CHAPTER X

SUMMARY CONCLUSION AND POLICY IMPLICATIONS

10.1 Introduction

It is now widely recognised that the availability of capital is a pre-condition for the development of a nation. Capital oils the wheels of production in industry, commerce, trade, agriculture, small business and in fact every segment of the economy which depends on the free flow of capital from the owners of production. But unfortunately in a developing country like India, the availability of capital is scarce in view of the persistent operation of vicious cycle of low productivity, low income, low savings, low capital and low investment. The entrepreneurs who organise production are handicapped by the dearth of capital, thereby necessitating them to borrow from external agencies. Therefore credit has come to replace the availability of capital in the development syndrome of a country like India.

This situation has given birth to the emergence of a large number of agencies both formal and non-formal institutional lenders. Money lenders, for example, have been the traditional source of credit to production and non-production activities of the economy. The Government has also encouraged the development of co-operative societies for this purpose. However the entry of commercial banks into the development process has created a veritable revolution in the economy by lending credit to various sectors of the economy.
Historically, Commercial banks were used by big industrialists and private traders for furthering their egoistic objectives. It was only in 1968 that the Government attempted to provide social orientation to commercial banks by which they were made to realise that the commercial banks are the instruments of socio-economic development of the people. They were directed to provide cheap, adequate and timely credit to those sectors, sections and individuals who are important from the social point of view. The nationalisation of commercial banks in 1969 provided a dynamic stimulus to social orientation of commercial banks. It was thought that the commercial banks should come with novel schemes to provide the much needed finance, especially, to rural economy of India. The introduction of LBS was a major landmark in the history of the commercial banking in the Indian economy. The scheme is instrumental in promoting a collective effort for the economic development of a district. In the post-nationalisation period, the banking sector has made considerable progress as evidenced by growth in all indicators of banking. There has been a transition in the outlook of banking from class banking to mass banking. They have introduced innovative schemes like DRI and have come to finance new schemes such as IRDP, SEEUY, PMRY. The role of commercial banks in this sphere is substantial.

Likewise, the priority sector scheme introduced by the commercial banks has come to exert a great impact on the small business, small scale industries, village and cottage industries, small road transport operators, small borrowers besides professional and self-employed persons. All banks have been advised to aim at ensuring a minimum of 40 per cent of additional credit every year to priority sector. The total PSL has gone up by 186.13 times during 1969-1997. The proportion of PSL to total lending increased from 14 per cent in 1969 to 34.8 per cent in 1997. The Union Territory of Pondicherry which has made considerable progress in the sphere of banking is not an exception to the
growing patronage of the priority sector lending. This scheme appears to have exerted a congenial and critical impact on the economic development of the Union Territory of Pondicherry. This dissertation attempts to assess the impact of priority sector lending on the economic progress of the union Territory by relating various aspects of banking.

More specifically, the objectives of this study are to:

1. review the progress of banking in the Union Territory of Pondicherry since its merger with the Indian Union.
2. assess the progress of PSL under LBS in the union Territory of Pondicherry.
3. analyse the relationship between CDR and PSL.
4. find out whether the stipulation of the RBI with respect to PSL has been fulfilled by the banking sector of Pondicherry.
5. assess the impact of PSL on the economic development of the Union Territory.
6. assess the effect of deceleration in PSL vis-à-vis decline in CDR and stagnation on the economy and;
7. offer policy suggestions to improve loaning under priority sector programme.

The study has formulated the following hypotheses to be tested in the light of empirical facts:

1. Banks have made considerable progress in the last four decades in the union Territory of Pondicherry.
2. There has been a considerable flow of bank credit to Priority Sector under Lead Bank Scheme of the Union Territory of Pondicherry.
3. Banks in Pondicherry have satisfactorily complied with the stipulation of the RBI with respect to PSL till recently.
4. There has been a relatively slow progress of advances to the Priority sector in recent times.
5. Low CDR has caused decline in advances towards Priority sector.
6. There is a positive relationship between PSL and Economic development of the Union Territory.

7. Low Priority sector advances was also one of the contributory factors for the slow down in Pondicherry economy.

For the implementation of the objectives of the study and to test the hypotheses framed for the study both the secondary and primary data have been used. The secondary data have been collected from various sources of the Government, Reserve bank of India and other related agencies. To test some hypotheses, the scholar has collected data from the secondary and primary sources and were analysed with the help of Statistical tools such as percentage, ratio, table analysis, simple regression and correlation techniques. The study has also made use of a Production Function taking the State Domestic product as a dependent variable and the land available, labour force available, area under irrigation, annual expenditure of the Government and Priority sector lending by the banks as independent variables. The analysis of data revealed the major findings of the study which are summarized below:

10.2 Findings of the Study

1. There has been a phenomenal progress of banking in India since 1951. For example, the total number of scheduled and non-scheduled bank branches were only 4151 which increased to 8262 in 1969. The total number of bank offices in 1998 was 64,218. While the deposits in scheduled commercial banks in India increased from Rs. 4646 crores in 1969 to Rs. 605410 crores in March 1998, the credit advanced by scheduled commercial banks escalated from Rs. 3599 crores in 1969 to Rs. 32,4079 crores in 1998. The per capita deposit increased from Rs. 88 in 1969 to Rs. 6270 during the period under review, the Per Capita credit of
scheduled banks increased from Rs. 68 in 1969 to Rs. 3356 in 1998. The deposit
of commercial banks as a percentage of national income at the current price has
increased from 15.5 in 1969 to 50.1 percent in 1997. The number of Lead
districts under Lead bank Scheme has increased from 338 when originally
allotted to 444 in 1989 and to 567 in 1999.

2. As far as the Union Territory of Pondicherry is concerned, the first commercial
bank started was Indo China Bank in 1875. The first Indian Bank was United
Commercial Bank. On the eve of the de facto merger of Pondicherry, there were
only four commercial banks. After 1969, there has been a considerable and
steady progress in the number of banks and the branches of banks. The number
of commercial banks by December 1969 was 12 and this increased to 78 by
March 1998. The amount of deposits received by these banks swelled from Rs.
552 lakhs in 1969 to Rs. 96661 lakhs in March 1998. The credit provided by
Commercial banks escalated from Rs. 480 lakhs in 1969 to Rs. 34733 lakhs in
1998. The priority sector lending was Rs. 167.60 lakhs in 1972 and this
increased to Rs. 11620.15 lakhs in 1997. Thus all the indicators of banking show
considerable progress of banking in the Union Territory of Pondicherry. The
hypothesis that banks have made considerable progress in the last four decades in
the Union Territory of Pondicherry has been tested and proved.

3. The Union Territory of Pondicherry is also covered by the Lead Bank Scheme
and the entire Territory is treated as a single revenue district. Indian Bank is the
Lead Bank for the Territory and it formulates the District Credit Plan and Annual
Credit Plan for the Union Territory of Pondicherry. The Service Area Credit Plan
of the Lead Bank is implemented in all the 126 revenue villages of the territory.
The performance under Annual Credit Plan shows that as against the target of

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Rs.1399.63 lakhs in 1980, the achievement was Rs.1215.03 lakhs denoting an achievement of 86.81 per cent. In 1997-98, as against the target of Rs.9610.90 lakhs the achievement was Rs.8146.92 lakhs denoting the achievement of 84.77 per cent. However, the trends in credit deployment shows that the increased credit absorption can be noticed in industries sector, decreasing trend in agriculture and allied activities and almost a constant trend in respect of service sector.

4. At the All India level, in 1970, agriculture sector had received 39.88 percent of priority sector credit and this has gone up to a maximum of 43.11 per cent in 1981. Till 1990, the flow ranged from 41 to 43 per cent of total priority sector credit. When the financial sector reforms were pervading the Commercial banks, downward trend has started from 1994 onwards. In 1998 agriculture received only 35.04 per cent while the small scale sector received 43.72 per cent. The service sector received 13.36 per cent in 1970 and it increased to 21.23 per cent in 1998.

5. So far as the Union Territory of Pondicherry is concerned, agriculture has received 51.01 per cent of credit from the total priority sector lending in 1972 and this has increased to 65.63 per cent in 1982. Since then the deceleration trend has started. In 1991 the flow was only 43.09 per cent and this has come down to 38.28 per cent in 1994. This has gone up to 45.42 per cent in 1997. In the case of small scale sector, the sectoral flow was 45.17 per cent in 1972. During the eighties, the percentage was hovering around a minimum of 27 to a maximum of 38. In 1997, the percentage was 33.67.

6. The PSL out of the net bank credit had been increasing steadily from year to year, from a mere 10.41 percent in 1972 to a maximum of 34.17 percent in 1983.

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Thereafter there was a decline in 1984. In 1985 and 1986 the flow towards agricultural sector had picked up. Since 1987 the decline had started and had come to a low level of 17.02 percent in March 1992. From 1992-97, the percentage flow was in the range of 15 percent to 17 percent only except in 1993. In the case of Small Scale Sector, it was only 9.22 percent in 1972, it reached to the level of 22.74 percent in 1983 and 12.07 percent in 1997. The hypotheses that there was considerable progress of priority sector lending under Lead Bank Scheme till recently and the banks have complied with the stipulation of Reserve Bank of India with respect to priority sector lending till recently are proved. Corollary to these tested hypotheses, it was also tested and proved that there has been relatively slow progress of advances to priority sector in recent times. The recovery performance shows that recovery was 38.27 percent in 1987 and it increased to 55.21 percent which indicates that the recovery position of advances under Priority Sector is not as alarming as it was portrayed by various Commercial banks in the Union Territory of Pondicherry. During 1995-98, the recovery performance was ranging from 63 to 65 percent in the case of Primary sector 41 to 53 percent in the case of secondary sector and in the case of Tertiary Sector it was 42 to 60 percent. The average recovery performance during 1995-98 was a minimum of 53 to a maximum of 60 percent.

The credit deposit ratio which is an important tool to assess the credit deployment by commercial banks has shown a declining trend in recent times which indicates that the flow of credit to the Priority Sector has been declining: 1. During 1962-68 the CDR had never come down below 60 percent. 2. From 1983 the CDR started declining gradually. It has come down to 43.58 percent in 1986. It was fluctuating between 50.88 and 55.73 percent during 1987-90 and
thereafter a steady deceleration has started culminating in an all time low CDR of 39.01 percent in March 1997 and 35.93 in March 1998. The decline in the advances in relation to depotist from 1991 has caused decline in Credit Deposit Ratio which ultimately has caused reduction in advances towards priority sector. In 1991, the percentage of priority sector advances to net bank credit was 44.88 and this has come down to 41.77 percent in 1992, 36.56 percent in 1995 and 35.84 percent in 1997. The hypothesis that low Credit Deposit Ratio has caused decline in advances towards priority sector has been tested and proved.

8. The results on the relationship between PSL and SDP show a very positive nexus between the two variables which indicates that the growing sectoral credit flow through the PSL has been contributing to the economic development of Pondicherry. The trend results show that both the PSL and SDP have been moving very sympathetically indicating a positive relationship between the two variables. The Correlation Co-efficient between these two variables was 0.98. The correlation co-efficient between per capita PSL and the Per capita Income was 0.97. This implies that there is almost one to one correspondence between PSL and SDP. The results of Production Function model show that the availability of land, labour force, area under irrigation, annual expenditure and PSL could determine 72 percent of variation in SDP. The regression co-efficient and co-efficient relating to PSL is significant at 1 percent level and the co-efficient value indicates that 1 percent increase in priority sector lending leads to 0.31 percent increase in the State Income of the Union Territory of Pondicherry. The Production Function results also indicate that the annual expenditure of the Government and Priority Sector lending by the banks are significantly contributing to the State Income of Pondicherry which implies that the capital
provided by the Government and the banks are instrumental for higher growth of the economy of the Union Territory rather than the real variables. The sum total of elasticity is 1.535 which is greater than one which indicates increasing returns to scale as far as the State Income generation is concerned. The micro level impact of PSL assessed through a sample analysis of 250 beneficiaries under the PMRY also indicates a positive impact of PSL on development.

9. The results show that 250 beneficiaries have been given a loan of Rs.99.02 lakhs out of which 63 rural beneficiaries received Rs.18.51 lakhs which constitutes 18.7 percent of the total disbursement. The average amount disbursed to a rural beneficiary was Rs.28,389. The urban beneficiaries (187) have received Rs.80.51 lakhs denoting about 81.3 percent of the total loan disbursed. The average loan disbursed was Rs.43,054. The difference in the loan between the rural and urban beneficiaries is Rs.14,665.

10. The activitywise loan disbursal shows that industry has received the highest amount, namely Rs.36.72 lakhs denoting 37.09 percent of the loan disbursed. Business Sector has received Rs.33.02 lakhs denoting 33.35 percent of the loan disbursed. The industrial sector investment amounted to Rs.29.28 lakhs denoting 29.56 percent of the total amount disbursed. The Per capita Investment was Rs.50,301 in industrial activities, it was Rs.36,285 in business and Rs.34046 in service sector activities. The total investment made by 250 beneficiaries amounted to Rs.1,36,77,446. The average investment is Rs.54,709 for the entire sample. The estimated monetary value of total realised production for all the 250 enterprises was Rs.175.08 lakhs. The average realised production for the sample was Rs.70033. The capital output ratio for the entire sample was 0.78 : 1. This implies that to produce an output of Rs.100, we require an investment of Rs.78.
The investment multiplier for the entire sample was 1.3 which indicates that one rupee investment is capable of creating more than one rupee value of output in all categories.

11. The important inference of this analysis is that the beneficiaries have realised different levels of production or turnover or sales which is a positive contribution to the State Domestic Product of the territory. It was noted earlier that under the Priority sector lending, an amount of Rs.99.02 lakhs has been given as loan which has enabled them to produce an output of Rs.175.08 lakhs. This implies that a loan of Rs.100 lakhs is capable of producing an output of Rs.176.8 lakhs. This is an important impact of the priority sector lending under PMRY on the economy of the territory.

12. The sample enterprises have generated employment to 675 persons giving rise to per unit employment of 2.7 persons in the entire activity. The activity-wise employment generated is industry 219 persons, business 275 persons and service 181 persons. The capital labour ratio is 20263:1 which means that one job can be created with a capital investment of about Rs.20,263. This shows that the scheme is highly labour intensive and can be exploited more fully and efficiently and can be used for maximisation of employment with minimum capital. An amount of Rs.99.02 lakhs given as Priority sector lending has created employment opportunities to 675 persons which means that Rs.14,670 is just sufficient to create a job through self employment activities. This implies a loan labour ratio of 14670:1.

13. The total profit earned by all the beneficiaries is Rs.7,36,01,03 of which 39.4 percent is accounted for by service, 36.1 percent by business and 24.5 percent by industry. The average profit which is a better index of performance, is Rs.29,440.
for the sample. The monthly income for all the units works out to Rs.2452 per unit. Activitywise, the monthly net income is Rs.2813 in service, Rs.2434 in business and Rs.2054 in industry. This flow of monthly income indicates that in all the activities the beneficiaries were able to earn an income which they could not have earned in the absence of this scheme. All these results suggest that at the micro level, the priority sector lending has exerted a very congenial impact in terms of employment, profit, income and asset creation which all taken together contribute to a positive development of the economy of Pondicherry. The hypothesis that there is a positive relationship between Priority sector lending and economic development of the Union Territory is tested and proved.

14. However, the study also noted that the banking system is suffering from certain structural, organisational and functional deficiencies. After the advent of financial sector reforms, the banking system is losing its social orientation as a consequence of which the priority sector lending has suffered a setback. This gives a lurking feeling that the status of banks may be reverted to the status quo ante of 1968 where the banks did not subserve the societal needs but the private aims and objectives. Although a detailed description of these deficiencies could not be presented, a summary of the operational deficiencies are provided hereunder:

a) Many public Sector and private Commercial banks have achieved low CDR. There has been a reduction in the CDR in the Union Territory of Pondicherry since 1991. Major banks like United Commercial Bank, Indian Overseas Bank (which have more number of branches) could achieve a CDR ranging from 25 to 30 percent only for the last couple of years. The growth of bank deposit is at faster pace than the growth in
bank advance since 1990, which has reduced the CDR. Further, delay in processing the loan applications by majority of banks resulted in low CDR.

b) Low CDR has affected the inter-sectoral flow towards priority sector. As against the stipulated norm of 18 per cent credit flow towards agriculture, the flow was between a minimum of 15 per cent and a maximum of 16 percent from March 1994 to March 1997. The flow of advances to small-scale sector and other priority sector has been inadequate.

c) Credit flow towards beneficiaries under 20 PP has been inadequate and hence steep decline in credit in percentage terms.

d) The stipulation that one per cent norm of total credit to be effected under DRI scheme has not been met since March 1994.

e) Proper activities and viable projects have not been identified by the Lead bank under ACP.

f) No imaginative projections of outlay under ACP of Lead Bank have been done.

g) Lack lustre attitude of few major public sector and many private sector banks has caused low level of credit utilisation under ACP.

h) Improper distribution of inter-sectoral credit has also been noticed.

i) There has been low credit flow towards fisheries sector.

j) Low refinance availment by commercial banks, from NABARD and SIDBI, has been found.
k) Banks have not come forward to give more loan towards housing activities in the Union Territory of Pondicherry, which is fast emerging as urban growth centre and where shortage of housing is felt.

l) There has been inadequate flow of credit towards availing credit for higher studies under education sector.

m) Identification of activities in few pockets / regions of the economy by banks was wrong.

n) Lack of co-ordination between Lead bank and other banks and between Lead Bank and a few developmental agencies, which are implementing various credits linked programmes are found.

o) There was improper identification of credit requirements under industries sector and inadequate flow of working capital towards small scale industries.

p) No proper rehabilitation measures towards sick industries have been undertaken.

q) No proper credit plan to assist artisans and other skilled workers under village industries programme has been evolved.

r) No proper earmarking of credit plan to minority communities and scheduled castes has been done.

s) The credit flow towards priority sector has not been ensured at 40 per cent level in the recent past and decline has started since reform measures in financial sector were initiated. Proper sub-sectoral allocation based on
the felt needs of the people and at the ground level has not been ensured by Lead Bank while implementing the ACP.

t) There has been low investment flow under various programmes for weaker sections. In the case of IRDP as against Rs.15,000/- per beneficiary and Rs.25,000/- per family, the credit flow from banks were inadequate either for the individual or for the family to cross the poverty line. This is applicable to IRDP and other priority sector programmes.

u) Indian Bank has not been able to develop leadership quality even after number of years of its functioning as Lead Bank in the Union Territory of Pondicherry.

v) The SLBC / SLRC meetings have become a routine affair and ritual.

w) The Service Area Plan is not based on the real potential of the area concerned.

10.3 Policy Suggestions

1. The economic analysis of the PSL in Pondicherry shows in unmistaken terms that banks through their innovative bank schemes have richly contributed to the development of Pondicherry. The macro level relationship underlines the positive impact on economic development. At the micro level, banks are contributing to the implementation of self employment schemes such as PMRY and thereby generate additional output, employment, profits and income. Therefore the continuance of the PSL scheme in the Union Territory appears expedient and desirable. Therefore banks must strive to support the implementation of PSL scheme without slackening.
However contrary to this desire expectation, the analysis shows that there has been a slump in the matter of priority sector advances. The decline in CDR and the consequent reduction in priority sector advances cause serious concern. This trend needs to be reversed and efforts should be made to deploy more funds towards priority sector. This is the major policy implication of this study.

2. The study also shows decreasing trend of credit deployment towards agricultural and allied activities and almost a constant trend in respect of service sector. This again is not congenial for the growth of Pondicherry economy. Agriculture requires capital for the present trends of modernisation for which the small men in agriculture are unequal to the task. The service sector has been growing phenomenally in recent times. The reduction in service sector credit would stifle the activity of the sector and thereby employment opportunities and income generation activities will suffer a setback. There the Lead Bank should carefully examine this undesirable trend and evolve separate credit plan for agriculture and service sector activities.

3. The decline in CDR should be arrested. Measures should be initiated to deploy credit to various potential and productive sectors so that the credit deployment rises in proportion to deposits and thereby the decline in CDR is stopped.

4. An integrated approach is required on the part of Lead Bank as a consortium Leader with regard to assessment of the potential of the district and also to fulfil the credit needs of the target groups. In this respect, the role of the Lead Bank is not as expected. While formulating the ACP every year, the Lead Bank does not actually project the actual felt needs of the different target groups. It is stated that NABARD prepares PLCP, based on the resources potential and infrastructure available. The ACP of the Lead Bank is supposed to be based on the PLCP of
NABARD. But in actual practice this has not been done. It is suggested that Lead Bank may prepare ACP based on the PLCP of NABARD.

5. Apart from extending adequate credit towards priority sector, loans to a few medium / large scale industries operating in the Union Territory of Pondicherry may also be extended to improve the CDR to the desired level of 60 percent.

6. A few Self Help Groups as started by NABARD are functioning in the Union Territory of Pondicherry successfully. The intermediation of Voluntary Organisations and Self Help Groups have helped banks to reduce the transaction costs ranging from 20 to 40 percent as compared to direct lending. These agencies can also be used for recovery purposes. In the light of the emerging scenario, it is suggested that in the Union Territory of Pondicherry, Lead Bank should take the initiative in forming large number of Self Help Groups in the larger interest of the Pondicherry economy.

7. Banks in rural areas may be allowed to introduce imaginative banking schemes taking into account the felt needs of the area.

The deficiencies noted in the operation and preparation of credit plans should be overcome through useful and realistic approaches. More specifically the following measures may be initiated which may help to improve CDR as well as help development of Pondicherry economy: (1) Credit requirement of various sectors should be assessed more scientifically by the lead bank, (2) Rehabilitation measures to improve sick industries should be undertaken, (3) Credit plan to artisans and other skilled workers educational sector, housing sector, fisheries sector weaker sections and other viable projects should be evolved, (4) Better co-ordination between Lead Bank on the one hand and other banks and development agencies on the other should be effected, (5) The
service area plan should be based on the real potential of the area concerned, (6) Banks should finance power tiller scheme, horticultural activities, micro irrigation systems like drip/Sprinkler irrigation, tourism activities, broiler farm and milk chilling plants, (7) Commercial banks should avail refinance facilities from NABARD and SIDBI, which may meet the working capital requirement of farm and non-farm activities, and (8) Bankers may be allowed to choose 25 per cent of the beneficiaries on their own and assist them in different avocations.

10.4 Conclusion

In conclusion, as a corollary to various findings it should be mentioned that the recent attempts to tinker with the social objectives of commercial banks would only undermine the significance of priority sector and a larger number of down trodden and poor people who are dependent on it. Profit making, resource mobilisation and deployment of credit to potential sectors are important objectives. No one denies it. But profit oriented growth sans social justice smacks of egalitarian objectives of a welfare Government itself. All that was adorned as ideals and lofty principles in 1969 are now given the go by and the process of social justice is discounted in our quest for privatisation and liberalisation. No one seems to understand the serious implications of such reversal of approaches and policies. The burden of this thesis is to establish the principle that banks should play their social role and thereby contribute to the greatest happiness of the greatest number.