

Reserve Bank's Role in Rural Finance

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IN the early years of their evolution Central Banks all over the world evinced little interest in rural finance. The smallness of individual loans, the poor value of the securities offered, the difficulties involved in the marketing of the collaterals and, consequently, the greater risk involved in agricultural loans accounted for the reluctance of Commercial as well as central banks to take an active part in the provision of rural finance. As agricultural loans do not conform strictly to the canon of 'shiftability-without loss' it is understandable that commercial banks are not interested in agricultural finance, especially in countries where the agriculture is backward. But for this reason Central Banks cannot keep away from the field of rural finance.

In India the need for the Central Bank to participate in rural finance was felt as early as in 1930 when the Central Banking Enquiry Committee expressed the hope that the proposed Reserve Bank "would tend to increase the volume of credit available for trade, industry and agriculture and to mitigate the evils of fluctuating and high charges for the use of such credit". Five years later, the Agricultural Credit Department of the Reserve Bank was inaugurated. Among its functions were: maintaining an expert staff to study all questions of agricultural credit, making itself available for consultation by the Government and other interested organisations, and coordinating the Bank's operations with those of State cooperative banks and other agencies engaged in agricultural credit.

During the next two years, the Bank submitted two reports in compliance with Section 55 (1) of the Reserve Bank of India Act (1934). The first Report set out, in the words of Sir James Taylor, "the problems in their proper perspective with a view to eliciting practical and constructive suggestions". The second report, commonly known as the statutory report, was submitted in December 1937. After drawing attention to the predominance of moneylenders and the exorbitant interest rates charged by

them on funds supplied to agriculturists, the report suggested legislation for the regulation of money-lending and emphasised that "the cooperative movement must be reconstructed and revitalised". An idea of the rigid attitude of the Reserve Bank to rural finance that prevailed then can be had from the report which stated that "it is obviously impossible for the Reserve Bank to lend to agriculturists direct or to advance large sums to cooperative banks or indigenous bankers for being lent out to cultivators as a matter of course. The Reserve Bank can come into picture only when the ordinary pool of commercial credit appears inadequate to meet the reasonable requirements of the country All that the Reserve Bank can do is to help the provincial cooperative banks to tide over a temporary shortage of funds and as the funds advanced must be repaid within the time limit allowed by the Act, the cooperative banks cannot make use of them for the purpose of continuing finance These conditions may seem stringent but . . . the Reserve Bank has to work within the limitations imposed on it by the essential conditions of sound central banking and expressed in its constitution".

Rediscount Facilities

On the basis of the report, the Reserve Bank devised a scheme in January 1938 by which it offered to rediscount at concessional rates, through scheduled banks, the bills of approved money lenders drawn for making advances to agriculturists against the security of agricultural produce on the condition that the benefit of the low rate was passed on to the agriculturists. The scheduled banks, however, did not take advantage of the scheme for a number of reasons. The Reserve Bank soon after issued a circular to the cooperative banks asking them to make use of the financial facilities provided by the Reserve Bank by maintaining adequate reserves, separating short-term from long-term loans, showing clearly the proportion of overdues and bad debts to total loans, effecting a business-like distribution of their assets, keeping 1 per cent and 2.1 per cent of their time and demand

liabilities respectively with the Reserve Bank, preparing their balance-sheets in proper form, submitting audit notes and permitting inspection by the Bank's officers. This too proved futile as the majority of the State co-operative banks regarded the Reserve Bank's conditions as being too stringent.

In spite of the discouraging response from the cooperative banks the Reserve Bank for a third time expressed its willingness in 1942 to grant financial assistance to the cooperative banks against eligible bills and pronotes for the purpose of marketing of crops at the concessional rate of 1 per cent below the Bank Rate provided the benefit was passed on to agriculturists. But once again very few cooperative banks took advantage of the concession. The scheme of rebate was taken a step further in 1944 when it was extended to cover seasonal agricultural operations.

The Reserve Bank's dealings with the State Cooperative banks in its early years of operation remained limited. The total amount of business for the ten years from 1937 was not more than Rs 75 lakhs of which Rs 71 lakhs was supplied under Section 17(4) (a) alone and only Rs 1 lakh under Section 17 (4) (b) and practically nothing under Section 17 (2) (b). Thus, not only was the total advance granted by the Reserve Bank meagre, but a major slice of it was to cooperative banks against Government and other Trustee securities at the Bank Rate of 3 per cent, despite the concession available to them from the Reserve Bank under section 17 (2) (b) and 17 (4) (c) for financing the seasonal agricultural operations and marketing of crops. The reasons for this are not far to seek. In the first place, there were no reliable agricultural bills as was required under Section 17 (2) (b) and 17 (1) (c). There was the traditional Hundi but it was difficult to confirm whether the Hundi was a genuine trade bill drawn for a specific trade transaction or merely an accommodation bill drawn for raising or remitting funds. Further since the Hundi was essentially a clear advance made on the personal standing of the borrower its scope of negotiability in the,

market, was very much restricted. Secondly, funds were amply available to the cooperative banks due to the cheap money conditions prevalent during this period. Between 1939 and 1946 there was an increase in the working capital of the provincial cooperative banks to the tune of Rs 12.05 crores of which the inflow of deposits and accumulation of owned funds together amounted to no less than Rs 11.96 crores. This in turn was responsible for the fall in the proportion of loans outstanding to the total working capital from 56 per cent in 1939 to 26 per cent in 1946, indicating that there was no great demand for funds from the Reserve Bank. Thirdly, the agriculturists found it more convenient to borrow from the money lenders by maintaining a running account with them in as much as the loans received from the cooperative banks were very often inadequate and delayed. Further, the Reserve Bank could not make advances to farmers direct but only through the medium of scheduled banks or provincial cooperative banks. What is more, the Bank could lend only for 9 months and therefore the cultivators were driven to resort to non-Bank agencies to meet the medium and long-term requirements of agriculture. Lastly, the conditions for taking advances from the Reserve Bank at concessional rates were found by the cooperative banks to be too stringent.

Nationalisation of Reserve Bank

The Reserve Bank in its early years was, therefore, more, a lender of the last resort than a liberal purveyor of credit to agriculture. This is not surprising in view of the fact that the Reserve Bank until 1948 was only a quasi-public institution in whose policy and administration the private shareholders had a decisive say.

The nationalisation of the Reserve Bank following independence and the realisation of the imperative need to increase agricultural production were largely responsible for the conspicuous change in the Reserve Bank's attitude and approach to agricultural finance after 1917. Raising of the rate of rebate to 1½ per cent below the Bank rate in 1946 was also responsible for increasing the Reserve Bank's advances to State cooperative banks. The progressive rise in the total advances from Rs 1.5 lakhs in 1946-

17 to nearly Rs 538 lakhs in 1950-51 and the steady increase in the amount supplied to the apex banks under section 17 (2) (b) and 17 (1) (c) from Rs 2.75 lakhs in 1916 to Rs 308 lakhs in 1950 clearly indicate the effect of the higher rate of rebate. In July 1949 it was decided to extend the rebate of 1½ per cent to the cooperative banks for financing seasonal agricultural operations and marketing of crops.

Though the Reserve Bank's advances grew significantly, most of it was taken up by two States, Madras and Bombay. Since two good signatures from the Central Cooperative banks and the apex institutions were prescribed, the Reserve Bank could lend easily to these two States which had a well-developed cooperative movement. In the case of other States like Madhya Pradesh, Orissa and West Bengal, however, the Reserve Bank could accommodate cooperative banks mainly on the strength of the State Government's guarantee only.

This indicated the need for re-organisation and even development of the cooperative movement throughout the country. With these broad objectives in mind the Reserve Bank recommended the setting up of the Rural Banking Enquiry Committee in 1949, convened the informal conference in 1951 and appointed the All-India Rural Credit Survey Committee in 1952. The Rural Banking Enquiry Committee made several recommendations for the extension of rural banking, including: (a) liberalisation in the remittance rates from 1/16 per cent and 1/32 per cent to 1/32 per cent and 1/64 per cent on remittances up to Rs 5,000 and over Rs 5,000 respectively; (b) provision of better facilities for exchange of notes and coins; (c) elimination of impediments in the way of extension of modern banking facilities to rural areas, and, (d) improving the machinery of rural finance, in respect of mobilisation of rural savings and extension of rural credit. The committee also suggested that the Reserve Bank should establish "at least one office or branch in each major province or state". Many of these recommendations were subsequently implemented.

The informal conference convened under the auspices of the Re-

serve Bank with Professor D R Gadgil as Chairman recommended that in order to enable the Bank to play an increasing role in the field of rural finance, the following steps should be taken: (i) widening the interpretation of the terms "seasonal agricultural operations and marketing of crops" to include mixed farming activities and the processing of crops by agriculturists or their organisations, (ii) providing advances to the State Cooperative Banks for financing the production and marketing activities of cottage and small scale industries, (iii) granting medium term finance to cooperative banks, (iv) establishment of effective liaison between the cooperative banks and the Reserve Bank, (v) extension of rural credit to regions which were cooperatively less developed, (vi) undertaking a survey of rural credit, and, (vii) appointment of a standing advisory committee on agricultural credit.

All-India Rural Credit Survey

Since a detailed investigation on a countrywide basis was deemed by the conference as a necessary preliminary for formulation of a long term plan of rural credit, the All India Rural Credit Survey Committee was set up and their Report was published in December 1954. The Committee estimated that the proportion of cooperative credit accounted for just a little more than 3 per cent of the total borrowings of cultivators; governments accounted for 3.3 per cent, commercial banks 0.9 per cent, relatives 14.2 per cent, landlords 1.5 per cent, agricultural and professional moneylenders 69.7 per cent, traders and commission agents 5.5 per cent and others 1.8 per cent. They summed up the position by saying that agricultural credit now available "falls short of the right quantity, is not of the right type, does not serve the right purpose, and by the criterion of need (not overlooking the criterion of credit-worthiness) often fails to go to the right people". They emphasised that rural credit must aim at improved productivity and meet the, short, medium and long term requirements of agriculture and recommended the setting up of an integrated system of rural credit with State partnership at different levels, full coordination between credit and other economic activities, especially marketing and process-

ing, and administration through skilled personnel. The Reserve Bank was assigned a crucial role in the implementation of this integrated scheme and was expected to establish two special funds, viz. National Agricultural Credit (Long term operations) Fund and National Agricultural Credit (Stabilisation) Fund.

From November 1951, the State cooperative banks were placed on the same footing as the scheduled banks in regard to the purchase, sale or rediscount of bills of exchange arising out of bonafide commercial or trade transactions according to an amendment made to Section 17 (2) (a) of the Reserve Bank of India Act in 1951. In the same year a further amendment to the Section 17 (2) (b) of the Act enabled the Bank to extend the period of accommodation from 9 to 15 months for financing seasonal agricultural operations and marketing. Further, a new sub-section 2 (bb) was introduced to empower the Bank to rediscount bills of exchange or promotes of cooperative banks and state financial corporations for the purpose of financing the production or marketing activities of collage and small scale industries provided they matured within 12 months and their repayment of principal and payment of interest were fully guaranteed by the State Government concerned. Besides, insertion of a new clause. (A), to the Section 17 authorized the Bank to advance at 2 per cent below the Bank rate medium term loans to state cooperative banks for periods ranging between 15 months and 5 years on the strength of the State Government's guarantee for the following agricultural purposes: reclamation of land, bunding and other land improvements, preparation of land for orchards and plantations, development of irrigation purchase of livestock, implements, machinery and transport equipment, construction of farm houses and cattle sheds and such other purposes connected with agriculture as the Central Board might determine from time to time.

The Standing Advisory Committee to advise the Bank "on matters pertaining to its Agricultural credit department and subjects allied to those matters" was appointed in July 1951. In less developed regions the Bank supplied loans to state cooperative banks against eli-

gible bills and promotes fully guaranteed by the respective State Governments. The Bank also organised a series of visits by its officers to various States to help the State Governments in formulating schemes for reorganising the co-operative movement on a sound basis. In addition, the Bank voluntarily undertook inspection of co-operative banks. Some procedural reforms were also made. The former practice of fixing credit limits for total borrowings was replaced by that of fixing credit limits in respect of total amount outstanding on any given date. The cooperative banks could, therefore, now operate upon these limits as a kind of cash credit account and make use of these limits in as flexible a manner as possible by drawing on the same and repaying as and when convenient. Even 'c' class cooperative societies were made eligible for assistance from the Reserve Bank on the strength of the Registrar's recommendation. The area of operation of the Bank was further widened as a result of the inclusion of Pari "B" States within the scope of Section 17 of the Act following the integration of states.

Rural Debenture

With the promulgation of the Reserve Bank of India (Amendment) Act 1955. National Agricultural Credit (Long-term operations) Fund was established in February 1956 under section (16 A) for making long-term loans and advances up to a maximum period of 20 years to Central Land Mortgage Banks and to State Governments. A Stabilisation Fund was also set up for making medium-term loans and advances to State Co-operative Banks to enable them to convert short-term credit into medium-term credit whenever such conversion was rendered necessary owing to drought, famine or other natural calamities.

The Reserve Bank was already advancing for short periods under section 17 (4) (a) against the debentures of land mortgage banks. A new scheme of rural debentures, according to which Central Land Mortgage Banks were to issue six or seven year loans for productive purposes, was formulated in 1958 as a means of mobilising rural savings. By way of incentive to land mortgage banks, the Reserve Bank undertook to subscribe to the

shortfall in subscription up to two-thirds of any issue. The scheme was recently revised to allow land mortgage banks to float debentures in two sets. one for 7 years to be offered to the public and the other for 15 years to be taken up by the Reserve Bank, the contribution of the Reserve Bank being slightly more than the subscriptions from the public (the proportion being 3 : 7).

From August 1, 1957, the Agricultural Produce (Development, and Warehousing) Corporations Act of 1956 came into force and the Reserve Bank was permitted to grant loans and advances to the warehousing corporations established "under the Act through the inclusion of a new clause (46) under section 17 of the Act. A circular letter A circular letter issued Bank in 1958 exempted advances by scheduled banks against warehousing receipts issued by State Warehousing Corporations from the purview of its directives restricting advances against food-stuffs. The rate of rebate was retained at 2 per cent when the Bank Rate was raised to 4 per cent in May 1957. In addition to these steps, the Bank also actively interested itself in the training of cooperative personnel.

The cumulative effect of these various steps aiming at liberalisation of the lending rate, relaxation of statutory restrictions, enlargement of the constitutional framework, procedural reforms, etc. on the cooperative movement may now be examined. As may be observed As may Table I the credit limits sanctioned to the State Cooperative Banks for financing seasonal agricultural operations and marketing of crops has steadily moved up from Rs 12.40 crores in 1951-52 to Rs 93.55 crores in 1959-00, The total medium-term loans sanctioned between 1951-55 and 1959-60 add up to as much as Rs 21.03 crores. The Reserve Bank's subscription to the debentures of land mortgage banks has been of the value of about Rs 70 lakhs for the period 1919-51 and Rs 16.51 lakhs during 1957-59. The Bank's contribution to the scheme of rural debentures works out to nearly Rs 75 lakhs for 1958-59 and 1959-60. Loans amounting to about Rs 20 crores were granted from 1956-57 to 1959-00 for enabling the various State Governments- to contribute to the share capital of cooperative socie-

Table 1: Reserve Bank's Advances to State Co-operative Banks.
(Rs lakhs)

Year	Short term loans.	Medium term loans	Subscription to Central Land Mortgage Bank debentures	Subscription to rural debentures	Sanctioned for State participation in the share capital of co-operatives (Figures in brackets refer to amounts utilised by State Governments)	Under Section 17(2) (bb) or (4) (c), (sanctioned at 1½% below Bank Rate)	Under section 17(2) (a) or (4) (c) (sanctioned at the Bank Rate)
1951-52	1240	—	13	—	—	—	—
1952-53	1242	—	16.89	—	—	—	—
1953-54	1632	—	15.56	—	—	—	—
1954-55	2121	122	—	—	—	—	—
1955-56	2964	140	—	—	—	—	—
1956-57	3525	167	—	—	289.70 (160.45)	—	—
1957-58	4824	772	44.84	—	604 (583)	205.78	—
1958-59	6513	152	1.67	15.5*	592 (574)	279	90
1959-60	9355	150	—	29.57	504 (493)	245.4	15

Source: Reports of the Central Board of Directors of the Reserve Bank of India (1951-52 - 1959-60)

*includes 24 lakhs, 3 lakhs and 18.5 lakhs to Saurashtra, Orissa and Andhra Central Land Mortgage Banks respectively.

Table 2: Interest Rates on Advances by Credit Societies
(Percentages)

State	Apex Societies			Central Societies			Primary Societies		
	1940-41	1951-52	1958-59	1940-41	1951-52	1958-59	1940-41	1951-52	1958-59
Andhra Pradesh	5.8	5-7½	2½	6	7½	4½	9-3/8	9-3/8	6½-7½
Assam	6	6-8	3½	9-3/8	6½-10	5-5½	12½	12-12½	7½-8
Bihar	5	3½	3	10½	—	5	12½	—	6½
Bombay	6	3½-7-13	16-4½	5½	3-9-3-8	4½-6½	—	6½-10-15/16	6½-7-13/16
Jammu and Kashmir	—	—	—	3½-7	3½-6½	4½	9-3/8	4-9-3/8	6½
Kerala	—	—	3½	1½-6½	6-6½	5	7½	6½	6½
Madhya Pradesh	3	2-9	3½	7½	4-12	7½	9	3-12	9
Madras	3½	3½	3	5½	4½	4½	7½	6½	6-6½
Mysore	3½-7½	6½	2½	8-10½	—	5	8½	6½-9-3/5	6½
Orissa	—	3½-5	3½	6½	5½-9	6	7½	—	8
Punjab	3½	4	4½	7	5½-8	5½-6	9-3/8	6-12½	7½-9-3/8
Rajasthan	—	—	3½	—	6-9	5½	—	7½-12½	7½
Uttar Pradesh	—	6	4	—	9	6½	—	12-15	8½
West Bengal	5	5	3½	9-3-8	4½-10-15/16	6½	12½	12½	8-6½

Source: Statistical Statements relating to the Co-operative Movement in India for the years 1940-41, 1951-52, and 1958-59. Figures relating to Andhra Pradesh and Kerala for 1940-41 and 1951-52 are those of former Hyderabad and Travancore-Cochin respectively and those relating to Jammu and Kashmir, Madhya Pradesh and West Bengal for 1940-41 are those of old Kashmir, Central Provinces and Berar and Bengal respectively.

Table 3: Margins Maintained by Credit Societies
(Percentages)

State	By Apex Societies			By Central Societies			By Primary Societies		
	1940-41	1950-51	1958-59	1940-41	1950-51	1958-59	1940-41	1950-51	1958-59
Andhra Pradesh	2.5½	1½-4	3	1½	1½-4½	1½	2-3/8	4-3-3/8	1½
Assam	2-3	3½-5½	1½	3-3/8-5	2-3/8-3	1½-2	3-1/8	3-3-3/8	2-2½
Bihar	2	2½-3½	1	5½	1½	2	1½	1	1½
Bombay	4½	1½-2	2½	4	2-3	4-24	—	2½	1½-2½
Jammu and Kashmir	—	—	—	0-3½	—	—	2-3/8	—	1½
Kerala	—	—	1½	3½-5	2½	1½	1½-1-7/8	2	1½
Madhya Pradesh	1	2½	1½	1½	3-4	1	3	3-4	1½
Madras	1½	1-1½	1	2	1½-2½	1½	2	2-2½	1½
Mysore	0-4	1-2	3	2-8½	Not functioning.	2½	1	1-2	1½
Orissa	—	1-2½	1½	2½	2-3	2½	1½	1-1½	2
Punjab	1	1½	2½	3½	1-5½	1-1½	2-3/8	4-6½	2-3-1/8
Rajasthan	—	—	1½	—	2	—	—	—	2
Uttar Pradesh	—	½-4	2	—	1-5	2½	—	3	2
West Bengal	1½	1½	1½	3-7-8	3-34	3	3-1/8	1/8-3	1½

Figures relating to Andhra Pradesh and Kerala for 1940-41 and 1950-51 are those of old Hyderabad and Travancore-Cochin respectively and those relating to Jammu and Kashmir, Madhya Pradesh and West Bengal for 1940-41 are those of former Kashmir, Central Provinces and Berar and Bengal respectively.

Margin maintained by the apex societies in 1958-59 represents the difference between the rate at which they borrowed from the Reserve Bank (i.e. 2½%), and the rate at which they lent for seasonal agricultural operations and marketing of crops. Margin maintained by the rest of the societies in all the other years represents the difference between the borrowing and lending rates.

Source: Statistical Statements relating to the Co-operative movement in India for the years 1940-41 and 1958-59. Reserve Bank of India Bulletin, 1951, pp 424-425.

lies of which Rs 18 crores have been availed of so far. The total gross disbursements which include loans to State Cooperative Banks, mid Central Land Mortgage Banks and the amount utilised for purchase of rural debentures out of the National Agricultural Credit (Long-term operations) Fund since its inception in 1956 were estimated at Rs 31.27 crores on June 30, 1960. Of this, the total amount outstanding was Rs 25.7 crores. The total amount transferred by the Bank to this Fund during the same period was Rs 10 crores. The amount to the credit of the stabilisation fund was Rs 5 crores but so far this Fund has not been drawn upon. For financing the production and marketing activities of weavers' cooperative societies, the Bank has sanctioned about Rs 206 lakhs under Section 17 (2) (bb) in 1957-58 and Rs 279 lakhs and Rs 215 lakhs under Section 17 (2) (bb) or (1) (c) in 1958-59 and 1959-60 respectively. Credit limit for another Rs 300 lakhs has been sanctioned at the Bank rate in 1957-58 to meet the working capital requirements of cooperative sugar factories. Further, in order to enable the State cooperative banks to finance bonafide commercial or trade transactions, the Reserve Bank advanced about Rs 90 lakhs in 1958-59 and another Rs 15 lakhs at the Bank rate on behalf of the Apex Weavers Societies in 1959-60 under Section 17 (2) (a) or (a) or (4) (c).

The total number of warehouses established by the Central Warehousing Corporation and by the State Warehousing Corporations were 27 and 157 respectively in 1959-60. The number of cooperative banks inspected by the Bank went up from 2 in 1952-53 and 101 in, 1956-57 to 256 in 1959-60. The number of State cooperative banks which look financial assistance from the Bank also increased from 7 in 1952-53 to 19 in 1959-60.

The Reserve Bank's record in respect of the cooperative movement can be looked at from another angle also. In 1917-18, the total credit made available by the rural credit societies was about Rs 10 crores, of which the Reserve Bank's share was only Rs 17 lakhs. In 1951-52, when the Gorwala Committee undertook the rural credit survey, the annual borrowings of

agriculturists for short, medium and long term purposes were estimated to be Rs 750 crores, of which only Rs 23.25 crores were reported to have been supplied by the cooperative credit societies. Of this, the Reserve Bank's contribution was about Rs 11.12 crores (Rs 11.29 crores by way of short-term loans and Rs 13 lakhs through long-term loans). In 1958-59 the total borrowing of the rural population was roughly estimated at Rs 1000 crores, of which Rs 126 crores were supplied by the rural credit societies. The extent of the Reserve Bank's contribution was Rs 83 crores. Thus in 1958-59, the Reserve Bank advanced about 66 per cent of the total amount supplied by the cooperative credit societies as against 51 per cent in 1951-52 and 1.7 per cent in 1917-18, and nearly 8.3 per cent of the aggregate annual borrowings of agriculturists as compared with 1.5 per cent in 1951-52. The contribution of co-operatives to the total borrowings of cultivators also registered a perceptible rise from 3.1 per cent in 1951-52 to 12.6 per cent in 1958-59.

Assistance to Credit Societies

To arrive at the total financial assistance rendered by the Reserve Bank to the rural sector, account must also be taken of the dividends due to the Reserve Bank, but now credited to the Integration and Development fund for meeting the losses incurred by the State Bank in opening new branches. The total amount in this fund was Rs 1.69 crores at the end of 1959, of which a sum of Rs 35 lakhs was appropriated during 1959 under the authority of the Reserve Bank in respect of losses for the years 1957 and 1958 of the new branches established under section 16 (5) of the State Bank Act.

In this context, it may be worthwhile to ascertain whether this enormous financial assistance and the considerable rebate offered by the Reserve Bank has resulted in any reduction of the rate of interest charged in the co-operative societies and thus passed the benefit of low interest rates to agriculturists. Table 2 shows that in a majority of the States a significant improvement in the lending rates has been brought about at almost all levels of co-operative societies. With reference to advances by Apex-

Societies in 1958-59, the rates on advances were considerably lower compared to the high rates ruling in 1910-11 and 1951-52" in all States for which data were available except Punjab and probably Bombay and Madhya Pradesh. Similarly, in the case of Central Societies, the rates were lower in 1958-59 in many States. As for the primary societies, figures indicate that in 1910-41 the rate varied between 7½-12½ in almost all States. The position had not improved much by 1951-52, except in Travancore-Cochin and Madras. But by 1958-59 the rates had registered a significant fall in all States, except Orissa and Madhya Pradesh.

This improvement in the overall position is also seen with regard to the margins maintained by the co-operative societies. Table 3 shows clearly that the rate of margin retained for meeting the working expenses of the units has been relatively reduced in the case of all co-operative credit societies in almost all the States. Except for Punjab, the margins kept by State co-operative banks in 1958-59, were much lower than the corresponding rate, either in 1940-41 or in 1950-51. In the case of Central financing agencies, excepting Madhya Pradesh, West Bengal and Uttar Pradesh, the margins deducted in most States did not exceed the maximum and minimum limits ranging between 2-12 per cent. Even at the primary level in 1958-59, there was a reduction in the margin in Assam, Jammu and Kashmir, Madhya Pradesh, Uttar Pradesh, Madras and West Bengal.

It will be recalled that the Agricultural Finance Sub-Committee, the Co-operative Planning Sub-Committee and the Agricultural Credit Organisation Committee were all unanimous in recommending that the rate at which funds are made available to credit-worthy agriculturists should not exceed 6½ per cent for short and medium term and 4 per cent for the long-term credit. While the performance of the co-operatives in recent years has no doubt been encouraging, judging by the interest rates charged on advances by the primary societies, much leeway has yet to be made in States like Assam, Madhya Pradesh, Punjab, Rajasthan, Uttar Pradesh, Himachal Pradesh and Kerala (to an extent). Measures to strengthen the co-operative movement, to improve

its efficiency, to mobilise rural savings, to raise funds through local deposits and to rationalise the organisation of co-operative banks and societies, may, therefore, be considered, along with a further reduction in the rebate allowed by the Reserve Bank with a view to bringing down the interest rates payable by the agriculturists in these States.

The above analysis indicates the vital role played by the Reserve Bank in recent years in promoting the development of a sound system of agricultural credit in India. In the words of Chester Davies, "the Reserve Bank has been giving new-life and leadership to the co-operative, credit movement in recent years. Probably, no other Central Bank in the world is doing as much to help, develop and finance rural credit institutions."

Alternative to the Money-lender

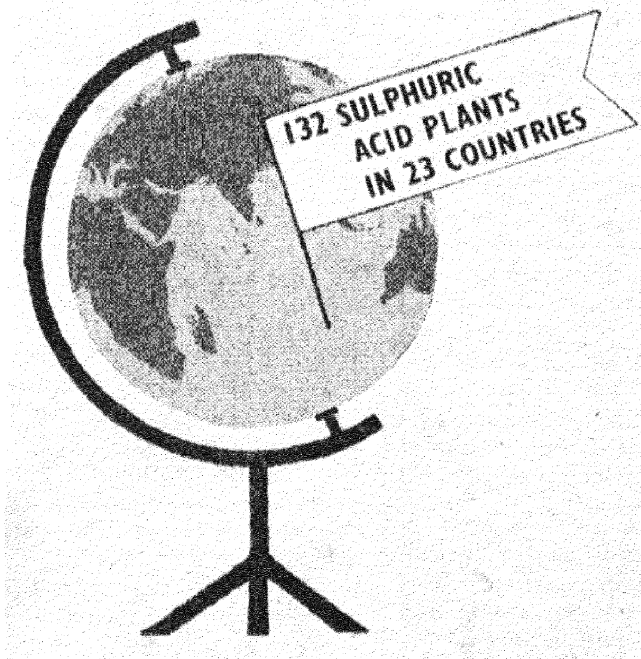
Finally, reference must be made to the role of money-lenders who still dominate the sphere of rural credit in spite of the gradual expansion of the co-operative movement in recent years. The prescription of a ceiling

on interest rates by legislation in different States has had no effect on the money-lenders' operations, as has been admitted, by the Rural Credit follow-up Survey Committee. The survey points out that private credit agencies continue to supply a major portion of credit availed of by cultivators. The official formalities, institutional rigidities, insistence on self-liquidating and easily marketable securities, procedural vexations, avoidable delays and the inadequacy of loans sanctioned by co-operative agencies appear to have left the small farmers still largely dependant upon the private credit agencies. Elimination of these defects and deficiencies in the Organisation and functioning of credit societies is an essential prerequisite for building up the co-operative credit system as an effective alternative to the money-lender. Now that the State Bank has opened a large number of new branches in rural areas and gathered some knowledge of local conditions, time is ripe for the Reserve Bank to revive the practice of offering rediscount facility at concession rates through the State Bank of bills of

approved money-lenders drawn for making advances to agriculturists on the condition that the benefit of low rate is passed on to the cultivators.

Rubber Production

THE measures taken, by Government to encourage the production of rubber in the country were detailed in the Lok Sabha on December 16, by the Minister of Commerce, Shri Nityanand Kanungo. The Minister said that a scheme for replanting 70,000 acres of low-yielding land with high-yielding strains in ten years was being implemented by the Rubber Board since 1957. The scheme provided for the payment of a subsidy to the growers ranging from Rs 250 to Rs 400 per acre. An area of 10,645 acres had already been replanted and a subsidy of Rs 20,21,781 had been paid to the growers by the Rubber Board under this scheme. To make the scheme more attractive, the rate of subsidy had been increased to Rs 1,000 per acre, with effect from the plantations undertaken during the current year.



Since 1935 Simon-Carves have received orders for and put into service, one hundred and thirty two Simon-Carves-Monsanto sulphuric acid plants of which 21 have been installed in India. With an aggregate rated capacity of nearly 3½ million long tons of 100% sulphuric acid per annum, these plants have been built in twenty three countries throughout the world. Their individual rated capacities range from 10 to over 400 tons of 100% acid per day. Designed to use any sulphur bearing material including raw sulphur, pyrites, sludge acid, refinery waste gases, anhydrite etc, their output is used in oil refining, steelmaking, uranium processing, the production of fertilisers, explosives, rayon, dyestuffs, pigments and many other industries.

CONTACT SULPHURIC ACID PLANTS BY

Simon-Carves Ltd

Incorporated in England.
The liability of the members is limited.

STANDARD BUILDINGS:
32, DALHOUSIE SQUARE SOUTH, CALCUTTA-1