CHAPTER-III

RESEARCH DESIGN
Modern commercial banking owes its origin to the development of trade and commerce and later to the development of organised industry. Both functionally and organisationally commercial banking systems in India had a pronounced urban orientation. Banks credit used to percolate to areas and sectors which were already developed. Backward areas were neglected and a security oriented approach to credit was in vogue.

The main aim of nationalisation was to influence the credit flow of commercial banks in the interest of the weaker sections of society and also to backward areas, so as to induce an element of balance in the economic development of various regions and social groups. This could eventually lead to the diffusion of economic prosperity over wider areas and reduce the concentration of wealth and economic prosperity in the hands of a few. The concept of banking has widened from acceptance of deposits and mere loaning of funds to development oriented banking. Another notable feature of modern banking is the shift from the big customer to the small customer.

3.1 The Need of the Study

In the context of planned economic development in the post-independence era and the spirit of industrial development for a large country, like India, it is very desirable to attempt a policy of balanced economic growth. Regional planning has by now been widely recognised in the developing
countries as "a necessary tool for a more comprehensive and effective human development effort."²

Out of the instruments and strategies required for economic development provision of social overhead and infrastructural facilities is the most effective means of initiating and sustaining growth at regional levels.³ Though it is difficult to conceptualise 'infrastructure', however, it will be useful to define it as "the physical capital and institutions or organisation, both public and private, which provide economic services to and which have a significant effect directly or indirectly upon the economic functioning."⁴

The infrastructure needed for each region or state will be different depending upon factors like, the level of development of a particular region and a full identification of physico-geographical conditions. Nevertheless, the planning commission in a note to the State governments for formulation of Fourth Plans proposals of the states indicated that infrastructure is to consist essentially of a series of public utilities and services whose widespread provision will cause an activisation and development of the economy of all areas in the state. India's Fourth Plan Document further asserts that, growth and diversification of economic activity can take place only "if the infrastructure required for this is evenly dispersed."⁵

In the process of economic development, the role of banking and the financial institutions centres around money
market intermediation through development of financial infrastructure. However, economic development of any country is positively associated with the balanced monetization of its various regions. Monetization, in turn, is largely dependent upon the growth of financial institutions like commercial banks. The balanced economic development requires this financial intermediation by the public financial institutions like commercial banks. It is imperative that the spread of financial institutions should take place at the same pace and with the same efficiency all over the country. As a part of the planning, the policies aiming at bank branch expansion and reducing the disparities between different regions are of immense importance.\(^6\) A sound banking system is a \textit{sine qua non} for accelerating the process of economic growth. A universally acceptable assertion regarding the banking system is that a given banking system inspite of different policies, must be made effective to some degree in its contribution on to economic development.\(^7\)

Commercial banks are the heart of our financial system. They hold the deposits of million of persons, governments and business units. They make their funds available through lending and investing activities to borrowers, individual business firms, corporate sector and governments. In doing so they facilitate both the flow of goods and services from producers to consumers and financial activities of governments.\(^8\)
Prior to nationalisation, commercial banks in India were privately owned and functioned on the principle of profit maximisation. The commercial banks opened branches in economically advanced centres to mobilise deposits and deployed these deposits in such a way which suited their personal vested interests. Thus, prior to nationalisation the credit flow was mainly to industry and trade. There was a close nexus between industry and banking, resulting in inter-locking of directors as well as funds also. Historically speaking, the branches of commercial banks were confined more or less to urban areas, and 80 per cent of the offices were concentrated in urban areas and credit was available largely to traders of commerce and industry. There was also a skewed distribution in the deployment of credit.

In fact the capital movements of commercial banks at times tend to increase regional inequalities. The trouble arises when the wealth produced in rural areas is used to finance the luxurious consumption of the urban rich. In regions which are developed, increased demand stimulates investment which in turn increases income and demand- and leads to a second round of investment- and so on. The scope for better investment in the centres of expansion may create capital shortage in the backward regions. Myrdal writes, "Studies in many countries have shown how the banking system, if not regulated to act differentially, tends to become an instrument for siphoning off savings from the poorer regions to
the richer and more progressive ones where returns on capital are high and secure.9

The concept of balanced regional development presupposes the flow of investible funds from the developed to the underdeveloped regions, as a result internally generated funds in underdeveloped regions are inadequate to meet the needs for development. This by implication also signifies that ordinarily internally generated deposits should not be permitted to drain off merely because developed regions offer attractive benefits to the banks. This may undoubtedly reduce the profitability but it has no justification in the context of national economic policy. Actually, the basic policy issue is not the financial urban bias, but "the extent to which it further accentuates regional economic disparities."10

Planned approach to development started in the early 50's. The First Plan did not assign any specific responsibility that commercial banks could discharge in the development of rural and semi-urban areas. The social control was introduced in 1960's, culminating in the nationalisation of fourteen banks in 1969, followed by six more in 1980. With the nationalisation of banks the government intended to make radical changes in the structure, policy objectives and functioning of commercial banks, so that adequate banking services could be provided in the deprived/neglected areas by sacrificing the earlier policy of profit orientation. The primary objective of nationalisation has been to accelerate
development and thus make a significant impact on the twin problems of poverty and unemployment and thereby to bring about progressive reduction in disparities between rich and poor and also between relatively advanced and backward areas of the country. Nationalisation imparted a new ethos to commercial banking by recognising its role as an instrument of economic and social change.

Nationalisation helped in converting the urban based and privately owned banks to the developmental oriented and social justice-based public sector banks. The nationalisation policy made the public sector banks to control more than 90 per cent of the banking business. The deposit mobilisation from the people and their proper utilisation is the backbone of the economy. The channelisation of credit to the neglected sectors/areas was the main concern.

Thus, the scheduled commercial banks are supposed to play a much larger and more dynamic role in achieving the objective of balanced regional development by providing effective institutional credit support to various production programmes. As banking has been viewed as a catalytic agent which must develop and support not only single element of the national economy but provide an effective link between the productive, distributive and consumption side of it. In this process it is intended to remove regional imbalances to the extent possible so that the backward areas also get appropriate share of the national product. The task assigned to banking industry is the elimination, rather correction of regional disparities.
Subsequent to nationalisation, the banks have been asked to make deliberate attempt for accelerating rural development through their instrumentality of credit to the various sectors of the rural areas. Our country's economy continues to be agriculture-oriented. About 70 per cent of the population lives in rural areas and 75 per cent of the rural population depends upon agriculture for their livelihood. The agriculture together with allied services, contributes the major share of our national income and provides vital raw material to the agro-based industries such as jute, sugar, cotton and edible oils. Therefore, rural development is of immense importance to have a faster economic development in a country.

Regional and sectoral development of investment is more relevant for a developing nation like India. Investment of funds should be deployed in those sections which have linkages with rural economy. To this end, commercial banks can modestly help by maintaining a balance between credit advanced in different regions and to different sectors. If this can be achieved, credit to agriculture and cottage industry would increase, consequently, giving a fillip to rural development. To achieve this, the banks will have to abandon the role of market follower and to assume the responsibility of market setter.

There is no dearth of evidence to show that the new technology in dry farming, high yielding varieties,
fertilizers, improved seed and pesticides can be successfully employed to make agriculture prosperous. The so-called green revolution which was employed in wheat can also be repeated in the case of crops like rice, foodgrains, sugar and oilseeds. However, this is possible only when their financial requirements are initially met by banking industry. The benefits of the development schemes should be shared proportionately by the rural people and not only by the privileged sections of the society. Actually, the low development in these areas is the consequence of low capital formation and low productivity. The capital assumes prime place in lifting the rural economy at reasonable rate and at the right time, which can help in using the new technologies, leading to higher production and productivity.

The commercial banks sought to achieve these objectives after nationalisation by opening more and more branches in the neglected and under-banked areas, mobilising deposits and deploying more credit in these areas and thus tried to reduce inter-regional imbalances in respect of banking services. Further, in order to achieve these objectives in favour of rural and semi-urban areas, the management has to satisfy the norms of Reserve Bank of India.

According to branch licensing Policy 1969-70 banks which had 60 per cent of their offices in rural and semi-urban areas were given licenses for opening one office
in urban areas for every three offices opened in rural and semi-urban areas. Differential Interest Rates and other specific target groups-lending were emphasised and District Credit Plans were introduced. The Integrated Rural Development Programme (I.R.D.P.) was introduced which formed the core programme for eradication of poverty. This programme has forward and backward linkages. The banks were required to insure that the advances to the priority sector should be 40 per cent within this overall target of 40 per cent, the banks were required to give 16 per cent of the advances for direct finances to agriculture and 10 per cent of the advances to weaker sections of the society, i.e., small and marginal farmers, artisans, village and cottage industries.

However, this does not mean that semi-urban and urban-metropolitan areas are of any less significance and should not be further assisted/developed by the commercial banks. Actually on account of migration from rural areas to semi-urban and from semi-urban areas to urban-metropolitan areas, the demand for basic infrastructure in these areas is further going to increase in the near future. Thus, the role of commercial banks is further going to become pivotal in the changing scenario of economic development. Thus, it is all the more important that basic amenities should be provided within the villages/semi-urban areas, so that the increased tendencies of migration could be checked to a certain extent. The area development approach can help in this context, by the strategy
of developing first, different areas independently, and then, through the resultant linkages, also to develop adjoining areas, with the help of credit deployment through commercial banks. This strategy will curb the migration tendencies appreciably.

Despite constant efforts to achieve a balanced regional development over the years, the country has not been able to attain balanced development. India presents a picture of a dual society which comprises of a better off urban India and a woefully poor rural India. The main contributory factor for this state of affair is regional and inter-regional imbalances.

Much of the critical energy has been expended hitherto on the analysis of overall Indian banking system, on the other hand, very few empirical studies have been conducted to measure the extent of disparities in commercial banking services in rural, semi-urban and urban-metropolitan areas. Since more than two decades have elapsed it is high time now to review the situation, whether with the passage of time the extent of disparities in commercial banking services has reduced or not. In a way this study intends to be in a modest way, the pioneer study of the regional disparities existing in rural, semi-urban and urban-metropolitan areas in the various spheres of banking services in India.
3.2 Scope of the Study

The present study seeks to measure the extent of regional disparities in banking services in rural, semi-urban, urban-metropolitan areas and at the all India level during the post-nationalisation period. Further the study probes the trends in disparities in rendering commercial banking services in these areas.

The scope of the study has been confined to the scheduled commercial banks and the reference period is from 1975 to 1987. The data for alternative years has been analysed and interpreted. The period 1969 to 1974 has been treated as a gestation period to permit the banks to acclimatise themselves to the new tasks and challenges in achieving the objective of balanced growth of commercial banks in rural, semi-urban and urban-metropolitan areas in all the states. Moreover in 1975 special stress was laid down in rural areas e.g. Regional Rural Banks scheme was started. The reason for confining the study to 1987 is that the main source from which data has been collected has a lag period of three years. Data relating to various dimensions of banking activities was obtained from relevant issues of Basic Statistical Returns - a Reserve Bank of India Publication. The aforementioned publication takes at least three years in reporting data for a particular year. Although the data for the post 1987 period is available in Annual Reports of the banks, Bombay Stock Exchange Official
Directory etc. but, this data was not found to be compatible with the data taken from Baic Statistical Returns. Another important factor which led to the selection of 1987 as the last year of the study is that since 1987 banks have changed their book closing year from calendar year to financial year.

The present work confines to scheduled commercial banks only. It is so because the scheduled commercial banks can be considered to be fairly representative sample, and their study can appropriately determine the emerging trends in the whole banking industry. For example in 1975 the scheduled commercial banks represented 99.29 per cent of branches of all commercial banks (Table 3.1). In terms of deposits they had 99.83 per cent of deposits of commercial banks. Apart from it they had 99.85 per cent of the credit of all commercial banks. In 1987, the share of these scheduled commercial banks further increased marginally. In 1987, these scheduled commercial banks represented 99.93 per cent of branches, and 99.97 per cent of deposits and credit. Thus in the light of the above facts the study of the scheduled commercial banks can be considered to be fairly representative. Further, the social obligation norms for non-scheduled commercial banks are different from that of the scheduled commercial banks.

In the present study, a state, which is a constituent of the Union of India is accepted as a region. Furthermore, the study is confined to 21 states of India. The states included for the present study are Haryana, Himachal Pradesh, Jammu &
### Table 3.I
Scheduled Commercial Banks in Comparison to all Commercial Banks

<table>
<thead>
<tr>
<th>Banks</th>
<th>1975</th>
<th>1987</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of branches</td>
<td>Deposits (Rs. Crores)</td>
</tr>
<tr>
<td>Scheduled Commercial Banks</td>
<td>20310</td>
<td>13710.73</td>
</tr>
<tr>
<td>Non-Scheduled Commercial Banks</td>
<td>145</td>
<td>23.33</td>
</tr>
<tr>
<td>All Commercial Banks</td>
<td>20455</td>
<td>13734.06</td>
</tr>
</tbody>
</table>

Kashmir, Punjab, Rajasthan, Assam, Manipur, Meghalaya, Nagaland, Tripura, Bihar, Orissa, West Bengal, Madhya Pradesh, Uttar Pradesh, Gujarat, Maharashtra, Andhra Pradesh, Karnataka, Kerala and Tamil Nadu. Furthermore, these states have been grouped into six regions i.e. the Northern, North Eastern, Eastern, Central, Western and the Southern. The states of Sikkim, Goa, Pondichery have been purposively excluded from the scope of the study because they were given statehood after 1975, whereas some others have been given full-fledged status only recently. All the union territories have also been excluded from the present study.

The main variables on the basis of which the performance of commercial banks can be evaluated against the backdrop of the objective of balanced development of commercial banks in all the states/regions are branch expansion, deposit mobilisation and credit disbursement.

(i) **Branch Expansion**

Branch expansion programme can aid development in two ways, by mobilising the resources and by channelling funds for economically productive purposes. At the same time branches can identify genuine credit needs in the areas served by them and provide credit, especially to the neglected sectors, so that the requirements of their areas may be adequately met. As such branch expansion becomes a mean to an end, rather than an end in itself.
The Report of the Banking Commission observed 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 underdeveloped from the point of view of banking infrastructure. It is indeed at the regional and local level that banks are faced with a real challenge. In the past, one of the serious drawbacks of the development of banking was that it was highly disproportionate, it was grossly inadequate in remote areas. As a matter of principle banks opened branches only where they found ready business. However, since nationalisation, the increasing tempo of branch expansion, with special emphasis on the coverage of unbanked areas, is one of the significant features of banking development.

In the light of the above mentioned facts branch expansion becomes one of the important indicators for measuring the performance of commercial banks. However, branch expansion cannot by itself be taken as an indicator because its importance lies in the context of population. Each branch covers some geographical area. But, because of lack of data of geographical coverage in terms of rural, semi-urban and urban-metropolitan areas, branch network was converted into this indicator i.e. branches serving per 10,000 of population or inverse of it i.e. population served per branch.
(ii) **Deposit Mobilisation**

Deposits are the life and blood of commercial banks, as these are the chief sources of bank funds. Also there is a functional relationship between bank deposits and economic growth of a country. More bank deposits lead to more bank credit which, in turn, facilitates production effort, and results in economic growth. Thus, banks can play an important role in economic development due to deposit mobilisation process. The stress on opening branches in rural/semi-urban/untapped areas, is likely to accelerate the pace of deposit mobilisation. Increasing number of bank branches have resulted in the spread of banking habits.

Though deposit mobilisation is an important indicator for evaluating the performance of commercial banks, but this, per se cannot be taken as an indicator for measuring the dimensions of regional disparities in commercial bank network. In order to study the role of commercial banks in removing regional imbalance, deposits have been converted into two indicators i.e. 'per capita deposits' and 'deposits per branch'.

(iii) **Credit Disbursement**

Deposit mobilisation cannot be considered as a criteria unless it is related with credit disbursement. The efficiency in deposit mobilisation should be matched with corresponding efficiency in credit disbursement, so that resources of the bank
do not remain unutilized therefore the assessment of the banks on the basis of total advances cannot be over emphasised.

There has been a marked shift in the lending policies of banks after nationalisation. They have devoted considerable attention to provide credit to the priority sector. The concept of priority sector lending is mainly intended to ensure that assistance from the banking system flows in an increasing measure to those sectors of the economy which though accounting for a significant proportion of the national product, have not received adequate support of institutional finance in the past.

The government of India introduced the scheme of Differential Interest Rate from April 1972. Under this scheme the public sector banks have been giving loans at a concessional interest rate of 4 per cent to the weaker sections of the community who have no tangible security to offer but who can improve their economic well being.

Though credit deployment is an important indicator for evaluating the performance of commercial banks, but like deposits, credit too cannot be taken as such as an indicator for analysing the dimensions of regional disparities in commercial banking services. Thus in order to analyse the role of commercial banks in removing regional disparities. Credit has been converted into two indicators i.e. 'per capita credit' and 'credit per branch'.
The credit and deposits are the two important items in banks portfolio. Credit-deposit ratio establishes a relationship between credit and deposits of commercial banks. It is the proportion of the credit sanctioned by the commercial banks to the aggregate deposits of commercial banks in a region. This ratio depicts the efficiency of commercial banks in the matter of credit disbursement for a given level of deposits. A higher credit-deposit ratio signifies better deployment of the resources of the commercial banks and vice-versa. In the present study credit-deposit ratio has also been taken as an indicator for measuring the level of banking development in a region.

3.2.1 Objectives of the Study

The focal point of the study, as stated earlier, is to critically evaluate the trends and dimensions of regional disparities in commercial banking services in India. The study makes an attempt to evaluate the performance of commercial banks in reducing regional disparities in their services in rural, semi-urban, urban-metropolitan and at the state level. The specific objectives of the study are as follows:

(i) to study the growth of commercial banks since 1975;
(ii) to examine the extent of disparities in commercial banking services population groupwise; and
(iii) to identify the backward states with respect to banking development.
In the context of reducing regional disparities the first and foremost task is to identify the different backward regions, and to analyse the dimensions of regional disparities in them. Without these basic findings, it would not be possible to formulate any meaningful plan or policy for reducing regional disparities. With this background the present study is designed to analyse the extent and dimensions of disparities in commercial banking services in different states of India and to identify the backward states with respect to banking development.

3.2.2 Limitations of the Study

Taking into consideration the objectives of the study and its coverage in terms of time span, the type of commercial banks and the number of states, the study is prone to many limitations. Major limitations of the study are listed below:

1. The study concentrates only to the analysis of quantitative financial data. The qualitative aspects of progress of banking in India have not been analysed. The emerging trends in qualitative aspects of banking as customer service, job satisfaction and morale of the bank employees have not been taken into consideration.

2. The study is based on the financial data as reported by various banks. In such a case the limitation of financial
accounting are likely to remain inherent in the study. One such limitation is the change in price level. If the various financial indicators such as deposits, advances are deflated to the base year, the conclusion drawn by the study may change. However, in the present study this will not be a major limitation as the figures of a particular year of different states will be deflated by the same index number. Hence, the relative position of the states will remain more or less same. But the growth rates based upon current prices are definitely going to be misleading to certain extent.

3. There has been a lot of window dressing in presenting final accounts by the commercial banks. The data relating to deposits and advances, shoots up at the end of the accounting year, because of unscrupulous practices followed by branch managers. This fact becomes amply clear when the data at the end of the year is compared with the data on other dates in the year. The data relating to advances and deposits is knowingly inflated to meet the targets. In such a situation the performance of commercial banks cannot be assessed in the actual sense.

4. Another limitation of the present work is that different causes of banking development in different states have not been analysed. In fact to analyse the different causes, another research work is required.
5. In the present analysis, state is accepted as a region. Regional disparities are analysed in view of state as a unit. However, quite a few states may appear well-banked, and a few others may appear as under-banked. But, within a particular state also there may be a few well-banked, and a few under-banked districts.

3.3 Methodology

The available data relating to branch expansion, deposit mobilisation and credit deployment of 21 states was not comparable due to heterogenous regions and also because of measuring unit. Non comparability of data owing to wide differences in population and area across the states led to the following six indicators for ascertaining the regional imbalances.

\[\begin{align*}
I_1 & \quad \text{Branches per 10,000 of population} \\
I_2 & \quad \text{Per capita deposits} \\
I_3 & \quad \text{Deposits per branch} \\
I_4 & \quad \text{Per capita credit} \\
I_5 & \quad \text{Credit per branch} \\
I_6 & \quad \text{Credit-deposit ratio}
\end{align*}\]

Population figures for different areas i.e. rural, semi-urban and urban-metropolitan have been obtained from the
break-up of the population given in Population Census of 1971 and 1981. Population census and Reserve Bank of India have different definitions of rural areas. Hence the population of each segment is recalculated from the census and then the population of intervening period is estimated by finding the rate of growth of the decade i.e. from the year 1971 to 1981. The formula used is -

\[ r = \frac{\left(\frac{P_n}{P_0}\right)^\frac{1}{n}} - 1 \]

where 'r' is the rate of growth, 'P_n' is the population in the 'n' year and 'P_0' is the population in the base year.

The same rate of growth is applied for estimating the population for the future years also i.e. from the year 1981 onwards.

The indicators have been selected to ascertain a more realistic magnitude of the regional disparities in different areas in each state. The relative progress of banking among different states/regions has been ascertained with the help of compound Growth Rate. The Compound Growth Rate is determined by the following equation

\[ I_t = I_o \left(1 + r\right)^n \]

where \( I_t \) is the value of indicator at \( n^{th} \) time, \( I_o \) is the value of indicator in the beginning and 'n' is the number of years.
As the value of banking indicators, pertaining to a particular area cannot be compared with the other areas of a state, for example the performance with respect to rural indicators cannot be compared with that of semi-urban and urban-meteropolitan areas, the analysis has been divided into four chapters.

For measuring the overall concentration and dispersion in regional disparities, the Herfindahl Index has been used. It is computed as follows:

$$ H.I = \frac{\sum_{j=1}^{m} x^2_j}{\left(\sum_{j=1}^{m} x_j\right)^2} $$

Where $H.I.$ stands for the Herfindahl Index, $x_j$ is the value of the indicator in $j^{th}$ state. Its value varies between one and $1/m$. Unit value depicts complete concentration and $1/m$ depicts complete dispersion.

The behaviour of inequalities in banking development is sought to be explained with the help of co-efficient of variation also. The trends in co-efficient of variation are also ascertained to study the direction in regional disparities in each state in each indicator over the period of time. The co-efficient of variation is ascertained as follows:

$$ C.V = \frac{\sigma_i}{\bar{x}_i} $$

Where $C.V.$ stands for co-efficient of variation, $\sigma_i$ is the standard deviation of $i^{th}$ indicator and $\bar{x}_i$ is the mean
value of the ith indicator.

However, H.I. and C.V. fail to reveal the aggregate behaviour of all the six indicators taken together. The selected banking indicators have different units, thus in order to find out the level of banking development in a particular state, they cannot be merged together.

In order to standardize the indicators, 'Z-Sum' technique is used, having mean value zero and standard deviation unity. The Z-Scores are calculated as follows:

\[ Z = \frac{X_{ij} - \bar{X}_i}{S_i} \]

where 'i' refers to the indicator \((i = 1, 2, 3, \ldots, 6)\) and 'j' refers to the state \((j = 1, 2, \ldots, 21)\), \(\bar{X}_i\) refers to the mean value of ith indicator and \(S_i\) is the standard deviation.

Except with respect to the first indicator i.e. population served per branch a rising trend with respect to the remaining five indicators reveals a good performance of commercial banks. Therefore, in order to bring homogeneity in data, the Z-score of first indicator has been computed by taking the reciprocal value.

Ultimately all the indicators were condensed and composite indices were obtained by assigning weights to each indicator. In the present study, weights have been calculated for each indicator year-wise with the help of Principal
Component Analysis (PCA). The Composite scores are obtained as follows:

\[ Y_j = \sum Z_{ij} h_i^2 \]

Where \( Y_j \) refers to the composite weighted score of the jth states, \( Z_{ij} \) is the standardised value of the ith indicator pertaining to the jth state. \( h_i^2 \) is the weight assigned to the 'ith' indicator with the help of PCA as all the indicators are not equally important. Thus the weights for different indicators for different years have been calculated with the help of Principle Component Analysis.

In Principle Component Analysis, correlation matrix is the basic matrix for extracting the principle components. In the present study, two principal components were worked out that explained an 'adequate variance' of the total variance. In most of the empirical works factor loadings of the first principal component were used as weights. In the present study value of communalities (\( \kappa^2 \)) are used as weights. Because using of first principal component ignores a portion of variance which it (data) seeks to explain. Thus it becomes necessary to use more than one components as weights. Secondly, if the Z-scores of a state is negative and at the same time value of a factor loading is negative, its weighted score will be positive whereas it should be negative. Thirdly, a variable having stronger inter-relations with other variables in a group.
should have a higher weight. Thus, communalities ($h^2$) which remove all the above drawbacks are used as weights.

Finally, the states have been grouped in four categories, viz. highly-banked, moderately-banked, low-banked and very low-banked. The highly-banked states are those whose composite weighted scores lie in the 25 per cent extreme right side of the normal distribution curve. The very low-banked states are those whose composite weighted scores lie in the 25 per cent extreme left side area of the normal distribution curve. The states where composite weighted scores are between $\bar{X}$ and $\bar{X} + KS$ have been placed in the moderately-banked category. While the states whose composite weighted scores are between $\bar{X}$ and $\bar{X} - KS$ are grouped in the low-banked category.

Where $\bar{X}$ is the mean value of the composite weighted score of all the indicators in a particular year and 'S' is the standard deviation of the composite weighted score. 'K' is the value which divides the area under normal distribution curve into 25 per cent and its value is taken from the Normal Distribution tables.
3.4 Format of Reporting

The format of reporting adopted for the study comprises of four sections. The first section is largely related with what is called the problem formulation stage of a research study. First chapter deals with regional disparities and role of commercial banks in economic development. The library research conducted is reported in the second chapter on review of literature. The third chapter starts with the explanatory phase of the study which carries on from the need, scope, objectives, limitations and method of investigation used in the study.

The second section comprises of four chapters, in which the extent of banking disparities with respect to particular indicator of banking development and over all index of commercial banking development have been discussed in rural, semi-urban, urban-Meteropolitan areas and at the all India level.

The last section of the study summarises the findings and conclusions of the present research and traces their policy implications while trying to develop the banking in India in desired directions.
REFERENCES


