to expect the State Government to give separate guarantees to the Industrial Finance Corporation and to the Reserve Bank of India, all in respect of the same transaction, the necessity for two institutions having to provide finance being due to the time-lag in finalizing arrangements. It has, however, to be pointed out that if a loan is to be made available by the Reserve Bank under section 17(4)(*c*), the guarantee of the State Government for the loan cannot be dispensed with unless the bills or promissory notes are such as are eligible for purchase or re-discount by the Bank under some other sub-section. This latter aspect has been discussed later in this note. It may be added that although the State Government may have to stand guarantee to both the Industrial Finance Corporation and the Reserve Bank, in practice only one of the guarantees may remain operative because the accommodation from the Reserve Bank being of an interim nature, it will be repaid out of the loan from the Industrial Finance Corporation so that as soon as that is done, the State Government's guarantee to the Reserve Bank will automatically cease.

Issue of special series of debentures

The second method is for each sugar factory to issue debentures of Rs 45 lakhs (this being the amount which the Industrial Finance Corporation will give) as soon as it raises an initial capital of Rs 8 lakhs, the debentures being guaranteed by the State Government. The Reserve Bank may purchase these debentures fully and provide funds initially for the clearance of machinery on arrival. Later, when the other conditions are fulfilled, the Industrial Finance Corporation may take over the debentures from the Reserve Bank at par. In this case, there will be only one guarantee, i.e., by the State Government given in respect of the payment of the interest on and the principal of debentures which will serve as security to the Reserve Bank first and later to the Industrial Finance Corporation. This method will secure the purpose in view and will avoid (1) the Industrial Finance Corporation having to waive the conditions stipulated by it and (2) a separate guarantee from the State Government to the Reserve Bank. Nor will it be necessary for the state co-operative bank to participate in the financing arrangements in any way.

The method outlined above, however, involves certain legal difficulties. As far as the Reserve Bank is concerned, under section 17(8) of the Reserve Bank of India Act, the Bank can purchase and sell the debentures issued by co-operative sugar factories provided they are fully guaranteed as to the payment of interest and repayment of principal by the State Government. It is, however, doubtful whether the Industrial Finance Corporation is authorized, under its Act, to take over these debentures from the Reserve Bank.

Apart from the legal difficulties, it is for consideration whether debentures are a suitable method for the sugar factories for raising the finance needed. The debentures may not have to be issued all at one and the same time. They will have to be issued in instalments, so that the sugar factories will not have to pay interest from the time they are issued, but only when the amount is actually required for payment for the machinery imported. But the issue of debentures in instalments will entail recurring subscriptions to them.

Loans under section 17(2)(a) of the Reserve Bank of India Act

The third method is to give loans under section 17(4)(*c*) read with section 17(2)(*a*) of the Act by treating import of machinery as a *bona fide* commercial or trade transaction as required in section 17(2)(*a*). In such a case, the sugar factory will draw a bill in favour of the state co-operative bank for periods not exceeding 90 days and when endorsed by the latter, might be accepted as security by the Reserve Bank.

There are, however, many practical difficulties in resorting to this method. Advances under the sub-section are feasible when the bills drawn are of a self-liquidating and short-term nature. One of the conditions prescribed by the Reserve Bank for advances under section 17(2)(*a*) in terms of Circular No. ACD. 410/AC. 144(*a*)-52 dated 10 April 1952 is as follows:

> "It should be genuinely short-term and self-liquidating. In order to be self-liquidating, the transaction should be such that, when the goods move to the next stage, payment would automatically be made by the purchasing society and the advance cleared therewith. The mere fact that finance is required for a short period pending final arrangements for finance from some other source (e.g. Government loans or loans from a state co-operative bank) does not make the paper self-liquidating."

The finance required for the import of machinery can hardly be treated as self-liquidating in nature and therefore it is doubtful whether the period of 90 days would be enough for the state co-operative bank in making repayment of the loan on maturity. Further, although loans under the section could be made by the Reserve Bank to the state co-operative bank without Government guarantee, it is doubtful whether the state co-operative bank would itself be prepared to provide the interim accommodation to the sugar factories without a guarantee from the State Government. And if the state co-operative bank needs a guarantee from the Government, the same guarantee could be utilized for loans from the Reserve Bank also.

In view of what has been stated above, it appears that the only practicable method of accommodating state co-operative banks for the interim accommodation provided by them to co-operative sugar factories for import of machinery is the first method of sanctioning a limit under section 17(4)(*c*) against the guarantee of the State Government for a period of 12 months. On the assumption that the Reserve Bank is prepared to agree to provide such finance, the advances may be made at the Bank Rate or even at a higher rate of 4 per cent per annum. As the Reserve Bank finance will be replaced later by finance from the Industrial Finance Corporation and as that finance will be available only at a higher rate than the

Bank Rate, there is no case for making the finance available by the Reserve Bank at less than the Bank Rate.

Finance for working capital of co-operative processing societies

Requests have been received by the Reserve Bank from the Bombay State Co-operative Bank for financial accommodation under section 17(4)(*c*) read with section 17(2)(*b*) of the Reserve Bank of India Act in respect of two co-operative sugar factories and one co-operative milk supply union for the purpose of providing working capital to them. In the case of the two sugar factories, the finance is to be provided directly by the state co-operative bank and in the case of the milk union through a central bank. Both the requests have been endorsed by the Registrar of Co-operative Societies, Bombay State.

The legal aspects of the question of providing the accommodation were examined with reference to the provisions of section 17(2)(*b*) of the Reserve Bank of India Act. As regards the finance for working capital of co-operative sugar factories, it was held that if the term ' working capital ' did not include expenditure incurred solely for purchasing machinery and other fixed assets required for manufacture and referred only to the cost of the manufacture of sugar, such manufacture by the conversion of sugarcane would be covered by the expression ' marketing of crops ' provided it was done prior to marketing, by agricultural producers or an organization of such producers. Therefore the pronotes or bills drawn or issued for such purposes would be eligible for purchase or re-discount by the Reserve Bank under section 17(2)(*b*) of the Act. As regards the finance for working capital for the milk union, an examination of the various aspects of the particular case in question indicated that it was legally permissible to provide finance for this purpose under the Explanation to section 17(2)(*b*) incorporated in the Reserve Bank of India Act.

Accepting the legal position as outlined above, the point for consideration is the rate of interest at which the financial accommodation may be provided by the Reserve Bank. Although, for legal and technical purposes, the finance is brought under the category of ' seasonal agricultural operations and the marketing of crops ', for which it has been the policy of the Reserve Bank to provide concessional finance, the fact remains that the ultimate borrower in the case of the sugar factory is an industrial enterprise, and the finance is required for purposes of working capital. In this connexion, it may be mentioned that, when a proposal was made at the First Seminar on Co-operative Sugar Factories that co-operative sugar factories might be provided with concessional finance by the Reserve Bank, Prof. D. R. Gadgil, who was the Chairman of the Seminar, made it clear that there was no case for it and that the financing of co-operative sugar factories would have to be on a basis similar to the financing of other units in the sugar industry. In other words, this was to be on a par with commercial or industrial finance, and the facilities available to state co-operative banks for the purpose should be similar to the facilities available to scheduled banks from the Reserve Bank. The conclusion of the Seminar on this issue was as follows:

> "As very large amounts may be required for the purpose, the Reserve Bank should make the required funds available to the apex co-operative banks through its Bill Scheme or on terms analogous to it. In this connexion it should be possible for the apex co-operative bank to pass on the credit obtained from the Reserve Bank to the factories on the basis of a low margin."

It may be pointed out that, under the Bill Market Scheme, the Reserve Bank advances loans to scheduled banks at the Bank Rate which is at present 3 1/2 per cent per annum. Further, as from 1 February 1957 the Bank's effective lending rate is 4 per cent because of the increase in the stamp duty payable by scheduled banks on bills. In view of the clear recommendation of the Seminar on Co-operative Sugar Factories and in the light of the latest developments affecting the Bank's effective lending rate to scheduled banks, there seems to be a case for the Reserve Bank charging the Bank Rate or even a higher rate of 4 per cent per annum on loans and advances to state co-operative banks for the purpose of providing working capital to co-operative sugar factories. The Standing Advisory Committee may give its views on the matter.

The question of the rate of interest on loans to state co-operative banks for the purpose of providing working capital to co-operative milk unions may perhaps be treated on a different footing, although in both cases the loans would be made under the same section of the Reserve Bank of India Act and for identical purposes. Co-operative sugar factories having tided over the initial period of experimentation, may now be said to be well on their way to success. Further, the factories work under certain favourable circumstances such as an assured market, regulation of the price of sugarcane and sugar, etc. In the case of the milk unions, there are various factors which may justify a more favourable treatment. Co-operative dairying is still in the difficult period of experiments. The market for fresh milk is not fully assured. As regards dairy products from surplus fresh milk, a venture on the lines and scale contemplated by the co-operative milk union in question is new not only in the co-operative field, but also in the country as a whole. The conversion of fresh milk into dairy products, will enable the vast number of agriculturists engaged in this mixed farming activity to obtain greater returns for the milk produced in the flush season, which they would not otherwise get, milk being a highly perishable product. It would appear, therefore, that the finance for working capital of co-operative milk unions may deserve some concession in the rate from the Reserve Bank of India. The Standing Advisory Committee may consider the question of the quantum of concession that may be given by the Bank.

NOTE SEVEN

Policy regarding rate of interest on medium-term loans

By an amendment to section 17 of the Reserve Bank of India Act passed in 1953, the Bank was permitted to make medium-term loans to state co-operative banks for agricultural purposes for periods not less than fifteen months and not exceeding five years provided the loans were guaranteed as to the repayment of principal and payment of interest by the State Government. Such loans were not to exceed at any time rupees five crores in the aggregate and were limited in respect of each state co-operative bank to the owned funds of such a bank. A circular letter was issued in July 1954 indicating the terms and conditions under which and illustrating the meaning of the agricultural purposes for which the loans would be granted by the Bank. It was decided to make the loans for the time being at the concessional rate of 2 per cent below the Bank Rate, i.e., at the same rate at which short-term loans for seasonal agricultural operations and the marketing of crops were being made by the Bank.

2. The Rural Credit Survey Committee recommended that medium-term loans might be given by the Bank out of the National Agricultural Credit (Long-term Operations) Fund which was to be established by the Bank by making stipulated initial and annual contributions. They further recommended that the statutory restrictions which operated in that regard, viz. the overall limit of Rs 5 crores and individual limits restricted to the owned funds of state co-operative banks should be removed and that the limits be set by the Reserve Bank with due regard to the financial position of each of the borrowing institutions. In pursuance of the above recommendations, section 17(4A) of the Reserve Bank of India Act dealing with medium-term loans was amended in May 1955. The statutory restrictions referred to above were removed and it was

stipulated that the loans would be made out of the National Agricultural Credit (Long-term Operations) Fund.

3. Subsequently, the Registrar of Co-operative Societies, Andhra, proposed that the Reserve Bank should assist state co-operative banks by granting them medium-term loans for financing, through affiliated central banks and societies, the cultivators for the purpose of enabling them to purchase shares in co-operative sugar factories. The Standing Advisory Committee at its meeting in January 1956 recommended that the request might be sympathetically examined by the Bank. On an examination of the matter, it was felt that legally an advance for the purchase of shares of a co-operative sugar factory could not be construed as for an agricultural purpose and therefore would not be covered by section 46A(2)(*b*) relating to the grant of medium-term loans. The Reserve Bank of India Act was therefore further amended in September 1956 so as to cover, under section 46A(2)(*b*), loans and advances for such other purposes connected with the agricultural activities as the Central Board may, from time to time, by regulation or otherwise determine. It has since been decided that advances to state co-operative banks to enable them to finance agriculturists to purchase shares of co-operative sugar factories will be one of the purposes connected with agricultural activities as laid down under section 46A(2)(*b*) of the Reserve Bank of India Act. A circular letter was issued in January 1957 giving the terms and conditions under which loans would be made. The rate of interest to be charged on these loans has been stipulated as the Bank Rate.

4. The Standing Advisory Committee may consider whether it is necessary to retain the rate of interest charged by the Reserve Bank at 2 per cent below the Bank Rate and whether it may not be raised to the Bank Rate in view of the fact that medium-term loans are not loans which are required urgently and in most respects are devoted to permanent improvements to land as is the case with long-term loans.

5. The Reserve Bank has not so far stipulated any specific ceiling for the rate at which loans are made out of the funds

provided by it to the ultimate borrower for short-term or medium-term loans. This is largely because of the varying costs of borrowing and varying costs of operation of the state and central co-operative banks. In the case of loans for financing the purchase of shares of sugar factories, however, the banks would not have to incur any substantial additional expenditure on disbursement, supervision and recovery and, therefore, the Committee may consider whether the Bank while sanctioning a loan to the state co-operative bank for the above purpose should stipulate that the ultimate borrower is not charged more than 6 1/4 per cent.

NOTE EIGHT

Review of the progress of Co-operative Development Plans under the Second Five Year Plan

In Note Fourteen placed before the fifth meeting of the Standing Advisory Committee on Agricultural Credit, the main features of the State plans for co-operative development were outlined and the pattern of financial assistance to be given by the Central Government, the Reserve Bank of India and the State Governments indicated. The targets for the Second Five Year Plan came up for consideration at the Second Conference of State Ministers for Co-operation held at Mussoorie early in July 1956. It was decided at this Conference that the programme for the setting up of large-sized primary credit societies and marketing societies should be accelerated with a view to its completion within the first four years of the Five Year Plan period. The Conference accordingly laid down the phased targets for four years (1956-7 — 1959-60) in respect of large-sized credit societies and primary marketing societies as under:

Year	Large-sized credit societies	Co-operative marketing societies
1956-7	1,715	343
1957-8	2,684	540
1958-9	3,600	600
1959-60	2,401	425
	10,400	1,908

Recognizing the importance of processing of agricultural produce in the development of co-operative marketing and in ensuring better returns to the primary producer, the Conference recommended that targets in respect of co-operative processing should be revised upward, e.g., 35 to 60 in the case of sugar factories, 48 to 100 for cotton ginning and pressing plants. The Conference further urged that steps should be taken early by the State Governments and the Government of India to set up the State Warehousing Corporations and the Central Warehousing Corporation respectively under the Agricultural Produce (Development and Warehousing) Corporations Act 1956. The National Co-operative Development and Warehousing Board had its inaugural meeting on 8 November 1956. Steps are now afoot for setting up the Central Warehousing Corporation as required under section 17 of the Act.[1]

2. The schemes for the development of Co-operation in the Second Five Year Plan having been finalized, the State Governments concentrated on the programmes to be taken up during 1956-7, the first year of the current Five Year Plan period. The schemes drawn up in this connexion by the State Governments were examined in the Agricultural Credit Department, in the context of the total development programme contemplated under the plan and in the light of the budget provisions for Co-operation for the year. Comments were forwarded to the Government of India, (Ministry of Food and Agriculture).

3. The broad pattern of the principles governing central assistance to the State Governments for various schemes of co-operative development under the Second Five Year Plan was indicated to the State Governments by the Ministry of Food and Agriculture, Government of India, in their letter No. F. 2-21/56.Coop. II dated 14 June 1956. In terms of this communication, the Central Government will give a loan up to 62 1/2 per cent and a subsidy up to 12 1/2 per cent of the total cost of the godowns to be constructed by the large-sized societies and marketing societies. The balance of 25 per cent would be found by the State Governments concerned, half in the shape of loan and the other half as subsidy. A part of the cost of *additional* managerial staff required for large-sized societies, central banks, apex banks, land mortgage banks

[1] The Central Warehousing Corporation was set up by the Government of India on 2 March 1957.

and marketing societies, as approved by the State Government, may be subsidized by the Central Government and State Government for a period not exceeding three years in the manner indicated below:

	Central Govt	State Govt
First Year ..	50 per cent	50 per cent
Second Year ..	33 1/3 per cent	33 1/3 per cent
Third Year ..	16 2/3 per cent	16 2/3 per cent

In regard to State contribution to the share capital of marketing and processing societies, the Central Government will assist the State Governments by a loan to the extent necessary, having regard to their ways and means position. It was further indicated in the Ministry's circular that the cost of additional field staff required by the State Governments for improving supervision, audit and administration of the co-operative department would be shared by the Central Government to the extent of 25 per cent.

4. The Executive Committee of the National Co-operative Development and Warehousing Board considered the schemes of State Governments for 1956-7 and, according to the information available, has approved so far the schemes of some States involving an outlay amounting to Rs 262·02 lakhs. The procedure for the drawal of the funds sanctioned to the State Governments is under the consideration of the Board. The question of liberalizing the terms and conditions governing loans and subsidies available from the National Co-operative Development and Warehousing Board for various purposes is at present receiving the attention of the Board. The Executive Committee of the Board has already made some suggestions in this regard which envisage grant of larger subsidies for the construction of godowns by the large-sized societies and the marketing societies and an increase in the Board's share of the total assistance to be made available for the purpose. Terms regarding loans to be given by the Board for the construction of godowns and for contribution to the share capital of marketing societies are also being worked out. In this connexion it may be pointed out that while discussing the rates of interest which the Reserve Bank might charge on loans to the State Governments for the purpose of share capital contribution, the

Standing Advisory Committee at its fifth meeting had recommended that the Government of India should adopt a similar scheme with regard to the loans to State Governments from the National Co-operative Development and Warehousing Board for the development of co-operative marketing, processing, storage and warehousing.

5. The Reserve Bank of India set up the National Agricultural Credit (Long-term Operations) Fund, under section 46A of the Reserve Bank of India Act with an initial contribution of Rs 10 crores on 3 February 1956. The Fund has since been augmented by the first annual contribution of Rs 5 crores on 30 June 1956 as required under the Act. Loans from the Fund for share capital contribution to co-operative credit institutions, to be made to the State Governments, would be for a period of 12 years, a longer period being allowed in exceptional cases only. The repayment of the principal is to commence from the third year. On loans sanctioned up to the end of March 1957 interest is payable at the following rates:

12 years	First 2 years	: Nil	
	Next 3 years	: 2	per cent
	Next 4 years	: 2 1/2	per cent
	Next 3 years	: 3	per cent
Above 12 years (in exceptional cases)	Next 2 years	: 3	per cent
	After 14th year	: 3 1/2	per cent

By the end of December 1956 loans aggregating to Rs 137·27 lakhs had been sanctioned from the Fund to various State Governments to enable them to contribute to the share capital of various co-operative credit institutions as under:

	(Rs in lakhs)
Madras	8·00
Andhra	16·67
Orissa	24·85
Bihar	7·50
Assam	9·75
Uttar Pradesh	70·50
	137·27

Only a sum of Rs 26·70 lakhs had been drawn by the States from the Reserve Bank of India by the end of January 1957 against the limits sanctioned to them.

The National Agricultural Credit (Stabilization) Fund was also set up by the Reserve Bank and a sum of Rs 1 crore was credited to it on 30 June 1956.

6. An assessment of the ground so far covered during 1956-7, on the basis of the limited data available, reveals that the tempo of development has been slow largely because most of the States were preoccupied with the problems relating to the reorganization of States, because the financial sanction for the schemes by the finance departments in the States could only be obtained rather late in the year and because the sanctions by the National Co-operative Development and Warehousing Board could be given in most cases only in December 1956 or January 1957 as the Board was set up only in September 1956. A beginning has, however, been made and the pace of development in the next few years may be expected to be quicker as the National Co-operative Development and Warehousing Board has started functioning and the preliminary difficulties and problems encountered by the States are gradually being solved. Some State Governments have already contributed to the share capital of co-operative credit and marketing institutions. In this connexion, it may be mentioned that the Reserve Bank of India is actively assisting the State Governments in the execution of the schemes by tendering suitable advice from time to time on various matters connected with the programmes of development. The Bank has also prepared and circulated the model bye-laws for the use of large-sized credit societies and central banks.

Pilot Projects

7. In pursuance of the decision taken at the first conference of State Ministers for Co-operation held in Delhi in April 1955, Pilot schemes were formulated by some of the States notably Bombay, Andhra, Madras, Uttar Pradesh and Orissa. In Bombay, three districts, viz., Broach, Dharwar and East Khandesh were chosen as areas for pilot projects. In Andhra, in three districts, viz., Visakhapatnam, West Godavari and

Kurnool, three compact and self-contained areas of representative character from the point of view of soil conditions, irrigation sources, spread of the co-operative movement, human resources, etc., were selected for the purpose of intensive development. In Madras, pilot schemes for implementation in two taluks each were started in six districts. In Uttar Pradesh, a project was launched at Nauranga in Kanpur District by the Planning, Research and Action Institute of the State. Both the Ministry of Agriculture, Government of India, and the Reserve Bank had sanctioned the necessary funds for the implementation of the schemes. Though the schemes could not make much headway during 1955-6, some large-sized societies and rural banks were set up and thus a measure of intensive development was initiated in these areas. The schemes were subsequently merged in the programme for 1956-7, and made greater progress. By the end of October 1956, in Andhra, in the three 'pilot' areas as many as 88 large-sized societies were established. The membership and share capital of these societies increased from 33,444 and Rs 5·83 lakhs, before the introduction of the pilot scheme to 63,122 and Rs 15·02 lakhs respectively as on 31 October 1956. In Madras, the proposal was to organise two large-sized societies in each district; 8 such societies were established by the end of November 1956. In Bombay, good progress in the implementation of pilot schemes in the three selected districts is reported to have been made. Information is being obtained regarding these areas. Under the pilot project at Nauranga in Uttar Pradesh, one large-sized agricultural credit society for about 20 villages has been set up by amalgamating 20 small societies in the area. The membership and share capital of the society rose from 983 and Rs 11,980 at the time of amalgamation to 1,092 and Rs 14,263 as on 10 August 1956. A primary marketing society has been organized in the same place, and serves the area covered by the large-sized society as well as some more villages around it; a link has been established between credit and marketing by arranging for collaboration between the two societies.

Programmes for 1957-8

8. In December 1956 discussions were held between the officers of the Planning Commission, the Ministry of

Agriculture, Government of India, and the Reserve Bank with regard to the lines on which the schemes for co-operative development for 1957-8 might be drawn in the context of the higher target set for agricultural production than was originally fixed in the Second Five Year Plan. Some of the main conclusions reached during the discussions were as follows:

(1) Agricultural credit societies in the country should try to achieve a loan target of Rs 80 crores during 1957-8. Refinancing by the Reserve Bank in relation to this target, may be expected to be of the order of Rs 50 crores. The State Governments might be advised to work out credit targets for their areas on this basis.

(2) Government would supply Rs 40 to 45 crores to the agriculturists in the form of *taccavi* during 1957-8.

(3) Government would not issue *taccavi* in areas which are served by co-operative societies except in the form of medium-term and long-term loans for land improvement.

9. Another important issue discussed at these meetings related to co-operative organization below the district level. The main points that came up for consideration were:

(1) What safeguards should in practice be provided for ensuring that no viable small-sized society is, against the wishes of its members, merged into a large-sized society?

(2) Since the coverage of the large-sized societies to be set up during the period of the Second Five Year Plan was expected to be rather limited, what steps could be taken for activating and vitalizing existing small societies? In this connexion, what additional provision for supervisory personnel may be made in the plans for strengthening small-sized societies existing, as well as new?

10. After detailed discussions, it was agreed that there should be no rigid approach to the question whether large-sized or small-sized co-operative credit societies would be more appropriate in the context of plans for larger agricultural production. The answer would depend on which type of society more effectively meets the requirements in practice. Further, no one solution could fit different parts of the country or even different areas of the same State. In pursuance of this approach, it was agreed that the immediate task should be

confined to the year 1957-8 and that there should be an yearly review of the working of the programme. It was also agreed that in making proposals for the establishment of large-sized societies, the following considerations should be kept in view:

(1) Account should be taken of the targets already formulated for the years 1956-7 and 1957-8.

(2) In locating the societies, preference should be given to areas where the establishment of a large-sized society will result in a marked improvement over the present position.

(3) No small-sized society should be merged into a large-sized society unless there is a resolution by the general body in favour of the merger and the Registrar of the State gives specific approval to the merger.

(4) Where the large-sized society covers two or more villages, effective links should be provided between the management of the society and the members belonging to the villages constituting the large-sized society.

In making proposals for strengthening and re-vitalizing existing small societies and setting up new societies, the following considerations should be borne in mind:

(1) Maximum efforts should be made to extend the membership of the society, increase its volume of business and integrate programmes of increased agricultural production.

(2) Adequate provision should be made for additional supervisory staff.

(3) Special facilities should be provided for the training of the office-bearers and staff of the society.

(4) In regard to individual small societies, the aim should be that over a period of three years the society should augment its membership and increase its transactions with a view to placing itself on a sound financial basis. It is estimated that a society having a volume of business of about Rs 20,000 to Rs 25,000 a year and earning a gross income of about Rs 400 to Rs 500 per annum should be able to pay its way.

(5) The question whether for selected small societies for a temporary period a limited subsidy towards working expenses should be given should be considered.

For supervisory unions of primary co-operative societies subsidy towards working expenses may be made available on the same basis as for large-sized credit societies.

11. The Planning Commission decided that the programmes for 1957-8 under the Second Five Year Plan in each State should be drawn up with reference to the estimated resources of the Centre and the State. For this purpose an Adviser of the Planning Commission accompanied by officers from the Planning Commission and the various Ministries of the Government of India visited each State to discuss and finalize the proposals with the State authorities. The programmes as agreed to in these discussions will be taken up in 1957-8. Officers of the Agricultural Credit Department participated in the discussions on programmes of co-operative development and assisted the Adviser, Planning Commission, and the State's representatives in drawing up the programmes of co-operative development for 1957-8.

12. A study of the proposals drawn up at these meetings shows that an outlay of approximately Rs 8·81 crores is likely to be made in the year as against the total outlay of Rs 40·48 crores (excluding Centrally Administered areas) expected to be made during the Plan period (1956-61). This, however, is exclusive of Rs 6·78 crores expected to be received by the States from the Reserve Bank during 1957-8 for contribution to the share capital of co-operative credit institutions. The credit target for short and medium-term loans to be advanced by co-operatives for the country as a whole works out to nearly Rs 90 crores for 1957-8. The plans envisage the setting up of nearly 3,025 large-sized credit societies as against 10,400 societies to be set up during the plan period. This exceeds even the target of 2,684 societies fixed at the second conference of State Ministers for Co-operation held in Mussoorie in July 1956, largely because of the slow progress made in regard to the organization of such societies in 1956-7. Apart from this, a number of small-sized societies would also be set up whereever necessary and existing societies reorganized and re-vitalized with State assistance, by way of subsidies towards their working expenses. Central assistance for this purpose would be on the same pattern as in the case of subsidies to other societies. A Circular to this effect has been issued by the Ministry of Agriculture. In the field of marketing, nearly 530 primary marketing societies are expected to be organized. A number of

States, e.g., Punjab, Rajasthan, Uttar Pradesh, propose to establish central land mortgage banks during 1957-8. The additional expenditure on departmental staff provided for under the Plan for 1957-8 comes to about Rs 115·53 lakhs. An expenditure of Rs 49·85 lakhs is expected to be incurred by the States during the year on training and education. None of the States could set up a State Warehousing Corporation during 1956-7. During 1957-8, however, most of them expect to set up such Corporations.

Loans from the National Agricultural Credit (Long-term Operations) Fund

13. During 1957-8 the States are expected to borrow from the National Agricultural Credit (Long-term Operations) Fund to the extent of about Rs 6·78 crores for taking shares in various co-operative credit institutions, as follows:

	(Rs in lakhs)
Large-sized societies	292·45
Central banks	247·90
Apex banks	104·00
Land mortgage banks	33·50
	677·85

It may be noted that the figures given in this Note about physical and financial targets are tentative.

NOTE NINE

MAINTENANCE OF THE MINIMUM WEEKLY AVERAGE OF THE DAILY BALANCES WITH THE RESERVE BANK

UNDER the Reserve Bank's scheme of Remittance Facilities as applied to the co-operative movement, it was laid down in 1941 that a state co-operative bank desiring to avail itself of the facilities, would have to agree, among others, to the following conditions:

(1) It should undertake to maintain with the Reserve Bank a balance, the amount of which shall not, at the close of business on any day, be less than 2 1/2 per cent of its demand liabilities and 1 per cent of its time liabilities as shown by the return referred to in (2) below.

(2) It should send to the Reserve Bank at the close of business on each Friday, or if Friday is a public holiday under the Negotiable Instruments Act, at the close of business on the preceding working day, a return of its position in the form prescribed in section 42(2) of the Reserve Bank of India Act and signed by two of its responsible officers; such return shall be sent not later than two working days after the date to which it relates.

(3) If at the close of business on any day before the day fixed for the next return, the balance held at the bank by any state co-operative bank falls below the minimum indicated in (1) above, the state co-operative bank should pay to the Reserve Bank in respect of each such day penal interest at a rate 3 per cent above the Bank Rate (with a minimum of Rs 10) on the amount by which the balance with the Reserve Bank falls short of the required minimum and if on the day fixed for the next return such balance is still below the prescribed minimum as disclosed by the return, the rate of penal interest shall be increased to a rate 5 per cent above the Bank Rate in respect of that day and each subsequent day for which the default continues. If any state co-operative bank,

however, wilfully defaults in the maintenance of the minimum balances for periods exceeding two weeks or fails to send the return referred to in (2) above, the remittance facilities would be withdrawn from the bank concerned.

Similar conditions were also prescribed by us subsequently in respect of state co-operative banks which intended to avail of the accommodation from the Reserve Bank, for seasonal agricultural operations and marketing of crops.

2. Although the penalty prescribed for a state co-operative bank for its failure to maintain with the Reserve Bank the minimum balances (vide item (3) above) is almost similar to that prescribed for scheduled banks, in terms of section 42(3) of the Reserve Bank of India Act, a slight differentiation was introduced in the case of state co-operative banks in that a minimum penal interest of Rs 10 was fixed for them, whereas for scheduled banks there was no such minimum and they were required to pay only the actual amount of interest. This differentiation was introduced perhaps in order to impress on the co-operative banks the necessity of avoiding habitual defaults especially as they were required to keep the minimum deposit at only half the level prescribed for scheduled banks. Further, the resources of co-operative banks being smaller as compared to those of the scheduled banks, the actual penal interest might work out to a small amount at times which would not be a sufficient deterrent to frequent defaulters.

3. One of the changes introduced by the recent amendment to the Reserve Bank of India Act 1934 (by section 5 of the Reserve Bank of India (Amendment) Act 1956) is that the minimum balance required to be kept by a scheduled bank, which was hitherto the minimum for each day, will hereafter be the average of the daily balances kept during the whole week. In other words, whereas prior to the amending Act the deficiency in the minimum balance was calculated by comparing the balance maintained by a bank at the close of business every day with the minimum required, after the amendment, the deficiency will have to be calculated on the basis of the average of the balances maintained at the close of business on each day of the week, from Saturday to Friday.

The new procedure will no doubt be beneficial to the banks in that if the balance maintained is less than the statutory minimum on one or more days, the deficiency can be made up by means of excess balances on certain other days during that week, as, so long as a bank maintains the average balance, it will not be deemed to have defaulted in the maintenance of the required minimum. But even then if a bank fails to cover up and defaults in maintaining the required minimum average balance, in terms of the amending Act, it will now be deemed to have defaulted for the whole week and penal interest would thus be payable for all the seven days in the week.

4. As it is natural that the state co-operative banks also should fall in line with these amendments, the provisions thereof were made applicable to them and a circular to the effect was accordingly addressed by the Agricultural Credit Department to the Registrars of Co-operative Societies of different States. But while doing so it was felt that it would be too burdensome for state co-operative banks if, hereafter, the provision of daily minimum penalty of Rs 10 was retained as in that event, in case of a default, the minimum penalty which a state co-operative bank will have to be called upon to pay would be Rs 70. It has, therefore, been indicated that the minimum penal interest to be charged will be Rs 10 per week and a circular, to this effect, has been issued to all Registrars of Co-operative Societies.

NOTE TEN

CENTRAL CO-OPERATIVE BANKS ACTING AS AGENTS OF CENTRAL LAND MORTGAGE BANKS IN AREAS WHERE PRIMARY LAND MORTGAGE BANKS HAVE NOT BEEN ORGANIZED

THE All-India Rural Credit Survey Committee had recommended that in those States where the machinery for dealing with long-term credit at the district level was yet to be developed, that is to say, until such time as a primary land mortgage bank could be established in a particular area in a State, the lines of organization of long-term credit would have to be as follows:

"The central land mortgage bank should, in the first instance, operate in the district through a 'section' of the central co-operative bank or the branch of the state co-operative bank, the transactions being kept entirely distinct and the section functioning as an agent of the central land mortgage bank for the disbursement of long-term loans to individual agriculturist borrowers, all of whom will have to be direct members of the central land mortgage bank. This should, however, be treated as a transitional arrangement. When the long-term loans are sufficiently numerous and the size of business, actual and potential, represents the minimum necessary for the economic working of a separate branch, the section may be converted into a branch of the central land mortgage bank. It is of the utmost importance to ensure co-ordination at this level also between the short-term and long-term credit structures. Thus, the branch should continue to be located in the same building as the central bank. The third and final stage would come when, in course of time, the business expands much farther and groups of borrowers are prepared to form primary land mortgage banks. The branch of the central land mortgage bank could then, if appropriate, be converted into a primary land mortgage bank. Nevertheless, it would continue to be situated in the same building and remain co-ordinated in its working with the central co-operative bank."

Thus, the Rural Credit Survey Committee recommended the following three stages of development for the long-term credit structure at the district level:

(1) The central land mortgage bank should operate in the district through a central co-operative bank or a branch of the state co-operative bank, the latter working as its agent. The borrowers would be the members of the central land mortgage bank.

(2) When long-term loans are sufficiently numerous the arrangement with the central co-operative bank will be discontinued, and substituted by a branch of the central land mortgage bank.

(3) When the long-term loan business is enough to make the working of a primary land mortgage bank economic, a primary land mortgage bank will be established.

2. In October 1955 the Agricultural Credit Department communicated to the Registrar of Co-operative Societies, Assam, certain observations for the guidance of the Assam Co-operative Central Land Mortgage Bank which was being organized at that time. One of the observations related to a suggestion for the utilization of central co-operative banks as agents of the central land mortgage bank at the district level where a primary land mortgage bank was yet to be organized. In this connexion, a copy of the form of agreement giving the terms and conditions of agency business undertaken by the central co-operative banks in Bombay State on behalf of the Bombay Provincial Co-operative Land Mortgage Bank was forwarded. In September 1956, the Managing Director of the Assam Co-operative Central Land Mortgage Bank informed the Agricultural Credit Department that his Administrative Council generally approved of the proposal for the functioning of the central land mortgage bank at the district level through separate sections of the central co-operative banks and branches of the Assam Co-operative Apex Bank till such time as separate primary land mortgage banks were organized. The Council was, however, unable to

make a correct appreciation of the relationship between the sections referred to above as agents and the central land mortgage bank as the principal and thought that some clarification was necessary in regard to the terms and conditions of agency business to be undertaken by the central banks and the apex bank on behalf of the central land mortgage bank. The Council was of the opinion that if the central banks and the apex bank were to act as agents of the central land mortgage bank in the matter of issuing loans to its direct members, the sections of the central banks and the branches of the apex bank acting as agents should be provided with funds for disbursement of loans as and when sanctioned. In view of this, the question of their borrowing money from the central land mortgage bank or of setting aside a sum of Rs 6,000 (or more when the volume of business increases) as guarantee for money advanced to them as is provided in the agreement between the Bombay Provincial Co-operative Land Mortgage Bank and the central banks in that State which act as its agents, should not arise. Further, the ultimate responsibility for the recovery of loans should rest with the central land mortgage banks inasmuch as the principal was liable for all acts done by its agents.

3. It would, therefore, be relevant to examine the nature of the relationship between the Bombay Provincial Co-operative Land Mortgage Bank and the central co-operative banks as governed by the agreement between them and to examine the agreement with reference to the Co-operative Societies Act, Rules and the bye-laws of the central banks. Under the terms and conditions of the agreement, the central co-operative banks are required to borrow from the Provincial Co-operative Land Mortgage Bank all the funds required for making long-term loans and it is their duty to recover punctually from individual borrowers the instalments of the loans and pay the same to the Provincial Bank. In the event of default on the part of the central co-operative banks it is competent to the Provincial Bank to recover the defaulted instalments from their guarantee fund required to be maintained by them in that behalf. Further, the terms and conditions of the agency provide that the central co-operative bank working as agent of the Provincial Co-operative Land Mortgage Bank for land

mortgage business shall open a separate department for the purpose and that the funds, accounts, balance sheet, etc., of the department shall be kept separately and not mixed with the short-term loan business of that bank.

4. It would appear that under their bye-laws, some of the *central co-operative banks working as agents of the Bombay* Provincial Co-operative Land Mortgage Bank are treating the land mortgage department as an independent entity within the bank with separate assets and liabilities and separate membership and that even the profits of that department are disbursed only among the members of that section. The members of the central co-operative bank have a share in the profits of the department only after deduction has been made for the reserve fund of that department and dividend paid to the members of that department. The question whether this position is consistent with the Bombay Co-operative Societies Act, may have to be examined, for although the land mortgage department may be treated as a separate unit for administrative purposes, it cannot become a separate entity legally, even though the bye-laws of the concerned central co-operative banks may contain provisions to that effect. To the extent to which the bye-laws tend to make the department an independent unit legally, they appear to be inconsistent with the Co-operative Societies Act which recognizes a society as one corporate unit with common assets and liabilities and not separate assets and liabilities for the different departments of the society. Similarly, the profits of the society are common to all members and it seems to be inconsistent with the Co-operative Societies Act to declare a dividend separately for one class of members.

5. Since there appear to be some doubts regarding the legal aspects of the arrangements existing between the Bombay Provincial Co-operative Land Mortgage Bank and the central banks acting as its agents, it does not seem to be appropriate to suggest that arrangement as a model to be followed in other States. Further, it would appear that the arrangement under which central co-operative banks are to act as agents of the central land mortgage bank may create some adminis-

trative problems and may therefore have to be rejected in favour of the two alternative arrangements recommended by the Rural Credit Survey Report.

6. In order to retain the character of an agent, the central co-operative bank will have to collect loan applications, membership fees, etc., and pass on the share capital collected to the central land mortgage bank which will issue shares to the borrowers. The loan applications will be scrutinized and recommended by the central co-operative bank on the strength of which sanction will be accorded by the central land mortgage bank. The deeds etc., will be registered in favour of the central land mortgage bank and when the loan amount is received, the central co-operative bank will pass it on to the borrowers. The central co-operative bank will also pass on the recoveries of loans to the central land mortgage bank. In other words, the central bank will serve more or less as a remitting house for the central land mortgage bank. For these services the central co-operative bank may be given a commission at an agreed rate and in the manner to be decided in that behalf. This arrangement will thus throw the entire responsibility for the recovery of loans on the central land mortgage bank, it being doubtful whether the prospect of commission, by itself, will be a sufficient incentive for active and responsible work and this appears to be its greatest handicap. If the central co-operative bank does not show enough watchfulness, and it is possible it may not, the central land mortgage bank will have to suffer in the process. The agency arrangement may not thus be conducive to promptness in recovery which is so essential for the soundness and successful working of the central land mortgage bank and of co-operative land mortgage credit as a whole.

7. In view of what has been said about the arrangements prevailing in Bombay and in view also of the administrative difficulties inherent in an agency arrangement, the Standing Advisory Committee may consider whether it may not be appropriate to recommend that wherever it is not possible to organize an independent primary land mortgage bank, the best arrangement will be for the central land mortgage bank

to open its own branches with separate staff including the technical staff necessary for land valuation etc., in the first instance instead of as a second stage in the development of co-operative land mortgage bank credit as suggested by the All-India Rural Credit Survey Committee. The branch of the central land mortgage bank may be located in the same building as the central co-operative bank or the branch of the state co-operative bank and thus the additional cost involved in opening branches may be minimized.

NOTE ELEVEN

Collection on a uniform basis of data concerning co-operative societies by Co-operative Departments

A NOTE regarding the revision of the forms for the *Statistical Statements relating to the Co-operative Movement in India* had been placed before the Standing Advisory Committee at its fifth meeting held in January 1956. The Committee examined the forms and agreed to the proposal to revise them but suggested that their scope should be further amplified to include information required in connexion with schemes approved under the Second Five Year Plan, the Long-term Operations Fund, the Stabilization Fund, marketing societies, processing societies, etc. Having this in mind, the Committee suggested that the Sub-Committee appointed by it to scrutinize the forms of the purpose-wise loan ledgers might also finalize the forms of the *Statistical Statements.* Thereafter, the States could be requested to furnish particulars in the revised forms. The Sub-Committee has since finalized the forms and its report is ready.

2. Apart from the collection of data for the annual *Statistical Statements* published by the Reserve Bank, it is understood from the Registrar of Co-operative Societies, Bombay State, that the co-operative departments will require other statistical data, on a uniform basis, relating to the working and financial position of different types of co-operative societies, for the day-to-day problems of administration concerning such organizations. With a view to facilitating the collection, scrutiny and compilation of such statistical data as also of the data required by the Reserve Bank in connexion with its *Statistical Statements,* the Registrar of Co-operative Societies, Bombay State, has suggested that it may be necessary to organize strong statistical sections within the co-operative departments of the various States. The Registrar has also suggested that the Reserve Bank may consider the appointment of a committee

to go into this question and make suitable recommendations in view of the importance of the role that has been assigned to co-operative organizations under the Second Five Year Plan.

3. The Standing Advisory Committee is, therefore, requested to consider the appointment of an *ad hoc* Committee to examine the Bombay Registrar's suggestion in its different aspects. The Committee will examine (1) the nature of the data required by the co-operative department in each State, apart from those which they will collect for the Reserve Bank in the revised forms for the *Statistical Statements* and (2) the existing staff for this purpose and arrangements for the collection of statistical data in each State and make suitable recommendations in regard to the type of data that might be collected on a uniform basis and the strength of the additional staff that would be required to collect these data. Their report in this regard may be placed at the next meeting of the Standing Advisory Committee.

NOTE TWELVE

The Co-operative Movement and Rural Savings

One of the most important objectives which the co-operative movement set before itself from the time of its inception in 1904 in this country has been the mobilization of rural savings. However, this objective has remained largely unfulfilled. What the Maclagan Committee said in 1915 is still true today. That Committee said: " . . . in few things is the finance of Co-operation in India so markedly distinguished from that of Western Europe as in the small proportion of deposits held by primary societies. In Germany, more than 87 per cent of the working capital of the Raiffeisen societies consists of deposits, while in India the corresponding percentage is 18 only." The percentage of the deposits of primary agricultural credit societies to their total working capital was only 8·6 in 1954-5. The large majority of primary agricultural credit societies have failed to mobilize savings to any appreciable extent. They have to depend for their funds on their central financing agencies.

Attention to this aspect, namely, the lack of the element of thrift in the co-operative movement has been invited by almost all the committees which have had occasion to deal with Co-operation. It is also one which has engaged the constant attention of the Reserve Bank. The Bank has emphasized, from time to time, that the failure of the Movement to promote thrift has been one of its unhappy features and that efforts should be made by co-operative organizations to mobilize savings.

The 'model' bye-laws of co-operative societies have laid emphasis on the fact that the promotion of thrift is one of the most important objects of a co-operative society. For instance, the model bye-laws of primary co-operative credit societies in the Madras State provide for the societies collecting fixed deposits, recurring deposits, savings deposits and homesafe deposits. Provision is also made for the societies to set up *chit* funds. To take another instance, the model bye-laws of primary credit societies in Madhya Pradesh expect the societies to collect savings deposits and fixed deposits.

While in general no concerted attempts have been made by co-operatives to mobilize savings, in some States there have been noteworthy efforts in this direction. In the Madras State, for instance, a ' rural savings drive ' was launched by central banks in October 1951 under official auspices, but with the full support of non-official co-operators. The drive concluded on 31 December 1951 with a collection of a little over Rs 1 crore against a target of Rs 2 crores. Under the scheme, each central bank was expected to collect fixed deposits (for one year) with the help of its staff and the *panchayatdars* of every co-operative society within its jurisdiction. A special rate of 3 per cent was offered on these deposits. Central banks instituted silver cups and shields to be given as trophies to societies which collected the largest amount of fixed deposits. The ' drive ' has not been repeated. Apparently, conditions are not favourable for such repetition; there may be difficulties in the way, chief among them being the strain put on the staff and the neglect of other work.

In Madras again, the machinery of the central banks has been utilized on some recent occasions in connexion with the floatation of debentures of the Madras Co-operative Central Land Mortgage Bank. In 1950 an appeal was made by the Co-operative Department to the central banks in the State requesting them to underwrite the 45th series of debentures for Rs 40 lakhs to be issued by the Madras Co-operative Central Land Mortgage Bank. The central banks were requested to collect subscriptions for the debentures from the rural population and the general public, and make up the shortfall with the uninvested reserves of affiliated co-operative societies and their own surplus funds. It was reported that the appeal brought forth a very generous response; 19 central banks underwrote the issue to the extent of Rs 34·70 lakhs. The Central Land Mortgage Bank accepted the underwriting agreements of the 19 central banks to the tune of Rs 32 lakhs. The debentures were over-subscribed.

A similar appeal was issued in April 1951 to the central banks to come to the aid of the Central Land Mortgage Bank in connexion with the issue of its 46th series of debentures for Rs 30 lakhs. The banks were requested to collect funds from whatever private sources were available and to make up the deficit by contributions from their own funds. The response was again very encouraging; 20 central banks underwrote the issue to the extent of Rs 26·50 lakhs. It may be noted that all the central banks which underwrote the 45th and 46th series of debentures obtained a commission of Re 0-6-0 per cent for underwriting and a brokerage fee of Re 0-2-0 per cent.

Apart from such sporadic organized attempts to mobilize rural savings, there have been individual instances of co-operative societies, which have a creditable record in this sphere. An instance is provided by the Alamuru Rural Co-operative Bank in the Andhra State. This bank has attracted the savings of members by various means.

The latest Committee to consider the question of rural savings is the All-India Rural Credit Survey Committee. The observations of this Committee on this question are of special significance because the Committee was able to consider the question against the background of the detailed investigations of the Survey into the existing position of rural savings in the country. The Committee has pointed out some important considerations to be kept in view while considering the question of mobilization of rural savings. It has stressed in this context the importance of recognizing that:

(1) The need to make rural savings *possible* (e.g. by economic development and credit extension of the types recommended by the Committee) is much more important than to render rural savings *available* (by 'mobilization' of different kinds);

(2) To the extent they exist, rural savings are most likely to be rendered available where most seen to be used for rural needs; and

(3) Rural savings fall so short of rural needs, that they must be supplemented from, not diverted to, urban areas.

The Committee also suggested four specific ways in which the primary credit society, the central co-operative bank, the central land mortgage bank, and the marketing, processing and other societies, should be able not only to mobilize savings, but to do so on a much larger scale than hitherto. These four ways may be referred to briefly:

(*1*) *Mutual help chit funds*
The *chit* fund would be operated by primary credit societies. It would be open to members and non-members. A third of the periodical contributions would be earmarked as fixed deposits.

(*2*) *Retirement of Government capital*
For each state-partnered co-operative institution, there would be an initial minimum level of share capital to be gradually raised to an optimum level. Until the latter is reached, there would be a compulsory increase in the shares of members, in some relation to their borrowings, together with Government contribution. After the optimum level is reached, there would be a compulsory contribution of share capital by members alone (1) until the whole of Government's share is retired, where primary societies are concerned, and (2) until Government's share, if it stood at more than 51 per cent, is reduced to 51 per cent where societies above the primary level are concerned.

(*3*) *Co-operative activity connected with production*
For marketing and processing societies also, the Committee envisaged minimum and optimum levels of share capital and compulsory contributions from members, as in the case of credit societies. The Committee indicated that the scale of compulsory contributions to share capital in these societies might be a percentage of the turnover of the transactions made through the society by a member or, alternatively, a percentage of the accommodation he may have previously obtained in the form of a loan from a connected credit society.

(*4*) *Co-operative debentures*
The Committee was of the view that co-operative debentures held out prospects of attracting rural savings in an appreciable measure. It suggested in this connexion the creation of a new type of land mortgage bank debentures, viz., one intended for rural areas. These ' rural debentures ' would, as far as possible

be for specific projects of development in which the villager is closely interested. They should be issued at the time of harvest and sale of crop and should suit the needs of the rural investor.

Reference may also be made to a note recently prepared by Shri A. H. B. Tyabji of the Government of India, containing a scheme for the mobilization of rural savings by co-operative societies. The main suggestions given in this note are:

(*i*) Selected primary co-operative societies should be assisted to organize savings groups, consisting of members and non-members.

(*ii*) Rules should be framed to ensure that not more than 25 per cent of the savings collected by each society is invested in its business. The balance of 75 per cent should be invested under one of the National Savings Schemes or in Government Promissory Notes or in debentures of land mortgage banks.

(*iii*) The Government should guarantee 87 1/2 per cent of the savings — 75 per cent invested under the National Savings Schemes and half of the amount invested in the business of the society.

(*iv*) The usual commission allowed to agents under the National Savings Scheme is 1 1/4 per cent. This should be given to the society on its investments.

(*v*) The society should allow simple interest at a fixed rate, say 3 per cent, retaining for itself a small percentage to cover the cost of collection so that in due course it need not depend on Government subsidy.

(*vi*) The depositor will be allowed to draw a part of his total deposits after 12 months and to take a loan against his remaining deposit.

(*vii*) In each village, an *ad hoc* Committee will be organized to assist the collecting agent.

It was suggested that the scheme might be introduced in one co-operative society (covering an area of about 20 to 30 villages and a population of 35,000) in 100 selected areas. In selecting the areas, preference would be given to National Extension Service and Community Development Blocks. Government, in addition to the provision of guarantee, should give one cycle to each society and a contribution of Rs 25 per month for employing a collecting agent. The agent would be paid a fixed salary and a commission.

On a preliminary study of these suggestions, some of the points which arise for consideration relate to (*i*) the exact manner in which Government guarantee would operate and the implications of such guarantee; (*ii*) the role of the State Governments and the Central Government in providing the guarantee; (*iii*) the desirability or otherwise of the stipulation that only 25 per cent of the collections can be invested in the business of the society; (*iv*) the machinery for implementing the scheme; (*v*) arrangements for supervision.

Another point which may be raised in connexion with the proposals contained in the Note and also in connexion, generally, with all schemes for mobilizing rural savings, is that relating to the need for enlisting the sympathy and wholehearted support of non-officials, including non-official co-operators. Attention may also be invited to another point. This is regarding the proposal made in the scheme that after utilizing 25 per cent of the collections in the business of the society, the balance of 75 per cent should be invested under one of the National Savings Schemes etc. The question may be raised as to why a particular percentage should be invested in National Savings Certificates etc. This raises a much larger issue, viz., the role of co-operative banks and societies in Government schemes for mobilizing savings (e.g. sale of National Savings Certificates etc.).

2. The Standing Advisory Committee may consider the question of the role of the co-operative movement in the mobilization of rural savings to which a brief reference has been made in this note and give its advice in the matter. Some of the points requiring consideration are:

(*i*) Whether any new practicable suggestions can be made for mobilizing rural savings, e.g., floatation of relatively short-term debentures at harvest time, or floatation of 'rural debentures' of the type recommended by the All-India Rural Credit Survey Committee.

(*ii*) Whether any special staff is needed in the co-operative banks and societies, or perhaps in the co-operative departments of various States, for carrying out schemes for mobilizing savings.

(*iii*) Role of co-operative organizations in Government schemes for mobilizing savings.

(*iv*) Ways of enlisting the support of non-officials in rural savings drives to be undertaken by co-operative organizations.

PROCEEDINGS

The following members and invitees were present:

Shri K. G. Ambegaokar, Governor, Reserve Bank of India (*Chairman*)
Shri B. Venkatappiah, Deputy Governor, Reserve Bank of India (*Vice-Chairman*)
Prof. D. G. Karve (*Member*)
Shri J. C. Ryan (*Member-Secretary*)
Shri V. L. Mehta
Shri R. G. Saraiya
Shri G. Parameswaran Pillai
Shri B. P. Patel, I.C.S.
Shri M. P. Bhargava
Shri K. Subrahmanyam Nayudu, I.A.S.
Shri F. N. Rana, I.A.S.
Shri G. Jagatpati, I.A.S.

Shri Tarlok Singh wrote regretting his inability to attend. In place of another member who was absent, viz., Shri Krishan Chand, the Ministry of Agriculture deputed Shri M. P. Bhargava to attend the meeting.

The following officers of the Reserve Bank also attended the meeting:

Dr B. K. Madan
Shri T. K. Ramasubramaniam
Shri N. D. Nangia
Shri B. N. Mehta
Shri T. Satyanarayana Rao
Shri M. S. Menon
Shri V. M. Jakhade
Shri K. R. Gopalaiengar
Dr C. D. Datey
Shri K. Madhava Das
Shri C. Gopalakrishna Murthy

2. The Chairman said that he had great pleasure in welcoming the members and invitees who had come to attend

the meeting. He recalled those years in the thirties when he was Officer-in-Charge of the Reserve Bank's Agricultural Credit Department. During those early days, it was usual for it to be said at conferences and meetings that the Reserve Bank's activities in the sphere of rural credit fell short of the expectations roused and entertained. One might say in retrospect that there was, at the time, little appreciation, on the part of co-operators, of the point of view of the Reserve Bank, which had just come into the picture and of its earnestness to help the co-operative movement. The position had since changed radically. The place of Co-operation in the development plans of the country had been fully recognized. It was also recognized that the Reserve Bank had a crucial role to play in the sphere of Rural Credit and Co-operation. The Chairman emphasized that the credit for this change in the atmosphere must to a large extent be attributed to his predecessor, Shri B. Rama Rau, and the steps initiated by him following the Informal Conference and the Rural Credit Survey, which formed a milestone in rural credit in India. It was in keeping with these developments that the Standing Advisory Committee on Agricultural Credit was set up by the Reserve Bank in 1951 so that it might have the benefit of the advice and association of persons who had experience and knowledge on the subject. The Committee had been reconstituted recently on the lines recommended by the All-India Rural Credit Survey Report. Even though, for formal purposes, the Committee was a small one, yet there was provision for persons being co-opted on the Committee for a period of time or for the purpose of a particular meeting. It would thus be possible for the Committee to associate with its deliberations persons who were experts in the different spheres of Rural Credit and Co-operation and also persons who were associated with the co-operatives in different parts of the country. He had no doubt that the Committee would deal with the various questions referred to it with vision and understanding.

The Chairman next referred to certain items put down for discussion on the Agenda and made some preliminary observations. Referring to the question of the rate of interest, he emphasized that it had to be considered in a realistic manner, i.e., against the background of the fact that there has been a general increase in interest rates in the country. While the Reserve Bank was lending to state co-operative banks at a concessional rate, the funds were reaching the agriculturist at a relatively high rate. This indicated the need for readjustment of attitudes in this matter. As regards the question of debentures of central land mortgage banks, the Chairman stated that the banks should work in such a manner that they would be in a position to make an effective approach to the money market. They should not lean too much on special sources for their long-term funds.

Turning to the subject of prices, the Chairman said that while the problem was one of importance affecting the general economic policy of the country, it had also to be considered in the light of the co-operative development programmes which were on the anvil. A large volume of cheap credit was expected to be made available through co-operatives, in addition to direct loans by Government. While the expansion of rural credit was fully justified by the programme of increased agricultural production which it was intended to promote, it would at the same time be necessary to ensure, through appropriate measures, that any inflationary effects arising from it were minimized. Such measures would have to be taken without in any manner jeopardising the development programmes of the co-operatives. In this connexion, it would be necessary to have adequate and prompt information regarding the flow and use of co-operative credit for the production and marketing of agricultural produce. Information would also be required regarding the progress of the various schemes of co-operative development under the Plan so as to be able to assess the progress and chalk out the future line of action.

The Chairman concluded his preliminary remarks by saying that on these issues as well as on the other items on the Agenda, he was sure that the Committee's advice would be of great value.

Shri Saraiya joined in the tribute paid to Shri B. Rama Rau, the previous Governor of the Reserve Bank.

3. The various items on the agenda were then taken up for discussion. The Chairman requested the members and invitees to give their observations on these items.

ITEM 1: REVIEW OF ACTION TAKEN ON CERTAIN ITEMS DISCUSSED OR CONCLUSIONS REACHED AT THE FIFTH MEETING OF THE STANDING ADVISORY COMMITTEE ON AGRICULTURAL CREDIT

Reorganization of apex co-operative institutions

Referring to the position in the Bombay State, Shri Rana stated that the principle of separating the central banks of the Karnatak districts of the erstwhile Bombay State, from the Bombay State Co-operative Bank, had been accepted, and action was proposed to be taken shortly. As regards the integration of the three apex banks in the State, he referred to the conference recently convened by the Government of Bombay under the presidentship of its Finance Minister, to consider the future pattern of the co-operative banking structure in the State. The Conference had declared that there should be one state co-operative bank for the Bombay State. The amalgamation of the three existing state co-operative banks should be brought about within three years.

Shri Ryan enquired as to why as long a period as three years was necessary. He sought information on the lines of action proposed to effect the reorganization contemplated.

Shri Rana explained that the Conference had taken all the relevant factors into account before suggesting that the reorganization should be completed within three years. He referred to the decision of the Conference to appoint a committee to speed up the fulfilment of the scheme. The Committee would go into all the relevant factors, including the revision of the constitution of the Bombay State Co-operative Bank.

Prof. Karve said that apart from the official committee referred to by Shri Rana, a corresponding committee had also been set up in the Bombay State Co-operative Bank to accelerate the pace of reorganization; the period of three years was in the nature of an outside limit. The phasing of the reorganization plan as a result of which there would eventually be one apex co-operative bank, was left to these Committees which might be expected to speed up the process as much as possible.

Giving an account of recent developments in Andhra Pradesh, Shri Subrahmanyam Nayudu stated that general agreement had been reached between the Bombay State Co-operative Bank and the Hyderabad State Co-operative Bank in respect of the Marathwada area. In respect of the Karnatak region, there were certain outstanding issues between the apex institutions of Mysore and those of the erstwhile Hyderabad State, but these had been recently settled; he was thankful for the assistance rendered by the Reserve Bank in bringing about the settlement. Referring to the guarantee executed by the erstwhile Government of Hyderabad in respect of loans from the Reserve Bank to institutions which were now situated in the Bombay State, Shri Nayudu hoped that the Government of Bombay would assume the necessary guarantee very soon. Another point which he wanted to stress, said Shri Nayudu, was with regard to the amount of Rs 5 lakhs payable by the Hyderabad State Co-operative Bank to the Bombay State Co-operative Bank as part of the net amount to be transferred to that institution. The understanding was that this amount would be transferred in the form of 'Nizam Government Securities'. But the Bombay State Co-operative Bank had now proposed that this amount should preferably be paid in cash. If this was not immediately possible, it was prepared to treat this amount as a short-term deposit with the Hyderabad State Co-operative Bank which, it was suggested, might repay this out of a loan taken from the Reserve Bank. Shri Nayudu said that he was not sure whether the Reserve Bank would be able to provide such a loan.

Shri Satyanarayana Rao explained that the recommendations of the Informal Conference regarding loans from the Reserve Bank were made in an entirely different context, viz., in a situation in which the transfer of all the assets and liabilities of affiliated societies in the transferor bank, as they stood on the "appointed day", resulted in the transferee bank having to assume a net liability to be discharged to the transferor bank, and would not apply to the case in question.

Shri Venkatappiah expressed the hope that it would be possible for the matter to be settled by discussions between the two state co-operative banks concerned.

Giving an account of developments in Kerala, Shri Parameswaran Pillai referred to the conversion of the Travancore Credit Bank into a central co-operative land mortgage bank for Kerala. The primary land mortgage banks in the Malabar District, which now formed part of Kerala, had been affiliated to the new central land mortgage bank. As regards the primary credit societies in the five talukas which now formed part of Madras, Shri Pillai stated that these societies had not affiliated themselves to any central bank pending a decision on the formation of a separate central bank for the Kanyakumari area.

Making a reference to developments in Madhya Pradesh Shri Jagatpati referred to the draft legislation for the amalgamation of apex co-operative institutions in the State. It was hoped that this would be finalized soon and the process of amalgamation completed within three or four months.

Co-operative finance and Government finance in Community Project Areas and National Extension Service Blocks

Shri Parameswaran Pillai said that the question of bringing about co-ordination between Government loans and co-operative loans presented itself in an acute form in Kerala. At present there was no co-ordination between the two and this gave rise to various difficulties to the co-operatives.

Shri Ryan referred to the decision taken at the discussions which he had with the Planning Commission and the Ministry of Agriculture, Government of India, that Government would not issue *taccavi* in areas which are served by co-operative societies and that firm decisions would be taken and implemented with regard to the spheres of co-operative finance and *taccavi* and co-ordination between the two.

Prof. Karve stated that the subject of co-ordination of Government loans with co-operative loans had been discussed on various occasions in the past. It had been recognized that if there was no co-ordination between the two, the expansion of co-operative credit was bound to be seriously retarded. Even though the policy declarations and the line of thinking of the Planning Commission undoubtedly recognized the need for co-ordination yet, at the administrative level, viz., at the level of the Block Development Officer, there was the natural anxiety to utilize *taccavi* in the context of the development programme on hand. To a large extent, the question of co-ordination depended upon the attitude of the administrative personnel.

Shri Jagatpati stated that in actual practice, it was difficult to demarcate the areas effectively served by co-operatives and those not so served. He agreed that the un-co-ordinated expansion of *taccavi* would have a retarding effect on co-operatives in view of the first charge that Government finance had on the assets of the borrower.

Shri Bhargava stated that the question of arriving at a firm and practicable policy in the matter of co-ordination between *taccavi* and co-operative loans would have to be further pursued in view of its undoubted importance.

Shri Subrahmanyam Nayudu stated that the important question of effecting co-ordination between *taccavi* and co-operative credit, had been engaging the attention of the Andhra Pradesh Government. This problem presented itself in a rather striking manner in certain development blocks where there was over-financing by the several credit agencies concerned, e.g., the Revenue Department, the National Extension Service and the co-operative credit agencies. As a result of discussions at an informal conference it was proposed to select six National Extension Service or Development Blocks where the performance of co-operative credit societies was satisfactory. Government would declare well in advance of the cultivation season that the only credit agency would be the co-operative agency. The Revenue Department and the block development agencies would not provide any loans in the selected Blocks. In other words, the entire responsibility for the provision of credit there would be undertaken by the co-operative agency. It was expected that the areas for the working of the scheme would be selected before the next cultivation season.

The Chairman observed that the scheme proposed to be undertaken by the Andhra Pradesh Government referred to by Shri Subrahmanyam Nayudu was a very interesting and useful development. It would be desirable to keep in touch with this scheme and bring it to the notice of other State Governments.

The conclusions on this item were that the question of devising effective means of co-ordination between co-operative credit and Government finance was extremely important and concrete measures should be worked out. In this context, the progress of the scheme proposed in

Andhra Pradesh might be watched and the Agricultural Credit Department might bring it to the notice of other State Governments.

Education of non-officials

Shri Rana referred to certain developments in the Bombay State in connexion with the scheme for the training of non-officials. He stressed the need for avoiding conflict and duplication between the All-India Co-operative Union and the Bombay Provincial Co-operative Institute in working the scheme.

Shri Bhargava explained that this position arose out of certain 'pilot' projects sponsored by the All-India Co-operative Union in a few centres in Saurashtra, where an effective state co-operative union did not exist.

Prof. Karve referred in this connexion to the recent discussions which he had with the General Secretary of the All-India Co-operative Union, as a result of which the position had been clarified. As Saurashtra had now merged with Bombay, the situation had changed. Even though the All-India Co-operative Union had still an interest in the project, it was made clear that the administrative, financial and directional responsibility will be with the Bombay Provincial Co-operative Institute.

The conclusion on this matter was that where there was a strong and effective state co-operative union or institute, it should invariably be utilized in connexion with schemes of member education.

Contribution to the share capital of co-operative credit agencies

Shri Saraiya mentioned that according to the Rural Credit Survey Committee's Report, the contribution to be provided by the State Governments to the share capital of co-operative credit institutions was to be treated as equity capital and not as loan capital. The practice now followed in Bombay, where Government insisted on a fixed return on the contribution was, therefore, inappropriate.

Referring to the position in Bombay, Shri Rana mentioned that the Government had not come to a final decision on the question of the manner in which it would participate in the share capital of co-operative credit institutions.

Shri V. L. Mehta pointed out that the question involved not merely accounting procedures, but certain legal issues also. In case Government contributions were going to be indirect, the responsibility of the partnering institution in the case of failure of the institution in which it took up shares, had to be settled.

Shri Subrahmanyam Nayudu said that the Government of Andhra Pradesh had taken up shares directly in central banks. So far as large-sized credit societies were concerned, the contribution was provided through the central banks in the sense that the disbursement was handled by them; but the shares were held by the State. The central banks were averse to the idea of State partnership through them. A final decision as to the exact pattern of State partnership at all levels had yet to be taken by Government.

Shri Ryan mentioned that the view taken by the Reserve Bank was that each State might decide the question whether State participation was going to be direct or indirect, in the light of local conditions. The question was, however, being studied by the Agricultural Credit Department in all its aspects.

Shri Patel expressed the view that State partnership should take the form of equity capital and not loan capital.

Shri Venkatappiah stated that the Reserve Bank's assistance was definitely in the form of loans to the State Governments to enable them to participate in the share capital of co-operative credit institutions. This had been made quite clear and specific. The State Governments were, of course, responsible for the repayment of, and the utilization of, the loan.

Prof. Karve, speaking with regard to the position in Bombay, said that even before the scheme of State participation in share capital recommended by the Rural Credit Survey Committee came into vogue, the Bombay Government had contributed to the share capital of the Bombay State Co-operative Bank and a few central banks, under certain terms and conditions. The position had now to be rationalized.

The meeting was of the view that the question of the appropriate method and terms and conditions of Government contribution to the share capital of co-operative credit institutions, where it was to be indirect, should be examined and suitable advice made available to the State Governments by the Agricultural Credit Department.

The National Co-operative Development and Warehousing Board

Shri Bhargava mentioned for the information of the members that the Central Warehousing Corporation would be set up very soon.[1] Shri Bhargava also referred to the fact that the National Co-operative Development and Warehousing Board had its first meeting in November 1956. The Executive Committee of the Board had so far met on four occasions. Loans amounting to about Rs 2·25 crores had been sanctioned for contribution to the share capital of marketing and processing societies and for strengthening the administrative staff. The drawals, however, had been rather slow. He mentioned in this connexion that the programme of godown construction could make only slow progress in view of difficulties in acquiring land etc.

Shri Jagatpati enquired whether the procedure for drawals had been finalized by the Board.

Shri Bhargava said that no rigid procedure would be followed. If the State Governments made the necessary provision in their budgets with regard to their part of the contributions, there will be no difficulty in drawing the amounts sanctioned by the Board.

Shri Subrahmanyam Nayudu stated that the difficulty arose not regarding the procedure for drawals, but as regards the State Governments finding their part of the necessary funds. Loans and subsidies from the Board were conditional on matching contributions from the State Governments. He mentioned in this connexion the difficulty which he encountered in getting funds for the marketing scheme for 1956-7 and for the limited godown programme in respect of the 'pilot' areas.

Shri Bhargava said that the position might be somewhat better with regard to the current year's programme (1957-8) because definite provision had been made for the year in respect of the funds to be contributed by the State Governments as loans and subsidies.

Shri Nayudu enquired whether there was any possibility of the Board granting loans and subsidies for the construction of godowns on an enhanced scale.

[1] The Central Warehousing Corporation was set up by the Government of India on 2 March 1957.

Shri Bhargava replied that this question had yet to be considered by the Board.

The Chairman observed that the State Governments would no doubt be alive to their responsibilities in the matter. If increased provision for a particular item (e.g. co-operative sugar factories) was necessary, they should provide for the same, if necessary, by making suitable adjustments in other items which they considered to be less important.

Prof. Karve stressed that it was important to ensure that in this process of adjustment, there should be no lop-sided development. The Reserve Bank and the Government of India (through the National Co-operative Development and Warehousing Board) would be in a position to exert their influence and obviate such lop-sided development.

Shri Satyanarayana Rao said that before sanctioning loans from the Long-term Operations Fund, the Reserve Bank called for information on all salient aspects of the co-operative development plan. Steps were being taken to ensure that there was co-ordination between the credit and the non-credit aspects of the programme.

Medium-term loans to agriculturists to enable them to purchase shares in co-operative sugar factories

On the general question of providing loans to cultivators to enable them to take up shares in co-operative sugar factories, Shri Saraiya expressed the view that building up of share capital in this manner appeared to him to be a very risky operation; this share capital formed the basis for further credit to be raised. If the idea was to raise more share capital, State Governments could take up a larger part of it.

The Chairman stated that the cultivators are expected to repay the loans promptly. The present provisions, in so far as they concerned loans from the Reserve Bank, were specifically intended to enable small and medium cultivators to take up shares in co-operative sugar factories.

Shri Venkatappiah explained that the provision was of a limited nature intended to enable the Reserve Bank, wherever necessary, to give medium-term loans to state co-operative banks to enable small and medium cultivators to purchase shares of co-operative sugar factories. This was in response to specific demands from the co-operative financing agencies of certain areas. The terms and conditions under which the re-financing would be done by the Reserve Bank, to the extent necessary, had been drawn up after taking into account the actual conditions in the various States.

Shri Bhargava pointed out that the difficulties of small and medium cultivators in taking up shares of co-operative sugar factories were real. They were noticeable especially in the south. He cited the instance of the Chittoor area of Andhra Pradesh where the cultivators were able to contribute Rs 6 lakhs with great effort. The licence was secured after great difficulty. But they had to contribute more to qualify for Government participation in share capital. This they found very difficult. Meanwhile, capitalists who had the necessary money were eager to obtain the licence. Shri Bhargava stressed that co-operative financing agencies should certainly assist the small and medium cultivators by giving them loans to enable these cultivators to take up shares.

Shri V. L. Mehta pointed out that the problem was a real one, applicable to all areas. Once the principle was accepted, requests from other areas which might be considered better off could not be refused. He referred to the Kolhapur area of the Bombay State where there was persistent demand on the central financing agencies to provide loans to agriculturists to enable them to take up shares of co-operative sugar factories.

Item 2: Co-ordination of policies of the State Bank of India and of co-operative banks and societies

Initiating the discussion on this item, Shri Venkatappiah stated that two main points which had been raised in the note were (1) the safeguarding of the discipline of the co-operative banking structure in the context of the State Bank granting advances to co-operative banks and (2) the arrangements for the maintenance of contacts between the State Bank and the co-operative banking organizations at different levels. He emphasized that the note circulated in this connexion was intended to be merely a basis for discussion.

Speaking next, Shri Saraiya expressed the view that the State Bank had just come into the picture of rural credit and its activities should be given a trial before any conclusion on the issues stated could be arrived at.

Shri Rana enquired whether the State Bank would lend only to central banks and not direct to societies (e.g. marketing societies).

Shri Patel clarified that the present scheme of the State Bank in respect of accommodation at certain concessional rates was confined to advances against Government securities and against re-pledge of goods to co-operative banks.

Shri Ryan stated that if care was not taken, the business of central banks might be affected if the marketing societies attempted to make a direct approach to the State Bank. Shri Ryan also emphasized that a cardinal aspect of the integrated scheme was that loans given by rural credit societies would be recovered by the marketing societies either out of loans given on the pledge of produce of borrowers or by the sale of their produce. The marketing societies would have an inducement to discharge this function of collecting the dues on behalf of co-operative credit societies and paying them off to the co-operative financing banks in a satisfactory manner, only if they obtained the finance required by them from the central banks.

Shri V. L. Mehta stated that the State Bank had come into the picture of rural credit as a result of the acceptance of the recommendations of the All-India Rural Credit Survey Committee. The present steps taken by the State Bank arose out of proposals from co-operators. It is a part of the scheme as now proposed that definite steps would be taken to ensure that the discipline of the co-operative banking structure would not be violated. There was no reason, therefore, for misgivings or doubts on this point.

Prof. Karve said that while the helpful attitude of the State Bank was to be warmly welcomed and appreciated, co-operative organizations should be careful to ensure that they did nothing to impair their internal cohesion and discipline. Prof. Karve added that while in the Bombay State, the rates of interest on loans from the co-operative financing agencies and from the State Bank could be said to be comparable, the position might not be so in other States. Where the difference in the rates charged was considerable, a difficult situation might arise. It was important to arrive at suitable conventions to prevent this.

Shri V. L. Mehta stated that this was an internal matter for the co-operative departments and state co-operative banks of various States to settle between themselves, in consultation with the Reserve Bank. They should decide in what particular manner the facilities from the State Bank should be utilized.

Shri Parameswaran Pillai stated that if the rates charged by co-operative banks were even slightly higher than the rates charged by the State Bank, there was no doubt that the business of co-operative banks would suffer. He entirely agreed with the view that the State Bank should lend to co-operative banks in defined contexts; in an agreed manner (e.g. through the state co-operative banks only or with their prior knowledge or in accordance with a specific understanding reached with individual banks); and in complete co-ordination with the Reserve Bank. It was necessary to evolve a workable scheme on the basis of these principles.

Shri Patel stated that it was for co-operators and their institutions to decide in which areas they wanted the State Bank to provide the facilities it was prepared to give. If there was apprehension that the activities of the State Bank in a particular place would result in jeopardy to the co-operative institutions of the area, the State Bank need not undertake such activities in these areas. A beginning could be made with the present scheme.

Prof. Karve agreed with the view that the scheme of the State Bank could be given a trial for one year.

Shri Venkatappiah added that the Reserve Bank and the State Bank should collect all relevant data about the operation of the scheme and keep it under observation for a year.

Shri Bhargava referred to the instance of certain co-operative sugar factories in the Punjab which could not be financed by the Punjab State Co-operative Bank. They had to borrow direct from the State Bank. It appeared to him therefore that it was not possible to lay down a rigid rule to the effect that all financing by the State Bank should be done through the apex bank or other central financing agency.

The conclusions arrived at on item 2 are mentioned below:

The Meeting noted that in the context of the State Bank's scheme for providing accommodation to co-operative banks against Government Securities and on the re-pledge of produce, at concessional rates, the State Bank would take care to see that the discipline of the co-operative banking structure was not violated. It was noted in this context that the present scheme of the State Bank contemplated advances only to co-operative banks and not directly to societies without the consent of the central financing agencies concerned. The State Bank would lend to co-operative banks against re-pledge of produce only after prior consultation with the state co-operative bank. The present scheme of the State Bank regarding advances to co-operative banks may be watched for one year with a view to finding out how it worked in practice. The State Bank should also collect all the relevant data about the working of the scheme, with a view to an evaluation of its effects.

The Conference then adjourned for lunch at 1.30 p.m.

4. The Conference re-assembled at 2.45 p.m. and proceeded to discuss the remaining items of the Agenda.

ITEM 3: GENERAL POLICY REGARDING SUBSCRIPTION TO DEBENTURES OF AND LOANS TO CENTRAL LAND MORTGAGE BANKS FROM THE NATIONAL AGRICULTURAL CREDIT (LONG-TERM OPERATIONS) FUND

Initiating the discussion on this subject, Shri Rana stated that the problem of interim accommodation presented itself in the case of the Bombay Provincial Co-operative Land Mortgage Bank also. Unlike in Andhra Pradesh and Madras, Government had not come forward to provide such accommodation pending the floatation of debentures. The bank had been able to secure limited accommodation from the Bombay State Co-operative Bank. He wished to know whether the Reserve Bank could provide this type of interim accommodation, if necessary, against Government guarantee.

Shri Ryan explained the nature of the accommodation required and referred in this context to the existing procedure in Madras. The Central Land Mortgage Bank drew upon the accommodation provided by the State Government in instalments, usually one instalment per month. Under this procedure there was a continuous watch by Government over the utilization, through the Trustee appointed by it. This Trustee was usually the Registrar of Co-operative Societies and through him the Government can ensure that a fresh Government advance is not taken by the central land mortgage bank unless the advance taken earlier had been fully utilized for the purposes intended. If the advance is granted by another agency (e.g. Reserve Bank), even against Government guarantee, it would not be possible to supervise the utilization as effectively as Government could do, under the existing system.

Shri Rana expressed the view that the Registrar's approval could be insisted upon for each drawal, in view of the Government guarantee.

The Chairman expressed the view that it was fundamentally inappropriate for the Reserve Bank to provide short-term accommodation to central land mortgage banks, when the Bank was also expected to purchase the debentures of these banks up to the extent of the shortfall in public subscriptions; in certain cases this might result in the major part of short-term accommodation being converted into long-term accommodation from the Bank.

Shri Subrahmanyam Nayudu observed that short-term accommodation to central land mortgage banks should normally be provided by banks. The practice of the Madras Government in providing this accommodation arose under certain exceptional circumstances. The then Governor of the Reserve Bank, Sir Osborne Smith, had once suggested that the Madras Central Co-operative Land Mortgage Bank should obtain short-term accommodation from the Imperial Bank (as it was then called) on the basis of Government guarantee. At that time, the State Government had surplus funds and it agreed to give the accommodation instead of giving the guarantee. The situation had now substantially changed. The ways and means position of State Governments was difficult. Referring to conditions in Andhra Pradesh, Shri Nayudu mentioned that the Central Land Mortgage Bank had a programme of lending Rs 76 lakhs in 1956-7, but the overdraft limit which it had with the State Government was only Rs 45 lakhs. Government was approached to sanction an additional limit of Rs 23 lakhs, as the existing limit had been fully utilized by November 1956. Government, however, was unable to accede to this request in spite of its sympathetic attitude because of its difficult ways and means position. Shri Nayudu referred to the programme of giving productive loans drawn up by the bank. He feared that this would be affected if the short-term accommodation required was not forthcoming. There was no legal difficulty in the Reserve Bank providing such accommodation. The need for such assistance could not also be questioned in view of the programme for productive loaning. The Government could provide the necessary guarantee to the Reserve Bank. The Bank could call for whatever information or returns it wanted, to satisfy itself about proper utilization of the accommodation provided. If, however, the Reserve Bank did not find it possible to provide short-term accommodation to land mortgage banks, the State Bank of India should step in and provide such accommodation.

Adverting to the problem of raising long-term funds, Shri Nayudu stated that land mortgage banks were finding it increasingly difficult to float their debentures successfully. Referring to Andhra Pradesh, Shri Nayudu stated that previously insurance companies invested in the debentures of the Central Land Mortgage Bank. The new Life Insurance Corporation had yet to announce a decision in the matter. The 'joint purchase scheme' by the Government of India and the Reserve Bank had been discontinued. The State Bank of India had been approached, but it was not able to bind itself to any particular percentage although it had agreed to take up the debentures in suitable lots. Commercial banks were not taking up the debentures to any appreciable extent. In conclusion, Shri Nayudu pleaded for a co-ordinated policy regarding the purchase of debentures of central land mortgage banks being evolved by the Reserve Bank, the State Bank and the Life Insurance Corporation.

Shri Ryan stated that before nationalization of life insurance companies, central land mortgage banks could negotiate with individual companies who were the principal purchasers of such debentures in the past. This was not possible now.

The Chairman reiterated what he had stated earlier about the inappropriateness of the Reserve Bank providing short-term accommodation to central land mortgage banks. As regards the second question, namely, the securing of adequate long-term funds by floatation of debentures, the Chairman emphasized that land mortgage banks should be alive to the realities of the situation in the money market before they decided upon the terms and conditions of issue. The rates offered should be in tune with those prevailing in the money market. Floatations at artificially low rates should not be undertaken. The Chairman also stated that one way of getting more resources would be for the central land mortgage banks to have a strong capital structure.

Shri Venkatappiah added in this context that the Reserve Bank could provide loans, out of its Long-term Operations Fund, to State Governments to enable them to contribute to the share capital of central land mortgage banks.

Prof. Karve expressed complete agreement with the realistic note struck by the Chairman. He also agreed that it was not legitimate to ask the Reserve Bank to provide short-term accommodation to central land mortgage banks. As regards the question of floatation of debentures and the difficulties pointed out by some of the speakers, Prof. Karve stressed that the long-term loans expected to be made by the land mortgage banks were mainly for developmental purposes included in the Plan. It was, therefore, necessary that the question of finding the requisite resources should be approached in a helpful manner. It would be desirable for the Reserve Bank, the State Bank and the Life Insurance Corporation to subscribe to the debentures of land mortgage banks in a co-ordinated manner. Prof. Karve suggested in this context that state co-operative banks might be able to provide short-term accommodation to central land mortgage banks, if necessary, on Government guarantee which should be forthcoming. The State Bank could also be helpful in the matter.

Referring to the 'joint purchase scheme', Shri Venkatappiah stated that it would appear that the Government of India was no longer in the picture from April 1956 since there was no provision for the purchase of such debentures by them under the Second Five Year Plan. The scheme had been utilized only to a relatively small extent. However, the Reserve Bank was still contributing to the debentures up to 20 per cent of the issue. In fact, it had not been necessary to contribute up to this limit in all cases. If the terms of the debentures were realistic and in line with conditions in the money market, there was no reason to apprehend that the Life Insurance Corporation and the State Bank, besides the Reserve Bank, would not be responsive to the offers. He added that other avenues for successfully raising long-term funds might be tried, e.g., enhancement of share capital and floating debentures more than once a year. On the question of short-term accommodation to land mortgage banks, Shri Venkatappiah stated that even though this might be legally permissible, such accommodation could not be normally expected from the Reserve Bank as, in fact, this might involve locking up an appreciable part of the resources of the Long-term Operations Fund.

Shri Patel stated that as regards short-term accommodation to central land mortgage banks, this would probably extend to more than six months. The State Bank could not ordinarily lend for periods over six months. As regards purchase of debentures, the State Bank's present policy was to purchase them up to 10 per cent, the exact percentage depending upon the conditions at the time of purchase. On the general question of long-term resources for land mortgage banks, Shri Patel said that these banks were admittedly facing serious difficulties in finding such funds, especially in the context of the schemes for land improvement etc., which they were called upon to finance and which were an important part of the agricultural development plan. He felt that it was necessary to consider this problem carefully and make suitable suggestions.

The Chairman stressed that before the floatation of debentures, land mortgage banks would have to consult their brokers etc., and also make the necessary arrangements with institutional sources such as the Life Insurance Corporation.

Shri Bhargava stated that if land mortgage banks were unable to secure enough long-term funds, their programmes for productive loaning would be jeopardized. At least for 1957-8, steps should be taken to ensure that the necessary funds were forthcoming.

The consensus of opinion on item 3 may be summarized as follows:

The short-term credit requirements of central land mortgage banks should be provided by the State Governments or, where possible, by the *state co-operative banks on Government guarantee. Other methods of augmenting their resources such as larger State contribution to share capital and more frequent issue of debentures may be explored. Land mortgage banks should make preliminary arrangements with various institutional sources before their debentures are floated. The terms of the debentures should be in line with money market conditions.*

ITEM 4: CO-OPERATIVE ADVANCES AND THE PRICE SITUATION

The Chairman stated that, *prima facie*, it was not correct to maintain that the recent expansion of co-operative credit had resulted in rise in prices and in speculative holding of stocks. There appeared to be no basis for such a view, especially remembering the relatively minor role played by co-operative credit societies and co-operative marketing societies as compared with the operations of moneylenders and traders. The Chairman, however, added that if there was any danger of co-operative advances encouraging speculative holding of stocks, sufficient precautionary measures should be taken to guard against it.

Shri V. L. Mehta stated there was an entirely different aspect of the matter to which he should like to invite attention. This aspect related to the need for giving a guaranteed price to the cultivator. Shri Mehta referred in this connexion to the Report of the Indian Delegation to China, according to which the price guarantee policy and the purchase policy followed in China was an important aspect of the development of co-operative farming and co-operative credit.

Prof. Karve said that he believed that, taken in the aggregate, co-operative advances had not encouraged holding of stocks for speculative purposes. But individual instances might be there. Such instances might arise when co-operative banks gave loans directly to individuals; co-operative urban banks also sometimes gave loans to individual dealers. Prof. Karve was of the view that co-operative central banks and apex banks should not lend to individuals. He also mentioned that it would be desirable if the purport of the circulars issued on suitable occasions by the Reserve Bank's Department of Banking Operations with regard to restrictions on advances against particular commodities, is brought to the notice of the state co-operative banks (and through them to central banks) by the Agricultural Credit Department of the Reserve Bank.

Shri Saraiya and Shri Patel expressed the view that it was not desirable to eliminate dealings with individuals completely. In the off-season, co-operative banks could lend to traders and other individuals.

The Chairman indicated that apex and central co-operative banks should not lend directly to individuals. Care should also be taken to see that traders did not get into co-operative marketing societies.

Shri Ryan emphasized that the general view was that advances to individuals by state and central co-operative banks should be rigidly restricted (e.g. they should be given only against fixed deposits). Traders should not be allowed to become members of co-operative marketing societies.

Dr Madan referred to the fact that co-operative advances against produce were very much lower than similar advances by commercial banks. Thus, the impact of co-operative advances will have to be very much more if it was to have effect on the holding of stocks for speculative purposes. Further, to the extent co-operative advances were meant to strengthen the position of the small producer, this was desirable, but loans to individuals, especially to larger parties, could contribute to the speculative holding of stocks.

The conclusions arrived at on item 4 are indicated below:

The Meeting was of the opinion that on available data, there was no justification for holding the view that the increase in co-operative advances had contributed to rise in prices and to speculative holding of stocks. It was noted in this connexion that data on the subject was being collected by the Reserve Bank. The Agricultural Credit Department may communicate to the co-operative banks the purport of the circulars issued by the Department of Banking Operations advising commercial banks in the matter of loans against produce.

Apex and central co-operative banks should not generally make advances to individuals. If this is done at all, it should be on a very limited scale, e.g. advances against fixed deposits.

ITEM 5: LIBERALIZATION OF REMITTANCE FACILITIES TO CO-OPERATIVE BANKS.

The conclusions emerging out of the discussions on this item are given below:

(1) It was noted that according to a recent decision of the Reserve Bank, the scheme of remittance facilities to co-operative banks had already been liberalized.

(2) It was also noted that the Reserve Bank had decided that weekly free remittances from the central co-operative banks would be permitted either to the account of the state co-operative bank with the Reserve Bank or to that maintained by the head office of the state co-operative bank at an agency.

(3) The Committee noted that the Reserve Bank had been requested to allow state co-operative banks and their affiliated central banks facilities for the reverse transfer of funds. Three points arose for consideration, namely:

(1) Whether reverse remittance facilities should be accorded to co-operative banks free of charge in respect of remittances of loans from the Reserve Bank.

(2) Whether such facilities should be given in respect of all reverse remittances.

(3) Whether in view of the administrative difficulties involved in carrying out (1) and (2) above, free remittances might be limited to twice a week in multiples of Rs 5,000 without restriction as to maximum.

The Meeting came to the conclusion that a beginning could be made with (3) mentioned above. It was agreed that in this respect, co-operative banks might be shown a certain degree of preference over commercial banks in view of the great need for the flow of funds into the rural sector. This question might be further examined by the Reserve Bank taking into account its organizational implications.

ITEM 6: FINANCE TO STATE CO-OPERATIVE BANKS FOR IMPORT OF MACHINERY FOR CO-OPERATIVE SUGAR FACTORIES AND FOR WORKING CAPITAL OF CO-OPERATIVE PROCESSING SOCIETIES.

Shri Saraiya pointed out the difficulties of co-operative sugar factories in the Bombay State in getting interim finance (i.e. pending receipt of the loan from the Industrial Finance Corporation) for importing machinery. On account of these difficulties, it was feared that the co-operative sugar factories would have to miss two or three seasons. He enquired whether the State Bank of India could provide the finance to the Bombay State Co-operative Bank, if necessary, on Government guarantee.

Shri Patel stated that the State Bank of India would be prepared to provide short-term accommodation to the Bombay State Co-operative Bank on suitable terms and conditions, even without Government guarantee. So far as other state co-operative banks are concerned the question would have to be examined on the merits of each case.

Shri Bhargava pointed out that the State Government's guarantee should be readily forthcoming. State Governments had guaranteed the loans given to the co-operative sugar factories by the Industrial Finance Corporation, and the Corporation has also agreed to provide funds in instalments. There should be no difficulty, therefore, in Government giving a guarantee to the State Bank also in respect of the accommodation it would give to the state co-operative banks. He welcomed the State Bank's helpful attitude in the matter. As regards the general question of strengthening the financial resources of co-operative sugar factories, Shri Bhargava mentioned that one method of doing so might be to increase the amounts collected by the factories from the cultivator members (at so much per maund of sugarcane) at the time they delivered the produce to the factory. Further, apart from the loans taken by the State Governments from the National Co-operative Development and Warehousing Board, they could put in additional funds from their own resources in the share capital of co-operative sugar factories.

The Chairman drew pointed attention to the last point made by Shri Bhargava. The State Governments should put in more share capital to strengthen the share capital structure of the factories.

Shri Saraiya was of the view that even if more share capital was contributed by the State Government, the gap in resources could not be filled up to the extent necessary.

Prof. Karve, referring to the question of working capital for co-operative sugar factories and other processing societies, stated that no special provision for this purpose was necessary. The working capital should be available from the normal banking channels.

Shri Venkatappiah stated that to the extent the Reserve Bank might be prepared to consider the question of providing the working capital, the question arose as to the rate of interest at which the accommodation was to be given. He referred to the recommendation of the First Seminar on Co-operative Sugar Factories held at Pravaranagar to the effect that the facilities which may be available to state co-operative banks for the purpose from the Reserve Bank should be similar to the facilities available to scheduled banks. In other words, the accommodation should be at the Bank Rate. As regards other processing societies (e.g. dairy societies) also, the question arose as to whether the advances, to the extent the Reserve Bank was prepared to provide them, should be at a concessional rate or at the Bank Rate.

Shri Bhargava stated that a case could be made out for concessional finance to co-operative dairies at least for a period of time (e.g. three years).

Prof. Karve agreed with Shri Bhargava. Meanwhile, the position of individual dairy societies which might be able to avail of the facilities at concessional rates from the Reserve Bank could be examined in detail.

The conclusions arrived at on item 6, were as follows:

The Meeting noted that the State Bank of India would be prepared to give interim accommodation to the Bombay State Co-operative Bank for import of machinery, pending receipt of the loan from the Industrial Finance Corporation. But as regards other cases, they had to be examined on merits. The Meeting was strongly of the view that the State Government should guarantee the accommodation, whenever necessary. On the question of working capital for co-operative sugar factories, it was noted that in so far as the Reserve Bank of India might be prepared to consider the question of giving such accommodation to state co-operative banks it should be at the Bank Rate. With regard to co-operative dairies, accommodation by the Reserve Bank may, pending examination of individual cases in detail, be at a concessional rate.

ITEM 7: POLICY REGARDING RATE OF INTEREST ON MEDIUM-TERM LOANS

Shri Venkatappiah raised the question as to whether medium-term loans from the Reserve Bank to state co-operative banks should continue to be at the concessional rate or should be charged a higher rate.

Shri Parameswaran Pillai made a strong plea in support of the concessional rate of 1 1/2 per cent on medium-term loans being continued by the Reserve Bank. Referring to Kerala, Shri Pillai said that medium-term loans rather than short-term loans were keenly in demand by cultivators for effecting improvements to land. The Reserve Bank's concessional rate had been very helpful to the Kerala State Co-operative Bank in being able to pass on the finance to the cultivators at low rates.

Shri Venkatappiah enquired whether a small rise in the concessional rate, say from 1 1/2 per cent to 2 1/2 per cent, would make a material difference in the lending rate of the State Co-operative Bank.

Shri Pillai replied in the affirmative and reiterated that the existing concessional rate should continue.

Shri Subrahmanyam Nayudu supported Shri Pillai. He referred in this connexion to the fact that the Reserve Bank Act was amended only a few years ago to provide medium-term loans to co-operative banks. Central banks were unable to provide such loans out of their resources to any appreciable extent. Shri Nayudu also invited attention to the emphasis laid by the All-India Rural Credit Survey Committee on the keen demand for medium-term loans and the inadequate provision for the same. The concessional rate should remain at least till the end of the Second Five Year Plan, viz. 1960-1.

Prof. Karve stated that the time was not appropriate for any revision in the rate of interest on medium-term loans. He said that the reasons why so few medium-term loans were actually given required investigation.

The conclusions of the Meeting on item 7 were as follows:

The concessional rate of interest (1 1/2 per cent) charged by the Reserve Bank on medium-term loans to state co-operative banks should continue for the present. The position can be reviewed at a later stage.

ITEM 8: REVIEW OF THE PROGRESS OF CO-OPERATIVE DEVELOPMENT PLANS UNDER THE SECOND FIVE YEAR PLAN

Shri Nayudu stated that a distinction was made between the expenditure on departmental staff and staff of co-operative institutions in the quantum of Central assistance to State Governments. In the former case, the subsidy was a lower proportion of the total expenditure. He enquired why this distinction had been made.

Shri Bhargava replied that the distinction had been made because it was the main responsibility of the State Governments to provide for adequate departmental staff.

Shri Venkatappiah referred to the question of assistance to small rural credit societies, a point which had been raised recently by the Planning Commission. He wished to have suggestions from the members with reference to concrete measures of help for such societies.

Prof. Karve stated that a large number of villages had to be served by existing small societies if credit was to reach all cultivators. In general, these small societies were not functioning satisfactorily. If their service was to be more extensive and efficient, there should be some provision for subsidizing their management. A group of societies might be taken for the purpose of assistance.

Some of the members pointed out that the system of "group secretaries" had not worked well in practice.

Shri Saraiya invited attention to the need for having an adequate number of supervisors for the rural credit societies.

Shri Jagatpati stated that the question of providing an adequate number of supervisors for small rural credit societies was as important as the question of providing for their efficient management.

Shri Satyanarayana Rao referred to the scale recommended in the Plan for supervisory personnel, viz., one supervisor for every 15 large-sized societies and 1 supervisor for 25 small credit societies and other societies.

Shri Ryan stated that these provisions were there in the Plan, but the necessary provision for maintaining supervisors on this scale had not yet been made in the budgets of the State Governments.

Shri Venkatappiah stated that the need for supervisors on the scale recommended in the Plan should be reiterated and emphasised.

Shri Parameswaran Pillai referred to the fact that most of the small-sized rural credit societies existed only on paper.

Shri Venkatappiah enquired whether it would be possible to provide for graded subsidies to selected small societies which bade fair to thrive. It had been indicated that a small-sized society having a volume of business of about Rs 20,000 to Rs 25,000 a year and earning a gross income of about Rs 400 to Rs 500 per annum, should be able to pay its way.

Shri Satyanarayana Rao stated that this might result in relatively better off societies being helped. Further, the financial implications of the assistance had to be gone into carefully, considering that there are one lakh and odd small societies. The commitments may be large.

Shri Ryan referred to the system of giving a graduated scale of subsidies to newly established rural credit societies in the Bombay State.

Shri Rana stated that the system was still in vogue in the Bombay State. The subsidy was for a period of three years in ' non-backward ' areas and for five years in ' backward ' areas.

Prof. Karve said that some provision for giving managerial and supervisory help to small societies was necessary.

The Chairman agreed that small societies should be vitalized and that they should be helped in the matter of managerial and supervisory personnel. It had also to be noted that the position of most of these societies was unsatisfactory. The State Governments should be approached to report on the details of the existing position of small-sized societies particularly as to how many of them were live, and how many merely existed on paper. On the basis of the replies received from the State Governments the problem could be put in its proper perspective before the Planning Commission.

The conclusions on this item were as follows:

It was necessary to make adequate arrangements for the efficient management and supervision of small-sized credit societies. The Agricultural Credit Department of the Reserve Bank should write to the State Governments for data regarding the actual position of the small-sized credit societies so that the question could be examined in all its aspects. The most practicable way of helping the small societies would be by making adequate arrangements for efficient supervision. The State Governments should therefore make the necessary financial provision and appoint trained supervisory staff, on the scale recommended in the plan viz., 1 supervisor for every 15 large-sized credit *societies and 1 supervisor for 25 small credit societies and other societies.*

ITEM 9: MAINTENANCE OF MINIMUM WEEKLY AVERAGE OF THE DAILY BALANCES WITH THE RESERVE BANK OF INDIA

The position in this respect, as outlined in the agenda paper, was noted.

ITEM 10: CENTRAL CO-OPERATIVE BANKS ACTING AS AGENTS OF CENTRAL LAND MORTGAGE BANKS IN AREAS WHERE PRIMARY LAND MORTGAGE BANKS HAVE NOT BEEN ORGANIZED

Shri Venkatappiah outlined the recommendations of the All-India Rural Credit Survey Committee in this respect.

Shri Rana said that in Bombay, central banks acted as agents of the Central Land Mortgage Bank, but this was only in a few cases. He was not sure whether the system had worked well.

After a brief discussion, taking into account the points made in the agenda note, the Meeting came to the following conclusion on item 10.

The question of the appropriateness of central co-operative banks acting as agents of central land mortgage banks in areas where primary land mortgage banks have not been organized may be taken up together with the examination of the technical, legal and administrative problems connected with land mortgage banks undertaken by the Agricultural Credit Department, in terms of one of the recommendations of the fifth meeting of the Standing Advisory Committee.

ITEM 11: COLLECTION ON A UNIFORM BASIS OF DATA CONCERNING CO-OPERATIVE SOCIETIES BY CO-OPERATIVE DEPARTMENTS

Shri Subrahmanyam Nayudu stressed the need for having a separate section in the Registrar's office to collect and compile data especially those required in connexion with the co-operative development plans.

Prof. Karve suggested that a small committee could go into the question of the appropriate forms, and the machinery for collecting the necessary data, and make suitable recommendations. The question could then be taken up with the State Governments.

Shri Ryan endorsed this suggestion.

It was agreed that a committee consisting of the Registrars of Co-operative Societies of Andhra Pradesh and Bombay and the Co-operation Adviser to the Ministry of Agriculture, Government of India, and an officer of the Agricultural Credit Department, Reserve Bank of India, may be set up to consider the question of the creation of separate statistical sections in the Registrar's office with a view to collecting and compiling data on various aspects of the progress of the co-operative development plans. This committee should also make recommendations regarding the items on which data had to be collected and the manner in which they had to be presented. On the basis of the report of this committee, suitable recommendations could be made to the State Governments.

ITEM 12: THE CO-OPERATIVE MOVEMENT AND RURAL SAVINGS

The conclusions on this item were as follows:

The Agricultural Credit Department of the Reserve Bank should address the Registrars of Co-operative Societies, emphasizing the importance of mobilizing savings and eliciting their views on the manner in which the co-operative movement could mobilize rural savings. On the basis of the replies received, this important subject should be further examined by the Department.

5. The Meeting terminated at 6 p.m. with a vote of thanks to the Chairman moved by Shri Saraiya, on behalf of the members and invitees.

APPENDIX ONE

Reserve Bank of India

Central Office

Agricultural Credit Department

Bombay No. 1

No. ACD. 3186/F. (Sac)-4-56 25 April 1956

The Registrar
Co-operative Societies

Dear Sir

Rediscounts for and advances to state co-operative banks: Liberalization of credit limits in respect of Reserve Bank finance for seasonal agricultural operations and marketing of crops

THE Standing Advisory Committee on Agricultural Credit at its fifth meeting held in Bombay on 16 and 17 January 1956 considered *inter alia* the case for liberalizing the existing standards followed in fixing credit limits to co-operative banks. In pursuance of the recommendations of the Committee in this regard, it has been decided that the following revised standards would be applicable while sanctioning credit limits to central co-operative banks.

A Class banks — normal 3 times the owned funds, exceptional 4 times.
B Class banks — normal 2 times the owned funds, exceptional 3 times.
C Class banks — on the special recommendation of the Registrar up to 2 times the owned funds.

2. The owned funds for this purpose will generally consist of the paid-up share capital and statutory reserve fund only. But, in view of the widely divergent conditions in different States and as between different institutions, the need for adequate flexibility will be kept in mind in regard to the definition of ' owned funds ' for fixing credit limits as multiples thereof. Due account will also be taken of the general working of the institution applying for a credit limit as revealed by its audit and inspection reports.

3. In this connexion, it would be helpful if the Registrars could bring to the notice of the Reserve Bank concrete cases where the existing prescribed limits, viz.

A Class banks — normal 2 times the owned funds, exceptional 3 times.
B Class banks — normal equal to the owned funds, exceptional 2 times the owned funds.
C Class banks — on the special recommendation of the Registrar of Co-operative Societies equal to the owned funds,
have in practice been found to be inadequate.

Yours faithfully
(V. Sivaraman)
Deputy Chief Officer

APPENDIX TWO

Reserve Bank of India
Central Office

Agricultural Credit Department
Bombay No. 1

No. ACD. 2501/AC. 60-56 3 April 1956

The Chief Secretary to the
Government of

Dear Sir

Co-operative Development Schemes—Contribution to share capital of co-operative credit institutions—Loans from the National Agricultural Credit (Long-term Operations) Fund

In continuation of our letter No. ACD. 6888/AC. 60-55 dated 13 December 1955, on the above subject, we have to state that the following are the terms and conditions which will govern the loans to be made by the Reserve Bank of India to State Governments from the National Agricultural Credit (Long-term Operations) Fund, for purposes of contribution to the share capital of co-operative credit institutions:

(*i*) Normally each loan would be for a period of *twelve* years, a longer period being adopted for only exceptional reasons;

(*ii*) The principal should be repaid in equal instalments commencing from the third year;

(*iii*) For loans to be sanctioned up to the end of March 1957, the scale of interest rates would be as follows:

12 years:	First 2 years	— Nil
	Next 3 years	— 2 per cent
	Next 4 years	— 2½ per cent
	Next 3 years	— 3 per cent
Above 12 years (in exceptional cases).	Next 2 years	— 3 per cent
	After 14th year	— 3½ per cent

(*iv*) Interest rates for loans to be sanctioned after 31 March 1957 will be determined and communicated at the appropriate time.

(*v*) Each drawal would be treated as a separate loan, for the calculation of the rate of interest, etc. A separate promissory note will have to be executed in respect of each loan.

(*vi*) Copies of the form of agreement to be executed for the credit limit that may be sanctioned and of the form of pro-note that will have to be executed for every drawal against the credit limit are enclosed.[1]

[1] These are not included in this publication.

2. As regards the contribution by the Government to the share capital of credit agencies, the following view was approved at the meeting of the Standing Advisory Committee on Agricultural Credit, which was held on 16 and 17 January 1956:

> "Contributions to the share capital of larger-sized credit societies would necessarily be phased according to the phasing of the establishment of the societies. Once a decision is taken to set up a larger-sized credit society, the State's contribution to its share capital should be forthcoming in its entirety except in cases where this would lead to obvious over-capitalization. This should be done even in instances where the State's contribution would thereby constitute more than 51 per cent of the society's share capital. Even in the case of central financing agencies, it was felt that the initial contribution to their share capital would have to be substantial."

In view of the above, the magnitude of the contribution of the State to the share capital of larger-sized co-operative credit societies need not be calculated in the manner indicated in paragraph 2(*a*) (*iv*) of our circular No. ACD. 6888/AC. 60-55 dated 13 December 1955. Consequently, columns 12 to 16 of proforma A enclosed with that letter need not be filled in. A revised proforma A is enclosed for your use.

3. It is also requested that, along with the application for loans from the National Agricultural Credit (Long-term Operations) Fund for 1956-7, a note giving full particulars of the entire plan for co-operative development in the State during the year may kindly be furnished to us. Particulars to be given in this note would include, for instance, the number of credit societies, marketing societies, processing societies, land mortgage banks etc., to be organized or reorganized during the year, the intended outlay on and programmes for the augmentation of staff for co-operative institutions and the co-operative department of the State and for the construction of godowns for credit societies and marketing societies. A statement may also be furnished to show, in respect of each larger-sized credit society, the marketing society through which its members will be enabled to sell their produce and also the location of such marketing societies, whether they are already established, or will be established. In the latter case, the probable dates by which they are expected to be organized may be furnished.

Yours faithfully
(T. Satyanarayana Rao)
Deputy Chief Officer

PROFORMA A

Larger-Sized Credit Societies

Name of the society	Place Village/ District	Whether newly proposed or existing	No. of other societies proposed to be amalgamated if any	No. of villages proposed to be covered	Total population of the villages	Owned funds of the society as on 30.6.55	Total owned funds after amalgamation
1	2	3	4	5	6	7	8

No. of members as on 30.6.55 including those of societies to be amalgamated	No. expected to increase during the year	Maximum loans outstanding at the end of the co-operative year (specify)	Overdues as at the end of the latest completed co-operative year (specify)	Share capital proposed to be contributed by the Government during 1956–7
9	10	11	12	13

APPENDIX THREE

Reserve Bank of India

Central Office

Agricultural Credit Department

Bombay

No. ACD. OPR. 32/FS. 11-57 4 January 1957

The Registrar
Co-operative Societies

Dear Sir

Medium-term loans under Section 17(4A) read with Section 46A (2) (*b*) of the Reserve Bank of India Act: Loans to agriculturists to finance the purchase of shares in co-operative sugar factories.

As you are aware, Section 46A(2) (*b*) of the Reserve Bank of India Act has been recently amended to read as under (the words underlined constituting the amendment):

"The making to state co-operative banks of loans and advances, repayable on the expiry of fixed periods not being less than fifteen months and not exceeding five years from the date of making such loan or advance, against such securities as may be specified in this behalf by the Bank and such loans and advances may be made for agricultural purposes or for such other purposes connected with the agricultural activities as the Central Board may, from time to time, by regulation or otherwise, determine."

One of the main reasons for the amendment was that it was felt desirable that the Reserve Bank should, to an appropriate extent, assist state co-operative banks etc., to finance small and medium cultivators for the purpose of becoming share-holders in co-operative concerns connected e.g. with the marketing and processing of their produce.

2. It has now been decided that advances to state co-operative banks to enable them to finance agriculturists to purchase shares of co-operative sugar factories will be one of the purposes connected with agricultural activities as laid down under section 46A(2)(*b*) of the Reserve Bank of India Act. The terms and conditions under which such advances will be made have also been drawn up after taking into account the actual conditions in the various States and in consultation with the Government of India. They are as follows:

(*i*) Loans from the Reserve Bank of India for taking shares in a co-operative sugar factory will be given only if the co-operative sugar factory concerned confines its membership to individuals owning or cultivating lands within a radius of 25 miles from the sugar factory. If the co-operative sugar factory permits others to become its share-holders, a limit should be imposed to the total number of such share-holders and the limit should not generally exceed 1/10th of the total number of members in the society; further, these members should be only temporary share-holders whose shares could be bought as early as possible by the co-operative sugar factory itself or by agriculturists owning or cultivating lands within a radius of 25 miles from the factory.

(*ii*) The shares in the co-operative sugar factory concerned should be non-refundable but they may be transferred with the approval of the Board of Directors in each case.

(*iii*) Loans from the Reserve Bank will be subject to the following limits:

Paid-up value of shares held by the individual		Maximum loan per individual
(*a*) Not exceeding Rs 500	..	100 per cent of paid-up value.
(*b*) Exceeding Rs 500	..	100 per cent of paid-up value upto Rs 500, and 50 per cent thereafter, with the proviso that the total loan will in no case exceed Rs 1,000.

(*iv*) While disbursing loans to its members for helping them to take shares in a co-operative sugar factory the committee of the rural credit society should insist on the following:—

(*a*) The borrower should not be a defaulter to his rural credit society.

(*b*) He should have sufficient repaying capacity.

(*c*) He should offer immoveable property as security.

(*d*) He should pay his part of the shares to be taken in the sugar factory, if any, in cash to the rural credit society or should produce evidence of having paid it direct to the sugar factory.

(*v*) Loans will be given to state co-operative banks and will be fully guaranteed as to the repayment of the principal and the payment of interest by the State Governments concerned.

(*vi*) The period of the loan will not be less than 15 months and should not exceed 4 years.

(*vii*) The rate of interest will be the Bank Rate (which is now 3 1/2 per cent).

(*viii*) It will not be necessary for the state co-operative bank to lend its own funds before the Reserve Bank loan is drawn upon.

(*ix*) The securities for these loans will be the same as those prescribed by the Reserve Bank for other medium-term loans in their circulars ACD. 2359/C. 25-54 dated July 17 1954; ACD. 3792/C. 25-54 dated October 18, 1954; ACD. 3856/C. 25-54 dated October 23, 1954. Accordingly, the procedure to be followed by a state co-operative bank for availing itself of medium-term loans would involve the production of (*a*) the State Government's guarantee deed, (*b*) a pro-note from the state co-operative bank for the amounts required at the time of drawing on the limit, (*c*) a promissory note or notes for the amount of the loan required by the state co-operative bank executed by one or more central co-operative banks as the case may be, in favour of the state co-operative bank in respect of the advances taken for medium-term agricultural purposes and duly endorsed in favour of the Reserve Bank by the state co-operative bank, (*d*) a certificate to the effect that the accommodation will be utilized only for the specific purpose for which it has been sanctioned by the Reserve Bank and (*e*) a certificate stating that sufficient security to cover the amount of the loan taken by the state co-operative bank has been obtained from the central co-operative bank/banks concerned.

(*x*) The state co-operative bank will be expected to draw the amounts required by it from the Reserve Bank, in, say, two or three instalments or at the most within a period of six months from the date of sanction of the limit, failing which the Reserve Bank's prior permission will have to be obtained before drawings under the limit are effected.

(*xi*) The Reserve Bank reserves to itself the right to recall a loan or curtail the credit limit sanctioned to a state co-operative bank, if any of the conditions attached to the loan is violated. The Reserve Bank may request the Registrar of Co-operative Societies to inspect or may itself inspect, the state co-operative bank and the central banks or primary agricultural credit societies concerned for this purpose.

(*xii*) It is expected that the State Government in conjunction with state co-operative banks, etc., will make adequate arrangements for supervision in order to ensure that the medium-term funds provided by the Reserve Bank are utilized for the purpose for which they are intended, and are repaid on the due dates.

Yours faithfully
(V. Sivaraman)
Deputy Chief Officer

APPENDIX FOUR

Reserve Bank of India
Central Office

Agricultural Credit Department
Bombay No.

Ref. No. ACD.3088/F.(Sac)-8-56 18 April 1956

The Registrar
Co-operative Societies

Dear Sir

Investment of Reserve Fund of co-operative institutions

PLEASE refer to this office Circular No. ACD.847/AC.45-53 dated 2 May 1953.

2. At the fifth meeting of the Standing Advisory Committee on Agricultural Credit held in Bombay on 16 and 17 January 1956, the replies to our circular mentioned above from the various Registrars were discussed and the following principles in respect of investment of reserve fund of co-operative institutions were laid down for the guidance of the State Governments and co-operative institutions. (A copy of the note which was placed before the Standing Advisory Committee together with a copy of the resolution of the Sub-Committee which examined this question is enclosed for your information).[1]

"The reserve fund of co-operative societies at the primary level, and of the central co-operative banks at the intermediate (district) level, should be invested outside their business until such time as their respective statutory reserve funds were equal to their paid-up share capital. Thereafter, the surplus might be utilized in the business of the respective institutions. In the case of primary credit societies, the reserve fund should be invested in the central co-operative bank to which they are affiliated. In the case of central co-operative banks, it should be invested in the state co-operative bank to the extent of at least 50 per cent, the surplus being invested in Government or Trustee securities. All reserve fund investments should be specially earmarked as "Reserve Fund Investments" whether they are held as fixed deposits or as Government securities. At the apex bank level, the reserve fund should be invested outside the business, viz., in Government and other approved securities."

3. We would, therefore, request you to adopt the principles set out above and to issue requisite instructions to the co-operative institutions in your State.

Yours faithfully
(V. Sivaraman)
Deputy Chief Officer

[1] These are not included in this publication.

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