CHAPTER VII

CONCLUSION

7.1 INTRODUCTION

The growth of NBFIs has been one of the important causes and consequences of economic development in the twentieth century. By virtue of their significant impact on the functioning of the economic system, the NBFIs have virtually forced monetary experts and development experts to think afresh on the nature and scope of monetary theory and policy. Most of the experts accept the view that the NBFIs have a definite and determinate role in the financial intermediation activities of every nation. And most of them do accept the view that as the economies attain maturity, their uncontrolled growth poses threat not only to the commercial banks but also to the central banks. In India too, the NBFIs, by remaining outside the regulatory net of the central bank, have come to pose threat not only to the long run growth of commercial banks but also to the effectiveness of monetary policy. Thus, the growth of NBFIs/Finance Corporations has implications for monetary theory and policy. As such, the central monetary authority, if it is keen on assisting economic policy in achieving the objectives of growth, stability and justice through its policy of controlled expansion, cannot afford to be indifferent to the mushroom growth of NBFIs/Finance
Corporations. Further, since there is no inter-regional parity in their development, they have come to cause inter-regional disparities in economic development through inter-regional disparities in the development of financial infrastructure. And hence, their growth has implications for regional development policy also. In the study area of Bellary district, finance corporations, an important variant of NBFIs, have been very actively participating in the financial intermediation activities of the district. Like the other uncontrolled variants of NBFIs, the finance corporations have been posing threat to the growth of commercial banks and also to the effectiveness of the RBI's Credit Control Policy.

All the aforesaid issues are discussed in detail in the preceding chapters of this thesis. Now, we are in a position to sift the entire discussion and put the outcome of the present empirical inquiry in a coherent way. The prime objective of this chapter is to present a succinct resume of the entire inquiry. It is designed to give a brief summary of what was proposed to be done, how it was proposed to be done, and what has been done. And it also presents the principal findings of the study and their implications for theory and policy. With these objectives in view, the chapter is split into seven sections. All the important aspects of the dissertation design are delineated in the second section. The third section brings together all the principal findings
regarding the nature and extent of inter-state disparities in the growth of NBFIs and commercial banks and the inter-temporal behaviour of disparities during the period under study. A brief account of the functioning of the finance corporations in Bellary district is given in the fourth section. The fifth section brings together all the important findings pertaining to the increasing economic importance of the NBFIs/Finance Corporations and the declining economic importance of the commercial banks. The threat that such a trend poses to the scope and effectiveness of monetary policy is summarised in the sixth section. And the implications of all the important findings for monetary theory, monetary policy, and regional policy are briefly discussed in the seventh section.

7.2 A SUMMARY OF THE DISSERTATION DESIGN

One of the significant developments in the field of money and finance in the twentieth century has been the sudden spurt in the growth of NBFIs. Their emergence and unprecedented growth, by inducing the experts in the field to think afresh on issues connected with money and finance, has given birth to a new theory of finance. The NBFIs, being an integral part of the financial infrastructure, have a definite and determinate role in the dynamic process of economic
development; by claiming a considerable proportion of financial intermediation for themselves, they have been able to influence the directional and dimensional contours of economic development. The works of R.W. Goldsmith, Gurley and Shaw and the Radcliffe Committee Report have brought to the fore the problems that accompany the growth of NBFIs as the economies attain maturity; in most countries, most of the NBFIs, by remaining outside the regulatory orbit of the central bank, have come to affect the long run growth of commercial banks and also the scope and effectiveness of monetary policy.

The present thesis, as its main title suggests, is an investigation into the diverse facets of the functioning of NBFIs, and as its sub-title suggests, it is an indepth inquiry into the functioning of finance corporations in Bellary district. Spatially speaking, the analysis is done at three areal levels—national, state and district. So far as the time-cover is concerned the inquiry is spread over 16 years at the national and state levels (1970 to 1986) and 6 years at the district level (1981 to 1987). The district of Bellary constitutes the principal study area. Even though the title does not indicate anything about the study of commercial banks, their study constitutes an integral part of the present investigation.

research inquiry. The entire inquiry is essentially a study in comparison between NBFIs/Finance Corporations and commercial banks. Among other things, greater accent is given to the nature and extent of competition between NBFIs and commercial banks at the national level and the state level, and between finance corporations and commercial banks at the district level. And in that process, monetary policy is brought into the picture. The theoretical and empirical studies surveyed in the second chapter lend enough evidence as to the threat posed by NBFIs to the effectiveness of monetary policy. In the present inquiry too, sufficient space is devoted to identify the nature and extent of the threat posed by NBFIs and finance corporations to the effectiveness of monetary policy. In the inquiry, the inter-state disparities in the growth of NBFIs and commercial banks, and the inter-temporal trends of such disparities also figure prominent.

So far as India is concerned, the review undertaken in the second chapter incidentally indicates that no serious attempt has been made to make a comparative analysis of the growth of NBFIs and commercial banks at the national level. It also shows that nothing has been done to identify the nature and extent of inter-state disparities in the growth of NBFIs and commercial banks. Further, no attempt has been made
to study the divergence-convergence trends in inter-state disparities, the knowledge of which is very essential in regional planning to minimise regional disparities. As far as the study of finance corporations in Bellary district is concerned, no research effort has gone in yet; it is a virgin field for research. By making an indepth analysis of the growth of NBFIs and commercial banks at the national level and the state level, and of finance corporations and commercial banks at the district level, keeping the possible competition between NBFIs and commercial banks and the possible threat the NBFIs pose to monetary policy on the lending front at the centre of the analysis, the present study claims its importance by making a substantial addition to the existing understanding of the problem under study.

The present study, besides aiming at certain definite objectives, addresses itself to test some well defined hypotheses. As to the objectives, theoretically, it endeavours to examine the ways in which the NBFIs affect economic development, and also to identify the important factors leading to the phenomenal growth of finance corporations in Bellary district. And empirically, it attempts to: analyse and discuss the nature and extent of competition that NBFIs/Finance Corporations pose to commercial
banks; get a proper comprehension of the extent of inter-state disparities in the growth of NBFIs and commercial banks; and of the inter-temporal behaviour of such disparities; inquire into the operations of the finance corporations in Bellary district; examine the nature and extent of the threat that the finance corporations pose to the effectiveness of monetary policy; and to derive some policy implications which would be useful to the central monetary authority of the country. And the hypotheses tested in the present inquiry are: the NBFIs/Finance Corporations compete with commercial banks for deposits, and in the process, the latter tend to decline in economic importance; the NBFIs/Finance Corporations pose a threat to the effectiveness of monetary policy so far as they remain outside the purview of central banking control; the regional disparities diverge in the process of the growth of financial infrastructure; the regional disparities converge in the process of the growth of financial infrastructure; and the regional disparities diverge initially only to converge later on.

The study is based on both the primary and the secondary sources of data. The state-wise and the national level data pertaining to the growth of NBFIs and commercial banks are obtained from the secondary sources, which include the various publications of the RBI, published and unpublished Ph.D. dissertations and research papers, and expert committee reports. As far as the data pertaining to the deposit
mobilisation and lending practices of the finance corporations in Bellary district, they are obtained from primary sources; they are collected by personally administering detailed questionnaires to the selected finance corporations, depositors and borrowers. The data in respect of the deposits and loans of finance corporations are also collected from their auditors to make a cross check of the data collected from the finance corporations. And the data in respect of the commercial banks in Bellary district are obtained from the published reports and the unpublished records of the Institutional Finance Department, Government of Karnataka, Vidhana Soudha, Bangalore. To give quantitative touch to the empirical analysis, a few simple statistical tools such as standard deviation, co-efficient of variation, rank correlation, and annual compound growth rates are used.

7.3 INTER-STATE DISPARITIES IN THE GROWTH OF NBFIs AND COMMERCIAL BANKS: SOME FINDINGS

Being both a cause and a consequence of economic development, the growth of financial infrastructure—which in the present work is defined to include all the bank and non-bank financial intermediaries—reflects the inter-state disparities in economic development which persist in India despite concerted efforts to ensure inter-regional parity through appropriate regional dispersal policies. The inter-state disparities are found not only in the growth of NBFIs but also in the growth of commercial banks. The cross-
section analysis reveals the existence of inter-state disparities in the growth of NBFIs and of commercial banks as well, as measured by their aggregate deposits, in all the four points of time considered in the study—1970, 1975, 1980 and 1985. But as to the inter-temporal behaviour of inter-state disparities, they differ: the values of co-efficient of variation in respect of NBFIs lend empirical support to the trend of initial convergence and subsequent divergence; whereas, the values of co-efficient of variation in respect of commercial banks lend empirical support to the trend of convergence.

However, it should be borne in mind that fifteen-year period is too short a period either to say anything conclusively about the time-pattern of divergence-convergence trends, or to test the validity of the various hypotheses about regional disparities, because, regional change is a matter of many decades, and patterns cannot be deciphered by a study of just fifteen years.

7.4 FUNCTIONING OF THE FINANCE CORPORATIONS IN BELLARY DISTRICT: AN OVERVIEW

In South India, Kerala state happens to be the mother of private finance corporations. Their successful functioning in Kerala induced some enthusiasts in Andhra Pradesh to start
such finance corporations in Madanapalle. And Madanapalle finance corporations influenced some of the businessmen and retired employees to start such finance corporations in Bellary district in the early years of 1970s, and since then they have been growing in importance in terms of the deposits they mobilise and the loans they advance. The investigator has identified 340 finance corporations in the district and has selected only 114 corporations for the study. The units selected are private partnership firms. The number of partners per firm varies from two to ten. More than two-thirds of the firms have ten partners each. Their main business is financial intermediation—raising deposits from the public and advancing loans to the trading community. Keeping in view the legal restrictions, each firm operates with a share capital not exceeding one lakh rupees. The major portion of the finance corporations' capital is held by the Vysya Community. The management of the corporation is very simple; in each firm, one of its partners is designated as the managing partner, and he, with the assistance of one or two employees manages the entire business of the firm.

The inquiry reveals that the finance corporation activity is not uniformly spread in all the talukas of the district; the activity is excessively concentrated in Bellary taluka. The people belonging to various age-groups, castes, genders,
occupations/professions and employments are found to patronise the finance corporations in the study area in terms of both deposits and borrowings. The people in the age-group of 20-40 years are found to be the major contributors to the business of the finance corporations both in maintaining deposits and in borrowing loans. As to the caste composition, the Vysyas and the Muslims figure significant on the deposit and the borrowing spheres respectively. And as to the gender-composition, the males dominate both the fronts. Occupationall y/professionally speaking, the businessmen are found to be the principal contributors on both the ends.

The corporations raise both time and demand deposits, and advance block loans and daily repayment loans. The rates of interest offered on deposits and the rates of interest charged on loans by the finance corporations are decidedly higher than those offered and charged by the commercial banks. However, the higher lending rates they charge do not get reflected in their books of accounts; they show relatively lower rates of interest and thereby cause the emergence of black money.

Strictly speaking, there is hardly any law which can regulate the lending activities of the finance corporations. The Partnership Act under which they are registered does not have any provision to regulate the lending side of the firms.
No doubt the Karnataka Money Lenders Act and the RBI Act 1934 have provisions in them to regulate the functioning of the firms, but the firms have been successfully circumventing the restrictive provisions of both the Acts. As such, they are virtually unregulated, and it is this aspect which has bearing on the prospective growth of commercial banks and on the effectiveness of monetary policy as well.

7.5 COMPETITION BETWEEN NBFIs/FINANCE CORPORATIONS AND COMMERCIAL BANKS: SOME FINDINGS

The inquiry reveals the existence of competition between NBFIs and commercial banks at the national/state level, and between finance corporations and commercial banks at the district level, for deposits. And the competition is found to be unfair, since it is allowed to take place between the uncontrolled NBFIs and the controlled commercial banks. The NBFIs at the national level and the state level, and the finance corporations at the district level (study region) have been able to compete away the deposits (existing and prospective) from the commercial banks. And in this way, the former have come to affect not only the deposits of the latter, but also their deposit-based lending abilities and consequently their income-earning capacities.
The inter-temporal trends in the growth of NBFIs and commercial banks are indicative of the declining economic importance of the commercial banks on the one hand, and of the increasing economic importance of the NBFIs on the other; between 1970 and 1986, the NBF1 deposits registered more than 25 fold increase, whereas the commercial banks' registered less than 17 fold increase. A similar situation is also revealed when the problem is viewed by taking the deposits of NBFIs as a percentage of aggregate deposits (NBFIs' and Commercial Banks'). The NBF1-deposits as a percentage of aggregate deposits increase from 10.69 per cent in 1970 to 17.19 per cent in 1985. Thus, this finding lends empirical support to the view that NBFIs compete with the commercial banks for deposits, and in the process, the latter tend to decline in economic importance.

The inquiry shows that the competitive situation between NBFIs and commercial banks in Karnataka state is not qualitatively different from that obtaining at the all India level, but it differs from the all India situation quantitatively; the competition is more pronounced at the state level. The severity of the competition and the extent of threat that NBFIs pose to the commercial banks, are very clearly seen in their relative growth gauged by the growth of their deposits. The study provides enough evidence to the
declining economic importance of the commercial banks and to the increasing economic importance of the NBFIs in the state. In terms of NBFI-deposits, Karnataka moves up from the 24th rank in 1970 to the 9th rank in 1975 and retains the same rank in 1980, and moves on to the 3rd rank in 1985. Whereas, in terms of commercial bank-deposits, the state moves down from the 7th rank in 1970 to the 8th place in 1975 and retains the same rank in 1980, and scales down to the 9th rank in 1985. And in terms of its share in the country's NBFI-deposits, the state moves from nil percentage in 1970 to 7.5 per cent in 1985, whereas, in its share in the country's commercial bank deposits, the state moves down from 5.08 per cent in 1970 to 5.00 per cent in 1985. The declining economic importance of commercial banks in the state is also obvious when we view the data from another angle: the percentage of NBFI-deposits in the aggregate deposits (NBFIs' and Commercial Banks') of the state increases from nil percentage in 1970 to 3.27 per cent in 1975, from 3.27 per cent in 1975 to 3.47 per cent in 1980 and from 3.47 per cent in 1980 to 23.72 per cent in 1985; whereas, for the same intervals, the percentage of commercial bank deposits in the aggregate deposits of the state, declines from 100 per cent to 96.73 per cent, from 96.73 per cent to 96.53 per cent and from 96.53 per cent to 76.28 per cent.

Thus, the analysis of the competition between the NBFIs and the commercial banks in the state of Karnataka shows that
the former have been posing threat to the latter by way of competition for deposits, and in that process the commercial banks have been declining in their economic importance. And this finding about Karnataka supports the Gurley-Shaw view on the 'competition' aspect of NBFls and commercial banks.

The competition is also found in the study area. The changes in the relative growth of the finance corporations and the commercial banks in terms of deposits in the study area show very clear indications of the declining economic importance of the latter and of the increasing economic importance of the former. This situation is caused by the unfair competition that exists between the two. The finance corporations have been successful in attracting away deposits from the commercial banks, among other things, by offering higher rates of interest.

The empirical investigation, besides showing the existence of competition for deposits between the finance corporations and the commercial banks of the district, also shows that the degree of competition posed by the former to the latter has been on the increase from time to time. This trend is indicated by a consistent increase in the proportion of deposits held by the finance corporations in the total deposits (Finance Corporations' and Commercial Banks') of the
the share of the finance corporations increases from 8.18 per cent in 1981 to 19.91 per cent in 1986. And this growing economic importance of the finance corporations is matched by the declining economic importance of the commercial banks; the commercial banks' share in the total deposits of the district records a fall from 91.82 per cent in 1981 to 80.09 per cent in 1986. Further, the share of the Bellary district commercial banks in the aggregate commercial bank deposits of the state records a fall from 3.24 per cent in 1981 to 3.09 per cent in 1986.

Thus, the comparative study of the growth of NBFls/Finance Corporations and Commercial Banks at three areal levels—all India, state and district—lends empirical support to the often quoted hypothesis that NBFls compete with commercial banks for deposits, and in the process the latter tend to decline in economic importance.

7.6 THE GROWTH OF NBFls/FINANCE CORPORATIONS AND MONETARY POLICY: SOME FINDINGS

The NBFls/Finance Corporations, by their unprecedented growth in India, have come to pose threat not only to the long run growth of commercial banks, but also to the scope and effectiveness of monetary policy. The inquiry points out that NBFls in general at the national level and at the state level,
and the finance corporations, in particular, in the study area, have been reducing the scope and effectiveness of RBI's monetary policy. Here, it is pertinent to note that the scope and effectiveness of monetary policy are affected by both the aspects of financial intermediation—raising deposits and advancing loans—of the NBFIs/Finance Corporations.

The study makes it abundantly clear that the uncontrolled functioning of the NBFIs/Finance Corporations has not only reduced the scope of RBI's monetary policy, but also its ability to realise its goals of growth, stability and justice. As to the scope, the inquiry reveals that the scope gets reduced in more than one angle: first, it gets reduced because the portion of the deposits raised by the non-banking sector and the credit generated on the basis of such deposits remain independent of RBI's control; second, hardly there is any scope for the conventional methods of credit control such as Bank Rate Policy, Open Market Operations, and Variable Reserve Ratio, or to the Various Selective Credit Controls, as far as the non-banking sector is concerned.

Viewing the effectiveness of RBI's policy in terms of its ability to assist economic development and to ensure stability and justice through its weapons of credit control, the study shows that RBI's monetary policy, by not having any kind of
quantitative or qualitative control on the continuously expanding credit of the finance corporations in the study area, has not been effective to the extent to which it would have been if it were to have control over the lending activities of the finance corporations. The growing importance of the finance corporations gauged in terms of the quantity and quality of their advances has been indicative of the nature and extent of reduction in the effectiveness of monetary policy. The finance corporations' share in the total advances of the district (finance corporations' and commercial banks') is found moving up from 8.42 per cent in 1981 to 21.5 per cent in 1986. On the contrary, the commercial banks' share is found declining from 91.58 per cent in 1981 to 78.5 per cent in 1986. These figures speak not only of the reduction in the scope of monetary policy, but also of the reduction in the effectiveness of monetary policy. Further, the study shows that most of the credit created by the finance corporations, in the name of trade and business, finds its way into non-priority sectors. And by doing so, the finance corporations are affecting the ability of monetary policy to assist development in the priority areas; and further by financing speculative trade, particularly activities such as hoarding of essential goods, they are affecting the ability of monetary policy to ensure price stability.
Incidentally, the study shows that the finance corporations, by not maintaining any specific liquidity like the controlled commercial banks, have been adversely affecting the liquidity-based safety of the depositors' money. They do not seem to have any respect for liquidity at all. By not giving the weightage which the liquidity consideration deserves on their assets side, they are found to be very extravagant in their advances; their credit-deposit ratio is found moving from 107.99 per cent in 1981 to 112.01 per cent in 1986. This trend is indicative of the threat to the depositors' money.

7.7 SOME IMPLICATIONS FOR THEORY AND POLICY

The unprecedented growth of the uncontrolled NBFI s has implications for monetary theory, monetary policy and regional policy. The entry of NBFI s into the field of money and finance has upset the well defined functional relationship between the quantity of money and the general price levels/the volume of output. The conventional monetary theory cannot reasonably explain the precise functional relationship between the two variables. Neither the Fisher's Equation associated with the name of Irving Fisher, nor the Cambridge Equations associated with the names of Alfred Marshall, A.C. Pigou, J.M.Keynes and D.H. Robertson can provide satisfactory explanation for the changes in the general price level, income
and output by considering money and commercial bank deposits as the independent variable. And monetary policy based on such a theory cannot be adequate and effective in realising its modern goals of assisting economic development on the one hand, and of combating inflation and securing distributive justice on the other. So, to make monetary policy a potent tool of economic policy, so that it can effectively assist the latter in realising the set goals, it is necessary to redefine the scope of monetary theory and monetary policy giving the weightage which the NBFI s deserve in the overall financial intermediation activity in the economy. The growth of NBFI s has also bearing on regional policy in the sense that the policy cannot be effective in reducing inter-regional disparities in development unless, among other things, inter-regional disparities in financial infrastructure are also reduced.

The detailed survey of the literature— theoretical and empirical—on NBFI s, inter alia, has made it abundantly clear that the conventional monetary theory, which considers the 'supply of money' and the 'credit created by commercial banks' as the prime variables to be manipulated to regulate the price level and the economic system, is inadequate. It does not take into consideration a host of NBFI s which, just like commercial banks, do raise deposits and do create credit.
Most of the theorists referred to in the second chapter of this thesis have advanced a new theory which accommodates NBFIs in addition to commercial banks. Madaiah rightly says that the 'new theory of finance' or 'the liquidity theory of money', starts from a broader concept of liquidity rather than mere money supply. It includes the liabilities of the NBFIs as well. He says that the shift from the quantity of money to the liquidity position of business as the main determinant of aggregate demand is the central feature of the new doctrine. So, if monetary theory is to provide a sound base for monetary policy, it is necessary to broaden its boundaries so as to circumscribe the edifices of NBFIs.

The inquiry reveals that the NBFIs at the national level and state level and the finance corporations at the district level have been successful in competing away deposits from the commercial banks, among other things, by offering relatively higher rates of interest. And this unfair competition has come to affect not only the deposits and the deposit-based lending abilities of the commercial banks, but also their income-earning capacities. This is indeed a big handicap to the commercial banks. If the central monetary authority is keen on avoiding this undesirable discrimination, it need think of imposing some kind of ceiling on the interest rates offered by NBFIs/Finance Corporations on deposits.
As to the comparative growth of NBFIs/Finance Corporations and commercial banks in terms of both deposits and advances, the empirical evidence indicates the growing economic importance of the former and the declining economic importance of the latter. Since the financial intermediation activities of the NBFIs/Finance Corporations are not subjected, strictly speaking, to any kind of central banking control, the monetary policy has come to control only the shrinking sector of commercial banking. And this partial control of the monetary system speaks of the narrowing down of the base of monetary policy. The quantitative and qualitative weapons of credit control regularly employed by the RBI have little scope to control the credit created by NBFIs/Finance Corporations. As such, if monetary policy is to realise its full potential as an important tool of economic policy, it cannot afford to confine its control to the banking sector alone; it need extend it to cover the NBFIs/Finance Corporations.

The finance corporations in the study region are found to indulge in indiscriminate lending without bothering about 'liquidity' consideration. They have not been making any effort to strike a balance between liquidity and profitability in arranging their assets; in fact, 'profitability' consideration is given all the importance. By doing so, they
are posing threat not only to the safety of depositors' money, but also to the stability of the money market. In the larger interests of the money market and in the interests of the finance corporation-depositors, the RBI should think of devising some measures to make it obligatory on the part of finance corporations to maintain minimum liquidity.

One of the important findings of the present inquiry is concerned with the effectiveness of monetary policy. Here 'effectiveness' is interpreted to mean effectiveness in terms of its ability to achieve its objectives, particularly those of growth, stability and justice. In other words, monetary policy is said to be effective if it resolves the central bankers' dilemma of assisting economic development on the one hand and of containing inflation on the other, of course, not slighting the consideration of equity. From the empirical evidence it can be safely inferred that RBI's monetary policy cannot be fully effective in realising its objectives by merely controlling the quantity of money and the financial intermediation activities of the commercial banks; the extent of its effectiveness, among other things, is governed by the extent of the financial intermediation activities of the NBFIs/Finance Corporations. The RBI's weapons of credit control, strictly speaking, have no jurisdiction either on the quantity or on the quality of credit created by the
non-banking sector. So, if the RBI is to be fully effective in realising its objectives, it would be necessary to redesign its policy in such a way as to regulate the activities of the non-banking sector.

The finance corporations, by remaining outside the regulatory net of the RBI, have been successful in facilitating the emergence and growth of black money in the region in a couple of ways: first, by recording lower rates of interest on their advances in their books of accounts than those they actually charge; second, by facilitating black marketing through their advances to speculative activities such as hoarding of essential goods; and third, by providing risk-free accommodation to tax-evaders by accepting their deposits. This activity of the finance corporations has direct bearing on the 'stability' aspect of RBI's monetary policy. The RBI cannot be fully effective in containing inflation to maintain price stability, unless it devises and extends some measures to control the said activities of the finance corporations.

The theoretical and empirical studies surveyed in the second chapter indicate that most of the experts are unanimous as to the fact that the NBFIs should be brought under central banking control; however, they differ as to the
nature and extent of control. In India, if the government feels that the regulation of the non-banking sector would put too much burden on the RBI, it can definitely think in terms of creating a new apex body to supervise, monitor and control the activities of all the financial intermediaries which come under the non-banking sector. However, before the government takes any policy decision on this issue, it would be desirable for it to appoint an expert committee to inquire into all the aspects of NBFI-control.

Incidentally, the present empirical inquiry has some implications for regional policy and planning. Ever since the inauguration of economic planning in India, the planners have been expressing their concern about regional disparities in development. With its Fourth and Fifth Five Year Plans, the Government of India has been converting such concern into action by initiating some concrete measures to reduce inter-regional disparities in development. And by identifying inter-regional disparities in the development of infrastructure as one of the important causes for inter-regional disparities in development, government has taken some measures to reduce the regional disparities in infrastructural development. The present study considers inter-state disparities in the development of financial infrastructure, which in the present analysis includes
commercial banks and NBFIs, as an important cause for inter-state disparities in development. In this regard, the government has been endeavouring to ensure regional parity in the development of financial infrastructure, particularly through the branch expansion policy since the 1969-nationalisation of commercial banks; the branches are being opened in the relatively unbanked and underbanked areas. But, it does not seem to have taken any concrete measures to ensure the regional parity in the development of NBFIs in general and that of finance corporations in particular. The study reveals the existence of inter-state disparities in the growth of NBFIs and of commercial banks as well, as measured by their aggregate deposits, in all the four points of time considered in the study—1970, 1975, 1980 and 1985. But, as to the inter-temporal behaviour of inter-state disparities they differ; the values of co-efficient of variation in respect of NBFIs lend empirical support to the trend of initial convergence and subsequent divergence; whereas, the values of co-efficient of variation in respect of commercial banks lend empirical support to the trend of convergence. All this is to say that our regional dispersal policy cannot be fully effective in minimising regional disparities in development, unless the government and the RBI take some measures to regulate the regional spread of NBFIs in such a way as to ensure regional parity in their growth.