Chapter 1

Introduction
Banking system constitutes an important link among the various economic activities and can play a direct role not only in creating the machinery needed for financing development activities but also in ensuring that the finance made available goes into the desired direction. In a developing country like India, banking occupies a crucial place in undertaking development effort. The scarcity of capital in relation to the task of development makes banking the key agent of mobilizing and channelizing resources to the desired direction. The banks have also been assigned prominent social responsibility-poverty alleviation, employment generation, industrial and agricultural development, redistribution of income and wealth and balanced regional development.

Commercial banks contribute much to the growth of the economy through financial intermediation by promoting savings and extending loans to agriculture, trade and industry, by helping in physical and human capital formation and by transmitting the monetary policy signals formulated by the Central Bank of the country. In terms of Section 5 of the Banking Regulation Act, 1949, “banking” means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, and order or otherwise. Banking developments, after Independence in 1947, have been a State-induced activity in India. The Reserve Bank of India (RBI) was nationalised in 1949 followed by the nationalisation of Imperial Bank of India now the State Bank of India (SBI) in 1955. In 1969, 14 major commercial banks, having deposits of Rs.50 crores, were nationalized. The exercise was repeated when 6 more commercial banks, having deposits of Rs.200 crores, were nationalised in 1980.
The objective of the bank nationalization is to attain speedy economic progress inspired by national priorities, objectives and social justice.

1.1 Banking Structure in India

It is recognised that the existing banking structure in India is elaborate and has been serving the credit and banking services’ needs of the economy. However, since 1991, the Indian economy has undergone significant transformation in terms of its size and composition. The economic structure has diversified substantially and the economy has been opening up in its quest to further integrate with the global economy. If the real economy is dynamic, the banking system needs to be flexible and competitive in the emerging milieu. Viewed from this perspective, there is a need and scope for further growth in the size and strength of the existing banking structure to cope with the multiple objectives and demands made on it by various constituents of the economy. The case for transforming the existing banking structure into a more dynamic banking structure stems from several considerations. It is felt that there is scope for increasing the size and capacity of the banking structure. There is also an imperative need for increasing the outreach of the banking structure. With the size of the economy increasing, banks require a large international presence. Several gaps exist in providing credit to certain sectors. These gaps need to be filled. There is also a need for the presence of specialized and niche banking entities to cater to the specific needs of a growing and dynamic economy.¹

Under the regulatory authority of Reserve Bank of India, the banks can be broadly divided into two major categories. One is Commercial Banks and other is Co-Operative Credit Institutions.
Fig. 1.1, the structure of Indian banking, clearly shows that the commercial banks are of two types one is Scheduled Commercial Banks, having two categories Public Sector Banks and Private Sector Banks. Public Sector Banks have 7 SBI and its subsidiary Banks, 20 Nationalized Banks and 133 Regional Rural Banks whereas Private Sector Banks have 27 Indian Private Banks and 29 Foreign Banks, providing banking services in India. On the other hand, co-operative
credit institutions are divided into two categories these are urban co-operative banks (1606) and rural co-operative credit institutions (1, 09,924). Urban Co-operative Banks are of scheduled (51) and non-scheduled categories (1535) and both categories have multi state (25) and single state (25) operating banks. Rural Co-operative Credit Institutions are bifurcated into two i.e. short-term and long term. The Short Term Credit institutions are further of three types i.e. State Co-operative Banks (31); District Central Cooperative Banks (370) and Primary Agricultural Credit Societies (92432). In Long Term category State Co-operative Agriculture and Rural Development Banks (20) and Primary Co-operative Agriculture and Rural Development Banks (697) in all are providing banking services in India at present.2

1.2 Banking Sector since Independence: A Rear View

Since Independence, a number of developments have taken place in the banking sector having a significant impact on the growth and efficiency of the financial system in India. One of the major developments has been banking policy enunciated after Independence was to expand the reach of bank credit both geographically and functionally. Geographically in the sense of covering under banked regions of the country and functionally to expand credit to agriculture, small scale industry and self-employed sectors which were deemed important in terms of their contribution to income growth, employment generation and poverty amelioration but which were regarded as having been relatively neglected by the banking system. The geographical spread of banking was the result of an activist policy of branch expansion which saw commendable expansion of bank branches and thus, resulted into reduction of population served per bank branch. Such a pace of expansion had few parallels in the world.3 Most importantly, most of the new branches opened were in the rural and semi-urban areas and in the under banked regions of the country in keeping with the objective of bringing about a more
balanced spatial distribution of banking and to expand the reach of institutional credit to the rural hinterland.

1.3 Cooperative Movement

Although institutional credit entered the rural areas long ago in the form of cooperatives in 1904 and local credit cooperatives were formed with the objective of relieving the farmers from the clutches of the moneylenders. In India, concern for rural credit for development was manifested as early as in 1951 with the setting up of the All-India Credit Survey. The report’s rationale was based on to keep premises:

a) Supply-led inexpensive formal credit was necessary to displace evil moneylenders who exploited the poor with their monopoly power to charge high rate of interest and were therefore net contributors to rural poverty; and

b) State-led expansion of cheap credit was necessary to allow poor, and rural households to adopt new technologies and thus to escape the cycle of poverty and indebtedness. The Reserve Bank of India sought to expand rural access to formal credit via the cooperative movement. However, by the mid-1960s, it became apparent that increasing the quantum of financing of credit cooperatives could not address the central problems; the bulk of rural India did not have a formal source of credit.4

In the first Annual Report on Trend and Progress of Banking in India for 1949, the RBI complained that “the development of branch banking in the country has been lopsided and whereas some areas seem to possess more than adequate banking facilities, others are un developed or under developed from the point of view of the banking business.” Banking was by and large an urban facility. The Rural Banking Inquiry Committee (1950), which went into the question of extending banking facilities to rural areas, came out with some specific recommendations.

The State Bank of India (SBI), which came into being in 1955, was required to open 400 additional branches within a period of five
years particularly at district headquarters and sub-divisional centers. Though there was no statutory direction that these branches be opened in unbanked or rural areas, the preamble of the State Bank of India Act, 1955 indicated that one of the "public purposes" for the constitution of State Bank was the extension of banking facilities on a large scale, more particularly in rural and semi-urban areas. At a meeting of the National Credit Council held in July 1968, it was emphasized that the commercial banks should increase their involvement in the financing of priority sectors viz., agriculture and small scale industries.

The description of the priority sectors was later formalized in 1972 on the basis of report submitted by the Informal Study Group on Statistics relating to Advances to the Priority Sectors constituted by the Reserve Bank in May, 1971. On the basis of this report, the Reserve Bank prescribed a modified return for reporting priority sector advances and certain guidelines were issued in this connection indicating the scope of the items to be included under various categories of priority sectors.

1.4 Credit Policy and Social Control over Banks

In the year 1965-67 a short fall recorded in agricultural output and industrial production and the Reserve Bank's credit policy for the slack season of 1967 was liberalized on a selective basis with a view, among other purposes, to enlarge the flow of credit to the selected sectors such as agricultural and small scale industries and also exports. The measures for Social Control over Banks were initiated by the Government of India in 1967-68 for securing a better adaptation of the banking system to the needs of economic planning and also for playing a more active and positive role in aiding sectors like agriculture and small scale industries. The scheme of social control envisaged a purposive distribution of available lendable resources consistent with the basic economic and social objectives as well as a more effective mobilization of savings, besides eradication of certain
deficiencies observed in the functioning of the banking system. The origin of priority sector prescriptions for banks in India can also be traced to the Reserve Bank's credit policy for the slack season of the year 1967-68, wherein it was emphasized that commercial banks should increase their involvement in the financing of key sectors, such as, agriculture, exports and small scale industries as a matter of urgency.\footnote{1}

In pursuance of a decision of the National Credit Council, at its meeting held on July 24, 1968, a study group on the Organizational Framework for the Implementation of Social Objectives was constituted towards the end of October 1968, with Prof. D.R. Gadgil as Chairman. The group was entrusted the task of identifying the major territorial and functional credit gaps and making recommendations to fill them up so that adequate institutional credit, at reasonable terms, could be made available to neglected sectors and areas and weaker sections of the community. The group noted that the Indian banking system had made significant progress in the last 20 years by expanding its territorial and functional coverage and yet the unevenness of spread of institutional credit facilities to different areas of the country, the urban-oriented organization of commercial banks, weaknesses of the co-operative system and the non-availability of institutional credit to the weaker sections of the community still persisted. The group observed that the main social objective of banking and credit was to more evenly spread of institutional credit over unbanked and under-banked areas and to ensure that neglected sectors and the small borrowers, who had to depend on non-institutional credit, also got adequate credit at reasonable terms from banks. All this combined with political demand for the use or commercial banks as agents of change in rural areas and hitherto neglected sectors of the economy led to nationalization of commercial banks. In July 1969, 14 commercial banks were nationalized through the Banking Company Acquisition Act 1969. The preamble of this Act Stated: “The banking system touches the lives of millions and has to
be inspired by larger social purpose and has to sub serve national priorities and objectives such as rapid growth of agriculture, small scale industries and exports, raising employment levels, encouragement of new entrepreneurs and development of backward areas. For this purpose it is necessary for the government to take direct responsibility for the extension and diversification of banking services and for the working of a substantial part of the banking system.” Subsequently in 1980, six more commercial banks were nationalized to regulate, control and inspect the banks in India. With the second dose of nationalization, the Govt. controlled around 91 per cent of the banking business of India.

1.5 Lead Bank Scheme: Genesis

Bank nationalization in 1969, coincided with the adoption of the Fourth Five Year Plan, with its strategy for agrarian development which laid considerable emphasis on technological modernization. The F.K.F. Nariman Committee of Bankers (1969) proposed that each bank should concentrate on certain districts. This led to the “Lead Bank Scheme” (LBS) under which every district in the country was assigned to a particular bank to help it to develop integrated facilities. Certain sectors of the economy agriculture, small scale industries, and small traders among others—were accorded priority in lending.

The concept of ‘Lead Bank Scheme’ was first mooted by the Gadgil study group, which submitted its report in October 1969. The group was of the view that banking was not developed in India judging by the criterion of population served per bank office. The average population served by a commercial bank office in India was as high as 73,000 as against 4,000 in United Kingdom and 7,000 in USA. In the rural areas, it was found that only one per cent of that total number of villages (5,64,000) were served by commercial banks at the end of June 1967. Further, there was an uneven spread of bank offices and banking business as between States and population groups. Thus, commercial banks did not have adequate presence in rural areas and
also lacked the required rural orientation. Moreover, out of the institutional credit to agriculture sector at 39 per cent of total credit, the share of commercial banks was negligible at one per cent, with the balance being met by the cooperatives. As a result, the banking needs of the rural areas in general and the backward regions in particular, were not adequately taken care of by the commercial banks and particularly the credit needs of rural sector of the economy such as agriculture, small-scale industry and allied services remained virtually neglected. The group, therefore, recommended the adoption of an ‘Area Approach’ to evolve plans and programmes for the development of an appropriate banking and credit structure in the rural areas. The group also observed that the central idea was to assign, depending upon their area of operations and locations, to commercial banks, particular districts in an area where they should act as pace-setters providing integrated banking facilities and thus all the districts in the country needed to be covered. The district was identified as the unit under the Area Approach because the cooperative structure was organized in relation to a district and most statistical and other data were available at the district level.

1.5.1 Branch Expansion Programme: The First Phase of the Scheme

The Reserve Bank appointed a committee of Bankers on Branch Expansion Programme of public sector banks (Chairman: Shri F.K.F. Nariman) which submitted its report on November 15, 1969, endorsing the area approach. It further recommended that in order to enable the public sector banks to discharge their social responsibilities, each bank should concentrate on under-banked districts where it should function as a ‘Lead Bank’, as well as open bank branches to fulfill the target of providing every place designated as a town with a bank branch by the end of 1970.

Thus, pursuant to the recommendations of the Gadgil Study
Group and Nariman Committee suggesting adoption of ‘area approach’ in evolving credit plans and programmes for development of banking and the credit structure, the Lead Bank Scheme was introduced by the Reserve Bank in December, 1969. The scheme envisaged allotment of districts to banks to enable them to assume leadership in bringing about banking developments in the respective districts.

Development in the district was sought to be achieved by making banks the key instruments for local deployment of credit, entrusting them with the responsibility of locating growth centers, mobilizing deposits, identifying credit gaps and evolving a coordinated programmes for credit deployment in each district, in concert with other banks and credit agencies. In order to enable the banks to assume, ‘leadership’ in an effective and systematic manner, the various districts, except the metropolitan cities of Mumbai, Delhi, Kolkata and Chennai and certain Union Territories in the country were allotted among the public/select private sector banks and each such bank was designated as the Lead Bank for the district concerned. The Lead Bank was also expected to work for expansion of branch banking facilities and assume a major role in the development of banking and credit in the allocated districts.

1.5.2 District Credit Plan: The Second Phase of the Scheme

Under the LBS, the major commercial banks have been assigned with the responsibility of preparing credit plans for the districts allotted to them. The first round of District Credit Plans (DCPs) was implemented by the banks in their lead districts in 1974.A district plan can be defined as a development plan consisting of technically feasible and economically viable schemes within the existing or marginally strengthened framework of infrastructure and other facilities. It is comprehensive integrated plan including schemes covering all the major sectors of the economy.

A DCP is, therefore, an action plan, consisting of bankable schemes in agriculture, industries and services sectors of the economy.
of the district. It is expected to estimate the demand for credit from the existing economic activities and from the activities which are likely to develop in the future as a result of the strategy of planning and schemes of development adopted in the district development plan. As stated earlier, the responsibility of preparing the DCP is entrusted to the bank designated as a Lead Bank for the concerned district. The Lead Bank has to evolve technically feasible and economically viable schemes that can be taken up for implementation by different financial institutions functioning in the district within the existing or marginally strengthened infrastructure. Effective co-ordination of the efforts of the financial institutions and the governmental agencies concerned with planning in the district is a pre-condition for the successful implementation of a DCP.

From the above, it is clear that a district credit plan is not an exercise merely for estimating the credit needs but is really a blueprint for action by financial institutions for the development of the district. The objective of the DCPs formulated under the LBS, is to guide the credit institutions in the district to deploy their credit in such a manner that they will have the maximum impact of the development of the district and at the same time benefit an increasing proportion of the weaker sections of the society. Thus, the credit plan mainly seeks to indicate the scope for the development of various types of economic activities, which can be financed by credit institutions in a given time horizon, with an emphasis on increasing the opportunities for the weaker sections in participating in the process development. Basically, the credit plan is an exercise in indicating the times on which credit can be extended in a given area in a given period of time, on the basis of the anticipated demand for credit, from existing or development induced economic activities.
1.5.3 Objectives and Functions of the Lead Bank Scheme

Under the DCP, the Lead Bank performs the following main functions:

a) To undertake survey and identify potential growth for opening new bank offices.
b) To identify potential areas for development in different sectors such as agriculture, industry and services sectors.
c) To prepare bankable projects/schemes.
d) To estimate the development programmes for various sectors.
e) To implement the development programmes in collaboration with other financial institutions.
f) To monitor the progress of implementation and evaluate the progress achieved in relation to targets committed.

In nutshell the DCP include development schemes based on careful study of the potential resources and felt need of the areas. While preparing the credit plan, it is ensured that the various schemes are integrated in nature, i.e. the backward and forward linkages of these schemes are considered and provided for. Infrastructure and other facilities necessary for successful implementation of the various schemes are torn apart and financial and physical resources, which are necessary for the purpose, are estimated.

1.6 Regional Rural Banks and the Scheme

Nationalised banks were not able to bridge the entire credit gap in the rural areas. A vast majority of the small and marginal farmers and rural artisans remained untouched by the banking system. Therefore, the range of institutional alternatives was widened in 1975 by adding Regional Rural Banks (RRBs) to the banking scene which would exclusively cater to the demands of the hitherto neglected segment of the rural economy. Thus, with cooperatives, commercial banks and RRBs, a multi-agency approach was adopted in the rural
credit system. The Government of India set up RRBs on October 2, 1975. Initially 5 RRBs were set up which were sponsored by Syndicate Bank, State Bank of India, Punjab National Bank, United Commercial Bank and United Bank of India. RRBs are jointly owned by GoI, Sponsor Bank and respective State Government. Capital share being 50 per cent by the Central Government, 15 per cent by the State Government and 35 per cent by the scheduled bank. There are 57 RRBs functioning as on March 31, 2014 in the country.10

1.7 Genesis of Directed Lending

Even after two decades of Independence, commercial banking was by and large urban facility. With the nationalization, the government controlled 91 per cent of the banking business in India. The various committees/study groups recommended enlarging the flow of credit to the selected sectors such as agriculture and small scale industries and also exports known as priority sectors. The commercial banks were required to lend one-third of their outstanding credit to the priority sector by March 1979. This target was gradually raised to 40 per cent, which was to be achieved by March 1985. Direct finance to agriculture and allied activities was later mandated to reach a level of 18 per cent by March 1989.11 Ten per cent of Net Bank Credit was earmarked for the weaker section of the society (small and marginal farmers, landless labourer, scheduled caste/scheduled tribe, etc.) to achieve this task banks had open more branches in rural areas which had no banking facilities. Similarly several measures for initiated from time to time by the RBI to strengthen the willingness of banks to lend to priority sector by minimizing the inherent risks.

1.7.1 National Parameters and Position of Himachal Pradesh

The flow of credit in all priority areas has been enhanced. As of September, 2013 banks in the State have retained the status of achieving five national parameters out of six stipulated by RBI. At present the Priority Sector Advances goes up to 68 per cent,
Agriculture advances 18 per cent, Advances to weaker sections 20 per cent and advances to women maintained at 7 per cent. Banks are making all the efforts to achieve 1% DRI target. The position of national parameters is given below in the Table 1.1.

### Table 1.1: Priority Sector Lending in Himachal Pradesh and National Parameters

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Sector</th>
<th>Position as of March</th>
<th>National Parameter</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Priority Sector Advances</td>
<td>65.81</td>
<td>64.54</td>
</tr>
<tr>
<td>2</td>
<td>Agriculture Advances</td>
<td>15.92</td>
<td>19.33</td>
</tr>
<tr>
<td>3</td>
<td>MSEs Advances</td>
<td>7.18</td>
<td>6.94</td>
</tr>
<tr>
<td>4</td>
<td>Other Priority Sectors</td>
<td>42.71</td>
<td>38.26</td>
</tr>
</tbody>
</table>

Source: Compiled from SLBC Himachal Pradesh, Agenda Papers, various issues.

Table 1.1 depicts the position of national parameters set for priority sector lending with respect to Himachal Pradesh. It is evident from the table that the State of Himachal Pradesh has achieved most of the standard targets set by the government to advance loans to the different priority sectors of the State. The State has performed quite well to achieve the national parameters during the year 2014 as compared to the previous years except for the MSEs Advances.

### 1.7.2 Service Area Approach to Rural Lending

By late eighties, studies undertaken by RBI to assess the impact of bank credit in increasing production, productivity and income levels of the rural population revealed certain weaknesses in the system of dispensation of rural credit, viz. the rural lending of bank branches was haphazard and dispersed in a large number of villages spread over a wide area rendering supervision difficult. Absence of effective local level planning taking into account the potential for development,
poor availability of infrastructure and linkages etc. were identified as the contributory factors. It was, therefore, felt necessary to adopt an approach of assigning specific service areas to the bank branches in rural and semi-urban areas, paving the way for ‘Service Area Approach’ (SAA) to rural lending.

SAA basically aimed at planned and orderly development of an identified command area which would enable the branch to have development orientation and concentrate on productive lending, thereby contributing to the development of specific areas assigned to it. The Union Finance Minister in his budget speech for the year 1988-89 had also referred to the proposed dispensation under which each bank branch would have a designated service area. In order to examine the operational aspects involved in the implementation of this approach, a Committee (Chairman: Dr. P. D. Ojha) was set up by the Reserve Bank. On the basis of the recommendation of the Committee, a decentralized planning policy was adopted and SAA to Rural Lending was introduced with effect from April 1, 1989, involving five distinct stages in its implementation:

a) Identification of the service area for each bank branch;
b) Survey of the villages in the service area for assessing the potential for lending for different activities and identification of beneficiaries for assistance;
c) Preparation of credit plans on an annual basis for the service area by each branch;
d) Co-ordination between credit institutions on the one hand and field level development agencies on the other on an on-going basis for the effective implementation of credit plans; and
e) A continuous system of monitoring the progress in the implementation of the plans and individual schemes.

The above approach to rural lending was intended to bring about a major change in the quality and productivity of rural lending and forge effective linkages between bank credit, production,
productivity and increase in income levels. The basic principle of SAA was demarcation of service area and preparation of credit plans for systematic administration of credit in the assigned area. Under the SAA, all rural and semi-urban branches of commercial banks and regional rural banks were allocated specific number of villages (about 15 to 25 villages), generally in geographically contiguous areas and proximity to the branch concerned, the credit needs of which were to be taken care of by the respective service area branches. It was also to be ensured that the designated area of a bank branch was not intercepted by the designated area of another bank branch. The service areas were allocated to the branches by a committee headed by the Lead District Officer of the RBI with Lead Bank Officer of the district and a representative of NABARD as members.

Due to allotment of villages to designated bank branches as their ‘service area’, the activities of service area branch were restricted to the villages allotted to them and they were not permitted to provide finance outside their service areas. Similarly, the borrowers’ belonging to these villages were required to approach the ‘designated bank branches’ for their credit needs and were not in a position to avail banking services from other bank branches, irrespective of their satisfaction or otherwise with the services rendered by the designated bank branches. On the basis of the recommendations of the Advisory Committee on Flow of Credit to Agriculture Sector and Other Activities from the Banking System (Chairman: Prof. V. S. Vyas), it was decided to dispense with the restrictive provisions of the scheme, while retaining the positive features of the SAA such as credit planning and monitoring of the credit purveyance. The allocation of villages among the rural and semi-urban branches of banks for lending, except under Government sponsored schemes, were dispensed with, from December 2004. Thus, while the commercial banks and RRBs were free to lend in any rural and semi-urban areas, the borrowers were given the choice of approaching any branch for their credit requirements. Resultantly,
the requirement of obtaining ‘no due certificate’ from the service area branch for lending by non-Service Area branch was also dispensed with. However, banks at their discretion were expected to take steps considered necessary to avoid multiple financing. These relaxations were introduced with a view to facilitating rural borrowers to have easy access to institutional credit from any bank of their choice at a competitive price and to provide banks, public and private, with a level playing field.

1.7.3 National Bank for Agriculture and Rural Development (NABARD)

The Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) set up by the RBI under the Chairmanship of Shri B Sivaraman in its report submitted to Governor, RBI on November 28, 1979 recommended the establishment of NABARD and the Parliament approved its setting up. The Committee after reviewing the arrangements came to the conclusion that a new arrangement would be necessary at the national level for achieving the desired focus and thrust towards integration of credit activities in the context of the strategy for integrated rural development. Against the backdrop of the massive credit needs of rural development and the need to uplift the weaker sections in the rural areas within a given time horizon the arrangement called for a separate institutional set-up. Similarly, Reserve Bank had onerous responsibilities to discharge in respect of its many basic functions of central banking in monetary and credit regulations and was not therefore in a position to devote undivided attention to the operational details of the emerging complex credit problems. This paved the way for the establishment of NABARD. CRAFICARD also found it prudent to integrate short term, medium term and long-term credit structure for the agriculture sector by establishing a new bank. NABARD is the result of this recommendation. It was set up with an initial capital of Rs 100 crore,
which was enhanced to Rs 2,000 crore, fully subscribed by the Government of India and the RBI.\textsuperscript{13}

With a view to improving the quality of credit planning process under the SAA on a realistic basis and strengthening the credit delivery system, NABARD was entrusted the responsibility of being the sole agency to plan, co-ordinate and monitor the credit programmes of banks and co-operatives at the district level. Accordingly, RBI advised NABARD in October 1989 to set up offices at the district level in all the districts. The role and functions of such NABARD offices were as enumerated below:

a) The district office of NABARD was to be the principal agency at the district level for co-ordinating the agricultural and rural development activities of various credit agencies such as commercial banks including RRBs, district central co-operative banks and land development banks, and liaising with concerned development departments of the Government. The lead bank officer was to work in close co-ordination with the NABARD district office.

b) NABARD district office was to prepare, for each district, a Potential Linked Plan (PLP) on credit needs taking into account the agro-economic and other characteristics, infrastructure facilities including forward and backward linkages, extension, training and education as well as district development plan programmes. Such PLPs were also to contain block-wise details, to help in identifying various types of activities and the extent to which they could be taken up by the credit agencies.

c) NABARD district office was to provide necessary guidance and support to the DCCBs and LDBs in preparing their credit plans for each service area.

d) With a view to improving the flow of necessary inputs, supply of requisite linkages and removal of bottlenecks, NABARD district office was requested to interact with the district level development officers on a continuing basis.
e) NABARD district office was to monitor the progress of implementation of service area plans. For this purpose, the Lead Bank Officer was to ensure that the information relating to the credit plans of each service area, agency-wise was obtained and furnished to it at prescribed intervals. On the basis of such data, the NABARD district office was to evaluate the performance of each service area credit plan, agency-wise and provide feedback to the concerned branches offices and their immediate controlling offices.

f) NABARD district offices were also to prepare a comprehensive review of the performance of each credit agency in the district on a quarterly basis and furnish the information to the Regional Offices of NABARD and RBI, which in turn, were to transmit the same to their respective Head Office/Central Office.

g) NABARD, as the main co-ordinating agency for all credit institutions at the district level was required to attend all DCC and BLBC meetings.

Annual Credit Plan for each district began to be prepared based on PLPs drawn up by NABARD. The particulars of the potential available in different sectors (as indicated in the PLPs) were to be communicated by the convenor of Block Level Bankers' Committees (BLBCs) to all the branches in the block. The branches, in turn, were to prepare branch credit plan based on such communication, and these branch credit plans aggregated by the BLBC convenor bank into block credit plan. The block credit plans were, in turn, to be aggregated into district credit plan, which were to be eventually aggregated into the State Level Credit Plan.

1.7.4 Self Help Groups and NABARD

Bangladesh has been acknowledged as a pioneer in the field of micro-finance. Dr. Mehmud Yunus, Professor of Economics in Chitgaon University of Bangladesh, was an initiator of an action research project 'Grameen Bank' in 1976. India has adopted the
Bangladesh's model in a modified form. The micro-finance has emerged as a powerful instrument in the new economy to alleviate the poverty and to empower the women. With availability of micro-finance, Self-Help Groups (SHGs) and credit management groups have also started and thus the movement of SHG has spread out in India.

In 1991-92 NABARD started promoting self-help groups on a large scale. And it was the real take-off point for the 'SHG movement'. In 1993, the RBI also allowed SHGs to open saving accounts in banks. Facility of availing bank services was a major boost to the movement. The micro-finance initiative of the NABARD, i.e., SHG-Bank Linkage programme has passed through various phases over the last two decades, viz., (i) pilot testing during 1992 to 1995, (ii) mainstreaming during 1996 to 1998 and (iii) expansion from 1998 onwards. The programme has now assumed the form of a micro-finance movement in many parts of the country and has started making inroads in the resource poor regions of the country as well.

NABARD makes a detailed review of the SHG-bank linkage programme and come up with revised guidelines to facilitate migration of members of mature groups to become micro entrepreneurs and increase the scale of lending through such groups. The group members should be able to access larger loans from banks in their individual capacity while retaining the group solidarity and membership.

Unwanted and undue emphasis on the rural banking system also intensified the already continuing problem of viability of the commercial banks. The public sector banks were robustly involved in opening branches to achieve the targets set up by RBI in unbanked and under banked regions after nationalisation of the banks. The customers in such areas also mostly belonged to poor sections of the society; therefore, business in such regions too was not profitable. In number of cases, both deposits and advances in the remote and far-flung areas have continued to remain at a low level. Because of lack of awareness and poor absorption capacity, loans extended to this...
kind of community were also not productively utilised. Furthermore, for several years the loans remained unpaid. There were instances when deposits collected from the rural centres were siphoned off for the utilisation in semi-urban centres.\textsuperscript{16}

The commercial banks in India have failed to come up to desired level of performances because of the poor productivity of the employees. The productivity of the bank employees has continued to remain at low ebb due to the absence of technology up-gradation, lack of competitiveness and efficiency in the banks even after the nationalisation of banks. On the one hand the income of the banks in the post nationalisation era has not been increasing in the desired manner, on the other, the rate of growth of their expenditure has continued to remain unbeaten, undue emphasis on setting up unviable branches, large scale recruitment of staff, mounting wage bills, growing establishment overheads and transactional costs have further made the financial condition of the banks bad to worse.

District Credit Plans (DCPs), prepared under LBS at the district level, fix targets for the financial agencies in priority sector (i.e. agriculture, small scale industries and small entrepreneurs etc.) lending. These targets were fixed without considering the requirements of the villages. As a result, the financial agencies found it difficult in implementing these credit plans. To avoid these difficulties and to execute effective implementation of DCPs, SAA was introduced in the year 1989. Under the SAA, the planning starts at the grass root level and ends at the district level.

Although the branch network of the formal financial institutions expanded rapidly beginning the early 1970s, a large segment of the population remained outside the banking fold, especially for its credit requirements. This led to the search for alternative policies and mechanism for reaching out to the poor to satisfy their felt needs. In this context, micro-finance interventions were recognized all over the world as an effective tool to raise income, contribute to individual and
household security and change social relations for the better. Microfinance activity has grown rapidly since the late 1990s.

Though there are different models for purveying micro-finance, the SHG-bank linkage programme has emerged as the major microfinance programme in the country. It is being implemented by commercial banks, RRBs and co-operative banks. The RBI in 2004-05 has made a significant change in the district credit planning process by relaxing the service area norms and dispensing with the restrictive practices under the scheme. While retaining some of the positive features of the SAA such as credit planning and monitoring of credit purveyance, the RBI policy announcement mentioned that the Annual Credit Plans (ACPs) of the district should henceforth (2006-07) be based on the PLPs prepared by NABARD. Thus, the ACPs of the banks are now based on PLPs prepared by NABARD.

1.8 Inclusion of Metropolitan Districts in LBS: The Present Status

With a vision of providing an institutional mechanism for coordination between government authorities and banks, facilitating doorstep banking to the excluded segment of urban poor, and to implement direct benefit transfer scheme of the government, the Reserve Bank in a significant move has asked banks to bring all districts in metropolitan areas under the LBS fold. The move is part of increasing the scope of its financial inclusion drive to urban areas on one hand and helping the government realise its efforts to plug the loopholes in subsidy deliveries by transferring all the benefits directly to the bank accounts of the target people on the other. The purpose of the LBS extension is to bring all the unbanked urban areas under the banking fold.

As on end March 2014, lead bank responsibility was assigned to designated banks in 671 districts in the country as compared to 644 districts as at end March 2013. In the seven new districts formed in
Gujarat, Dena Bank, Bank of Baroda and State Bank of India were assigned lead bank responsibility. Bank of India was assigned lead bank responsibility in the one new district in Madhya Pradesh and the State Bank of India was assigned lead bank responsibility in all the 4 new districts in Meghalaya. Further, 16 districts in metropolitan areas of Chennai (1), Delhi (11), Hyderabad (1), Kolkata (1) and Mumbai (2) were also brought under LBS during 2013-14.17

Figure 1.2: Branch wise Network of Commercial Banks-December 2013

1.9 BANKING SECTOR REFORMS

Building of financial infrastructure which is geographically wide and functionally diverse to help in the process of resource mobilisation and to meet the expanding and emerging needs of developing economy has been a major development objective in this country. The prime focus of attention has been the banking system and nationalisation of banks in 1969 was seen as the major step to ensure the timely and adequate credit support would be available for viable productive endeavours. Two decades of nationalisation era showed considerable success in attaining the goal of deposit mobilisation and expansion of branch network. However, this progress has exacted a heavy toll in the productiveness and efficiency of the system and in consequence a serious erosion of its profitability.
even to the point of rising doubts about the viability of some important constituents of the system.

Over regulated governance of banking sector, high directed credit programmes, burdensome social concerns and lack of autonomy in operation etc. made severe cavity on the profitability of the banks during nationalisation period. Government of India with a view to bring about a revolution in the functioning of the economy went for Structural Adjustment Programme in the year 1991. Hence in this background with an intention to improve the performance of financial sector, in August, 1991 Government of India appointed Narasimham Committee under the Chairmanship of M. Narasimham to review the different aspects relating to the structure, organisation and functioning of the financial system in India. The Committee’s report was tabled on December 17, 1991 in the Parliament House.

The Committee emphasised mainly that there should be phased out reduction of Statutory Lending Ratio to 25 per cent over a period of five years. It suggested for phasing out Directed Credit Programme and was of the view that there should be redefining of the priority sector. The directed credit programme for the “redefined” priority sector should be at ten per cent of the aggregate bank credit. In order to have larger business, the committee was of the view that there should be a progressive reduction in CRR. Further, it recommended that there should be deregulation of interest rates so as to reflect the emerging market conditions. The committee emphasised over total transparency in the balance sheets of the banks.

The committee was of the view that to speed up the process of recovery of bank loans, special tribunals should be established. The committee also pleaded for abolition of branch licensing policy. It was of the view that Regional Rural Banks should be permitted to engage in all types of banking business. With a view to restructure the banking system, it proposed that there should be 8 to 10 national
banks with large network of branches throughout the country. The rural banks including Regional Rural Banks should confine to rural areas only. It also recommended setting up of Assets Reconstruction Funds through a special legislation, to take over from the nationalised banks, a portion of their bad and doubtful debts at a discount.

The committee opened for giving freedom to individual banks to recruit officers. It emphasised over rationalisation of foreign operations of Indian banks and pleaded for liberalising the policy with regard to allowing the private and foreign banks to open offices in India. It wanted speedy liberalisation of capital market by removing restrictions on premia, dispensing with prior approvals of Government of India. The committee also suggested enactment of a separate legislation providing appropriate legal framework for supervision of merchant banks leasing companies’ mutual funds etc. The committee also laid down certain prudential norms for banking institutions.

The committee argued that the duality of control over banking system by Banking Division and RBI should come to an end. A separate authority for the supervision of banks and financial institutions, which would be semi-autonomous body under the RBI should be formulated. It emphasised over the revised procedure for selection of Chief Executive and Directors of Boards of PSBs. Further certain recommendations regarding IDBI and DFI’s were also made. The committee highlighted the importance of adoption of uniform accounting practices with regard to income recognition, asset classification and provisioning against bad and doubtful debts etc.

In nutshell, the recommendations, made by M. Narasimham, were landmark in the evolution of Banking System from a highly regulated to a more market oriented system. These reforms were initiated in banking sector in tandem with economic reforms in 1991. The committee suggested various measures to modify the policy frame
work of banks, improve the financial soundness of banks, strength the institutional framework and supervisory mechanism of banks.

The Government of India also appointed a second committee under the Chairmanship of M. Narasimham on 19th December, 1997 to review the progress and implementation of reforms recommended by the earlier committee and to make suitable recommendations accordingly. This time it was called the Committee on the Banking Sector Reforms. The Committee was asked to review the progress of banking sector reforms particularly with reference to the recommendations made by the M. Narasimham Committee (1), and to chalk out a programme on banking sector reforms necessary to strengthen the India’s banking system which can make it internationally competitive. The Narasimham Committee on the Banking Sector Reforms submitted its report to the government in April, 1998. This covered the entire gamut of issues, ranging from capital adequacy, bank mergers, creation of global sized banks, recasting bank boards and revamping bank legislation. However, detailed recommendations with respect to the banking policy, institutional, supervisory and technological dimensions were also given by it.19

In the case of Directed Credit, the Committee felt that the share of priority sector in the bank credit has to be reduced from the existing level of 40 per cent to 10 per cent and there is a need for redefining the concept of priority sector advances. The Committee also realised that the interest subsidy element in credit for priority sector should be totally eliminated and interest rate on loans under Rs.2 lakh should be de-regularised for scheduled commercial banks.20

Further as far as the prudential norms are concerned, it was suggested that with regard to income recognition, when interest or instalment of principal is not paid within 180 days, income stops accruing in India, should be reduced to 90 days in phased manners
by 2002. As an incentive to make specific provision, there should be some tax deductions for such provisioning.21

The Committee emphasised over the system of recruiting the skilled manpower from the open market in the Banks and Financial Institutions (FIs). It recommended that the PSBs should be given flexibility to determine managerial remuneration. It also opined that there is a need to redefine the scope of external vigilance and investigative agencies with regard to banking business and to develop information to control the systems in several areas like spreads, costs, NPAs for higher level of profitability etc. It was observed that there was a need to have accurate and timely information for strategic decision making, to identify and promote profitable products/customers, risk management and efficient treasury management.

The Committee has taken the note of the twin phenomena of consolidation and convergence, which the financial system is experiencing globally. In India also, the Committee felt that banks and Development Financial Institutions (DFIs) are moving closer to each other in the scope of this activities. The Committee observed that DFIs should, over a period of time, convert themselves into the banks so that in future, there would be only two types of financial intermediaries' viz., banks and non-banks in India. The Committee made it very much clear that if the given DFIs are not taking banking license from the RBI, in stipulated time frame, it should be treated as Non-Banking Financial Corporations (NBFCs). The Committee opined that as long as the directed credit is in practice, special formula could be worked out for the DFIs, which are converted into the banks.

It also recommended the adaptation of the concept of narrow banking to rehabilitate the weak banks. Narrow banking implies that the weak banks place their funds only in the short-term in risk free assets. These banks attempt to match their demand deposits by safe
liquid assets. In case the concept of narrow banking is found to be a non-applicable to rehabilitate weak banks, the issue of closure should be examined, according to the Committee. The Committee strongly argued that the government ownership and management of banks does not enhance autonomy and flexibility in the working of public sector banks. In this connection, the Committee has recommended a review of the functions of boards so that the bank board remains responsible for enhancing shareholder value through formulation of corporate strategy.

In order to have a strong banking system, the Committee recommended the mergers of weak banks with the strong banks. However, the Committee cautioned that this might have negative impact on the asset quality of the strong banks. It observed that the merger of PSBs should emanate from the management of the banks with the government as the common shareholders playing a supportive role. Mergers should not be seen as a means of bailing out weak banks. Such merger however, can be worthwhile if they lead to rationalisation of work force and branch network. If the mergers between the banks and the financial institutions are to take place, it should be based on synergies, location, business specific complementarities of the institutions concerned and must obviously, make sound commercial scene. Further, it was suggested that the non-bank parties be provided free access to bill rediscounts, Commercial Papers, Certificates of Deposits, Treasury Bills and Money Market Mutual Funds. The need to change the deposit insurance scheme based on CAMELS(Capital Adequacy, Assets Quality, Management, Earnings, Liquidity, and System& Control) rating awarded by the RBI to the respective banks was emphasised. The Committee recommended that the minimum shareholding by the Government of India, RBI in the equity of nationalised banks and the State Bank of India should be brought down to 33 per cent.22
In a nutshell, the recommendations of the Committee envisage far reaching changes in the financial environment in general and banking environment in particular. It was expected that the proposed financial sector reforms would help to promote the development of real sector in the economy.

The Government of India accepted almost all the major recommendations of Narasimham Committee and started implementing them straight away despite stiff opposition from bank unions and political parties in the country.23

As a result of the process of the Banking Sector Reforms, the Statutory Liquidity Ratio (SLR) on incremental net demand and time liabilities has been reduced from 38.5 per cent to 25 per cent. Similarly, SLR on outstanding net domestic demand and time liabilities has also been reduced gradually from 38.5 per cent in the year 1992 to 27 per cent in March, 1997 and further to 25 per cent in October, 1997. This is the minimum stipulated under the section 24 of Banking Regulation Act, 1949.24

Originally it was the intention of the RBI to bring down the cash reserve ratio (CRR) from the statutory 15 per cent and in fact it was brought down to 14 per cent in May, 1993. At the same time, the incremental cash reserve ratio of 10 per cent was also abolished. When conditions eased and the money growth started slowing down during 1995-96 and 1996-97, the RBI reduced CRR gradually from 15 per cent in 1992 to 10 per cent by March, 1997. 25The purpose of reducing CRR was to release funds locked up with RBI for lending to the industrial and other sectors, which were starved of bank credit.

Similarly, in view of the reforms, the interest rate slabs were gradually reduced by 1994-95. The important changes in interest rate since 1991-92 are, the interest rates on domestic term deposits above on year and non-residential non-repairable rupee deposits have been de-controlled, the prime lending rate of SBI and most other banks on
general advances of over rupees two lacs has been reduced. In addition to it, the rate of interest on bank loans above two lacs too has been fully de-controlled. The interest rates on deposits and on advances of all co-operative banks (except urban co-operative banks) have also been de-regulated subject to minimum lending rate of 13 per cent (earlier it was 12 per cent).^{26}

The purpose of de-regulation of interest rate on the high slab, of bank advances was to stimulate healthy competition among the banks in India and to encourage their operational efficiency. Scheduled commercial banks now have the freedom to interest rates on their deposits subject to minimum floor rates and maximum ceiling rates.^{27}

The prudential norms have also been started by RBI as the part of the reformative process. The purpose of prudential system of recognition of income, classification of assets and provisioning of bad debts is to ensure that the books of the commercial banks reflect their financial position more accurately and in accordance with internationally accepted accounting practices.^{28}

In view of the banking sector reforms, SCBs have now been given freedom to open new branches and upgrade extension counters, after satisfying the capital adequacy norms and the prudential accounting standards. They are also permitted to close non-viable branches other than in rural areas. The bank lending norms have been liberalised and the banks have been made free to decide levels of holding of individual items, of inventories and receivables. Because of the implementation of the recommendations of the Banking Sector Reforms the number of the private and foreign banks has increased many folds during post reform period.

Supervision of the commercial banks is being tightened by the RBI especially after the security scam of 1992.^{29} The RBI has set up a Board of Financial Supervision with an Advisory Council under the Chairmanship of the Governor to Strengthen the Supervisory and
surveillance system of banks and financial institutions. With view to make the supervisory mechanism more effective the RBI has also established one new independent department in December, 1993 known as the Department of Supervision.

In order to facilitate and speed up the recovery of debts due to banks and financial institutions, the Government of India also passed an Act in 1993. As a result of reforms, six special recovery tribunals have been set up at Calcutta, New Delhi, Jaipur, Ahmedabad, Bangalore and Chennai to facilitate quicker recovery of loan arrears (within six months) and an Appellate Tribunal has also been set up in Mumbai.30

1.9.1 Impact of Banking Sector Reforms in India

Apart with increasing competitive environment, banks have been accorded greater discretion in sources and utilization of resources. Indian banking outreach has increased in terms of branch expansion/ATMs in post-reform period and assets/liabilities of banks have grown consistently at high rate. The financial performance of banks in terms of profitability has improved. Non-Performing Loans (NPLs) have shown a decline since 2002-03. The banking sector, on the whole, has been consistently maintaining Capital to Risk-Weighted Assets Ratio (CRAR) well above the minimum stipulated norms. Due to the increasing competition, public sector banks' share is showing decreasing phase and new private sector banks' which were setup around mid-1990s, share has been showing increasing trend.

The banking sector development was given impetus with the adoption of social control over banks in 1967 and subsequently nationalization of 14 major scheduled banks and introduction of Lead Bank Scheme in 1969. Since then the banking sector has formed the core of Indian financial system. In January 2014, the aggregate deposits of commercial banks stood at Rs. 76,128.0 billion and bank credit depicted Rs.47, 497 billion in the Indian economy. The credit deposit ratio has increased from 62.39 percent on January 2013 to
71.55 per cent on January 2014. Hence, touching the lives of millions of people every day, the Indian banking sector constitutes the most significant segment of the financial system of India.

Despite this commendable progress, serious problems have emerged due to the reasons beyond the control of banking sector. While nationalization and Lead Bank Scheme achieved the widening of the banking industry in India, the task of deepening their services was still left unattended. By the beginning of 1990s, the social banking goals set for the banking industry, made most of the public sector banks unprofitable. The resultant ‘financial repression’ led to the decline in the productivity and efficiency and erosion of profitability of banking sector in general.

It is against the background of these circumstances, that the development of sound banking system was considered essential for the future growth of the financial system. Financial sector reforms were initiated in the country in 1992 with a view to improving the efficiency in the process of financial intermediation, enhancing the effectiveness in the conduct of monetary policy and creating conducive environment for the integration of domestic financial sector with the global system.

A sea change has taken place in banking environment since the initiation of reform process. Since then banking sector has witnessed remarkable changes in perception, policies and practices of bank. Various institutional measures initiated by the RBI and Government of India, such as Debt Recovery Tribunals, Lok Adalats, Scheme of Corporate Debt Restructuring in 2001, Basel II implementation for refinement of risk management system and improvement in capital efficiency and the Securitization And Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002. To boost up the mission of ‘Financial Inclusion’, recently a movement ‘Swabhimaan’ has been launched by the Government of India and the Indian Banks’ Association (IBA) to cover the economic distance
between rural and urban India. This movement will bring basic banking services to all 73,000 unbanked villages with over 2000 population by March 2012. It will facilitate opening of bank accounts, provide need based credit, remittance facilities and help to promote financial literacy in rural India. New technologies and Business Correspondents will drive the movement.

1.10 Lead Bank Scheme and Banking Sector Reforms

Over the four decades since the introduction of the LBS, several changes have taken place in the country, especially after 1991 with the beginning of globalization and liberalization of the Indian economy. The reforms have encompassed all sectors including the financial sector. The commercial banks are much more focused today on their financials and have improved their competitiveness and efficiency. Their capital adequacy ratios and provisioning standards are as per the best international practices. Although priority sector obligations have continued to be in force for both private sector and public sector banks, attention has increasingly been drawn to the fact that large sections of the population remain outside the formal banking structure and the real and financial sectors continue to lag behind in certain regions. While policies are in place to facilitate flow of credit to the more vulnerable sectors/sections of society, there is a need to ensure greater dissemination and implementation of these policies at the grass root level, besides getting timely information and better assessment of outcomes.

The Government of India is of the view that the original objective of the Scheme of achieving greater banking and credit penetration by the formal financial institutions is still valid and should be reiterated. The overarching objective of LBS shall be to enable banks and State Governments work together to achieve inclusive growth. It also noted the changes in the external environment that warrant changes in strategies and approaches under the LBS. With the onset of financial sector reform in the 1990s, concerns about controlling NPAs and
ensuring business growth and profitability have become key drivers of the initiatives of the banking system. The Indian banking sector, which exhibited considerable resilience in the immediate aftermath of the global financial crisis, has been impacted by the global and domestic economic slowdown over the last two years. During 2012-13, the deteriorating asset quality of the banking sector emerged as a major concern, with gross nonperforming assets (NPAs) of banks registering a sharp increase. Overall NPAs of the banking sector increased from 2.36 per cent of total credit advanced in March 2011 to 3.90 per cent of total credit advanced in March 2014 (provisional).^2

Public sector banks have to compete with private sector banks to attract capital funds for their growth. This makes them sensitive to the impact of various policies on their profits. The share of private sector banks is also growing in the system and there is a need for them to be more involved in the Lead Bank Scheme. Further, urban areas are growing and the extent of financial exclusion in these areas is significant. There is, therefore, a need to address the issues of banking for inclusive growth in urban areas as well. ICT has brought about a revolution in all aspects of financial services and use of ICT solutions and mobile banking for furthering the objectives of the LBS will need to be explored sufficiently. The SHG bank linkage scheme and the MFIs have demonstrated their unique ability to deal with the last mile issue and their coverage of low income families through micro finance has been notable. Bank lending through SHGs and MFIs as also using the business facilitator/business correspondent model are developments that need to be brought within the purview of the LBS. Initiatives for financial inclusion, financial literacy and credit counseling, credit information, provision of 'credit plus' services, skill development, establishing linkages to markets, building reliable land records, and building infrastructure for greater physical and digital connectivity are matters that are of critical importance in this context. Now the Scope of the Lead Bank Scheme has been broadened to specifically cover financial inclusion, role of State Governments,
financial literacy and credit counselling, 'credit plus' activities, formulation of time bound monitorable action plans to facilitate 'enablers' and remove 'impeders' for banking development for inclusive growth and debt settlement and grievance redressal mechanisms.

1.11 Pradhan Mantri Jan Dhan Yojana: Graduation of Swabhimaan

The 'Pradhan Mantri Jan Dhan Yojana' (PMJDY), is a National Mission launched on 28 August, 2014 by Hon’ble Prime Minister Narendra Modi, on Financial Inclusion encompassing an integrated approach to bring about comprehensive financial inclusion of all the households in the country. The plan envisages universal access to banking facilities with at least one basic banking account for every household; financial literacy, access to credit, insurance and pension facility. In addition, the beneficiaries would get RuPay Debit card having inbuilt accident insurance cover of Rs.1 lakh. The plan also envisages channeling all Government benefits (from Centre/State/Local Body) to the beneficiaries’ accounts and pushing the Direct Benefits Transfer (DBT) scheme of the Union Government. The technological issues like poor connectivity, on-line transactions will be addressed. The Hon’ble Prime Minister remarked “As we go along, they will be covered by insurance and pension products, bank account for each household is a ‘national priority’ and no one is left without a bank account”. 33

More than 14.5 crore accounts opened the PMJDY scheme. Flow of individual savings, albeit howsoever small combined with flows from direct benefit transfer would be crucial to give an initial push to keep these accounts active while extending productive/need-based credit would be the second crucial step. The onus is upon all of us to ensure that the window of opportunity that has been presented by the opening of such a large number of accounts is not put to waste by allowing the accounts to turn inactive.
The credit absorption capacity of the farmers can be enhanced through financial literacy and vocational training initiatives. Improved financial literacy would aid the inculcation of a savings culture and investment habit amongst the customers, which can be leveraged by the banks by offering suitable small savings, investment and pension products.

Thus the commercial banks play an important role in the process of economic development of the country. They are the major source of mobilizing savings and also help in accelerating the rate of capital formation in an economy. Prior to the nationalisation of the commercial banks in India, these were largely concentrated in few selected centres and provided credit to the privileged class. The bank nationalisation in 1969 was a major step towards bringing about economic growth, equity and justice in the economy. The commercial banks made an unprecedented growth since nationalisation. However, the shift towards ‘mass banking’ from ‘class banking’ coupled with some statutory conditions lead to a negative cumulative effect on their finances. Deteriorating financial health of the commercial banks became a major worry for the policy makers.

In view of this background, banking reforms were initiated in early 1990’s to revitalise the ailing commercial banks. Subsequent to reforms, the statutory liquidity ratio and cash reserve ratio have been reduced to provide more credit in the economy. In order to introduce an element of transparency and accountability prudential norms, equal to that of international standard and capital adequacy norms were introduced. Further to have competitive efficiency, entire norms for domestic private sector banks and foreign banks were also changed to revive the financial health of the commercial banks. Thus, banking reforms in India are grounded in the belief that competitive efficiency in the real sector of the economy will not realise its full potential unless the banking was reformed as well.
References

2. Ibid., p. 93.
8. Ibid., chapter II.
9. Ibid., chapter II.
20. Ibid.


22. Narasimham, M. ibid, p.100.


