Social Control over Commercial Banks.

In recent years the attempt has been made in India to give a new radical orientation to the commercial banking structure. In that context a "social control" experiment was initiated in 1967. It was felt that over the years the pattern of the ownership and organisational set-up of commercial banks had led to their being controlled by large industrial and business interests. As a result, the need for the flow of credit to the rural and some urban areas as well as to the priority sectors like agriculture, small industries etc. had been neglected. The policy of social control over commercial banks was intended "to ensure that particular clients or groups of clients are not favoured in the matter of distribution of credit and whatever the character of the shareholding, its influence is neutralised in the constitution of the board of directors and in the actual credit decision taken at different levels of bank management".1

Accordingly a National Credit Council (NCC) was set up in February 1968 (1) to assess the demand for bank credit from the various sectors of the economy, (2) to determine priorities for the grant of loans and advances or for investment, having regard to the availability of resources and requirements of the priority sectors, in particular, of agriculture, small industries, etc., and (3) to coordinate lending and investment policies as between commercial and cooperative banks and specialised agencies to ensure optimum utilisation of resources.

This was followed by the reconstitution of the boards of directors of commercial banks. The majority of directors represented persons having special knowledge or practical experience of agriculture and rural economy, small industries, cooperative organisation, banking, etc.

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1 Statement of the Deputy Prime Minister and Minister of Finance on Social Control of Banks, made in Parliament on December 14, 1967.
Further, a professional banker was appointed as the full-time chairman for each commercial bank with the permission of the Reserve Bank of India, the Central Bank of the country.

The NCC fixed minimum targets for expanded lending by commercial banks to agriculture and small industries. The commercial banks were also expected to increase their contribution to debentures of the Cooperative Land Development Banks in the country by at least 25 per cent over the previous year (1967-68). Lastly, the leading commercial banks in the country established an Agricultural Finance Corporation Ltd, as a joint venture for financing priority agricultural projects and to help commercial banks participate actively in developing the agricultural sector.

The Government, however, felt that progress made through social control over commercial banks was not adequate and on July 19, 1969 fourteen major Indian scheduled commercial banks were nationalised in order to orient their activities towards the speedy achievement of social goals.

Cooperative Banks and Agricultural Finance.

Until very recently, it will be seen, the responsibility for providing finance for agriculture and small industries was almost exclusively shouldered by the cooperative credit institutions, operating both in rural and urban areas. The cooperative credit movement dominates in particular the rural sector in India. In fact, the origin of the cooperative movement in India may be traced to the need for emancipating the farmers from the clutches of unscrupulous money-lenders. Over the plan period (1951-72) cooperative credit agencies have recorded rapid progress. Cooperatives have been the pioneers in mobilising rural savings and have been in the field longer than any other institutional agency. Owing to the stagnation of Indian agriculture, their impact, however, has been small. Since 1956, with the introduction of an integrated scheme of rural credit, cooperatives have been placing greater emphasis on their lending activities than on deposit mobilisation. All the same, by June 1970, deposits of all the 25 State Cooperative Banks amounted to Rs.234.3 crores. Similarly 340 District Central Cooperative Banks mobilised Rs.381.7 crores and the 162,000 primary agricultural credit societies commanded 62.7 crores. The urban primary credit banks had also attracted Rs.140.6 crores by June 1970. Loans outstanding at the primary agricultural societies amounted to Rs.711.44 crores by the end of June 1970. It is estimated that their share of the credit granted to agriculture was around 25 per cent (it was barely 3 per cent in 1951-52). It is, however, true that the three-tier structure of Cooperative banking, with the Cooperative Bank at the state level as its apex, the Central Cooperative Bank at the district level and a

2 One crore = 10 million.
primary credit society at the grassroot level, has not been uniformly
developed and strengthened throughout the country. Hence a multi-
agency approach has come to be accepted in India, under which the
public sector and the cooperative banks will be operating side by side
in the agricultural and small industries sector.

The new agricultural strategy envisaged during the fourth Five-Year
Plan requires heavy capital investment. The problem is one of ensuring
the timely and adequate supply of inputs and of providing the necessary
finance to the farmer to enable him to use these inputs. Cooperative
banks have been playing a predominant role in the provision of rural
credit so far. In view of the changed conditions, however, cooperatives
alone will not be able to meet the increased credit requirements. The only
other institutional agencies which can help in filling the gap are the
commercial banks. Of necessity, they have been brought into the
sphere of agricultural credit.

The total requirements of Indian agriculture—both short-term and
long-term—are estimated at Rs.3,500 crores by 1973-74. The share of
cooperative banks in this could be at most 50 per cent, leaving the
balance to be covered by commercial banks and similar agencies. This
shows the magnitude of the task and the scope available for both
cooperative and commercial banks in the rural credit sector.

Coordination.

Among the problems that have arisen as a result of the commercial
banks entering the agricultural credit sector, the most important one
pertains to the coordination and synchronisation of their activities with
those of cooperative banks. As stated earlier, rural credit had been
practically the exclusive domain of cooperatives. The latter, therefore,
did not whole-heartedly appreciate the penetration of the com-
mercial banks into their area of operation. This problem is, however,
unavoidable.

In the new situation commercial and cooperative banks must function
as two elements of the organised credit structure in a complementary
and supplementary manner. Commercial banks have sizable resources
and trained staff at their disposal. But their pattern of business and
procedures is not attuned to dealings with small scattered borrowers,
who cultivate small production units under a wide variety of local
conditions. Cooperative banks, on the other hand, have the organ-
isation available right up to the village level. But they also suffer from
a number of handicaps such as less qualified staff, a weak financial
base, inadequate coverage, etc. Moreover, their development is uneven
throughout the country, making implementation of an all-India policy
through cooperatives alone difficult. The problem of coordination
between the two has to be viewed against this background.

The objective of any scheme of coordination between the two must
aim at the creation of a wide-spread and progressive institutional base
at the primary level permitting direct contact with the cultivators. It must also ensure the provision of timely and adequate credit at reasonable cost while it is able to attract local savings into the system.

At the national, state and district levels, consultative and coordination councils and committees have been set up to provide guidelines for securing ultimate coordination between commercial and cooperative banks. On these various bodies representation is provided for commercial and cooperative banks as also for Government departments at appropriate levels concerned with the development of priority sectors. It is, however, true that these bodies have yet to assume definite shape.

Broadly speaking, there would have to be coordination between the two agencies in regard to (1) geographical coverage and (2) lending operations.

An area approach which has been evolved seeks to assign particular districts to public sector banks where they would operate as pace setters, providing integrated banking facilities. Both public sector and cooperative banks in the district would formulate a district plan for establishing branches or new units at certain places and for building up relationships within a structure or between different structures. It is expected that this would lead to the evolution of appropriate policies and procedures soon. It is too early to measure the impact of this scheme on the geographical coverage or other aspects of banking development.

Less Developed Areas.

The Banking Commission which has recently submitted its report to the Government of India has come out with a suggestion to set up rural banks as far as possible cooperative, for a group of ten villages or so. In cooperatively less developed areas rural banks could work as subsidiaries of commercial banks. A Government decision on this suggestion has not yet been announced.

However, good primary credit societies from areas of weak district cooperative banks have already been transferred to commercial banks under a reserve bank scheme of 1970-71. This arrangement exists in the A.P. States of Haryana, Mysore, M.P., and U.P. on a selective basis. The State Bank of India had tried out this idea earlier in order to promote cooperative marketing and processing. This scheme must, however, be carefully implemented lest it should impair the normal channels of providing funds to the Cooperative Movement.

As regards coordination in lending operations, it is generally felt that demarcation of areas between the commercial and cooperative banks may not be found desirable and helpful. Area demarcation can be justified where the agencies operating in their respective spheres are equally efficient in regard to both mobilisation of resources and in making sound advances. There is no question of commercial banks supplanting cooperative banks from a long-range point of view. There-
fore healthy competition between the two would be in the best interests of both. It is, at the same time, necessary to ensure that borrowers of one institution are not at a disadvantage vis-à-vis borrowers of another institution as regards the amount of credit, the type of credit, etc.

It is also essential that the two agencies should avoid duplicating or overlapping. Rather should they benefit from each other's experience. But mere suggestion and schemes by themselves do not prevent wrong practices. This is because the need for coordination is not adequately appreciated by cooperative and commercial banks. Cases of double financing or financing of defaulters for various reasons have been noticed in certain areas. Also, information is not exchanged as regularly as might be expected.

Credit Book to Borrowers.

To overcome this problem, a suggestion has been made to issue a credit book to each borrowing farmer. Maharashtra has decided to implement this suggestion. A credit book issued to a farmer owning land will provide basic information about the borrower. Thus his name, address, photograph, signature or thumb impression, the size of his family, the acreage of his land, whether irrigated or dry, the nature of irrigation, agricultural equipment, etc. would be shown in the first part of the book. In other pages, his credit transactions will be recorded and regularly brought up-to-date. These pages will tell the financing agency the number of loans he has taken and the amounts, the security given, the instalments payable and paid, the amounts due or overdue, etc. The farmer will be obliged to present this book every time he goes to a financing bank—whether commercial or cooperative. If required, legislative provision can be made to this effect. Once this credit book is issued, it should obviate the need to collect information every time from the village records, which is normally a dilatory and costly process. It would be desirable for this idea to be implemented in other States, too, as early as possible.

Such an arrangement, it will be obvious, does not remove the competitive element between the two agencies. Perhaps competition may be good for the cooperative banks, inasmuch as it may act as a spur to their efficiency. Cooperatives need to be organised and managed on business principles. They must be fully aware of costs and of the need to handle the resources at their disposal economically and effectively. But it has also been noted that the entire banking industry in this country is practically socialised today. Therefore, not only should there be no scope for wasteful competition, but it should be possible now to make credit planning an integrated part of ultimate economic planning. Cooperative and commercial banks have to collaborate consciously in order to promote this process.