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### COMMERCIAL BANKS AND AGRICULTURAL CREDIT

The growing demand for agricultural credit in the context of the Green Revolution and the urgency for meeting it adequately, led to an important shift in the agricultural credit policy, viz., the adoption of multi-agency approach. Despite the expansion in credit supplied by the co-operatives, it was thought that they alone may not be able to meet fully the increased demand for agricultural credit and therefore, the commercial banks were brought into the picture. The following paragraphs briefly review the performance of the commercial banks in financing agriculture since 1967-68.

With the commercial banks brought under Social Control in 1967-68, these banks stepped up their subscription to the debentures of co-operative land development banks to Rs. 18.13 crores. Support to the debentures of land development banks was conceived as an indirect method of providing finance to agriculture. In addition, the banks also organized the Agricultural Finance Corporation Ltd. in 1968 to help banks participate actively and extensively in developing agriculture. Besides, individual banks drew up schemes for extending finance to agriculture directly and also set up agricultural credit cells. The activities of the banks in the sphere of agricultural credit were broadly in line with the targets laid down by the National Credit Council. The nationalisation of 14 major commercial banks and the increased emphasis laid on financing the priority sectors have given a new sense of direction and importance to the commercial banks' activities in this sphere.

#### Rural Branches

The need for a wide network of branches of the commercial banking system was recognized as a *sine qua non* for intensification of efforts to finance agriculture. In this context, it may be mentioned that at the time of setting up the State Bank of India, it was required to open a minimum number of branches within a stipulated time. Though not on the same basis, commercial banks were required to conduct surveys of banking potential in the rural areas under social control measures. The nationalisation of banks gave a further fillip to branch banking. Thus, as will be seen from Table I, more than half the branches opened since 1967-68, were in rural centres.

TABLE I—OFFICES OPENED BY SCHEDULED COMMERCIAL BANKS

Year (July-June)	Total number of offices opened during the year	Of which at							Number of offices at end of the year
		Unbanked centres			Banked centres				
		Rural	Semi-urban	Total (2+3)	Rural	Semi-urban	Urban	Total (5+6+7)	
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	
1967-68 .. ..	418	190	33	223	11	55	129	195	7,247
1968-69 .. ..	1,008	413	94	507	26	198	277	501	8,262
1969-70 .. ..	1,840	1,120	128	1,248	96	230	266	592	10,131

Note : Places with population upto 10,000 are classified as rural, those between 10,000 and 1,00,000 as semi-urban and above 1,00,000 as urban.

The momentum received to opening branches in rural areas is likely to gather strength under the 'lead bank' scheme. Under this scheme all the districts, except a few, have been assigned to banks for carrying out a survey to indicate the economic potential therein and the scope for banking development. The carrying out of a survey and its periodical updating will lead to a larger number of branches being opened in the rural and semi-urban areas. Good progress has been made in the conduct of surveys and bringing out of reports embodying their findings.

### *Agricultural Credit by Commercial Banks*

Commercial bank credit to the agricultural sector can be broadly classified into direct finance and indirect finance. Direct finance to farmers includes both loans for carrying out seasonal agricultural operations and term loans for investments in agriculture such as energization of wells, etc. Indirect finance includes advances to cultivators through intermediate agencies, such as the Agro-Industries Corporations, Custom Service units, State Electricity Boards, hire purchase companies, etc.

There has been an eight-fold increase in the scale of operations of scheduled commercial banks in the sphere of agricultural credit as may be seen from Table II.

TABLE II—SCHEDULED COMMERCIAL BANKS' ADVANCES TO AGRICULTURE  
(amount in Rs. lakh)

		Outstanding as at the end of							
		June, 1968		June, 1969		June, 1970		March, 1971	
		Num- ber of ac- counts	Am- ount	Num- ber of ac- counts	Am- ount	Num- ber of ac- counts	Am- ount	Num- ber of ac- counts	Am- ount
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Total	.. ..	1,03,728 (100.0)	44,58 (100.0)	2,67,026 (100.0)	188,42 (100.0)	8,41,882 (100.0)	341,77 (100.0)	10,55,766 (100.0)	378,52 (100.0)
Of which									
(1) Finance for distribu- tion of fertilizers and other inputs	.. ..	1,027 (1.0)	17,78 (39.9)	2,659 (1.0)	89,81 (47.7)	4,814 (0.6)	83,50 (24.4)	4,466 (0.4)	64,42 (17.0)
(2) Loans to electricity boards for energizing of wells	.. ..	4 (—)	3 (—)	808 (0.3)	16,82 (8.9)	428 (—)	36,50 (10.7)	517 (0.1)	41,21 (10.9)
(3) Other types of indi- rect finance	.. ..	9,081 (8.7)	12,47 (28.0)	6,161 (2.3)	28,18 (15.0)	18,571 (2.2)	37,79 (11.1)	19,488 (1.8)	37,81 (10.0)
(4) Direct finance to far- mers	.. ..	93,616 (90.3)	14,30 (32.1)	2,57,398 (96.4)	53,61 (28.4)	8,18,069 (97.2)	183,98 (53.8)	10,31,295 (97.7)	235,08 (62.1)

Note : Figures in brackets indicate percentages to total.

Data relating to advances to agriculture, bank group-wise indicate that the public sector banks are increasing their involvement in agriculture at a steady pace (Table III).

TABLE III—BANK GROUP-WISE ADVANCES TO AGRICULTURE

(amount in Rs. lakh)

Outstanding as at the end of								
June, 1968		June, 1969		June, 1970		March, 1971		
Total	Of which direct finance to farmers	Total	Of which direct finance to farmers	Total	Of which direct finance to farmers	Total	Of which direct finance to farmers	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
(1) State Bank group ..	17,26 (38.7)	1,09	99,91 (53.0)	11,06	141,91 (41.5)	55,51	142,97 (37.8)	72,01
(2) Nationalised banks	10,58 (23.7)	4,69	62,43 (33.1)	29,16	159,74 (46.7)	104,87	194,57 (51.4)	134,72
(3) Other banks ..	16,74 (37.6)	8,52	26,08 (13.9)	13,39	40,11 (11.8)	23,59	40,98 (10.8)	28,35
Total .. ..	44,58 (100.0)	14,30	188,42 (100.0)	53,61	341,77 (100.0)	183,98	378,52 (100.0)	235,08

Note : Figures in brackets indicate percentages to total.

Outstanding loans of commercial banks direct to farmers at end-June, 1970 formed about one-fourth of the outstanding loans of primary agricultural credit societies as at the same point of time. If indirect finance to agriculture (excluding their subscription to debentures) is taken into account, then commercial banks' credit to agriculture, as at end-June, 1970, amounted to about half the outstanding loans of the short-term co-operative credit structure. Compared to the almost negligible involvement of commercial banks in the field of agricultural credit till recently their performance is impressive.

While on this subject, it is as well to mention that the average amount advanced per account by commercial banks is also not large, when it is realised that these advances include term loans as well. Details regarding co-operatives are also given in Table IV. These are not, however, strictly comparable as data pertaining to co-operatives relate to advances and that regarding commercial banks to out-standings.

				Agricultural credit societies			Commercial banks		
				Number of borrowing members (in '000)	Amount advanced (lakhs)	Average per borrowing member (Rs.)	Balance outstanding		
							Number of accounts	Amount (lakhs)	Average per account (Rs.)
1967-68	..	..	..	107,91	425,39	394	93,616	14,30	1,528
1968-69	..	..	..	110,89	501,63	452	2,57,398	53,61	2,083
1969-70	..	..	..	117,36	540,03	460	8,18,069	183,98	2,249

The achievements of commercial banks is all the more impressive when it is recognized that initially they did not possess technical expertise in handling agricultural loans. Additionally, their ability to expand their business was circumscribed by and continue to be circumscribed by some restrictive features in some State enactments. Also they do not enjoy certain procedural facilities while securing a mortgage as in the case of co-operatives. These aspects have been looked into and commented upon by an expert group which has recommended a model legislation which will provide for removal of these restrictive features and grant of necessary concessions/facilities to commercial banks in financing agricultural activities in clear and unambiguous terms.