CHAPTER V

STATE BANK AND OTHER NATIONALISED BANKS - THEIR
ROLE AND PROBLEMS IN DIRECT RURAL CREDIT
It would be observed from the preceding chapter that the bulk of the bank's assistance to the agricultural sector has been channeled through the co-operatives. Advances granted to agriculture directly aggregated Rs. 12 crores. This was mainly due to the official policy in this regard which kept agriculture, until recently, as the exclusive preserve of the co-operatives. The bank's assistance to the agriculturists in the past comprised mainly advances against warehouses receipts and gold ornaments or to plantations.

The most significant experiment made by the bank in the field of financing agriculturists directly for agricultural activities has been the financing of a partnership firm in Amraoti in the State of Maharashtra. The firm which is engaged in the production of hybrid seeds, cereals, cotton, oilseeds and vegetables, was in 1966 granted by the banks' working capital finance of Rs. 3.25 lakhs to meet its production requirements or over 600 acres of land. The experience gained in the first year encouraged the firm to undertake a bigger programme in the subsequent year i.e. 1967-68, when the bank granted working capital finance of Rs. 5 lakhs to cover 800 acres of land, medium-term loan of Rs. 3 lakhs for provision of irrigation facilities and instalments credit of Rs. 56,729 for purchase of tractors. The performance of the firm was satisfactory during 1967-68 as well.

For the year 1968-69 the bank has granted loans aggregating Rs. 20.16 lakhs to meet the firm's working capital and medium-term requirements over a large area measuring about 1,400 acres.

In view of the happy experience of the bank, it was suggested to the firm to consider the desirability of expanding its activities by imparting technical knowledge to such farmers in the neighbouring areas as were prepared to grow hybrid/good quality seeds by adopting modern methods of farming with the financial assistance of the bank. A serious problem which these farmers faced, related to the processing and marketing of their produce. This was resolved by working out an arrangement in terms of which the firm undertook, not only to impart technical assistance but also to purchase the entire seeds of the farmers. Under the scheme, 45 farmers have been assisted by the bank so far and many more are likely to be covered in the near future. Thus, with the active assistance of the bank, a new class of farmers who may not have adopted modern farming, have emerged on the scene.

Another major experience of the bank in the field of agricultural credit has been the provision of financial accommodation to fishermen in the Ratnagiri district of Maharashtra. The need for extending the bank's activity for this purpose arose when the Maharashtra Government withdrew the subsidy extended to purchasers of marine engines about two years ago.

at a time when this industry was faced with recession. Under the scheme, credit facilities are granted to fishermen for the purpose of purchasing hull, marine engines and other allied accessories, with a view to enabling them to undertake deep-sea fishing operations. By financing fishermen, the bank not only assisted the manufacturers of marine engines but also helped in establishing a number of fishermen and increasing the availability of fish. Yet another social benefit, which this scheme has, relates to the increase in the habit of thrift of the fishermen. Under the scheme, a fisherman is required to deposit his daily earnings in a specially opened savings bank account with the bank, the balance of which is utilized by him towards the repayment of instalments on due dates. About 52 fishermen have so far been assisted to the extent of over Rs. 26 lakhs.

The success achieved in these experiments has been highly encouraging for the bank. In addition, there also arose the need to supplement the efforts of co-operatives in providing agricultural credit. The credit provided by the co-operatives increased from Rs. 25 crores in 1950-51 to Rs. 161 crores in 1961-62 and their share in the total borrowings of the cultivator households from 3.1 per cent to 15.5 per cent. The total credit provided by them further increased to Rs. 342 crores in 1965-66.

It is quite some time now that the State Bank group has been financing agriculture directly. The years 1966 and 1967 were the period of experimentation in this direction. In view of the happy experience during these two years, a major policy decision was taken by the bank in the year 1968 to finance farmers directly on an extended scale throughout the country. Initially, the bank selected 3 to 4 centres in each State and concentrated its activities in areas which were most responsive, had assured irrigation facilities and had no long terms problems like famine, floods, drainage and soil conservation. Areas included in IADP, IAAP, HVP, and Ayacut Development Programmes were given preference in the matter of selection of centres. During 1969, though the basic policy of selectivity continued, there was a shift from 3 to 4 centres in each State to all the offices of the bank in areas having potential for agricultural development.

The approach which the bank is now following is that of "village adoption". Village adoption approach is an extension of the idea of "area adoption". Under the "village adoption approach", the unit selected is the village or a cluster of villages. Generally, villages which possess the basic physical requirements and resources, but need financial assistance for either development or for further growth and where co-operatives have not made much headway, are selected by the bank for the financing of agriculture. The basic ingredient of this approach is that finance is granted to the fullest extent possible not
only for meeting seasonal requirements but also for capital investment of all the needy farmers in that area, depending, of course, on the economic viability and technical feasibility of the schemes and not a few isolated individuals or sporadic items of investment.

The nature of agricultural financing operations being what it is, it was felt necessary to ensure sufficient responsiveness of our officials to the cultivators' problems and difficulties while financing them. This necessitated that decision-making authorities in regard to loans should be at levels as close to the village as possible. Bearing this thing in mind appropriate discretionary powers have been vested in the Branch Agents/Managers. Agricultural credit cells have been created at the bank's local head offices and head offices of subsidiaries as also at Regional Managers' offices. Each of these cells has been placed in charge of an experienced and sufficiently senior official. At strategic centres, development offices have been opened to co-ordinate the agricultural finance activities of a specified number of branches in processing loan applications and in post-sanction supervision and follow-up of agricultural advances. Initially, the bank arranged for the training of officials in the techniques of agriculture at agricultural universities. Now, a special course in agricultural finance has been introduced at the bank's staff Training College at Hyderabad. This is being conducted in collaboration with the Andhra Pradesh Agricultural University for the technical part of the study. To advise the staff on technical aspects, the bank
has also taken officials of the agricultural department of State Governments on deputation basis. The total agricultural advances of the State Bank group increased from Rs. 17.26 crores in June 1968 to Rs. 145.43 crores in September, 1970, comprising Rs. 69.80 crores by way of direct lending and Rs. 75.63 crores indirect advances, limits sanctioned increased from Rs. 41.06 crores to Rs. 313.94 crores during this period. A significant increase was experienced in the number of farmers' accounts which went up from 410 in June 1968 to 2,63,826 in September, 1970. The total number of farmers assisted by the State Bank group as on the latter date stood at 3,11,896, out of which 2,63,826 had been directly financed, 38,021 through primary agricultural credit societies and 10,049 through the intermediary of sugar factories. The agricultural advances formed about 11% of the total advances of the group as at the end of September 1970. The State Bank group accounted for 41.5%¹ of the total agricultural advances of all commercial banks as at the end of June 1970, the latest date for which the comparative date are available.

Direct advances to farmers are granted for all agricultural operations including purchase of agricultural inputs such as fertilisers, pesticides and hybrid seeds. Term loans are granted for digging/boring of wells, installation of pumps, purchase of power tillers, tractors and implements laying down irrigation channels and for implementing any other worthwhile scheme of agricultural development or special farming activities.

The objective that the bank has before it is that its financial assistance should result in an increased agricultural production. Indirect agricultural advances comprise advances granted for storage and distribution of agricultural inputs, assistance given to Agro-Industries Corporations and custom service units and to sugar factories for financing sugarcane growers and credit provided to farmers through the intermediary of co-operatives.

Much emphasis is given by the bank towards meeting the needs of a preferential class of farmers viz., small farmers, farm graduates, farmers in under-developed states, farmers in dry farming areas, landless agricultural labourers and tribals. In June 1970, 76.0% of the farmers assisted by the State Bank group had holdings upto 10 acres and less; the proportion of farmers having 5 acres and less was 43.3%. The average agricultural advance aggregated ₹ 2,325 and over 73% of the farmers assisted by the group had an average advance of ₹ 1,071 only. The following special measures have been taken by the bank to assist small farmers:

The bank has evolved a special scheme for financing small farmers whose requirements do not exceed, say, ₹ 10,000. Any farmer, however small his holdings may be, is eligible for assistance under the scheme, provided his farm project, including any subsidiary activity such as poultry, dairy, etc. undertaken by him is viable and technically feasible. The margin which is generally 25% for working capital loans and 50% for developmental loans, is suitably reduced where circumstances warrant. Another

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unique feature of the scheme is the preference given to group borrowing, where members of the group guarantee each other's obligations. Under this scheme, farmers desirous of financial assistance, form themselves into groups for the purpose of borrowing from the bank and the loans, though granted in the names of individual farmers, are secured, among other things, by the guarantee of all other farmers in the group. Thus, a part of the responsibility for the recovery of advance is assumed by the farmers themselves.

One of the important criteria in the selection of a village for the financing of agriculture under the village adoption approach is the preponderance of small farmers in the village. Endeavour is made to cover as many of the farmers in that village as have viable and technically feasible schemes.

The Government proposes to set up 45 small farmers development agencies at selected centres for the benefit of small farmers. The bank has, as a measure of deliberate policy, decided to associate its activities with these agencies and to arrange for the effective coverage of these areas for the financing of small farmers.

Another innovation of the Bank is the Farm Graduate Scheme. Under this scheme, loans are granted to agricultural graduates and other qualified persons who possess the requisite expertise but lack financial resources. Those graduates who have worthwhile projects of agricultural development but may not possess land are also eligible for loan under the scheme both for the purchase of land and for financing of the project. The scheme
also provides loans for meeting the farmer's equity commonly referred to as 'margin'. The group had assisted 120 graduate-farmers with limits aggregating Rs. 25 lakhs up to the 30th June 1970. The scheme is intended to encourage graduate-farmers to stay on in the villages as active members of the farming community in order that their knowledge is put to profitable use not only on their own farms but also on the farms of the neighbouring farmers by arranging competent farm consultancy services aimed at increasing agricultural productivity.

Over 56% of the farmers assisted by the State Bank Group as at the end of June 1970 were in the under-developed States of Andhra Pradesh, Assam, Bihar, Madhya Pradesh, Orissa, Rajasthan and Uttar Pradesh. As on the 31st March 1970, an average of over 82% of the farmers assisted by all public sector banks in these States had been financed by the State Bank group and the remaining 18% by 14 nationalised banks. On the other hand, only 21% of the farmers in Gujarat, Maharashtra, Mysore and Tamil Nadu had been, on an average, assisted by the State Bank group as compared with 79% by 14 nationalised banks.

The State Bank has been making experiments towards financing of farmers in dry farming areas. These experiments have been encouraging. Mention may be made of the scheme in operation in the Vidarbha region of Maharashtra under which cultivation of hybrid and other improved varieties of

soybean, cotton bajra, jowar, moong, ground-nut and rice under multiple cropping over 40,000 hectares belonging to about 10,000 farmers is envisaged. With the implementation of this scheme, the production of foodgrains and other crops is estimated to rise by 30,000 tonnes worth about Rs. 2.23 crores. Additional income accruing to each farmer, with an average holding of about 10 acres, is estimated at Rs. 2,200/- per annum. Among the other objectives of the scheme, the important ones are saving in foreign exchange through reduction in the import of soybean oil to the extent of about Rs. 102 lakhs and addition to the foreign exchange earnings of the country with export of soybean meal/cake of about Rs. 63 lakhs. Similar schemes are being financed in a few other states as well. The bank's intention is to finance one such integrated scheme of dry farming, in selected areas, in each state.

The State Bank group has also undertaken the financing of 513 primary agricultural credit societies in areas where central co-operative banks, to which these societies are affiliated, are unable to provide them with adequate credit. These societies are located in the states of Andhra Pradesh, Haryana, Madhya Pradesh, Mysore and Uttar Pradesh. These societies, in turn, finance the farmers who are their members. As on the 30th September, 1970, limits sanctioned to these societies aggregated Rs. 734 lakhs with outstandings amounting to Rs. 162 lakhs. Out of 38,021 farmers
assisted under this arrangement, over 40% are those with holdings
of less than 3 acres.\(^1\)

It is not only owner-cultivators but landless agricultural
labourers, harijans and other backward and scheduled tribes who
have also been grated agricultural advance by the State Bank
group. Few schemes, particularly of dairy and poultry farming
have already been financed by the bank and subsidiaries on an
experimental basis, to supplement the income of these classes
of farmers. Mention may be made, in this connection of assistance
given in Nanansu and other neighbouring villages in Punjab,
Bansa taluka in Bulsar district and to rabaries in Ahmedabad
district in Gujarat. Arrangements are at hand to formulate
suitable schemes for the financing of tribals in selected areas
in consultation with the Tribal Welfare Corporation/Tribal
Welfare Department of the State Government concerned.

Until recently, co-operatives had been the sole agency
for the supply of institutional credit. As they are to continue
to be an important source of institutional credit, the policy
of the State Bank group is not to offer competition to them
but to play a supplementary role. The following are some of the
important measures taken in this connection:\(^-\)

1) Interest charged on agricultural advance by the bank is 1 per cent higher than the rate charged by the co-operatives locally for similar advances, subject to a minimum of 9 per cent.

ii) A defaulter to a co-operative is ineligible to get credit from the bank.

iii) Wherever co-operatives have agreed to furnish, a 'no objection and no dues' certificate is obtained in respect of farmers approaching the bank for financial assistance.

iv) Circle co-ordination committees have been set up at all the local head offices comprising of, among others, representatives of the Apex Co-operative Bank and the Co-operative Bank and the co-operative department of the State government to discuss matters of mutual interest.

There are various legal disabilities which stand in the way of commercial banks in the grant of agricultural advances to farmers but for which the progress might have been even faster. The important ones arise out of the inability of farmers on account of restrictive provisions under law to raise loans against of mortgage and execution of other documents (while no stamp duty is payable in the case of borrowings from co-operatives) cumbersome and time-consuming process of creation of mortgage and
the statutory prior charge on land created in favour of commercial banks is subordinated to the co-operatives even though the charge in favour of the bank might have been created earlier. All these and various other legal enactments affecting commercial banks' lending to agriculture are being examined by the expert group appointed by the Reserve Bank of India.

The passing of the social control legislation in December 1968 was the first step taken by the Government, in the direction of making the commercial banks effective as a "Change Agent". The Banks started realising their social responsibility but it would have taken a long time for the banks to cast away their traditional outlook and aptly towards the agricultural sector. The needs of the time were pressing. The Fourth Plan is agriculture-oriented and the agricultural sector required huge financial resources. Against this background, taking-over of the commercial banks, instead of indirectly influencing their credit policies through the National Credit Council, seems to be a perfectly legitimate, hold and right step. Uptill now the economic policies of the government were considered to be lukewarm. Nationalisation of banks would convince the people that government means business and their faith in our planning programmes would be redoubled.

The nationalisation of the fourteen banks would bring their loan policy in tune with the investment pattern envisaged under the Fourth and subsequent Plans. These banks control about
85 percent of the total banking deposits. The loan policies pursued by the nationalised banks would naturally influence the credit and loan policies of the remaining smaller banks in the private sector. The Reserve Bank will ensure that their resources are utilised according to the Plan requirement. The fear of the possibility of nationalisation would deter these banks from flouting the official directives and going away.

State Bank of India was the only commercial bank which was financing directly and indirectly to agriculture, before Nationalisation; but its contribution in total rural credit was very little, about 0.6% in 1961. It raised its direct finance after 1968. We can compare its contribution with other nationalised banks at the end of 1968 in the table below:

**TABLE No. 19**

**BUSINESS OF THE STATE BANK GROUP AND FOURTEEN NATIONALISED BANKS**

(As at the end of 1968)

<table>
<thead>
<tr>
<th></th>
<th>State Bank of India and its Subsidiaries</th>
<th>Fourteen Nationalised Banks</th>
<th>Enlarged Public Sector Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. No. of offices</td>
<td>2,384</td>
<td>3,732</td>
<td>6,116</td>
</tr>
<tr>
<td>2. Deposits</td>
<td>1,367.06</td>
<td>2,741.75</td>
<td>4,108.81</td>
</tr>
<tr>
<td>3. Advances</td>
<td>955.68</td>
<td>1,743.66</td>
<td>2,699.34</td>
</tr>
<tr>
<td>4. Total Investments</td>
<td>413.27</td>
<td>781.65</td>
<td>1,194.92</td>
</tr>
</tbody>
</table>

R.B.I.
At the end of 1968, the number of offices of the State Bank of India and its Subsidiaries in India stood at 2,384, accounting for 31.9 percent of 7,480 offices of all scheduled commercial banks. The fourteen nationalised banks, with 3,732 offices, claimed 49.9 percent of the total number of offices of all scheduled commercial banks as on that date. On the basis of these figures, the enlarged public sector in banking, with 6,116 offices, covers 81.8 percent of the offices of all scheduled commercial banks in India.

At the end of 1968, total deposits of the State Bank Group stood at Rs. 1,367.1 crores, as compared with Rs. 2,741.7 crores of the fourteen nationalised banks. They stood at Rs. 4,108.8 crores for the enlarged public sector banks as a whole.

The total advances of the State Bank Group and the 14 nationalised banks stood at Rs. 955.7 crores and Rs. 1,743.6 crores respectively, making a total of Rs. 2,699.3 crores for the enlarged public sector in banking.

Total investments of the State Bank of India together with its subsidiaries stood at Rs. 413.27 crores at the end of 1968. They amounted to Rs. 781.65 crores in the case of the

fourteen nationalised banks. Of the total investments of Rs. 1,194.92 crores of the enlarged public sector in banking, investments in Government and trustee securities accounted for Rs. 1,097.83 crores.

The figures in respect of paid-up capital, reserves, break-up of deposits and net profit for 1968 relating to all scheduled commercial banks are not available. In the case of State Bank of India and its Subsidiaries together at the end of 1968, the ratio of owned funds to total deposits stood at 2.0 per cent as against 2.4 per cent for the fourteen nationalised banks. This ratio for the enlarged public sector banks works out to 2.3 per cent.

The percentage proportions of fixed, savings and current deposits to total deposits were 45.6, 16.7 and 37.7 respectively in the case of the State Bank of India and the Subsidiary Banks, as against 49.3, 26.0 and 24.7 pertaining to the fourteen nationalised banks. Consequently, the shares of fixed, savings and current deposits in total deposits of the enlarged public sector banks stood at 48.1 per cent, 22.9 per cent and 29.0 per cent respectively.¹

TABLE No. 20
COMPOSITION OF DEPOSITS OF THE STATE BANK OF INDIA, ITS SUBSIDIARIES AND FOURTEEN NATIONALISED BANKS
(As at the end of 1968)
(Amount in Rs. crores)

| 1. State Bank of India | 463.31 (43.6) | 162.30 (15.3) | 435.87 (41.1) | 1,061.48 (100.0) |
| 2. Subsidiary Banks | 159.84 (52.3) | 65.88 (21.6) | 79.86 (26.1) | 305.58 (100.0) |
| 3. State Bank Group (1+2) | 623.15 (45.6) | 228.18 (16.7) | 515.73 (37.7) | 1,367.06 (100.0) |
| 4. Fourteen Nationalised Banks | 1,352.89 (49.3) | 713.55 (26.0) | 675.31 (24.7) | 2,741.75 (100.0) |
| 5. Enlarged Public Sector Banks (3+4) | 1,976.04 (46.1) | 941.73 (22.9) | 1,191.04 (29.0) | 4,108.81 (100.0) |

Note: Figures within brackets indicate percentage to total deposits.

Cash-deposit ratio for the State Bank of India and its Subsidiaries and the newly acquired fourteen banks work out to the same figure of 8.7 per cent. The credit-deposit ratio was 69.9 per cent and 63.6 per cent respectively for the former group of banks and the fourteen banks now nationalised. As a result, the overall credit-deposit ratio for the enlarged public sector banks comes to 65.7 per cent.
Net profit of the fourteen nationalised banks amounted to Rs. 8.47 crores in 1968 as compared with Rs. 6.02 crores for the State Bank of India and its Subsidiaries. Net profit as a proportion to owned funds was 21.9 per cent in the case of the State Bank of India and its Subsidiaries, as against 12.6 per cent for the fourteen banks recently nationalised. The combined ratio for the enlarged public sector banks works out to 15.3 per cent.

Total income of the fourteen nationalised banks during 1968 amounted to Rs. 194.92 crores, as against Rs. 103.41 crores for the State Bank of India and its Subsidiaries taken together. Of the total income of Rs. 194.92 crores of the fourteen banks, interest and discount accounted for Rs. 163.36 crores or 84.02 per cent, while commission, exchange and brokerage contributed Rs. 28.21 crores or 14.51 per cent. For the State bank Group, interest and discount accounted for Rs. 78.12 crores or 75.54 per cent and commission, exchange and brokerage for Rs. 21.89 crores or 21.17 per cent. On the basis of these figures, interest and discount, and commission, exchange and brokerage would account for 81.08 per cent and 16.82 per cent respectively in the total income of the enlarged public sector in commercial banking.

Total expenditure incurred by the fourteen banks during 1968 stood at Rs. 184.57 crores, as against Rs. 97.39 crores in the case of the State Bank Group. Of the total expenditure,

interest paid on deposits, borrowings, etc. and salaries, allowances and provident fund accounted for ₹ 96.58 crores (52.33%) and ₹ 66.04 crores (35.78%) respectively in the case of the fourteen nationalised banks, compared with ₹44.69 crores (45.89%) and ₹42.00 crores (43.13%) for the State Bank Group. On the basis of these figures, for the enlarged public sector in commercial banking, interest paid on deposits, borrowings, etc., and salaries, allowances, and provident fund would account for 50.10 per cent and 38.32 per cent respectively.

TABLE No. 1

COMPARATIVE POSITION OF STATE BANK OF INDIA. ITS SUBSIDIARIES AND FOURTEEN NATIONALISED BANKS.
(Balance Sheet Figures as on 31.12.1968)

(Amount in ₹. crores)

<table>
<thead>
<tr>
<th>Number of Offices in India</th>
<th>Paid-up Capital</th>
<th>Reserve Fund &amp; Other Reserves (2+3)</th>
<th>Owned Funds as % to Total Deposits</th>
<th>Deposits Advances</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>1. State Bank of India</td>
<td>1,547</td>
<td>5.63</td>
<td>13.24</td>
<td>18.87</td>
</tr>
<tr>
<td>2. Subsidiary Bank</td>
<td>837</td>
<td>5.00</td>
<td>3.61</td>
<td>8.61</td>
</tr>
<tr>
<td>3. State Bank Group2,384 (1+2)</td>
<td>10.63</td>
<td>16.85</td>
<td>27.48</td>
<td>2.0</td>
</tr>
<tr>
<td>4. Fourteen Nationalised Banks</td>
<td>3,732</td>
<td>28.50</td>
<td>38.59</td>
<td>67.09</td>
</tr>
<tr>
<td>5. Enlarged Public Sector Banks</td>
<td>6,116</td>
<td>39.13</td>
<td>55.44</td>
<td>94.57</td>
</tr>
</tbody>
</table>

Notes: * Deposit figures are inclusive of inter-bank deposits.
** Number of offices relating to one of the 14 nationalised banks (United Bank of India) are as on the 19th March, 1969.
TABLE NO. 1.2

COMPARATIVE POSITION OF STATE BANK OF INDIA, ITS SUBSIDIARIES AND FOURTEEN NATIONALISED BANKS.

(Balance Sheet Figures as on 31.12.1968)

(Amount in Rs. crores)

<table>
<thead>
<tr>
<th>Credit/Deposit Ratio (Percent)</th>
<th>Total Investments</th>
<th>Cash in Hand &amp; Balances with Reserve Bank</th>
<th>Cash/Deposit Ratio (percent)</th>
<th>Net Profit</th>
<th>Net Profit as % on Owned Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>9</td>
<td>10</td>
<td>11</td>
<td>12</td>
<td>13</td>
</tr>
<tr>
<td>1. State Bank of India</td>
<td>71.1</td>
<td>332.45</td>
<td>85.72</td>
<td>8.1</td>
<td>5.06</td>
</tr>
<tr>
<td>2. Subsidiary Banks</td>
<td>65.6</td>
<td>80.82</td>
<td>33.42</td>
<td>10.9</td>
<td>0.96</td>
</tr>
<tr>
<td>3. State Bank Group (1+2)</td>
<td>69.9</td>
<td>413.27</td>
<td>119.14</td>
<td>8.7</td>
<td>6.02</td>
</tr>
<tr>
<td>4. Fourteen Nationalised Banks</td>
<td>63.6</td>
<td>781.65</td>
<td>237.60</td>
<td>8.7</td>
<td>8.47</td>
</tr>
<tr>
<td>5. Enlarged Public Sector Banks (3+4)</td>
<td>65.7</td>
<td>1194.92</td>
<td>357.74</td>
<td>8.7</td>
<td>14.49</td>
</tr>
</tbody>
</table>


An important advantage of bank nationalisation is that the major part of the profits of banking industry would now be utilised for expansion programme of the banks in the hitherto neglected sectors like agriculture and small industry. Before nationalisation these...

profits improved the already existing, high standard of living of only a small minority of citizens and were responsible for increasing the gap between richer and poorer sections in the society.

The All India Rural Credit Survey Committee had estimated the credit needs of the farmers at about ₹ 800 crore a year. During the last seventeen years, the credit requirements of the farmers have grown to ₹ 2,000 crores a year. The outlook of the farmers has undergone a change. He realises that for greater production, he must invest more in improved seeds, fertilisers and implements. Agriculture is no longer the traditional way of living for him. It is a business proposition. His main Handicap is that of finance. Unless his credit requirements are met, the agricultural revolution which has begun in our country will not succeed.

The co-operatives are at present catering to the credit needs of the farmers. Fears are expressed that with the advent of the banks in the sector, there would be an unhealthy competition between the co-operatives and the banks. These fears are not well-founded. The co-operatives at present satisfy only a very small percentage of the total credit requirements of the farmers.

The All India Rural Debt and Investment Survey (1961-62) of the Reserve Bank of India reveals that government and co-operatives together supply 15.4 per cent of the credit required by the farmers. Agriculturists and the professional money-lenders
still have a sway over the farmers as they provide about 62.0 per cent of total credit. The share of the commercial banks is negligible, only 0.4 per cent of the total. There is thus no possibility of any competition between the co-operatives and the commercial banks. Both the institutions have ample scope for expanding their activities in the rural sector. If the co-operatives with their experience in agricultural finance and the commercial banks with their business acumen join hands, the needs of institutional finance in the rural sector can be adequately met.

As a new strategy for agricultural development, the Fourth Plan lays emphasis on High-Yielding Variety Programmes (HYVP) requiring use of high yielding varieties of seeds, application of fertilisers, use of pesticides, introduction of farm machinery and multiple cropping programmes (MCP) and extension of irrigation facilities. The credit requirements of the farmers for these programmes in the last year of the Plan namely 1973-74, is estimated to be Rs. 1,550 crore. The co-operatives are expected to provide Rs. 650 crore to Rs. 750 crore against this credit requirement. The gap of Rs. 900 crore will have to be met by the commercial banks.

For improving productivity of agriculture, medium-term and long-term credit is also important. The requirement of such credit during the Fourth-Plan period is estimated at Rs. 1,650
crore. This finance is to be provided by Co-operative Banks (Rs. 150 crores), land Development Banks (Rs. 700 crores), Agricultural Refinance Corporation (Rs. 225 crores) Agro-Industries Corporations (Rs. 160 crores) and Commercial Banks (Rs. 415 crores).

The commercial banks thus have a great responsibility as they are required to play a very important role in the provision of rural finance during the Fourth-Plan.

As the commercial banks enter the field of agricultural finance, they would be faced with certain important decisions. The first is obviously that of location. The National Credit Council aims at extending banking facilities about to cover all towns with a population of more than 10,000 by the end of 1970. It is reported that there are more than 400 such towns with a population of more than 5,000 where no banking facility is available. Of these about 80 towns have a population of 10,000 and above.

While making the choice of location for a bank, greatest care will have to be taken. In the first place, trade and marketing centres in the rural areas which are not being served by any financial institution, should be given preference. The centres chosen should have the potential of ultimately emerging as "growth centres". The bank operating in such a centre should cater to the needs of the farmers and artisans from the surrounding villages. Contacts with the villagers will have to
be established and credit will have to be followed by technical advice.

One of the important tasks before the banks operating in rural areas is to mobilise rural savings. At present the rural community is not used to banking procedure and their savings are used mostly unproductively. If the farmers are convinced that their deposits are quite safe, that they could withdraw the money whenever required and that at the same time they would get attractive interest, they are bound to cast off their traditional mode of investment in ornaments and the like and take to banking habits. A separate interest rate structure which will be of a higher level than the urban-rate structure, may have to be devised for attracting rural savings. Banking institutions while granting loans should charge higher rates from the customers so as to leave a margin of profit. For example, if the banks offer 9 to 10 per cent to the depositors, they could reasonably charge 15 to 17 per cent on the loans given.

The loan policy of the banks will have to be suitably attuned to the requirements of the farmers. The land holding of the farmer and his experience in the field should be considered adequate security for granting him a loan. Short-term crop loans to 100 per cent of the expected value of the crop and medium-term loans for improving land will have to be granted. The Reserve Bank could stand as a guarantee for these loans.
While giving loans the needs of the small farmers must be given highest priority. There are 61 million farmers in India out of whom 44 million are small farmers owning less than 5 acres per head. Unless they are provided with financial resources, no substantial improvement in agricultural production is likely to take place.

The banks will have to experiment with newer technique to approach the farmers. The farmers in the surrounding village may not approach the banks of their own accord. It may be advisable to appoint "itinerant agents" for accepting deposits from the farmers or for making advances to them. The possibility of starting "one-man-branches" will have to be explored for running the banks economically.

Extension of banking business to rural areas will raise the costs of operation, and moreover, lending for agriculture is more risky. Commercial banks have, therefore, confined their business to the less risky and less costly ventures concentrated in urban areas. Profitability is no doubt a sound consideration in many fields of economic activity, but individual profitability need not always coincide with social profitability or the good of the society as a whole. It is possible that the extension of business to rural areas by the nationalised banks may not prove to be profitable for some years to come. But the society as a whole may gain from this by way of increased availability of food-grains, agricultural raw materials and exports. It may increase the incomes and savings of the cultivators and eventually turn rural banking into a profitable business.
The extension of the operations of nationalised banks to rural areas will help to mobilise rural savings in the form of deposits. This has become particularly necessary now in view of rising incomes to the large farmers in certain areas of the country. Therefore, it would be a good policy to start opening branches in the relatively prosperous areas for attracting deposits. In view of the encouraging possibilities of business in such areas, the costs of operation may not be unduly high.

But the people who are likely to benefit most from lending operations of the nationalised banks are the rich farmers who wield considerable influence at the State level. Their credit-worthiness is obviously higher and they are capable of bearing the risks of new ventures such as agro-industries and can claim more credit as small entrepreneurs.

Poor and middle farmers who do not have sufficient property cannot borrow the necessary amount from the private sources because of low credit-worthiness. They cannot also pay high rates of interest on the loans. It is, therefore, necessary that a major portion of the credit extended to agriculture from the nationalised banks is reserved for the poor and middle farmers, specially in the dry and unirrigated regions. Unless there is a determined policy from above to reserve a substantial portion for these sections, the benefits of nationalisation will accrue mainly to large farmers.
Therefore, nationalisation of commercial banks will no doubt benefit agriculture and contribute to the increase in agricultural production in keeping with the national interest. But it cannot become a truly socialist measure unless radical steps are taken to extend bulk of the rural credit from the nationalised banks to the poor and middle peasants.

It would be wrong to equate the nationalisation of commercial banks with the nationalisation of private property. It is well-known that bulk of the deposits of these commercial banks belong to the common man, which have been employed to subserve the interests of big business. Nationalisation only restores to the very same common man through Parliament and the government, the power to channelise these savings into the socially desirable ventures. Therefore, nationalisation of commercial banks is not as radical or extreme a step as is made out by the advocates of the sanctity of private ownership.

This explains why many of those who believe in the right to private property, are in favour of bank nationalisation. This also explains why the whole process of bank nationalisation has been so smooth.

However, one cannot under-rate the significance of bank nationalisation to the economy. It might be argued that the distribution of credit follows the licensing pattern and the prevailing distribution of property so that bank nationalisation by itself may fail to curb the concentration of economic
power in a few hands. This view gains strength from the experience of licensing in the past and the investment of the funds of Life Insurance Corporation and of other public institutions. But this experience only shows how the public funds have been actually utilised in the past and does not prove that it would have been difficult to orient and the lending pattern if appropriate policies were laid down and pursued with determination.

Bank nationalisation vests the power of credit regulation decisively in the hands of the government. In what direction this power would be utilised depends on the character of the political leadership wielding this power.

There seems little doubt that opinion in the country has strengthened considerably in favour of the diffusion of economic power. The awakening and the determination of the common man has improved considerably, thanks to successful practice of democracy in the last 20 years. In the vastly changed conditions of today, therefore, bank nationalisation can be made an instrument for the diffusion of future entrepreneurship despite the existing inequalities in the distribution of wealth. Bank nationalisation can become an effective instrument in the desired direction only if the organisations representing the poor and middle peasants and the genuinely small entrepreneurs are strengthened and encouraged to take up the cause of their members for getting their due share in public funds as well as other facilities provided by the government.
In the wake of the public enthusiasm in favour of bank nationalisation, there is a real danger of ignoring the considerations of efficient management. It will be admitted that bank employees are one of the most organised sections in the country and have consequently improved their living conditions better than many other less organised sections of labour. Bank nationalisation obviously brings to them the prospect of employment becoming more secure and work less exacting than under private management. It is, therefore, necessary to give the highest attention to the problem of efficient public management of commercial banks. The system of incentives for effort hitherto prevailing under private management needs to be retained and improved if the benefits of nationalisation are not to be undermined by the inefficiencies unfortunately associated so far with public management.

The various sectors of the national economy will feel the impact of basic changes in the credit policy of the nationalised banks after a year or two. For it will take some time for the Union Government and the Reserve Bank to establish directional control over these banks and create an administrative set-up tuned to the objectives of national development. But the average of depositor will judge the change by its effect on the operational efficiency of the nationalised banks.

The common man does not show much 'concern' as to who owns, supervises or operates the bank. His immediate and 'on-the-spot' worry is how he receives, how long he is required
to wait either for depositing or withdrawing his money, whether
the procedure is irksome or quick and how he is treated by the
bank staff. The safety of his deposits is undoubtedly important,
but he takes this into account before deciding in what manner
and where he should invest his savings. Once he has entered
the banker-customer relationship, he will judge the functioning
of his bank by its operational efficiency.

If nationalisation leads to lowering of efficiency, it
will strengthen the hands of those who may try to move the
gear in reverse. Even if operational efficiency is maintained
at the present level, it is likely that the critics of nationali-
sation will emphasise that the move is not worthwhile. It is,
therefore, of the utmost importance that banking operations
are carried out efficiently and to the satisfaction of customers.

At the outset it is necessary to consider the possible
effects of the efforts of vested interests of painting a dark
picture of the nationalised banks. It is obvious that as a result
of the new credit policy those sections of entrepreneurs and
industrialists which have so far received the lion’s share
of bank credit will be deprived of it, and efforts may be made
by disgruntled elements to discredit the policy of nationalisation.
It will, therefore be necessary to ensure that the level of
efficiency of the nationalised banks is not impaired, that bureau-
cratisation does not creep into the banking business and that

the present flexibility and local initiative are not replaced by the rigidity of rules and red-tapism. The nationalised banks should also make available, information on all aspects of its work. A statement issued at regular intervals of operations pertaining to deposits, advances, number of customers, transactions effected, subsidiary services, branch banking, assistance to agriculture and small industry, simplification of procedure, new reforms introduced, work turn-over per week and per customer will go a long way to offset any adverse propaganda against nationalisation.

It is imperative that bank personnel of all categories should rise to the occasion and dedicate themselves to their task with a new sense of responsibility. Since nationalisation meets a long standing demand of bank employees they should share the new responsibilities enthusiastically and sincerely. They have to behave as partners in this vital experiment. It is obvious that the step that has now been taken, involves the success or failure of the new economic policy of the government. The weak point, as far as the public sector is concerned, is in the sphere of implementation. In the case of nationalised banks this will be even more important. It is the efficiency of the bank employees which will ensure that the nationalised banks do not fall into the category of inefficiency and bureaucratised public undertakings.
Political intrusion in the banking sector is another danger which must be guarded against, if the bank staff is expected to discharge its duties without fear or favour. Political interests have already entrenched themselves in the co-operatives and other agricultural service organisations as pointed out by the Rural Credit Survey Committee. Local political workers in rural areas may be tempted to bring pressure on bank managers to make loans available to particular parties. The banks should be assured of real autonomy to resist such pressures and adequate protection has to be afforded to them against any reprisals affecting their service conditions.

Operational efficiency depends on the quality and the numerical supply of trained personnel. As a result of nationalisation not only the number of branches will increase but the nature and form of banking services will also undergo re-orientations. This may necessitate more and better trained men to man banking institutions. Thus, the nationalised banks may soon face a shortage of such personnel. It is, therefore, suggested that a small percentage of profits may be set aside for opening training institutes on a zonal basis to train a new cadre of personnel equipped with the practical knowledge of the requirements of agriculture and small industry of the respective zones. This will enable them to perform their task better and with greater efficiency.
No doubt alternative to social control is nationalisation, which has certain advantages, but it raises problems of efficiency. Banks, unlike other industries which deal in goods, provide the payments mechanism (money) services to the community. It is doubtful whether the centralised monopolistic structure of nationalised banks can provide this service efficiently and in as personalised a manner as the private banks do. The accounting problems of cheque transfers, debits, credits, advances, become phenomenal to be impersonal and inefficient. But one saving aspect is that the cost of service can be cut down by computerisation of banking. It is, however, doubtful whether computerisation can be adopted in India at present because of the problem of unemployment. Thus, the impersonalisation and inefficiency of nationalised banks, is to be pitted against the reduction in the cost of service through computerisation. Hence the social marginal utility of nationalisation over social control is likely to be negligible, even if we introduce computerisation.

Nationalisation of banks, then will have to be justified on some other grounds. One argument is that the natural development of banking is towards monopoly. When it reaches that stage, social policy demands, nationalisation, instead of private ownership of the monopoly. Another is the strong Indian opinion in favour of nationalisation. Welfare consists in giving the citizens what they want.
Another issue raised earlier is whether we should encourage competition among the nationalised banks by retaining their individuality, or not. Competition in any industry is expected to ensure efficiency in operation. This is as true of banking as of any other industry.

The peculiarity of a bank is that it deals in purchasing-power-mechanism-services. It accepts deposits and advances loans. The competitive efficiency of banks refers to their capacity for marginal increases in deposit rates so as to channelise all the savings of the community to the banking system. Competitive banking also means marginal decreases in the advances rates of the banks so that more advances, investment and economic growth can take place.

Spending units in the economy demand a wide variety of assets among which bank deposits are one item. These assets are held in such quantities that their marginal utilities are equal and the spending unit is at equilibrium.

Bank deposits are of two kinds: Current deposits and time deposits. If current deposits are paid a rate of interest (in many countries current deposits do not earn any interest), this explicit deposit rate plus the impurposed implicit deposit rate of current account (liquid money has an implicit deposit rate) of current account and make it more attractive. The real yield of this asset increases. In order to reduce its marginal
yield to the level of the other assets in the portfolio, spending units make demand for current deposits. Since the real money balances that the spending units desire continue to be the same, it is the currency and coins part of the money balances that is decreased so as to increase the current deposits. Since currency and coins do have only the implicit deposit rate of liquid money, current deposits which give a higher yield are preferred to currency and coins. The decrease in the demand for currency and coins decreases the social cost of the monetary system and accelerates economic growth.

The supply of currency and coins entails expenditure in the firm of printing and minting. Another is the cost of preventing counterfeiting which is greater than the above two items. Thus there is cost in the supply of currency and coins. A decrease in the demand for currency and coins, as against current deposits, reduces the currency-income ratio, while the current deposits or bank money-income ratio rises. Thus the social cost of supplying currency as a proportion of national income declines. In India, this is particularly necessary, since there is uneconomic use of cash. During the First Plan, currency formed 80 per cent of the total money supply. This declined only by 75 per cent during the Second Plan, and by 56 per cent in the Third Plan. This uneconomic use of cash can be reduced by the marginal increase in deposit rates.
On the other hand, an increase in the demand for current deposits induces most of the savings of the society to move into the tills of the banks to form cash reserves. This enables them to increase the money supply which is a necessity in a developing economy. Thus for greater mobilisation of savings and for speedier economic growth a competitive marginal increase in deposit rates is warranted.

It may be pointed out that in many countries current deposits are not paid any explicit deposit rate. But the services rendered to clients by such banks are much higher than in India. If experience of the working of the State Bank of India is any guide, one cannot expect any increase in clientele services from the nationalised banks in India. So to keep the clients from going away to the small private banks and other financial intermediaries which is a possibility, a competitive marginal increase in deposit rates is advisable.

A second variety of monetary asset is the time deposit. A rise in this deposit rate will mean excess demand for such asset which is more likely to pinch on currency and coins, rather than on current deposits or other forms of assets in the portfolio of the spending units. This again increases the capacity of banks for credit creation.

Another form of competitive banking efficiency is marginal decrease in the advance rates of banks. Firms which could not be
in business due to lower capital-output ratio borrow now and enter into business. Existing firms also expand their deficits and carry on with more investment. This accelerates economic growth. Again, the decrease in the advance rates reduces the debt charges of the firms. If the rental rate on capital is high, firms will be eager to invest this saving, leading to further economic growth.

Reduction in the advance rates is advantageous even to the bank. More advances mean the holding of more primary securities of the firms. This diversification of the bank’s portfolio reduces the risk in banking. The increased business gives more profits. Under a nationalised system, this will enrich the State coffers.

Thus competitive increases in deposit rates and a reduction in advance rates by the nationalised banks may decrease the social cost of the monetary system, besides accelerating economic growth. Moreover, this not a novel proposition. France has nationalised five major banks, which have continued to retain individuality. In any case, nationalisation is not a solution to any problem, but an opportunity. It is the future working of these banks that will justify their nationalisation.

The progress of the banking in our economy has been very uneven, both quantitatively and qualitatively. The bank-offices are clustered around metropolitan areas and realistically
speaking, in the rural areas these are few and far between. The reasons why banking-system did not reach the rural areas are not very far to seek. The urban orientation of the commercial banks -- which were opened during the British rule to cater for the needs of trade and industry - persists even today. Banks could not venture to go ahead to the rural areas because till recently agriculture was a "way of life" than being a commercial-proposition. The complexities of the agricultural sector, e.g. uncertainty due to the dependence on rains, illiteracy of people and non-availability of proper records etc; stood in the way of the banks to go to this sector. Because of a large number of problems facing agricultural-financing operations of the commercial banks, the Informal Group on Institutional Arrangements for Agricultural credit, headed by Mr. P.C. Bhattacharya - the then Governor of the Reserve Bank of India - made this observation:

"... one can-not took to the commercial banks for providing a satisfactory system of agricultural credit, even on a purely supplementary and transitional basis for any large sections of the cultivating population in Indian conditions."

In the Draft fourth Five Year Plan an annual growth rate of 5.5% is envisaged\(^2\) (while the corresponding growth rate for

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2. Fourth Five Year Plan Draft, pp. 29.
the agricultural sectors is 5%. It is also expected that agricultural sector would contribute about 49.40% of the Net National Product in 1973-74. It is in such a type of framework that the anxiety of the Government and National Credit Council that, Credit at least does not prove to be the limiting factor in our efforts to achieve the postulated rate of growth, becomes quite understandable. It is an admitted fact that the credit is a catalytic input which facilitates and rather makes possible a more intensive application of the other inputs which have a direct impact on the productivity per acre.

The State Bank of India, therefore, is following a vigorous policy in financing the agricultural sector of the economy, as has been clearly laid out in the earlier chapters. The various schemes under which the Bank is providing finances to this sector, have also been enumerated. The Bank's venture into the field of agricultural finance recalls, inevitably to one's mind the Bank's venture in the small scale industries sector. Obviously in both of these cases, the staff of the Bank was confronted with the necessity of drastic reorientation - of course reorientation called for is far far reaching, sudden and quick. It is a factor

1. Fourth Five Year Plan Draft, pp. 112.
2. Calculated from Table 8, pp. 57, Abid.
worth nothing that the Bank's entry was preceded with no consultations with the various agencies already engaged in the field of agricultural field and state Governments, modification of instructions and careful planning etc. This factor gave rise to a number of difficulties in the implementation of the Bank's scheme for agricultural finance in this circle.

After making a some-what detailed investigation into the role played by the State Bank of India in financing the agricultural operations, I feel, an explicit consideration of the besetting difficulties should not prove to be futile, because very often a systematic statement of the problem itself can point out the remedies.

After discussing the problems being faced by the Bank with those persons who are engaged in this field of rural banking, I considered it proper to divide the operational problems into two main categories, so that in order to make a careful and proper approach towards these problems. We can classify these problem under the two main heads of (i) General and (ii) Those relating to extension of the Bank's credit.

To make a decision regarding the location of a new branch to be opened by the Bank entails detailed investigations into the social overheads provided in that area; e.g. postal facilities, metalled roads - which make it accessible with vehicular traffic during all the seasons, e.g. a police - chowki etc. Apart from this a detailed study of the economic-conditions and
banking potentialities is also to be made with regard to the villages in the neighbourhood of that particular centre. Unless the social - overheads are provided, the diffusion of Bank's branches into the rural areas would create many problems.

Urban-sophistication of the bank's offices also creates some problems and many officers of the Bank felt that polished bank-offices with the aura of an office-atmosphere sometimes almost scared the rustic and simple villagers.

The finding of well-trained, and adequate staff to man the rural branches of the bank is also posing a problem. As a matter of fact I came to understand that the general tendency of the staff - which is city educated, city bred and accustomed to the glamorous and fast life of the cities - isto avoid going into the rural-centres. Then to train the staff in such a way as to enable them to handle the rural customer effectively is another major problem. As a matter of fact, it is necessary that the 'rural banker' should be an energetic person with drive and initiative, but at the same time a person who can make himself the part of the village community, well versed in the local language and akin to the villagers. Therefore, finding staff is creating formidable problems for the Bank.

Since we know that the real challenge before the Bank in the rural areas is that of deployment of and proper diffusion of credit. Therefore now we turn our attention to the problems relating to the extension of credit.
It is worth noting that mere cataloguing of the difficulties being faced by the Bank would not suffice. Therefore, we touch upon each of the difficulties in this field also which are faced at the various stages of the conduct of a loan account.

We, by now very well know that the story begins with either the farmer coming to the Bank or the field staff of the Bank approaching the farmer - presumably in need of the credit. The farmer may require credit for any one of the following three purposes - as we analysed in Chapter IX,

(i) For meeting cultivation expenses.
(ii) For purchasing agricultural machinery.
(iii) For giving effect to various land development schemes.

The practical-experience of a rural banker suggests that the farmer generally quotes a specific amount of money which he claims to stand in genuine need of. But the direct financing of agriculture, of course, does not imply that all the time-honoured concepts of banking be thrown over-board. Rather the 'sound canons of business' demand that the banker should make a rational assessment of the farmers credit requirements. For making such an assessment, information under the following three heads is required:

(1) Data in respect of the cultivation expenses being incurred by the applicant for, say, past two to three years and the particular cropping pattern that was being followed by him during the same period.
(ii) A precise description of the applications plans for switching over to a new cropping pattern or to get in for more intensive methods of cultivation or a combination of both.

(iii) Agronomical information as to which particular combination of inputs has been found to be optimum for that particular region to which the applicant belongs.

But the bankers feel that very little of the requisite information on the above mentioned points has been forthcoming. In quoting the previous cultivation expenses, the farmer generally is vague and reluctant. Here, sometimes a very amusing situation develops when the field-officer is requested by the farmer to fill in whatever figures he considers reasonable. If this information is supplied by the farmer himself even then field officer has no means at his disposal to verify the accuracy of these figures. It may be of some interest to note that when I contacted the officer of the Bank engaged in this field, I was told that most of the figures with respect to the cultivation expenses of the farmer vary not only from state to state, district to district but vary from village to village and quite surprisingly in some cases from field to field. But many a time, this may be a realistic situation, because one farm may be requiring far more preparatory & village than the neighbouring one, and one farmer, for instance, may be using more intensive methods of farming and his cultivation expenses are likely to
be more. Here even the average expenditures in an area would also not serve the purpose, because we should not prune the estimates of a more progressive farmer so that these should correspond to the average.

In certain cases, a farmer may be claiming that he is using a more progressive method of farming, but it is difficult for the Bank-staff to check the veracity of such statements. Though the enquiries in the village itself may reveal the true position, yet the field staff would be required to spend a considerable time.

Now coming to the farmer's demand for agricultural machinery, we find that the position appears to be relatively simple. Tractors and pumping sets are the major-items of agricultural machinery for the purchase of which the Bank's help is solicited. Although here the Bank avoids difficulties of assessing the needs by obtaining quotations from the dealers and on the basis of these quotations the applicants' requirement is worked out. But here another difficulty is encountered due to the shortage in the supply of tractors and many farmers are desirous of obtaining tractors in the open-market where these are sold at premium. In such cases, while the borrowers have often desired the Bank to work out the loan amount on the basis of this inflated price; the Bank for determining the loan-amount takes its base the controlled prices of the tractor and whenever a second-hand tractor is sought to be purchased, the loan-amount is suitably deflected by allowing for depreciation etc.
For a realistic assessment of the land-development schemes, the Bank most often feels the need for an expert advice from the district agricultural authorities. But the Bank sparingly gets such help from the district-authorities in this field. Now it is being realised that this difficulty can be traced to some-what inadequate efforts made to enlist the help from the State Government, before the scheme was launched.

The next in line comes the problem of inspection of the farms. Prior to the actual sanction of the loan, the farmer's farm was to be visited by the field staff, because some of the statements submitted in the loan application-form can be checked to a certain extent by such visits. Very many farms are situated at considerable distances from the branches and in some cases the farms are even inaccessible to vehicles. Resultantly the field staff has to cover a considerable portion of the journey by foot; and much of their time is lost in journey itself. Practically speaking, an entire day can be dissipated only in one or two such inspections. This practical difficulty has also brought to the notice some policy-implications. It is apparently difficult for a branch situated at an urban centre, to maintain an effective units scattered over the country-side. A fact worth nothing is that in many cases loans are sought of nominal amounts say Rs. 3,000/- to Rs. 8,000/-. But whether the loan is for a big or a small amount, the respective farms have to be inspected and the time spent by the field staff on each account
works out to be roughly the same. Thus, the administrative costs in respect of loans for smaller amounts assume very high proportions. The Bank feels that a multiplicity of small accounts and the follow-up and supervision of these loan-accounts—designed to prevent mis-utilisation of these loans—would entail heavy cost.

The average farmer is a semi-literate person and he very often exhibits his impatience when he is called upon to fill in the lengthy loan-applications and execute numerous documents—whose significance it is difficult for him to grasp. Here also the field-staff is required to spend a lot of time in actively assisting the farmer in filling up his forms etc. The Bank is also considering some measures to simplify the documents required for such loans. (Specimens of various types of Documents are attached at the end, under the Appendix 4).

As observed in some of the earlier chapters, transferable rights in the farm-lands form the basis for advancing medium-term-loans to the agriculturists. For Crop.loans and instalment-credits also, mortgage of land, by way of collateral security is normally insisted upon. Here it may be of some interest to note that in the Punjab, insistence on security of land for short term loans— for seasonal agricultural operations by co-operative societies is fairly common. In the Punjab, the mortgage of land is required as security for loans exceeding ₹. 1000/-. But the Bank has found that in the state, the entire question of
obtention of mortgage of land is wrought with difficulties which can be grouped under two heads of (1) Legal and (ii) Practical difficulties.

The legal difficulties are particularly with reference to which ownership pattern of farm-lands displays a bewildering variety. The ownership of the land may vest in an individual, a joint-Hindu family, in a partnership or in a company. But the matter does not end here. There are many hybrid varieties of the ownership formed out of the above types or out of other land-ownership laws. We may cite here a few examples; a) Joint Hindu family whose members have informally separated although the holding stands in their joint name; a joint hindu family whose members have informally separated and they have had their respective shares entered in the revenue records; individuals may have specific shares in the holding which they are jointly cultivating; a group of persons may have purchased land in the nature of community-purchase-the entire being in their joint names although cultivation may be separated; portions of land orally gifted to relatives etc.; Not only the ambiguity of ownership, but also the later consolidation of lands later on, poses problems. Where the original sale-deeds are available, the Khasra and Khata numbers have undergone changes due to consolidations. However, the most commonly encountered case is that where land is held jointly by two or more individuals, though cultivation may be carried on separately. One of the owners may apply to the Bank for a loan, but in all likelihood
the other owners of the land will not be found willing to mortgage their shares with the Bank. Though Land-Mortgage Banks in the State accept the mortgage of the applicant's own share; yet it may be difficult for the State Bank to enter into such a deal due to many complications which may arise at later stages. Therefore, the only alternative left before the Bank in such cases is to rely upon the personal securities. Even where such securities are forthcoming, the Bank cannot accept the same advisably for the medium term loans.

Therefore, the first task which the Bank is supposed to perform is to ascertain the exact ownership pattern of the land being offered for mortgage and also to ascertain whether the borrower possesses mortgageable rights. For this, the Bank has to depend on expert legal advice. This expert legal advice sometimes causes heavy expenses on the part of the Bank.

Practical-difficulties in obtaining a simple land-mortgage are also many and varied. First and foremost, it is an expensive affair, because stamp-duty on mortgage coupled with registration expenses and the counsel's fee contribute to raising the effective cost of borrowing to such an extent as would rob the Bank's finances of their utility. For example on every such transaction between borrower and the Bank a stamp duty of 1½% is payable, while at the same time under the Punjab State Co-operative Societies Act, 1961, all the transactions between the members of the co-operative societies and these institutions are exempted from all such duties etc.
The second practical difficulty involved is that the obtention of simple land mortgage is a tortuous and time-consuming process. A strict adherence to the requirements of this security would undoubtedly delay the disbursement of loans; this is a distressing factor in view of the fact that the timeliness of financial assistance is of a paramount importance in agriculture. In the interest of expediency, it is therefore desirable that the loans should be disbursed against an agreement to mortgage the land. This agreement should be executed by the borrowers pending the completion of the formalities incidental to the creation of a registered mortgage.

In the light of the foregoing discussions, we can put forward a few tentative suggestions with regard to reducing the complexities of the rural-banking structure.

With regard to the problems discussed under the general categories, we can very conveniently avoid such type of sophistication as would scare away the rustic and rugged villagers. The look and set up of such offices can also be modified according to local needs. Since we know that the village folk do not live by the clock, it is necessary that the timings of such branches are also flexible and not rigid and fixed. At least the timings of the rural banks should not clash with the working timings of the farmers. Then the rural banker should also be expected to do more of touring and field-work, because he cannot afford to sit behind the counter with his fingers crossed, waiting for the customer to walk in ?.
The staff in the rural bank-offices would have to be enterprising and such personnel should also be trained in the dynamic art of dealing with human-beings apart from the prosaic-science of credit and debit entries. Rural bankers should be able to make themselves feel as parts of the village community by learning the local language and customs etc. For this purpose, it is necessary that due weightage should be given to rural educated youth, at the time of recruitment of the bank-personnel. As a matter of fact, Mobile-offices, one man-rural branches, pilot centres etc. will yield only limited results, so long as the bankers do not develop rural-mindedness, identify themselves with the rural-masses and provide them with a sense of equality of status.

Now we shift our attention to the processional problems; i.e. the problems with regard to the extension of credit in rural areas. It was explicitly made clear in the above discussions that the documentation involved in sanctioning loans to the agriculturists has been often a target of criticism on account of the following three reasons :-

1) Information called for is not readily available.

2) Documents themselves are too lengthy.

3) Obtention of legal advice, where land ownership pattern is not clear, is very expensive and the stamp duty and registration fee are quite heavy, if a mortgage is to be obtained.
It is worth noting that these defects can be eliminated provided the assistance from the concerned Government quarters is forthcoming.

The entire knotty question about determination of the exact nature of the applicant's ownership of land - which he is cultivating - can be resolved if the State Government's revenue authorities issue pass-books to the cultivators in which the relevant particulars with respect to the area of the land cultivated, status of the cultivator, mortgageable rights, if any; land revenue payable each year etc; and other relevant details are recorded. A look at such a pass-book will, at one stroke, reveal to the Bankers the information considered necessary for assessing the credit-worthiness of an applicant. Such information considered necessary for assessing the credit-worthiness of an applicant. Such information would require no elaborate verification and can be accepted at its face value. These pass-books can also be made to contain agronomical facts about the land owned. The Government should assist the farmers to get the relevant facts about the optimum cropping-patterns, mix of inputs etc. and instruct the district agricultural authorities to record these information in the pass-books. Such pass-books should be revised once a year as a matter of course. The issue of pass-books would also spare the farmers from the trouble of running from one Government Department to the other Government department - most of which are remarkably un-cooperative and more often they do not require monetary inducements, before they can be stirred to action.
Another point worth noting is that presently, the charge of cooperations and other notified institutions ranks prior to that of any other financial agency including the State Bank of India, notwithstanding the borrower having, in point of time, first raised a loan from the latter. But the Bank is also a custodian of the public-money and therefore, the Bank should also be brought on equal footings with all these notified institutions, without any discrimination. To neutralize the risk and to compensate for a high degree of uncertainty involved in agricultural loans, a higher degree of security should be provided to the Bank.

The State Government should guarantee long term loans which are being sanctioned by the Bank to the agriculturists. This can be done on the lines of the Farming Loans Guarantees Ltd. of the UK. This guarantee at least should be provided for the long-term farming loans.

For the short-term working capital loans i.e. crop-loans, the introduction of the crop-insurance scheme would be of great assistance to the Bank. The instability of agriculture is proverbial in India due to its heavy dependence on Nature and under such circumstances this scheme would ensure to the farmer a minimum return. In 1960-61, the Government of Punjab had even decided to implement a pilot scheme in certain selected areas of the State. But this scheme could not be put into practice because of a constitutional hitch—insurance is a control
of central subject and hence a State Government cannot even run a pilot scheme without a legislation by the Parliament to this effect. However, the Central Government is understood to have forwarded the Draft-Bill as also the model scheme to the State Governments, for their comments. This scheme would also reduce the risk of the Bank to a considerable extent.

There are various problems faced by State Bank of India and other Nationalised Banks in direct rural financing. To conclude it we can say that management of banks in rural areas, distribution of loan to deserving small farmers and lastly realising the loan from the borrowers are the main problems. Actually uncertainty of prices and yields is one of the important reasons for non-payments of loans at proper time. Therefore banks have to consider risk and uncertainty involved in farming business when they advance loans to the farmers.