CHAPTER VII

COMMERCIAL BANKS IN SERVICE OF FARMERS.
In a bid to diversify the activities of commercial banks and thereby make their benefits available to the agricultural sector, the Government of India brought 14 Commercial banks under social control in the year 1969. Subsequently 8 more such banks were also nationalised. The emergence of commercial banks on the agricultural scene marks a historical event in the banking history of India.

As a consequence these banks assumed the responsibility of fulfilling the social obligation of meeting the credit requirements of Farming Community — the Back bone of Indian Economy. Now that they have entered the field, it is but desirable to assess their performance during the decade gone by.

Commercial Banks in Service of Agriculture

The entry of commercial banks in the agricultural sector is only a decade old. Prior to that, cooperative sector had completely swayed the agricultural sector in meeting its credit needs. However, introduction of latest technology in agriculture
and high priority accorded to this sector under the National Plans revealed a situation where the cooperative banking system suffered severe shortage of resources and the production credit needs could not come forth from cooperatives in a big way. It was therefore, felt necessary to harness commercial banks to the agricultural sector. This is further borne out by the Report of Working Group of National Credit Council 1968 which pointed out, "large institutional credit gaps in the rural economy and underlined the need, not only to mop up rural savings but also for the adoption of multi-agency approach to meet the growing needs of rural and agricultural credit." It follows, therefore, that commercial banks were assigned a crucial role in the field of agricultural upliftment, while cooperatives continued to be the principal agency for providing credit to the agriculturists.

Reserve Bank of India Guide Lines to Commercial Banks:

In eagerness to involve the commercial banks into the field of agriculture as an effective

instrument for supply of credit, the Reserve Bank of India through its Planning Cell took series of steps and suggested some important guide lines for improving their operational efficiency. These are:

1. The main objective of commercial banks lending to agriculture is to assist cultivators in the adoption of an improved Package of Practices and thus move to a higher technological plain of activity. Credit for agriculture would have to be purposive and should not be given to already viable cultivators for further increasing their surpluses but to marginal and potentially viable cultivators.

2. Lending should be for productive purposes only. Lending in the nature of ways and means accommodation should in be given lower priority.

3. Lending at traditional plain may however, be made to bring cultivators within the ambit of commercial banking with a view to increasing the output of the cultivators.

4. Agricultural lending should be at the right time and in adequate quantity to build an enduring relationship between the bank and the borrower.
5. Close and constant touch with the borrower to be maintained for recovery as well as for educating the cultivator and getting him into the habit of regular repayment.

6. Loan amount may be credited to the deposit account of the farmer and even value of kind component paid by cheques drawn on that account to inculcate a habit towards thrift.

7. The banks should move into more difficult areas and not hanker after high potentially easy areas.

8. Banks should adopt an Area Development Approach in agricultural lending and each branch should decide on the Command Area to avoid overlapping of efforts and resources in the same area by several banks.

9. Branch Agent/Manager should collect and have available for ready reference the basic agricultural data relating to the area under his jurisdiction viz. landuse and cropping patterns, seasonality of operations, extent and types of irrigation facilities, tenurial structure etc.
10. Credit norms and scales of finance should be worked out considering all the input required as well as the off-farm income or resources available to cultivators. They should be checked with scales fixed by Cooperatives in their Annual Field Workers Conference and adjustments made suitably.

11. The bank should be sure of post-credit supervision on utilization of loans for the purpose for which they are granted.

12. In regard to medium term loans, the norm should relate to the income-generating potential of the proposed investment rather than to the size of the holding.

13. For both short term and medium term loans the repayment schedule should coincide with the time when the cultivator has sold his produce, and is fluid. Care should be taken to give sufficient timelag to enable the cultivator to hold the produce to get a good price. Recovery programmes should at all times be sufficiently flexible to allow easy and appropriate re-phasing in case of natural calamities.
14. Banks should not lean too heavily on Government staff or depend on them entirely for technical and financial supervision. At no time should banks lose direct contact with their clients.

15. It has been noticed that occasionally more than one commercial banks as well as Cooperative banks have financed the same borrower for the same purpose against the same security. All branch Agents/Managers should attempt to work out informal methods of exchanging information with their counterparts in the cooperatives.²

In accordance with these guidelines commercial banks launched a drive for opening branch offices in rural and semi-rural areas throughout the country. In the State of Jammu and Kashmir Commercial Banks have given a good account of themselves both in the field of branch expansion in rural areas and increase in volume of credit. This is reflected by the fact that on the eve of nationalization of Commercial Banks there were 35 banking offices, in the State

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(as on 19th June, 1969) which rose to 394 on 30th June, 1960. Their dispersal was as under:

<table>
<thead>
<tr>
<th>Year</th>
<th>Rural</th>
<th>Semi urban</th>
<th>Urban</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1969</td>
<td>7</td>
<td>8</td>
<td>20</td>
<td>35</td>
</tr>
<tr>
<td>1980</td>
<td>25</td>
<td>45</td>
<td>97</td>
<td>394</td>
</tr>
</tbody>
</table>

In order to expand the banking activities, Commercial Banks performed satisfactory progress which is revealed by the following table:

**TABLE 1**

**DISTRICTWISE DISTRIBUTION OF THE COMMERCIAL BANKS IN THE STATE**
(December, 1978)

<table>
<thead>
<tr>
<th>District</th>
<th>Rural</th>
<th>Semi urban</th>
<th>Urban</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Srinagar</td>
<td>18</td>
<td></td>
<td>54</td>
<td>72</td>
</tr>
<tr>
<td>Anantnag</td>
<td>34</td>
<td>7</td>
<td></td>
<td>41</td>
</tr>
<tr>
<td>Baramulla</td>
<td>16</td>
<td>10</td>
<td>14</td>
<td>40</td>
</tr>
<tr>
<td>Ladaik</td>
<td>4</td>
<td></td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>Jammu</td>
<td>62</td>
<td>2</td>
<td>38</td>
<td>102</td>
</tr>
<tr>
<td>Kathua</td>
<td>20</td>
<td>5</td>
<td></td>
<td>25</td>
</tr>
<tr>
<td>Udhampur</td>
<td>13</td>
<td>8</td>
<td>1</td>
<td>22</td>
</tr>
<tr>
<td>Doda</td>
<td>18</td>
<td>3</td>
<td></td>
<td>21</td>
</tr>
<tr>
<td>Poonch</td>
<td>5</td>
<td>3</td>
<td></td>
<td>8</td>
</tr>
<tr>
<td>Rajouri</td>
<td>7</td>
<td>2</td>
<td></td>
<td>9</td>
</tr>
<tr>
<td><strong>State as a whole</strong></td>
<td>197</td>
<td>40</td>
<td>111</td>
<td>348</td>
</tr>
</tbody>
</table>


Table 1 shows that out of total number of 348 bank branches, 197 were opened in rural areas in 1978 as against 7 in 1969. The expansion of branches was not only continuous but care was taken that these be established in far-flung areas of Gurez, Tangdar, Drass etc. The number of bank branches has increased to 427 in 1980 from which about 64 percent are located in rural areas. The emphasis to open more and more branches is:

1. To reduce burden of population per branch bank;
2. To mop up rural savings; and
3. To provide credit to needy farmers without difficulty.

The branch expansion reduces the heavy rush of population on branches. The position of branch expansion in the State is depicted from the following table:

<table>
<thead>
<tr>
<th>Table 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>POPULATION PER BRANCH BANK</td>
</tr>
<tr>
<td>(ooo)</td>
</tr>
<tr>
<td>114</td>
</tr>
</tbody>
</table>

Source: By courtesy of Directorate of Institutional Finance, J & K Government.

The table shows that the population pressure per branch has considerably decreased from 114,000 (1969) to 120,000 (1980). But since the State of Jammu and Kashmir has been declared backward by the Government of India, the number of persons covered by each branch is higher than what we would deserve.

The mobilisation of funds was facilitated as well as improved upon. Thus the deposits which were of the order of Rs. 26.70 lakhs in 1969 rose to Rs. 294.47 lakhs in 1979, just in one decade. Year-wise position of deposits is depicted by the following table:

**Table 3**

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (Rs. in lakhs)</th>
<th>Year</th>
<th>Amount (Rs. in lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1969</td>
<td>26.70</td>
<td>1975</td>
<td>98.03</td>
</tr>
<tr>
<td>1971</td>
<td>49.15</td>
<td>1976</td>
<td>132.57</td>
</tr>
<tr>
<td>1972</td>
<td>55.81</td>
<td>1977</td>
<td>162.98</td>
</tr>
<tr>
<td>1973</td>
<td>72.74</td>
<td>1978</td>
<td>278.58</td>
</tr>
<tr>
<td>1974</td>
<td>82.13</td>
<td>1979</td>
<td>294.47</td>
</tr>
</tbody>
</table>

Source: Compiled by the scholar from current Banking Statistics, Govt. of India, 1980.

Note: 1. Date for 1978-1979 are provisional.
2. Data for 1972 to 1979 relate to last Friday of December.
3. Deposits are exclusive of inter bank transactions.
Commercial banks are endeavouring not only to fill the credit gap in the field of agriculture, but are seeking to contribute to agricultural development by financing, both directly to individuals as well as indirectly through primary agricultural credit societies.

### Financing through primary Societies

The study group of National Credit Council in its meeting held on 12 July, 1969 proposed that commercial banks in addition to providing finance directly to agriculturists should provide finance indirectly through Primary Agricultural Societies in areas where District Central Cooperative Banks due to their administrative and operational weakness were unable to lend financial support to the affiliated societies. The proposal was approved and the commercial banks, besides direct lending, started providing credit to farmers indirectly through the primaries. The salient feature of the scheme are:

1. In selected areas a branch of commercial bank would take over 10 societies within a radius of 10
miles from its office so that each branch may get a loan business of Rs. 20 lakhs for operational viability of the scheme and optimum use of its field office;

II. Commercial Banks would take over current liabilities of the societies. As regards overdue liabilities, the banks would take over only such of the liabilities, about which they are satisfied on merits;

III. Commercial banks would follow the crop loan system of financing in respect of short term agricultural loan;

IV. Since primary credit society is expected to meet the credit needs of all its members viz. agriculturists, artisans etc., commercial banks may correspondingly provide credit to the societies;

V. Commercial banks would also undertake financing of individuals through primary societies for all purposes for which cooperative credit structure gives medium term loans;

VI. These banks would lend to societies at responsible rate of interest as advised by Reserve Bank of India from time to time.5

5. R. B. I. Financing of Primary Agricultural Credit Societies
This scheme of financing agriculturists through Primary Societies was introduced in Jammu and Kashmir State in 1973 when 6 Commercial Banks took over 94 Societies for financing through their 9 branches in 6 districts. The decision was taken in the State Level Standing Committee and the following criteria were adopted while allotting Societies to commercial banks:

i. Half the number of societies would be from developed areas with large potential for development;

ii. The societies have to be from a compact area;

iii. The societies should be approachable by road and within a radius of 10 to 12 miles from the branches of commercial banks.

At the end of June, 1979 seven commercial banks took over 130 societies through their 12 branches in six districts of the State. Out of these 130 societies, only 46 societies had been financed by

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6. R. B.I. Regional Office Jammu, typed note on implementation of the scheme of financing primary Agr. Societies by Commercial Banks.

7. Ibid.
the commercial banks. The yearwise details of the societies financed by the public sector banks since the inception of the scheme are given in the following table:

### TABLE 4

**YEARWISE DETAILS OF SOCIETIES FINANCED BY COMMERCIAL BANKS**

( Rs. in lakhs )

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of</th>
<th>No. of</th>
<th>%age</th>
<th>Short</th>
<th>Medium</th>
<th>Cash</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>societies</td>
<td>societ-</td>
<td>of</td>
<td>term</td>
<td>term</td>
<td>credit</td>
</tr>
<tr>
<td></td>
<td>31st</td>
<td>ties</td>
<td>1-2</td>
<td>loans</td>
<td>loans</td>
<td></td>
</tr>
<tr>
<td></td>
<td>taken</td>
<td>financed</td>
<td>issued</td>
<td>issued</td>
<td>issued</td>
<td>standing at the end of year</td>
</tr>
<tr>
<td>-----------</td>
<td>---------</td>
<td>---------</td>
<td>-------</td>
<td>-------</td>
<td>--------</td>
<td>-----------------------------</td>
</tr>
<tr>
<td>1973-74</td>
<td>94</td>
<td>39</td>
<td>41</td>
<td>18.25</td>
<td>1.11</td>
<td>2.03</td>
</tr>
<tr>
<td>1974-75</td>
<td>113</td>
<td>64</td>
<td>57</td>
<td>27.49</td>
<td>0.80</td>
<td>2.00</td>
</tr>
<tr>
<td>1975-76</td>
<td>125</td>
<td>76</td>
<td>62</td>
<td>34.72</td>
<td>5.20</td>
<td>-</td>
</tr>
<tr>
<td>1976-77</td>
<td>119</td>
<td>64</td>
<td>54</td>
<td>61.13</td>
<td>4.37</td>
<td>0.01</td>
</tr>
<tr>
<td>1977-78</td>
<td>139</td>
<td>50</td>
<td>36</td>
<td>19.28</td>
<td>4.78</td>
<td>-</td>
</tr>
<tr>
<td>1978-79</td>
<td>130</td>
<td>48</td>
<td>37</td>
<td>30.62</td>
<td>5.86</td>
<td>-</td>
</tr>
</tbody>
</table>

**Source:** - Compiled by the scholar from the records of R.B.I. Regional office, Jammu.

The above table reveals that short-term loans disbursed through societies during 1977-78 have decreased to Rs. 19.28 lakhs from Rs. 61.13 lakhs.
in 1976-77. However, there is increase in medium term lending from Rs. 1.11 lakhs in 1973 to Rs. 5.86 lakhs in 1979. The number of societies financed has decreased from 64 in 1976-77 to 50 during 1978-79. The main reason for this decline was the ineligibility of many societies to borrow from banks on account of heavy overdues. The decline was also due to the complete neglect of the scheme by some commercial banks in as much as two of the Punjab National Bank branches had not issued any short term loans during the last two years. Further it is observed that these banks preferred to make direct loans to cultivators.

The position of demand recovery and overdues of Commercial banks in respect of their advances to societies taken over and financed by them since 1973-74 is given in the following table.

<table>
<thead>
<tr>
<th>Year</th>
<th>Demand Recovery</th>
<th>Overdues</th>
<th>%age of overdue to very to demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973-74</td>
<td>37.56</td>
<td>28.79</td>
<td>9.17</td>
</tr>
<tr>
<td>1974-75</td>
<td>36.06</td>
<td>22.93</td>
<td>15.13</td>
</tr>
<tr>
<td>1975-76</td>
<td>56.93</td>
<td>23.64</td>
<td>35.15</td>
</tr>
<tr>
<td>1976-77</td>
<td>69.95</td>
<td>29.94</td>
<td>40.71</td>
</tr>
<tr>
<td>1977-78</td>
<td>45.53</td>
<td>26.76</td>
<td>18.79</td>
</tr>
<tr>
<td>1978-79</td>
<td>63.81</td>
<td>27.40</td>
<td>34.41</td>
</tr>
</tbody>
</table>

Source: Compiled by the scholar from R.B.I. Regional Office, Jammu.
The above figures reveal that though the demand increased to Rs. 63.81 lakhs in 1978-79 as against Rs. 37.56 lakh in 1973-74 there is a decline in recovery from Rs. 28.39 lakhs in 1973-74 to Rs. 27.40 lakhs in 1978-79. Overdues have increased continuously from Rs. 9.17 lakhs in 1973-74 to Rs. 36.41 lakhs in 1978-79 except in 1977-78 when it declined from Rs. 40.71 lakhs to Rs. 18.71 lakhs. The main reasons for increased overdues are:

1. Lack of supervisory staff in some banks;
2. Non posting of full time paid secretaries in most of the societies;
3. Delay in taking coercive action against the defaulters and
4. Delay in disposal of arbitration cases filed by the banks in the Cooperative Department.

The existing staff of the commercial banks did not play any appreciable role in recovery and supervision. Most of the branches did not have any supervisors to look after the scheme. Only the State Bank of India, the J & K Bank Ltd., Bank of Baroda and United Commercial Bank had appointed some supervisory staff. The remaining banks fared badly due to lack of supervision.
The societies owed were financed liberally in the initial period. However, during the course of time the overdues piled up in the societies. Consequently, they had become ineligible to borrow from banks on account of the poor recovery performance.

**Direct Financing:**

The commercial banks provide opportunity to the agriculturist to borrow crop loans and term-loans directly on the third party security or on mortgage of land. During the past decade they have contributed substantially to the purchase of improved seeds, fertilizers, latest technology for development of irrigation and land development programmes, and also to the activities allied to agriculture such as horticulture, dairy farming, poultry farming, sheep breeding etc.

On December, 1976, the total limit sanctioned by commercial banks to agricultural sector in the State stood at Rs. 531.34 lakhs as direct and Rs. 363.80 lakhs as indirect. The total advances (outstanding) to agricultural sector ending December, 1979 stood at Rs. 521.59 lakhs (direct) and Rs. 233.73 lakhs (indirect).

E. Directorate of Institutional Finance, J&K Govt.
Comparing the position of advances by Public Sector Commercial Banks on the same date with some States of Northern region of the country, the role of commercial banks in agricultural development of Jammu and Kashmir State sinks into insignificance. This fact is clear from the table below.

**TABLE 6**

PUBLIC SECTOR BANKS ADVANCES TO AGRICULTURE (AMOUNT OUTSTANDING) ENDING DECEMBER, 1979

<table>
<thead>
<tr>
<th>State</th>
<th>Direct</th>
<th>Indirect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Haryana</td>
<td>10213.97</td>
<td>1755.67</td>
</tr>
<tr>
<td>Himachal Pradesh</td>
<td>903.05</td>
<td>127.27</td>
</tr>
<tr>
<td>Jammu &amp; Kashmir</td>
<td>521.59</td>
<td>233.73</td>
</tr>
<tr>
<td>Punjab</td>
<td>12707.75</td>
<td>2901.96</td>
</tr>
<tr>
<td>Rajasthan</td>
<td>8742.82</td>
<td>1932.61</td>
</tr>
<tr>
<td>Chandigarh</td>
<td>138.71</td>
<td>2010.62</td>
</tr>
<tr>
<td>Delhi</td>
<td>1168.98</td>
<td>1190.28</td>
</tr>
</tbody>
</table>

*Source: - Current banking statistics, Govt. of India, 1980.*
Regarding recovery, the position of commercial banks in agricultural lending is not satisfactory as is evident from the following table.

**TABLE 7**

YEARWISE PERCENTAGE OF RECOVERY TO DEMAND OF COMMERCIAL BANKS

(Rs. in lakhs)

<table>
<thead>
<tr>
<th>Year (ending June)</th>
<th>Public sector banks</th>
<th>Scheduled commercial banks</th>
<th>Other commercial banks</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976</td>
<td>40.5</td>
<td>63.1</td>
<td>42.3</td>
<td>145.9</td>
</tr>
<tr>
<td>1977</td>
<td>48.1</td>
<td>47.2</td>
<td>48.1</td>
<td>143.4</td>
</tr>
<tr>
<td>1978</td>
<td>63.00</td>
<td>47.3</td>
<td>62.6</td>
<td>172.9</td>
</tr>
<tr>
<td>1979</td>
<td>46.9</td>
<td>48.7</td>
<td>47.5</td>
<td>142.1</td>
</tr>
</tbody>
</table>

Source: Compiled by the scholar from Current Banking Statistics, Govt. of India, 1980.

The table shows that taken all the commercial banks together the percentage of recovery to demand has fallen from 145.9 per cent in 1976 to 142.1 per cent in 1979 except in the year 1978 when it increased to 172.9 per cent.

Over the years, there has also been a conscious effort on the part of the banks to increase
the coverage of small/marginal farmers. Loans have also been advanced to deserving agriculturists on Differential Rate of Interest. In this regard the following table will make the point clear.

**TABLE 8**

**DISTRIBUTION OF CREDIT UNDER D.R.I. SCHEME BY PUBLIC SECTOR BANKS IN THE STATE**

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of borrowal accounts</th>
<th>Amount outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>June, 1976</td>
<td>8157</td>
<td>55.01</td>
</tr>
<tr>
<td>June, 1977</td>
<td>12720</td>
<td>75.13</td>
</tr>
<tr>
<td>June, 1978</td>
<td>15063</td>
<td>90.56</td>
</tr>
<tr>
<td>June, 1979</td>
<td>24699</td>
<td>213.32</td>
</tr>
<tr>
<td>December, 1979</td>
<td>27730</td>
<td>224.54</td>
</tr>
</tbody>
</table>

Source: By courtesy of R.B.I. Regional office, Jammu.

The above table shows that for all the public sector banks taken together, the borrowal accounts under this scheme increased from 8157 in 1976 to 27730 in 1979 which is a healthy trend. But here too these banks suffer from bad recovery and
outstanding have increased to 224.54 in 1979 against Re. 55.01 in 1979. This lacuna needs to be rectified.

**LEAD BANK SCHEME**

The Lead Bank Scheme which aims at increasing the involvement of banks in the development process at the district level came into operation in 1970 and is based on "Area Approach." The idea behind the scheme was that, depending upon the area of operation and location, commercial banks should be assigned particular districts in an area where they should act as pace-setters providing integrated banking facilities. Accordingly, all districts and Union territories were allotted to twenty two public sector and two private sector banks, except the Metropolitan cities (of Bombay, Madras, Calcutta and Union Territories of Delhi, Chandigarh and Goa) for their overall economic development. The main thrust was on rural banking in backward areas to remove imbalances so far as banking facilities are concerned.

The Lead Bank of a particular district requires to assume the role of leadership in coordinating

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the activities of various financial and development agencies operating in the district for meeting the credit demands arising from the implementation of various developmental programmes and felt-needs of people in a most effective and systematic manner.

Further the lead banks have responsibility of preparing survey Reports as well as District Credit Plans with a view to intensify the growth centres and credit gaps in all sectors of economy viz., Agriculture and allied activities, Industry and Services.

In order to fall in line with rest of the country, all the districts of Jammu and Kashmir State have been brought under the Lead Bank Scheme. In the beginning State Bank of India alone took the responsibility of Lead Bank. It conducted Surveys and prepared District Credit Plans. The first round of such plans ended in 1979 and the second round was from 1980 to 1982. Here, it is gratifying to note that now from 1981 the Jammu and Kashmir Bank Ltd. also started functioning as Lead Bank for four districts of Baramulla, Kupwara, Rajouri and Poonch. 10

The Lead Banks have appointed lead officers who keep a liaison with other developmental agencies, particularly of the State Government so that bankable schemes may be involved and taken up for financing by Commercial Banks for the development of particular district.

The District Credit plans presently in operation have same objectives as those of National Plans namely:

1. Removal of unemployment and under employment;
2. Rise in the standard of living of the poorest section of population, and
3. Provision of the basic needs of the people belonging to weaker sections.

From these objectives the main objects for bank loans follow:

1. Loans for labour-intensive schemes, which generate employment;
2. Loans to increase productivity of land and other allied sectors so as to reduce under-employment and increase income levels and

3. Loans to weaker sections of the population (small, marginal, agricultural labourers, rural artisans and scheduled castes and scheduled tribes) for production purposes to the maximum extent possible and provision for some consumption components to low income groups as a part of loans for production and investment purposes.12

All employment oriented schemes like sheep breeding, poultry farming, Dairying, Fisheries, Horticulture, which are technically feasible and economically viable are taken up and financed by the banks as per their commitments.

Under the scheme District Consultative Committees have been appointed. These committees held their meetings regularly at quarterly intervals. The Committee through its another Committee known as standing Committee looks into the preparation and implementation of District Credit Plans. The main functions of the Committee are to:

a. Identifying the feasibility of formulating new bankable schemes and assist in the review of the District Credit plan;

b. Look into the question of availability

of necessary infra-structural facilities and supply of inputs for the schemes;

c. Examine the factors impeding the flow of credit under any of the schemes;

d. Make suggestions for rationalization of loaning policies and procedures of institutional credit agencies;

e. To ensure proper coordination among all concerned credit agencies;

f. Follow up the decisions taken at the District Consultative Committee meeting.  

Besides these the Lead Bank conducts State level Banker's Committee meetings where main issues of the working of various institutions are discussed and problems of mutual interest are discussed.

There are 21 commercial banks engaged in the supply of agricultural credit in Jammu and Kashmir State (list given in Annexure C). The individual performance over the years follows here under in respect of State Bank of India and Jammu and Kashmir Bank Ltd. being too Lead Banks in the State.

1. **STATE BANK OF INDIA**

The State Bank of India entered the agricultural field in 1968 and was the first bank, in the country as a whole, to give loans to priority sectors for their economic reconstruction. But till 1972 the amounts advanced were very meagre, business was confined to big agriculturist and the formalities involved were very complicated. It is on accepting the concept of Multi Agency Approach in seventies that the bank changed to its lending policy with respect to agricultural sector. having large business operations and wide coverage, it accepted the responsibility of Lead Bank in the entire State. Presently, it functions as Lead Bank for the entire State except Baramulla, Kupwara, Rajouri and Poonch districts which have been recently ceded to the J & K Bank Ltd. The bank has conducted surveys and prepared district credit plans for the entire State. For effective implementation of these credit plans lead district officers have been posted to cover all the ten districts under their purview. These officers keep liaison with various

14. Office records of the State Bank of India, Regional Office, Srinagar.
Government functionaries and other banks/financial institutions and act as convenors of meetings of District Consultative Committees.

The bank opened its Regional Office in Srinagar in July 1979 which fulfilled the long cherished desire of the State. It has its branches in far-flung areas like Leh, Drass, Bilawar etc. and the policy of the bank continues to open more and more branches in unbanked and underbanked areas of the State. This is reflected by the fact that out of its 86 branches, about 50 branches i.e., 85 percent branches are in rural areas alone.

The bank finances agriculturists directly as well as indirectly through 116 primary agricultural Credit Societies, 2 small Farmer Tractor Societies and 2 vegetable growers societies. Crop loans are granted by the bank to all cultivators holding land as owners, tenants or lease holders. Even allottees of land and recorded share-croppers are eligible for loans. In case of term loans a cultivator must have

15. Office records of the S.B.I., Regional office, Srinagar.
17. Office records of the S.B.I., Regional Office, Srinagar.
a sufficient land of economic use to be offered as mortgage to the bank. The security norms for loans are as under:

a. Upto Rs. 1,000 ... Demand promissory note;

b. For loans between Rs. 1,001 and Rs. 5,000 ... hypothecation of crop;

c. For loans over Rs. 5,000 mortgage of land duly registered in favour of the bank. Interest is calculated quarterly and is debited to the principal.

However, there is a condition that the loanee should belong to a village adopted by the bank and should not be a borrower or defaulter of any other financing agency. The bank's performance in agricultural sector ending December, 1980 is depicted by the following table.

**TABLE 9**

LIMIT SANCTIONED, DISBURSAL AND OUTSTANDING
OF THE BANK IN AGRICULTURAL SECTOR
(31 Dec., 1980)

<table>
<thead>
<tr>
<th>Type of loan</th>
<th>Limits sanctioned</th>
<th>Disbursement</th>
<th>Outstanding</th>
<th>No. of borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crop Loan</td>
<td>164.00</td>
<td>163.49</td>
<td>127.00</td>
<td>8154</td>
</tr>
<tr>
<td>Term Loan</td>
<td>602.00</td>
<td>N.A.</td>
<td>394.00</td>
<td>175.00</td>
</tr>
</tbody>
</table>

Source: - Compiled by the scholar from the office records of S.B.I. (Agriculture Section), Regional Office Srinagar.

78. Book Let Issued by S.B.I. Regional Office, Srinagar.
the table shows that under crop loan
the bank advanced Rs. 163 lakhs against the sanctioned
limit of Rs. 164 lakhs directly to 5154 farmers. The
resultant shortfall is of Rs. 100 lakhs. The out-
standing on that account ending December, 1980 is
Rs. 127 lakhs. Under the term loans on the same date
the bank sanctioned limits to the extent of Rs. 602
lakhs in favour of 17500 borrowers. Outstanding on
this date accounted to Rs. 394 lakhs forming 65 percent
of the total loans sanctioned.

The bank was reluctant to reveal the overdue
position. However, it has referred 145 cases (35 in Jammu
and 110 in Kashmir) to arbitration/certification invol-
vling an amount of Rs. 5.17 lakhs. Overdues of the bank
as revealed by one responsible officer of the bank,
are mounting day by day due to:

1. Inheritance of societies ceded to the
bank along with their old liabilities.

2. Grant of saccavi by Government to farmers
who are defaulters of banks also.

19. Office records of S.B.I., Regional Office,
Srinagar.
3. Prior claim of Government and cooperative claims in case of recovery under process of law, the bank being the last recipient in case anything is left over.

The bank examines eligibility of the individual for bank loan in case a primary society is ineligible for fresh loan. The object is not to starve a party for finance. This is in compliance with the Rural Credit Review Committee recommendation on the point.

Besides, the bank is advancing to weakest of the weak sections of the society under differential rate of interest. The eligibility norms fixed for such loans is the annual income below Rs. 5000 in city and Rs. 3000 in rural areas.20

Allied Agricultural Activities

To provide assistance to small farmers, landless labourers and other people in the villages adopted by the bank with subsidiary occupations, the

bank has formulated suitable schemes for promoting allied agricultural activities. The various schemes financed are:

a. Purchase and maintenance of milch animals like cows and buffaloes;
b. Setting up of small poultry farms;
c. Small Units of goats and sheep breeding, and
d. Small units of fish farms, rearing silk worms, bee-keeping etc.21

The amount of loan depends upon the actual investments including cost of construction of sheds, poultry house, feed and other inputs. If the actual investment exceeds to Rs. 5,000 the loanee has to meet 5 to 25 percent of the cost himself. But if subsidy is provided by the Government nothing has to be paid by the loanee. The main security of loans is hypothecation of animals. But where construction of sheds or other structures are involved these along with land are mortgaged to the bank. All these loans are repaid within 3 to 5 years.

21. S.B.I. Booklet, How a part time occupation can yield a full time income.
So far as Agriculture Refinance Development Corporation's refinance schemes are concerned, it is amazing to find that the bank has not adopted any such scheme in the valley of Kashmir so far.

In Jammu one such scheme covers Dairy Farming. Recently with the collaboration of the World Bank and the J & K Horticulture Marketing Corporation, a scheme for Apple, Grading and Packing has been taken up by the bank.

It is gratifying to note that this is the only bank in the State which has started Agricultural Development Branches dealing exclusively for agricultural sector and has also maintained its technical consultancy cell at Regional office, Srinagar.²²

2. THE JAMMU AND KASHMIR BANK LTD.

The J & K Bank Ltd. started providing financial accommodation of all types to agricultural sector in the State in 1974 and during the short period of six years it has played a significant role in the development of rural economy. Recently the bank has

²². S.B.I. Regional Office, Srinagar.

accepted the responsibility of Lead Bank for four
districts of Baramulla, Kupwara, Rajouri and Poonch.
The lead officers have been placed in Sopore and Rajouri
who implement the credit plan schemes already made
by the State Bank of India up to 1962. Out of its total
number of 212 branches 150 are in rural areas including
the farflung villages of Padar, Nubra, Tangdar, Gool-
gulabgarn. 24

The bank finances agriculturists directly
as well as indirectly through primary Cooperative
Societies affiliated to it. The indirect loans are
provided mainly in Akhnoor and Ladaik through its
branches and the number of account holders ending
December, 1980 was 198 against 284 in December, 1977. 25
So far as direct financing is concerned, the bank has
registered noteworthy progress, as is evident from
the table 10.

Table 10 is self explanatory. Despite
a rising trend in Advances which rose from Rs.94.38
lakhs in 1974 to Rs. 400.31 lakhs in 1980. There is
short fall in meeting the demand. Again with the increase

24. Ibid.
25. Ibid.
in the quantum of loans advanced outstandingss also
show an upward trend to the extent of Rs. 336.11
lakhs in 1980 as against Rs. 76.56 lakhs in 1974.
However, the bank has no overdues. This has been
possible because of recruitment of local talent
as District Credit and Development Managers, who are
suitably qualified and have aptitude most suitable
to deal with the situation and ensure speedy dispensation
of credit to priority sectors.

**TABLE 10**

**DIRECT ADVANCES, RECOVERY AND OUTSTANDING**

(Rs. in lakhs)

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of applications received and sanctioned</th>
<th>Amount demanded</th>
<th>Amount advanced</th>
<th>Overdue</th>
<th>Amount recovered</th>
<th>Overdue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1974</td>
<td>540</td>
<td>152.00</td>
<td>94.33</td>
<td>17.81</td>
<td>76.56</td>
<td>-</td>
</tr>
<tr>
<td>1975</td>
<td>375</td>
<td>115.00</td>
<td>104.50</td>
<td>13.29</td>
<td>91.21</td>
<td>-</td>
</tr>
<tr>
<td>1976</td>
<td>591</td>
<td>193.00</td>
<td>82.35</td>
<td>13.64</td>
<td>68.71</td>
<td>-</td>
</tr>
<tr>
<td>1977</td>
<td>452</td>
<td>199.00</td>
<td>150.04</td>
<td>72.35</td>
<td>77.69</td>
<td>-</td>
</tr>
<tr>
<td>1978</td>
<td>904</td>
<td>363.00</td>
<td>290.20</td>
<td>175.04</td>
<td>115.16</td>
<td>-</td>
</tr>
<tr>
<td>1979</td>
<td>2504</td>
<td>435.00</td>
<td>293.50</td>
<td>137.09</td>
<td>156.41</td>
<td>-</td>
</tr>
<tr>
<td>1980</td>
<td>6089</td>
<td>609.00</td>
<td>400.31</td>
<td>64.20</td>
<td>336.11</td>
<td>-</td>
</tr>
</tbody>
</table>

*Source*: By courtesy of the J&K Bank Ltd., S Regional Office, Srinagar.
Generally loans are issued on the guarantee of a third party. Where huge amounts are involved and where the gestation period is long mortgage of land is asked for. Interest on loans is calculated by the bank on yearly basis i.e. 31st December each year.

The bank has paid special attention to grant loans to the weaker sections of the community under Differential Rate of Interest. The following table reveals the yearwise position of advances and number of accounts involved.

**TABLE 11**

ADVANCES TO WEAKER SECTIONS UNDER D.I.R.I.SCHEME  
(Rs. in lakhs)

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of accounts</th>
<th>Amount advanced</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978</td>
<td>77</td>
<td>1.27</td>
</tr>
<tr>
<td>1979</td>
<td>332</td>
<td>3.14</td>
</tr>
<tr>
<td>1980</td>
<td>826</td>
<td>13.50</td>
</tr>
</tbody>
</table>

Source: By courtesy of Regional office, Jammu and Kashmir Bank, Srinagar.
The table shows that lending under D.R.I. scheme has increased to Rs. 13.50 lakhs in 1980 involving 826 beneficiaries as against Rs. 1.27 lakhs in 1978 to only 77 beneficiaries. This is a healthy trend which needs to be maintained.

The bank is shouldering the responsibility of sponsoring two Regional Rural Banks in the State viz. Jammu Regional Rural Bank in Jammu and the Kamraz Rural Bank in Kashmir.

Main findings and suggestions

While the primary role of commercial banks in rural areas is to meet the credit needs of agriculture and allied activities, it has been observed that their achievements fall short of commitments. Out of the combined commitments of Rs. 1180.80 lakhs, they have been able to lend only Rs. 658.58 lakhs during the period 1974-1979. Commercial banks failure to come to the expectations can well be attributed to certain operational and organisational weaknesses mentioned below:

1. Grant of Tacnawi loans by Govt. for fertilizers even to defaulters and 75 percent subsidy for spraying. This

25. Compiled by the scholar from District Credit Plans 1980-82, S.B.I., Srinagar.
This has acted as a negative factor not only in demand of credit but also in recovery of dues. Both Taccavi and subsidy should as a rule, be routed through commercial/ cooperative banks to avoid overdue accumulation and bad debts.

2. The wholesalers and Arthis in peak season provide credit needs to orchardists by making advance payments. This diminishes the role of commercial banks in this respect. The National Cooperative Marketing Federation (NAFED) should restore confidence of the fruit producers of Kashmir valley, which they have lost by foul play when considerable quantity of fruit was sent to them for marketing in Indian markets. In that event the private Arthies can be removed from the trade, which runs into crores every year.

3. Many primary societies ceded to the commercial banks are defunct on account of default and arbitration cases filed are uncared for. Such pending arbitration cases should be finalised so that societies ceded become viable to get fresh finance from the banks.

4. Non-defaulters do not get finance in areas where commercial banks provide finances indirectly through cooperative societies. In that case the commercial banks should follow the recommendation of Rural Credit Review Committee to provide credit direct to the non-defaulters of a defaulted society, just as State Bank of India has started doing.

5. Dual loaning and overlapping has resulted in heavy overdues and affected recovery of commercial banks. The Punjab National Bank which operated in overlappings even to cooperative defaulters in Baramulla District
has suffered heavy overdues. Close and effective coordination should be ensured amongst financial institutions both commercial and cooperative to avoid dual loaning.

5. Due to difficult terrain and wide population dispersion staff deployed in branch offices of commercial banks is insufficient and deficient. Even where strength is adequate, the level of expertise and training continues to be an inhibiting factor. It is suggested that all the commercial banks, having head-quarters outside the state and operating through branches/ Regional offices in Jammu and Kashmir, should recruit adequate field staff, well-trained agricultural lending, from among the local talent who are exposed to local environment. Bank personnel should have close personal knowledge of the loanees, their languages, attitudes, character, and the whole socio-economic atmosphere must be known and understood by them. A branch Manager who suffers from language problems and lack of local knowledge can hardly deliver goods in a situation in which he is not mentally and aptitudinally satisfied. The J & K Bank Ltd., appears to be fortunate in this respect.

6. The bank personnel at various branches is inexperienced and untrained in the field of agriculture. The need of the hour is to make adequate technical support available to these branches. In this connection it is worth noting that the State Bank of India has recently created a new cadre of Rural Development Officers from amongst the technical staff appointed in the bank's office. Number of such Developmental officers should be increased and other commercial banks should also appoint such officers.
7. The branch network cannot be considered as adequate to the job although there are 427 bank offices in the State which indicate that population served per office is 3949. Only the State Bank of India, the J & K Bank Ltd. and the Punjab National Bank have wide coverage of rural areas. All other banks need to open branches in hilly and farflung areas, and different licencing norms for branch expansion in such areas should be considered by R. B.I. and the State Government. The banks have shown greater inclination to financing allied agricultural activities than agriculture itself. This trend needs to be corrected.

8. The State Bank of India has started opening of agricultural development branches in the State for catering exclusively to the credit needs of agricultural and allied activities. All other banks should open such branches throughout the State.

9. The problem of recovery has also created difficulties for the banks. As it is, agriculture is subject to vagaries of nature with large areas of the State periodically affected by recurrent floods or drought. The problem is further aggravated by certain unhealthy trends where defaulters tend to be shielded by the political elite. Now that the Land Revenue Act of the State has been amended, the advances of commercial banks should be recovered as arrears of land revenue.

10. The agriculture lending system of the banks involve lot of unnecessary formalities. These need to be simplified. Application forms should be made available in regional languages as well.
The Regional Rural Banks which are sponsored by the Commercial Banks have been launched very recently and their role in agricultural development is also significant. In the chapter that follows an attempt has been made to study their working.