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Vol XVI
No. 4

ISSN 0019-5014

OCTOBER-
DECEMBER
1961

INDIAN JOURNAL OF AGRICULTURAL ECONOMICS



INDIAN SOCIETY OF
AGRICULTURAL ECONOMICS,
BOMBAY

STATE BANK OF INDIA AND CO-OPERATIVE INSTITUTIONS

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INTRODUCTION

The State Bank of India was established on 1st July, 1955, in pursuance of the recommendations of the Committee of Direction of the All-India Rural Credit Survey. One of the important objects of the establishment of the State Bank of India was to reconstitute and refashion an influential sector of commercial banking so as to make it responsive to the needs of co-operative institutions especially in the field of marketing and processing. With its large and widening network of branches spread over the entire country, the Bank was expected to stimulate the development of co-operative and commercial banking by providing remittance facilities on a vastly extended scale. In its loan operations having a bearing on rural credit, the Bank was expected to follow a policy which, while not deviating from the canons of sound banking, would be in consonance with national policies as expressed through the Central Government and the Reserve Bank. The role of the State Bank of India in regard to the co-operative movement as envisaged by the Rural Credit Survey Committee was thus primarily two-fold : (i) that it should stimulate the development and growth of co-operative banking and (ii) that it should assist in the financing of co-operative marketing and processing societies.

CO-OPERATIVE BANKING

The availability of adequate and cheap remittance facilities is an important factor for the development of banking—commercial as well as co-operative. The State Bank of India is assisting the banking development in the country, first, by providing remittance facilities on a large scale and secondly, by extending the number of centres at which such facilities can be made available to banks, particularly in the rural and semi-urban areas of the country. The remittance facilities that the State Bank of India is offering to co-operative banks under the Reserve Bank of India Remittance Facilities Scheme have been considerably liberalised. For example, the number of free remittances which the State Co-operative banks and their affiliated central and industrial co-operative banks can effect from any place where there is a branch of the State Bank of India to the principal accounts maintained by them with the Reserve Bank of India has been increased from once a week to three times a week. These free remittance facilities were further extended to include remittances by these banks to their Head Office accounts with the offices of the State Bank of India also. With a view to encouraging the flow of funds from urban to rural areas, the State Bank of India has, on its own initiative, permitted the co-operative central financing agencies, including their apex banks, to effect free remittance of funds once a week to their upcountry branches. Further, besides these free remittances, co-operative banks can remit any amount of funds through the State Bank at premium.

Last year, the State Bank of India successfully completed a statutory branch expansion programme under which the Bank was required to open 400 branches in a period of 5 years from the date of its establishment. In fact, the Bank

actually opened 416 branches during the five-year period as compared to 400 branches stipulated by the statute. A majority of these new branches has been situated in rural and semi-urban areas of the country where banking facilities are not ordinarily available or adequate.

The volume of remittances effected by the Bank on behalf of co-operative banks has considerably increased during the past 5 years both as a result of the liberalisation of the facilities as well as the extension of the network of its branches. The total remittances issued by the State Bank of India on behalf of co-operative institutions under the Reserve Bank of India Remittance Facilities Scheme increased from Rs. 54.4 crores, in the co-operative year 1957-58 to Rs. 94.0 crores in 1959-60 and under the State Bank of India's own scheme from Rs. 29.9 crores in 1957-58 to Rs. 65.9 crores in 1959-60.

✓ Besides remittance facilities, the Bank has also been offering several other facilities to co-operative banks at concessional rates. Co-operative banks, for example, are granted loans/overdrafts against Government securities at a concessional rate of $\frac{1}{2}$ per cent below the State Bank of India Advance Rate. They are also granted advances by the Bank in special cases, against Government guarantee, to enable them to finance their affiliated co-operative institutions. Co-operative Banks' own cheques are collected/purchased at concessional rates. Drafts/cheques drawn on apex banks by co-operative banks for the purpose of replenishment of funds are also discounted by the Bank at concessional rates. The total limits sanctioned by the Bank to co-operative banks against Government securities increased from Rs. 8.5 crores on September 30, 1957 to Rs. 11.4 crores at the end of May, 1961.

It will be seen from the above that the State Bank of India has taken a number of steps to assist the development of co-operative banking in the country. With the taking over of the eight State-associated banks as its subsidiaries, the State Bank of India is now in a position to offer all these facilities to co-operative institutions at its 925 offices and 524 offices of its subsidiaries spread over the entire country. Further, under the branch expansion programme, the State Bank of India and its subsidiaries will open 300 more branches during the quinquennium 1960-65. The Bank will thus be offering a wide range of facilities for the development of co-operative banking at about 1,700 branches/offices.

LAND MORTGAGE BANKING

The Bank has been assisting the development of land mortgage banking in various ways. First, the Bank subscribes in suitable lots, to the debentures issued by the central land mortgage banks in the country. The Bank's holdings of such debentures increased from Rs. 5 lakhs at the end of 1955 to Rs. 134 lakhs at the end of May, 1961. Secondly, with a view to improving the marketability of these debentures, the State Bank of India grants advances against the security of such debentures to co-operative institutions and others. As at the end of May, 1961 the State Bank of India had sanctioned limits of Rs. 56.3 lakhs against the debentures of land mortgage banks. Thirdly, the Bank provides the co-operative central land mortgage banks with interim accommodation against government guarantee to help them to carry on their normal loan business pending

the raising of funds through the floatation of debentures. As on 31st May, 1961, for example, the Bank had sanctioned a limit of Rs. 50 lakhs for this purpose to a central land mortgage bank in the country. With the large-scale expansion of land mortgage banking in the country envisaged in the Third Five-Year Plan, the participation of the Bank in the financing of land mortgage banks in all these ways is also likely to increase considerably.

MARKETING AND PROCESSING SOCIETIES

It is well known that the progress of the co-operative movement in the country has been somewhat lopsided and not on all fronts. The co-operative organisations have not made much headway in many of the important spheres of rural economic activity—other than credit. Co-operative marketing, for example, is in an undeveloped stage and processing of agricultural commodities is largely in the hands of private businessmen, with the result that the co-operative credit movement itself has not developed with full vigour. There is need for a balanced and multi-sided development of the co-operative movement, so that the various sectors develop into an organic whole with mutual support and thus emerge as a powerful force for the economic betterment of the rural society. Therefore, the Second Five-Year Plan placed great emphasis on the development of marketing and processing societies. It aimed at bringing about 10 per cent of the marketable surplus in agricultural commodities within the orbit of the co-operative marketing sector. Towards this end, a target of setting up about 1,800 primary marketing societies had been set. The Plan also envisaged the setting up of 35 co-operative sugar factories and 166 other types of co-operative processing societies. These targets have been largely attained.

With a view to fulfilling the role envisaged for it by the Rural Credit Survey Committee, the State Bank of India has put into effect a scheme for financing marketing and processing societies. Under this scheme, the State Bank supplies working capital needs of these societies by granting them advances against pledge/repledge of agricultural commodities. In suitable cases, some clean credit facilities are also granted. On secured advances granted to marketing societies, the Bank charges an interest rate of not exceeding $\frac{1}{2}$ per cent over the State Bank of India Advance Rate and care is taken to see that the overall incidence of interest, including the payment of godown rent, insurance and other charges, etc., on the borrower, is kept as low as possible. For example, no separate godown keeper's charges are recovered on advances below Rs. 5 lakhs, except in cases where the existing godown staff may not be sufficient to attend to this work and additional godown staff is required to be employed.

Among processing societies, the Bank offers certain special facilities to co-operative sugar factories. For example, co-operative sugar factories are provided interim accommodation by way of clean loan on the guarantee of the (concerned) State Government, pending the disbursement of loans granted to them by the Industrial Finance Corporation of India. They are also granted advances against the pledge of sugar stocks and readily salable stores and clean loans upto limited amounts for meeting their working capital requirements. They are also given letters of credit facilities and deferred payment guarantees to cover the import of machinery and capital goods on the securities of the general assets of the society and/or guarantee of the (respective) State Governments.

The Bank's scheme of financing marketing and processing societies was introduced in 1958. As at the end of May, 1961, the Bank has sanctioned limits of Rs. 251.1 lakhs to 173 marketing and processing societies, other than sugar factories, and the outstandings stood at Rs. 49.2 lakhs. Further, as on the same date, four sugar factories had been granted interim accommodation of Rs. 115 lakhs (outstandings Rs. 69.3 lakhs) pending receipt of the loans from the Industrial Finance Corporation of India. Two sugar factories had been sanctioned limits of Rs. 60 lakhs (outstandings Rs. 55.1 lakhs) by way of clean loans for working capital purposes against Government guarantee and seven sugar factories had been sanctioned pledge loans of Rs. 335 lakhs (outstandings Rs. 247 lakhs). In addition, a number of co-operative sugar factories have been assisted by the Bank in their initial stages by providing letters of credit facilities and deferred payment guarantees to cover the import of machinery.

The Bank has sanctioned fairly large advances to a few apex banks which are understood to be utilising these for supplying working capital to co-operative institutions—particularly for financing their marketing operations.

The Bank has also been actively associated with the warehousing development scheme. It has taken a lead in granting advances against warehouse receipts issued by the warehouseman covering agricultural commodities placed in the warehouses. It has been co-ordinating its branch expansion programme with the warehousing scheme in such a manner that as far as possible there would be an office of the State Bank of India wherever there is a warehouse of the Central or State Warehousing Corporation. As at the end of May, 1961, the Bank had granted 3,973 advances against warehouse receipts, the limits and outstandings in respect of which were Rs. 4.5 crores and Rs. 2.4 crores respectively. Individuals as well as co-operatives are taking advantage of this facility. Further progress in this field will depend on the progress which the Central and State Warehousing Corporations can show in opening more warehouses and increasing their business.

Considering the large number of co-operative marketing and processing societies in operation, the magnitude of funds provided by the Bank may appear to be rather small. But there are some facts which have to be kept in mind while judging the Bank's performance in this regard. First, the responsibility for financing co-operative institutions of all types rests primarily with the co-operative central financing agencies. Systematic attempts are being made to weld the co-operative movement into a single whole, with a definite code of discipline for its various components. The Bank has to ensure that while its assistance reaches the needy co-operative marketing and processing societies, it does not in any way harm the tender bonds of loyalty and internal discipline of the co-operative movement. In this connection, the observations of the *Ad hoc* Committee on the Role of the State Bank of India *vis-a-vis* Co-operative and Agricultural Finance set up by the Reserve Bank of India in March, 1957 are quite significant. The Committee recommended that :

“ . . . in those States where co-operative banks are able to command sufficient resources for financing co-operative marketing and processing units, e.g., Andhra, Madras and Bombay, and where the financing of these activities

is already taking place without much difficulty, it is only natural that the State Bank's role in this context need not be as large as in other co-operatively less developed States. In other words, the State Bank's participation will be for the definite purpose of *adding* to the resources hitherto available to the sectors of co-operative marketing and processing and the need for such *supplementing* of resources arises particularly in States where the co-operative banking structure is weak and unable to meet the needs of agricultural production credit as well as marketing credit adequately."

Thus it is that the State Bank's role in the field of financing marketing and processing societies is essentially of a supplementary nature. The Bank has been making direct advances to marketing and processing societies mainly in the co-operatively undeveloped States, while in the co-operatively developed States, direct advances are considerably restricted. In such States every individual society has to take permission from the Registrar of Co-operative Societies and from the Central Financing Agencies before it can avail itself of the facilities offered by the Bank.

Secondly, the facilities offered by the Bank may not be known to many co-operatives. On its own part, the Bank has taken several steps to publicise its scheme. It has distributed considerable literature on this subject to all the Registrars of Co-operative Societies, State Co-operative Unions, etc. The representatives of the Bank attend all the important seminars and conferences held on the subject of co-operative marketing, processing, warehousing, etc., and try to explain the Bank's policy. Circle Co-ordination Committees have been set up at all the Local Head Offices of the Bank with a view to associating officers of the Co-operative Departments of States, non-official representatives of State Co-operative Unions and representatives of marketing co-operatives with the working of the Bank's scheme. The role of the State Bank is also explained to the large number of co-operative trainees who visit the State Bank of India from time to time.

It is quite likely that the marketing co-operatives do not require much larger finance from the State Bank than what it has been giving either because their own central financing agencies have sufficient resources to meet their requirements, especially in the co-operatively developed States, or because co-operative marketing is not sufficiently developed. There are several difficulties hampering the successful development of co-operative marketing in quite a few States. Imposition of levy orders, changing policies relating to State Trading, Sales Tax, absence of storage and processing facilities in the co-operative sector, stiff competition from private traders and lack of loyalty among the members could be mentioned as some of these.

It is also possible that although the State Bank has liberalised its terms and conditions of lending, some marketing co-operatives may not still be in a position to take advantage of the Bank's scheme. It may, however, be mentioned here that out of the 216 applications received by the Bank from co-operative marketing societies so far, only 9 applications have been rejected. Sometimes procedural matters have entailed delays or led to the rejection of a few applications ; these are being looked into by the Bank which has been constantly endeavouring to

remove such difficulties and to speed up action. But it is also necessary that the co-operative borrowers should themselves take initiative in getting such matters settled as quickly as possible. It must, however, be remembered that liberalisation of the Bank's terms and conditions must be subject to two important limitations : (a) The Bank has to operate with due regard to the canons of sound banking and hence cannot offer unduly large concessions to co-operatives and (b) the rate of interest charged and the facilities offered by the Bank have to be competitive in the sense that these facilities should not attract co-operative institutions away from their central financing agencies and thus affect their loyalty to the co-operative structure. It has been and will continue to be the policy of the Bank, while doing its best to come to the financial assistance of the co-operative movement, not to do anything that will stand in the way of the movement's own financing institutions getting stronger and stronger.

An encouraging feature in the situation is the rapid development of marketing co-operatives aimed at in the Third Five-Year Plan. It is expected that at the end of the Plan, marketing societies should be able to handle about 20 per cent of the marketable surplus in foodgrains and about 30 per cent of the marketable surplus in commercial crops and for this purpose about 600 new marketing societies are proposed to be set up so as to cover all the important assembling markets in the country. In the field of processing about 25 co-operative sugar factories and 783 other processing societies are proposed to be set up. With the increase in agricultural production and contemplated increase in the operations of marketing societies, it is felt that co-operative central financing agencies may have difficulty in meeting the requirements both of production finance and marketing finance. As the marketing sector of the co-operative movement develops further, it is to be expected that the facilities offered by the State Bank of India will be availed of by the societies in a larger measure. The central financing agencies may also require much larger finance from the State Bank of India. Thus, it appears that the role of the State Bank of India in financing co-operative marketing and processing societies is likely to be more significant in future than it has been so far.