CHAPTER III

EVALUATION, OBJECTIVES AND THE WAYS OF FINANCING AGRICULTURE BY THE STATE BANK OF INDIA
Commercial banking on the European model, no doubt, existed even during the 18th century, yet till the middle of the last century, there were not many banks worth any mention in the history of commercial banking in India. Three Presidency banks, namely, The Bank of Bengal (1806), The Bank of Bombay (1840) and the Bank of Madras (1843) used to function in the three presidencies, under the patronage and care of the East India Company's Government. These banks were entrusted with certain agency transactions and were authorised to issue paper currency in their respective presidencies; this right was later withdrawn by the Government in 1862. The activities of these banks were brought under certain restrictions by the Presidency Bank Act 1876. These banks suffered from lack of capital, absence of coordination and unplanned branch expansion. India, like other countries on the continent, had by now felt the necessity of a Central Bank. The recommendations of the Fowler Committee (1898) and the Babington Smith Committee (1920) for the establishment of a Central Bank for India could not be implemented. However, in 1921 the Imperial Bank of India was established by the amalgamation of the three presidency banks under the Imperial Bank of India Act, 1920. The Imperial Bank of India, was predominantly a private share-holders' bank. It was not a Central Bank but it had extensive powers to deal with the Central Government as its banker (without the right of note issue). The Imperial Bank of India functioned under strict central government's control. No doubt, it
provided commercial banking facilities by opening over 400 branches in India, yet it could not foster the cause of general banking development in the country. It could not provide the advantages in full which were expected from its establishment. Moreover, the pressing need of a Central Bank was not met with till the establishment of the Reserve Bank of India on 1st April, 1935. Thereafter the Imperial Bank of India ceased to be the agent to the Government of India, the control of Government over it was relaxed, restrictions reduced and it was appointed by a constitutional agreement to be the agent to the Reserve Bank of India, for conducting Government's receipts and payments. Thereafter, too, the Imperial Bank of India was never looked with confidence by the fellow bankers, who always complained against its unwarranted competition, which was strengthened by the special privileges that it enjoyed by its being the agent of the Reserve Bank of India, in dealing with the Government's funds. Its attitude was also considered to be dubbed with pro-European tendency and the Indian business community could not derive all the due benefits of its masterly existence.

As referred to earlier, the Imperial Bank of India was quite indifferent towards providing finance for the agriculture or industries in India. Even in respect of its commercial
banking functions, its branches were located in important trade centres only and it could not provide banking facilities on a wide scale. After independence India recognised the indispensability of the provision of adequate and cheap finance for the rural development in general and agriculture in particular. The then existing facilities for rural credit were inadequate and mostly uneconomic. The Reserve Bank of India was vigilant to the need of evolving a mechanism for providing adequate and cheap financial assistance for the rural sector. It appointed a Committee of Directors under the chairmanship of Shri A.D. Gorwala to submit a report on the All India Rural Credit Survey and submit recommendations in connection with the provision of rural credit. The Committee submitted its report in 1954 and along with other observations recommended the setting up of a State Bank of India by amalgamating the then Imperial Bank of India and ten other State-owned or State-associated banks of old princely states viz., Patiala, Bikaner, Jaipur, Udaipur (Bank of Rajasthan), Indore, Baroda, Mysore, Hyderabad, Saurashtra and Travancore. The Gorwala Committee states, "... the creation of one strong integrated, State-sponsored, State-partnered commercial banking institution with an effective machinery of branches spread over the whole country which by further expansion (including further but minor amalgamations where necessary) can be put in a position to take
over cash work from non-banking treasuries and sub-treasuries, provide vastly extended remittances facilities for cooperative and other banks, thus stimulating the further establishment of such banks, and generally in their loan operations, in so far as they have a bearing on rural credit, follow a policy which while not deviating from the canons of sound banking business, will be ineffective in consonance with national policies as expressed through the Central Government and the Reserve Bank of India."^{1}

After a careful consideration of the recommendations of the Gorwala Committee the Government of India decided to assume effective control over the then Imperial Bank of India, as a first step towards the setting up of the State Bank of India. This decision was announced by the Finance Minister, Shri C.D. Deshmukh, in Lok Sabha on the 20th December 1954. The State Bank of India Act was passed by the Parliament on the 16th of April 1955 and received the assent of the President of India on 8th May 1955.\(^2\) The State Bank of India, thus, came into being on 1st July, 1955. The entire assets and liabilities of the then Imperial Bank of India were taken over by the Reserve Bank of

---

2. Reserve Bank of India, Report 1968
India. The entire share capital was acquired by the Reserve Bank of India. The share-holders of the Imperial Bank of India were granted compensation at the rate of Rs.1,765.10 as per fully paid up share of the value of Rs.500 (75,000 shares) and Rs.432.12 as 4 P for each share, partly (25%) paid of an identical nominal value (1,50,000 shares). The compensation was payable partly in cash and partly in the form of Government Bonds. Second National Plan Bonds (1965) bearing interest at the rate of 3½% per annum issued at Rs.98.8 for a nominal value of Rs.100 each. The valuation of the compensation was based on the average market value of the shares prevalent during 12 months preceding 20th December 1954.

It was in these lights that the recommendations of the Rural Credit Survey Committee of nationalising the Imperial Bank of India was accepted and the State Bank of India Act was passed on May 8, 1955 and the State Bank of India came into being on July 1, 1955 and later on in 1959 some important state owned banks such as Bank of Saurashtra, Bank of Bikaner, Bank of Patiala, Bank of Rajasthan, Bank of Jaipur, Bank of Indore, Bank of Baroda, Bank of Mysore, the Hyderabad State Bank and the Travancore Bank were made the subsidiaries of the State Bank of India.
Thus the nationalisation of the Imperial Bank was the result of its reluctance to operate in consonance with the prevailing circumstances and the needs of the growing Indian economy. Primarily the Bank was to help in monetisation of the rural economy which meant two things: (a) opening of several new branches in the semi-urban areas particularly in the longer rural centres; and (b) institutionalisation of rural finance. Moreover, in the words of the Rural Credit Survey Committee, it was considered necessary to establish a "strong integrated state sponsored state partner and commercial banking institutions with an effective machinery of branches spread over the whole country which, by further expansion can be put in a position to take over cash work from non-banking treasuries and sub-treasuries, provide vastly extended remittance facilities for cooperative and other banks, thus stimulating the further establishment of such banks and, generally in their loan operations, in so far as they have a bearing on rural credit follow a policy, which not deviating from the canons of sound business will be in effective consonance with national policies as expressed through the central Government and the Reserve Bank".


2. Govt. of India, All Indian Rural Credit Survey Report,
The share capital of the Imperial Bank of India was recognised when it was taken over by the State Bank of India. The authorised capital of the State Bank of India, is ₹20 crores divided into 20 lakhs shares of ₹100 each. The Reserve Bank of India is required to hold minimum 55% of the share capital. Initially the Reserve Bank of India acquired all the share capital, but later on announced the terms for allotting share to individual subscribers. Preference had to be given to such shareholders of the former Imperial Bank of India who applied for subscription within three months of the appointed day. In no case, can a shareholder, other than the Reserve Bank of India, hold more than 200 shares. The issue price of the shares for the old shareholders of the Imperial Bank of India, was announced to be ₹350 per share of the nominal value of ₹100. At the time of this taking over the paid up capital of the then Imperial Bank Of India amounted to ₹5,62,50,000 consisting of 75,000 fully paid up and 1,50,000 partly paid up (25%) share of a nominal value of ₹500 each. This paid up capital continues to be the same but has been reorganised into 5,62,5000 shares of the value of ₹100 each, fully paid up. At present 1,227 private shareholders are holding 8 per cent of the issued and paid up capital. This fact signifies the truth of the objective, that the State Bank of India is not a State-owned but a State-partnered bank.
The Central Board of Directors consists of twenty members. The Chairman and the Vice-Chairman are appointed by the Central Government in consultation with the Central Board of the Reserve Bank of India on the recommendation of the Central Board of the State Bank of India. Besides not more than two managing directors can be appointed by the Central Government. Eight directors are nominated by the Central Government, in consultation with the Reserve Bank of India to present as far as possible territorial and economic interests and in such a manner that not less than two of them have special knowledge of the working of the cooperative institutions and of the rural economy and the others have experiences in commerce, industry banking or finance. Six directors are to be selected by the shareholders other than the Reserve Bank of India. One director is nominated by the Reserve Bank of India and one by the Central Government.

The Central Board of Directors is entrusted with the general superintendence and direction of the affairs and business of the State Bank of India and it may exercise all power and can do all such acts and things as may be exercised or done by the State Bank and are not by this Act expressly directed or required to be done by the State Bank in general meeting. The Central Board in discharging its functions shall act on business principles regard being had to public interest.
The Central Office of the State Bank is located at Bombay. Besides, it has four local head offices situated in Bombay, Madras, Calcutta and Delhi. At each of these places there is a local board which consists of all the directors elected or nominated to the Central Board and are ordinarily resident in the area served by the branch register of the local head office and such members elected or nominated by the Central Board for any area, consisting of such number of members as it may determine. A local Board and Local Committee shall exercise such powers and perform such functions and duties as the Central Board may assign to them.

In the discharge of its functions, the State Bank is to be guided by such directions in matters of policy involving public interest as the Central Government may and the Chairman of the State Bank, give to it. Though apparently the management appears to be having autonomy yet the provision of the Act weakens this by saying that, ".. if any question arises whether a direction relates to a matter of policy involving public interest, the decision of the Central Government shall be final. No doubt, the government has assured absence of interference in matters of day to day business and the maintenance of its commercial character yet there seems to be something lacking in these assurances, which led the first Chairman of the State Bank of India (late) Dr. John Mathai, the first managing director, Shri S.K. Handoo
and a director Shri Vithal N. Chandawarkar to resign from their important positions.

It acts as an agent to the Reserve Bank of India at all places where the latter has no branch of the banking department. As such it normally pays, receives, collects and remits money, bullion and securities on behalf of Government of India (Central Government and such other governments who have appointed the Reserve Bank as their agents). It also undertakes and transacts any other business which the Reserve Bank may from time to time entrust to it. This agency business is transacted in accordance with terms as contained in an agreement between the two banks and which may be renewed from time to time as per the terms of the said agreement.

In addition to its acting as an agent of the Reserve Bank, the State Bank of India has been authorised to carry on all functions of the Indian Banking Companies Act, 1949. It can even conduct business in foreign currencies, which could not be done by the Imperial Bank of India. The State Bank of India at present deals in about seventeen foreign currencies helping thereby the import of capital goods on deferred payment basis. It also issue travellers' cheques (from 1st January 1958) local and foreign. It is also authorised (section 33 Clause X IX) with the approval of the Reserve Bank of India to subscribe to buy, acquire or hold and sell any share.
or the capital of any banking institution and to form or conduct any such banking institution as a subsidiary of the State Bank. It is also authorised (section 35) to enter into negotiations for acquiring the business, including the assets and liabilities of any banking institution, with the sanction of the Central Government, if so directed by the latter, in consultation with the Reserve Bank. These powers to hold subsidiary banks and amalgamate others into it has strengthened its position as regards its expansion and also in the weeding out of economic banks and the consolidation of others.

Certain old restrictions with certain modifications, which were imposed on the functions of the Imperial Bank of India, continue to be attached to those of the State Bank also. These are in connection with the duration, amount and the securities of the loans, advances made and bills discounted by it.

One special object of the State Bank was that it would provide facilities for the availability of credit for the rural sector. It was partly with this object in view that the State Bank undertook to open 400 offices within 5 years of its establishment, and most of these are to be located in rural or semi-urban places, which are to be decided by the Central Government in consultation with the Reserve Bank and the State Bank of India.
The Gorwala Committee had recommended certain measures for co-ordination and cooperation in the operations of the State Bank and the cooperative credit institutions. It was recommended that cooperative training should be imparted to the officers of the State Bank, who are to act as its agents at places like the district headquarters. The local agent of the State Bank should be a member of the District Cooperative Bank, without any voting right and the State Bank's branches at sub-divisional level should act as bankers to the cooperative unit at that level. The State Bank should not compete with the cooperative credit institutions in obtaining deposits.

With a view to ensure proper care of rural credit, it has been provided by the Act that at least two directors of the Central Board should have special knowledge of the working of the cooperative institutions and of the rural economy. The State Bank has decided: (i) to make advances to the cooperative banks against government securities and pledged of produce at a concessional rate of interest, (ii) to give free remittance facilities once a week to cooperative Central financing agencies including cooperative banks, for remittance of funds from their headquarters to district towns and smaller places. Since 1957 these facilities have been increased to thrice a week to cover remittances by branches of cooperative
apex banks and affiliated cooperative banks from branches of the State Bank to their head offices' accounts with a State Bank in addition to their principal account with the Reserve Bank. (iii) To collect bills, at concessional rates on behalf of cooperative banks, at centres having no branch of a State or District level cooperative bank (iv) to provide long term finance for agricultural purpose through the agency of the land mortgage banks by subscribing to their debentures or by ensuring the marketability of debentures by granting advances to cooperative institutions against the security of such debentures (v) to provide finance to the cooperative marketing and processing societies. The State Bank has opened a Rural Credit Section with a senior Registrar of cooperative societies as its incharge. It has subscribed to the capital of the Central warehousing Corporation( set up under Agricultural Produce (Development and Warehousing) Corporation Act, 1956 and has nominated its officers to the State Warehousing Corporation and granted advances against the security of warehouse receipts (vi) to take steps to avoid competition with the cooperative institutions and to maintain closer understanding with them by appointing its agents of branches at district headquarters, as ex-officio directors of the district or central cooperative bank.
The objectives of the State Bank of India were briefly stated in the preamble to the Bank Act, 1955: "the extension of banking facilities on a large scale, particularly in the rural and semi-urban areas". Broadly speaking the objectives of the Bank can be listed as follows:

(a) The most important objective of creating State Bank of India was the establishment of a strong state partnered commercial banking institution with an efficient machinery consisting a wide-spread net work of branches in the country. It was expected that the Bank will take a control over the strategic part of the commercial banking with a view to developing credit facilities in the agriculture sector of the economy which was necessary for meeting the food requirements of the rapidly rising population and the demand arising from the industrial sector due to the huge investments made in it;

(b) Open 400 new branches in the rural and semi-urban areas during the First five year of its operation as during such periods that may be permitted by the Government.

(c) To carry its policies in conformity with the national economic policies. This was expected to have an effective control on the activities of other commercial banks, because
the State Bank of India commands over one-third of the entire deposits of the commercial banking system as a whole.

(d) To receive rural savings through its newly opened branches. It aims at extending special facilities for the training of the personnel of the bank and importing knowledge to them on cooperative principles and cooperative banking; and

(e) The State Bank of India will help the Reserve Bank in implementing the credit policies and controlling the credit in the economy according to its requirements. The Reserve Bank of India holds 55% of the shares of the State Bank of India in order to make effective its credit policies and have a grip over the entire banking system of the country.

The achievement of objectives in respect of extension of banking facilities, conversion of non-banking treasuries into banking treasuries and the provision of the remittance facilities largely depended on the opening of new branches on a large scale. The State Bank of India was very successful in opening 416 branches\(^2\) during the first five years of its

1. Sharma, A.G,

existence and being encouraged by its performance, the bank
launched two more expansive programmes. According to this
programme, the Bank was required to open 485 branches\(^1\)
particularly in the rural areas. Upto the end of June, 1968
the Bank has opened 377 branches\(^2\) under these two programmes
Of these new branches opened by the Bank about 72% have been
established in the rural areas that is those centres which
have population, below 25,000. At the end of 1968, the
State Bank of India has a net working of 1,500 offices in the
country.\(^3\)

The Branch Expansion programme of the State Bank of
India can be studied from the following table.

**Table 12**

Branch Expansion of the State Bank of India
July 1955 to December 1969.

<table>
<thead>
<tr>
<th>Year</th>
<th>Branches opened</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 1955 to December 1956</td>
<td>66</td>
</tr>
<tr>
<td>1957</td>
<td>91</td>
</tr>
<tr>
<td>1958</td>
<td>105</td>
</tr>
<tr>
<td>1959</td>
<td>97</td>
</tr>
<tr>
<td>1960</td>
<td>70</td>
</tr>
<tr>
<td>1961</td>
<td>25</td>
</tr>
<tr>
<td>1962</td>
<td>25</td>
</tr>
<tr>
<td>1963</td>
<td>20</td>
</tr>
<tr>
<td>1966</td>
<td>95</td>
</tr>
<tr>
<td>1967</td>
<td>55</td>
</tr>
<tr>
<td>1968</td>
<td>46</td>
</tr>
<tr>
<td>1969</td>
<td>32</td>
</tr>
</tbody>
</table>

Source: Annual Reports, State Bank of India, 1960.

\(^1\) Ibid. \(^2\) Ibid. \(^3\) Ibid.
This table shows that the Bank has made a smooth progress in opening the new branches. The year 1958 was characterised by an impressive performance in the field of branch expansion. The Bank opened during the years 425 offices of which 246 offices were in the rural centres.\(^1\) Beginning with 466 offices, the Bank has at the end of 1970, a total of 2,112 offices in India.\(^2\) Under the Lead Bank Scheme the State Bank of India group has been allotted 89 districts mostly in backward areas. Surveys are being carried out in these districts for the identification of the growth centres and the credit gaps. Surveys in 22 districts have already been completed and are in progress in 12 others.

The importance of the branch expansion programme lies in the spread of the banking habit, the amount and sources of deposits mobilised and the credit extended. The new branches of the bank contributed about 26% to the Bank's total deposits and about 13% to its total advances portfolio.\(^3\) In terms of deposit accounts, their share is 48% of the Bank's total number of accounts. The total contribution of the Bank's

---

2. Ibid.
offices in the rural and semi-urban areas to the Bank's total deposits which was about 10% in March 1964, rose to about 16% at the end of 1968. The growth rate of the deposits increased to 18.6 per cent in 1970. In the years 1970, the performance on the deposit front was, however, not commensurate with the credit expansion. In order to make concerted and co-ordinated efforts in mobilising deposit, special resource development cells have been set up under senior officers of the central office as well as in each of the local Head Offices.

Table 13
Deposits of the State Bank of India (From July 1955 to 1969)

<table>
<thead>
<tr>
<th>At the end of July</th>
<th>Total deposits (in crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955</td>
<td>186.5</td>
</tr>
<tr>
<td>1956</td>
<td>203.6</td>
</tr>
<tr>
<td>1957</td>
<td>221.5</td>
</tr>
<tr>
<td>1958</td>
<td>244.3</td>
</tr>
<tr>
<td>1959</td>
<td>254.0</td>
</tr>
<tr>
<td>1960</td>
<td>257.4</td>
</tr>
<tr>
<td>1961</td>
<td>211.7</td>
</tr>
<tr>
<td>1962</td>
<td>496.4</td>
</tr>
<tr>
<td>1963</td>
<td>816.8</td>
</tr>
<tr>
<td>1966</td>
<td>820.6</td>
</tr>
<tr>
<td>1967</td>
<td>887.8</td>
</tr>
</tbody>
</table>

Source: Annual Reports, State Bank of India, 1970.

The effectiveness of the Bank as an instrument of national policy depends on the size of its resources and the extent of their use. Since its establishment, the Bank's deposit resources have increased by ₹760 crores from ₹188 crores on July 1, 1955 to ₹948 crores on June 28, 1968 and its advances have increased by ₹668 crores from ₹113 crores to ₹781 crores. Though public sector institutions, the greater portion of its deposits as well as credit is in the private sector. Deposits of the Government and semi-Government institutions and of public sector enterprisers constituted on March, 1967, 28% of the Bank's deposits while advances of these institutions constituted 16% of the Bank's total advances.¹

Success of the Bank in mobilising saving of the community is indicated in the pattern of its deposits. At the end of March, 1967 personal deposits accounted for 90% of the total deposit accounts and 39% of total deposits. Thus, fixed deposits and savings deposits increased much more rapidly than current account the rate of growth since 1955 in these three categories of deposits being 756%, 362% and 193% respectively.

¹ Talwar, R.K., op.cit., p. 199.
In view of the importance given to the provision of remittance facilities in the development of banking in the country, conversion of non-banking treasuries into banking treasuries formed the basis for the Rural Credit Survey Committee recommendations regarding the branch expansion of the State Bank of India. In its first expansion programme, the State Bank of India covered 384 treasury centres of which 79 were treasuries and 305 sub-treasuries. The process of conversion of non-banking treasuries into banking treasuries was continued by the Bank and till the end of 1967, in all 716 treasuries and sub-treasuries have been taken over by the State Bank of India.

So far as the bank's role in financing agriculture is concerned it had its origin in the context of rural finance and development, but the Bank was expected only to strengthen the framework of institutional finance for agriculture. The cooperative structure was expected to provide direct finance to the farmers, the funds required being provided by the Reserve Bank of India, primarily for production and to the State Bank of India for marketing purposes. The State Bank of India had two further requirements to fulfill to subscribe to the debentures of land mortgage banks for development.
purposes and to provide remittance facilities\(^1\). Direct financing of the farmers was not envisaged as it was considered that the cooperative movement would be badly affected and have to set back. For a number of reasons, the cooperative movement have had its own problems and it was therefore, felt necessary to finance agriculture directly.

The Bank's advances to agriculture, both direct and indirect in terms of limits increased from Rs.62.7 crores at the end of 1968 to Rs.484.1 crores at the end of 1969, a rise of 193.6\%. Outstanding amount increased from Rs.19.3 crores to Rs.91.9 crores, i.e. 375.2\%. The number of accounts increased from 2,846 to 87,064.\(^2\)

According to the role assigned to the Bank by the Government and the Reserve Bank of India, the Bank has been contributing to the supply of Rural Credit mainly by helping the development of cooperative institutions in the field of credit marketing, processing etc. But as stated above, in view of the gaps and inadequacies which have been evident in the rural credit structure of the country resulting from the

---

1. Rao Ramanand, N,

lop-sided development of the cooperative credit institutions, the bank has been orienting its policy towards direct financing to agriculturists. A beginning in the direction was made in 1965\textsuperscript{1} and the Bank took up an experimental basis, financing special schemes like hybrid seed production, animal husbandary, dairy farming pisciculture and poultry farming. These experiments provided the basis to the Bank to give production finance for current agricultural operations as well as for the development of land and mechanisation of farms. Finance is also provided for processing, storage, marketing of agriculture product. The factors governing the eligibility of proposals for agricultural advances are primarily the progressiveness of the farmers and the economic viability of these schemes, as marked on the basis of anticipated expenditure and income. The usual methods of credit evaluations such as purpose of advance, integrity of the borrowers, yield prospects and probation are duly into taken consideration but special emphasis is placed on proper utilisation of the advances.

During the year 1969, direct finance to agriculture increased to ₹39.6 crores by way limits and to ₹21.0 crores in terms of outstandings. The Bank has been progressively reaching a longer number of smaller farmers which is evident

\textsuperscript{1} Talwar, R.K., Op.cit., p. 204.
from the increase in the number of accounts from 2,612 to 85,964 and the decline in the average outstanding per account from ₹9,227 to ₹2,446. It can be studied from the following table.

Table 14.

Direct Financing of Agriculture by the State Bank of India

(Rs. in crores)

<table>
<thead>
<tr>
<th>Type of Finance</th>
<th>December 1968</th>
<th>December 1969</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sanctioned limits</td>
<td>Outstandingings</td>
</tr>
<tr>
<td>1. Crop Finance</td>
<td>2.52</td>
<td>1.05</td>
</tr>
<tr>
<td>2. Purchase of agricultural machinery and equipments.</td>
<td>1.34</td>
<td>0.35</td>
</tr>
<tr>
<td>3. Financing of special farming activities</td>
<td>1.50</td>
<td>0.74</td>
</tr>
<tr>
<td>4. Plantations</td>
<td>0.33</td>
<td>0.27</td>
</tr>
<tr>
<td>Total</td>
<td>5.69</td>
<td>2.41</td>
</tr>
</tbody>
</table>


Of all the schemes of direct assistance, the provision of crop finance made rapid progress and the number of accounts under this head increased from 1,673 to 76,407.
At the end of 1969, crop finance supplied by the Bank accounted for 62.9% of total limits, 66.0% of total outstandings and 88.9% of total number of accounts under direct financing of agriculture.

Of the total limits of Rs.39.6 crores at the end of 1969 Rs.18.3 crores were by way of working capital advances, Rs.11.4 crores by way of medium term loans and Rs.9.9 crores by way of instalment credit; the corresponding outstandings stood at Rs.11.0 crores, Rs.5.4 crores and Rs.4.6 crores respectively.

The State Bank of India has also taken up financing of area development schemes when the Bank participate in the comprehensive programme of agriculture production. In Varanasi and Etah districts of Uttar Pradesh, about an area of 320,000 acres is being brought under a comprehensive programme of agricultural development through intensive ground water development for irrigation and simultaneous supporting programme for land development, crop planning, allocation of fertilizers pesticides, etc. The Bank has also agreed to finance a scheme of hybrid seed farming over an area of 32,000 acres of the terai region.¹

¹ Talwar, R.K., op.cit., p.205.
Indirect financing to agriculture by the State Bank of India can be divided into four categories:

(a) general assistance which may lead to the development of rural credit through provision to cooperative banks, of facilities for remittance of funds and for short-term accommodation subscription to the debentures of land mortgage banks etc.

(b) financial accommodation provided by the Bank to cooperative marketing and processing societies.

(c) financial help extended to the non-housing schemes, in the rural and semi-urban areas in the country and

(d) coordination of its policies and activities with those of the cooperative banks.

As agents of the Reserve Bank of India, the State Bank of India has liberalised the remittance facilities to the state cooperative banks for providing extended remittance facilities to such institutions, particularly in the rural areas. The Bank permits them 'free' transfer facilities thrice a week. This means, that the State cooperative banks on their affiliated central cooperative banks can remit thrice a week an amount of ₹5,000 or a multiple thereof on each occasion for any place where there is an office of the State Bank of India to the
principles account it maintains with the Reserve Bank of India. These facilities have been further extended to include remittances by the state cooperative bank and the cooperative banks affiliated to them to their head office accounts with the Offices of the State Bank of India. Apart from these facilities, cooperative central financing agencies including their apex banks are given free remittances once a week for transferring funds to their cross-country branches particularly in the rural areas and are thus assisted in sending funds from headquarters to the mofussil-other branches.

With a view to assisting cooperative credit institutions such as co-operative central banks, the State Bank provides loan over draft facilities against Government securities at a concessional rate of interest. The co-operatives are also given advances, on the re-pledge of goods subject to the usual conditions relating to pledge advances by the Bank.

The bank provides in special cases, advances to state cooperative banks against Government guarantees to enable them to financed their affiliated cooperative societies. These loans are granted for the purpose of financing marketing and processing of agricultural produce, distribution of fertilizers and other agricultural inputs
as also for food procurement operations. Long-term credit was being generally extended by the land mortgage banks for making the improvements in the agriculture but now State Bank of India is helping these banks largely for encouraging them to give more loans for these purposes. The State Bank of India is helping these institutions in the following manner.

(a) The Bank subscribes in suitable lots, to the debentures floated by apex cooperative land mortgage banks from time to time and thus helps them to finance land development.

(b) The Bank contributes to the improvement in the marketability and popularity of cooperative land mortgage banks' debentures in the money market by granting advances on the security of such debentures.

(c) The Bank provides in many cases, cooperative central land mortgage banks with limited temporary financial accommodation against government guarantee to help them carry on their normal loan business pending the raising of funds through floatation of debentures.
The State Bank of India has undertaken a very important aspect of direct finance to cooperative societies, that is, financing cooperative marketing and processing societies. Marketing societies are also provided finance against pledge of produce for improving their staying power for selling at favourable prices. Warehousing, which aims at providing facilities of scientific storage of commodities is very important for the development of agriculture marketing. The State Bank of India and its subsidiaries are actively engaged in the task of financing the 'Buffer Stock - Operations of several agencies like the state government food cooperation of India and the cooperative societies. The financing of the Buffer Stock operations is taken by the Bank for extending indirect help to the cultivators in order to ensure the scientific storage of the produce of the farmers as well as to assist him in securing an economic and equitable price for his product. The State Bank is also providing short-term credit for fertilizers.

Thus, substantial progress was achieved in financing the agriculture sector indirectly. The greater portion of indirect finance for agriculture was for distribution of agriculture inputs and implements, which accounted for 73.9% of the limits and 87.5% of the outstanding at the end of 1969\(^1\). The indirect financing of agriculture by the

---

State Bank of India can be studied from the following table:

**Table 15**

Indirect Financing of Agriculture by the State Bank of India.

(Rs. in crores)

<table>
<thead>
<tr>
<th>Types of Finance</th>
<th>December 1968</th>
<th>December 1969</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sanction limits</td>
<td>Outstanding limits</td>
</tr>
<tr>
<td>1. Distribution of Agricultural inputs (including cooperatives)</td>
<td>44.36</td>
<td>11.37</td>
</tr>
<tr>
<td>2. Agro-Industrial Corporation.</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>3. Assistance to farmers through intermediaries</td>
<td>0.45</td>
<td>0.23</td>
</tr>
<tr>
<td>4. Assistance through cooperatives (not covered item No.1)</td>
<td>12.20</td>
<td>5.32</td>
</tr>
<tr>
<td>5. Other advances</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: State Bank of India - Annual Number, 1969, p.22

This table shows that the State Bank of India has financed the agriculture sector indirectly to substantial extent. The sanctioned limits extended to various agencies in order to finance the agriculture increased from Rs. 57.01
crores in 1968 to \textdollar 144.50 crores in the year 1969, whereas the outstandings increased from \textdollar 16.92 crores to \textdollar 70.83 crores respectively. The total advances in the case of distribution of agriculture inputs increased from \textdollar 73.93 crores in 1968 to \textdollar 215.33 crores in 1969. Similar increases have been achieved in the case of Agro-industrial cooperation and the cooperative agencies.

In 1969, the State Bank of India introduced the liberalised scheme of agricultural finance for Assistance to small farmers designed to help small farmers or groups of farmers whose business including subsidiary activities like animal husbandary, cottage industries, etc; is viable or can be rendered so, if necessary credit is made available assistance under the scheme covers working capital loans. Farmers are eligible for instalments credit and medium term loans for purpose of development of land etc. An increasing feature of the scheme is that loans under it are probably granted on the basis of (group borrowing and i.e. farmers desirous of financial assistance are encouraged to form themselves into groups and while loans are granted to individuals, they are secured by the guarantee of all the farmers in the group.
In order that the impact of the scheme is maximised, the village centres selected for the operation of the scheme have been 'adopted' by the Bank. In the 'adopted' centres all viable or potentially viable farmers irrespective of their land-holdings, are assisted by the Bank for all their requirements of finance for agricultural development. So far, the Bank has adopted, nearly 200 villages throughout the country. At the end of 1969 over 77% of the farmers assisted by the Bank had land-holdings of less than 10 acres and 43 per cent had less than 5 acres, the proportion of farmers borrowers having advances less than ₹5,000 was 75%.  

In 1969, the Bank also introduced the Farm Graduate Scheme for extending finance to technically qualified personnel, particularly graduate in agriculture, dairy science, veterinary science and agriculture engineering, who have worthwhile farm development projects but are unable to undertake them due to lack of resources. Loans are ordinarily granted to land holders either as owners or as tenants or as lease holders, and in exceptional circumstances, for the purchase of land, up to the end of

---

the year of 1969, 102 agricultural graduates and other technically qualified farmers had been sanctioned limits of Rs. 18 lakhs. ¹

To sum up, the State Bank of India was brought into being on the recommendation of the All India Rural Credit Survey Committee which recommended the national scheme of the Imperial Bank in order to have strong public banking sector for extending the banking facilities on a large scale particularly in the rural and semi-urban areas. The Bank has financed the agricultural sector through various financing agencies to a substantial extent. In view of the inadequate extension of the financing facilities provided by these agencies, the Bank also started financing the agriculture directly if the demand for agricultural credit is as the rise in the country due to the rapid growth in population and the demand rising an increasing scale from the industrial development of the country. In addition to enlargement of the Bank's resources, the strengthening of the administrative machinery further extension of the rural branch net works recruitment and training of staff and

¹. Ibid.
reorientation of the staff attitudes as also further refinement, and improvement of lending practices, are some of the areas in which attention will have to be focussed more sharply in the context of financing agriculture. The Bank's efforts will have to be increasingly directed towards these ends in the coming year.