CHAPTER 2

REVIEW

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2.1 Introduction:

In order to understand the gaps in the existing studies it is pertinent to review the available literature related to the present study. Though there have been many studies related to regional disparities in overall development of an economy, the studies related to regional banking development in India have been very few, considering the drastic changes in this area of our economy especially after the financial sector reforms in our country.

The existing literature has some interesting portrayals of the trends in inter-regional inequalities across Indian states during the planning era. Almost all research scholars have documented the existence of inter-state inequalities in India at some point of time or the other during their analysis which by itself is not of much policy significance as the findings of some recent studies which state that inter state disparities continue to persist even after five decades of concerted state-led command planning.

This study would be of great significance to the policy framers, Government authorities and bankers to enable them to frame favourable regional policies and bring reforms in the economy so as to ensure a balanced regional banking and financial infrastructure development.

There are some research studies published in the form of articles, reports in various journals and magazines and also books written by various authors devoted to Financial Sector reforms and disparities in regional development in India. The literature related to the present study is reviewed briefly under different heads for identifying the gaps in these studies. These heads are as under:

- Studies of regional disparities in banking development based on various indicators
- Studies of regional disparities in banking development based on different States in India.
- Studies of regional disparities in banking development during the Pre-WTO and Post-WTO period.
2.2 Studies of regional disparities in banking development based on various indicators:

Under this head, studies done by different eminent persons are reviewed on the basis of different banking development parameters having different implications.

2.2.1 Studies of regional disparities in banking development based on Investment-Deposit (ID) ratio and Credit-Deposit ratio (CD Ratio):

H.S. Dua in this book has studied the regional distribution of Credit-Deposit ratio of commercial banks for a cluster of ten years for 1969 (starting from the year when nationalization took place), 1979 and 1989. He stated that a very vital aspect of social banking is balanced distribution of bank credit between different states, which can be achieved by advising banks to maintain a credit-deposit ratio of at least 60 percent in rural and semi-urban branches and observed that the credit-deposit ratio was very high for Tamil Nadu at 133 percent but for Tripura it was very low at 6 percent in the year 1969, whereas in 1979 the ratio for Chandigarh was 193 percent and for Nagaland it was 25 percent as against the national target of 60 percent. In 1989, Tamil Nadu had the highest ratio at 98 percent but for Goa, Daman & Diu it was 33 percent against the target; as a result, though the target ratio has not been achieved but the dispersion in the ratio among the various States and Union Territories in 1979 and in 1989 was definitely low as compared to 1969 as the co-efficient of range fell from 0.914 in 1969 to 0.771 in 1979 and 0.496 in 1989, similarly the co-efficient of variation dipped from 57.18 percent in 1969 to 52.94 percent in 1979 and 31.04 in 1989. He concluded that in order to remove the disparities in banking development, there is a need to identify blocks having poor banking presence with certain policy measures to be taken for those areas to be developed by the regulatory authorities.
K. Deb in this study has concluded that the state-wise distribution of commercial banks’ investment was very iniquitous in March 1971, Maharashtra alone accounted for 20 percent of the total, followed by Tamil Nadu at 13 percent and Gujarat, Andhra Pradesh and Karnataka together accounted for another 30 percent, distributed almost equally as a result, the share of these five States together was as much as 63 percent, and the balance of 37 percent had to be shared by more than two dozen States/Union Territories. He observed that the improvement in the distribution over the years was also not very noteworthy as in 1979, the share of these same States declined to 45.6 percent and in 1985 to 38.3 percent. The proportion of population of these States on the basis of 1981 census was 34.6 percent and for the most heavily populated State of Uttar Pradesh, the proportion increased from 8.1 percent in 1971 to 10.7 percent in 1979 and 12.9 percent in 1985. He further observed that in some States such as Manipur, the growth investment was very small and it remained almost static at 0.3 percent during the decade from 1975 to 1985 and in Assam, it increased from 2.0 percent in 1979 to 2.4 percent in 1985, resulting in concentration of investments of banks in a few States with limited growth in other states.

Bhagwati P. D. Agrawal in this book has conducted a study of inter-State and disparity of regional banking development by Credit-Deposit ratio. As far as the inter-State disparities are concerned, Tamil Nadu had a credit-deposit ratio of 114 percent in 1967 and 114.7 percent in 1973 which indicates that it was getting more credit than it was contributing as deposits and it also suggests that there was an inflow of funds from other States. In 1979, the ratio came down to 94.2 percent; during the same period in Maharashtra and Tamil Nadu the ratio was higher than the all-India average. The ratio in Maharashtra came down to 72.2 percent from 91.2 percent in 1973 from 1967 and in Kerala it rose from 60 to 70.5 percent in 1973 but again came down to 61.9 percent in 1979. So far as the underdeveloped States are concerned, Bihar’s ratio increased from 28.0 to 43.1 percent showing that considerable less attention has been paid to Bihar. He further said that strangely enough, Madhya Pradesh’s share came down from 60.0 percent to 53.7 percent from 1967 to 1973 as a consequence, it can be interpreted that the richer States got more accommodation than the underdeveloped ones.
Benson Kunjukunju in this book has given his opinion that there has been a tremendous growth in commercial banking development especially after 1969 as a result of nationalization and after 1999-2000, as a result of reorganization and amalgamation of weaker banks with strong banks. The Credit-Deposit ratio of scheduled commercial banks was 77.5 percent in July 1969 declined gradually to 51.7 percent in 1999 and obviously the target of 60 percent ratio was not achieved in most of the years, but at the end of March 2006, the ratio improved and stood at an all-time high level of 70.1 percent. The compound growth rate of deposits was 18.6 percent and the deposits recorded a 466-fold increase from 1969 to 2006, whereas the compound growth rate of outstanding credit was registered at 18.3 percent per annum in March 2006. It was found that the compound growth rate on deposits and advances of commercial banks for a period of 37 years was almost the same percentage at 18.6 percent and 18.3 percent respectively.

2.2.2 Studies of regional disparities in banking development based on bank branches and population per branch:

A.P. Thirlwall in this book, has stated that banks need to be numerous and dispersed if they are to act as catalysts for small savings. One of the purposes of extensive bank nationalization in India in 1969 was to expand branch banking and to foster the role of banks in promoting development in the previously neglected regions and sectors of the economy particularly with regard to small businesses in rural areas. It was seen that between the year 1969 and 1972, over 3,000 new branch bank offices were set up throughout India by the 14 newly nationalized banks. It is said that the opening of four branch banks in villages near New Delhi attracted 2 million rupees in one day. The ease of branch banking is that it can tap small savings. It is further stated that if savings institutions are pushed under people’s noses where they are easily accessible than they will save more than would be possible if the nearest saving institution is some distance away.

Narendra Prasad in this book has described banks as a multipurpose tool for development and a repository of people’s savings, which are essential for economic development as such development is based on the process of investments. Banks encourage investment, help in capital formation and an instrument of economic change which in turn enhances social welfare. Banks in general and commercial
banks in particular have been a pace-setter in providing credit for economic
development. He further states that the basic norm of opening branches per
30,000 (thirty thousand) of population has been reduced to 18,000 (eighteen thousand)
only as a result of the stipulated expansion programme of commercial banks including
State Bank of India has suffered, however, as compared to the pre-nationalization
period of banking, expansion has been affected at a tremendous rate whereby the focal
point is rural and semi-urban areas of our country.

Dr. Farhat Husain in this book has discussed the changing role of commercial
banks with reference to some factors like deposits, end-use of credit, agriculture, retail
banking, one of them being, the correction of regional imbalances. He has stated that
one of the tasks before the public sector banks is to wipe off regional disparities in
banking facilities, as a result of which the rate of opening bank branches in poorly
banked areas is much higher. The area approach in the form of Lead Bank Scheme
adopted by commercial banks is another method to correct regional disparities. He
further states that regional imbalances in the field of banking facilities were as much
noticeable as other disparities in national life, as banks were urban oriented and the
rural areas were poorly served. Similarly some States were having very less banking
facilities, important ones being Assam, Bihar, Jammu and Kashmir, Madhya Pradesh,
Manipur, Meghalaya, Nagaland, Orissa, Tripura and Uttar Pradesh. The increasing
realization of the banking system to fall in line with the socio-economic objectives
necessitated the expansion of the network of branches to the under banked areas of the
country to correct the mistake and ensure a balanced regional development. He has
further observed that after bank nationalization as much as 15,818 branches were
opened in the rural areas, rising from 1,832 in June 1981 and in June 1969 only 22.4%
of bank branches were serving the rural area that had gone up to 49.4%. He also
concluded further that the “area approach” is another method adopted by the
commercial banks to correct the regional imbalances in development whereby the
Lead Bank Scheme is the main instrument of this aspect of banking policy.

R.N. Malhotra, former Governor, Reserve Bank of India, has studied the
effectiveness of the Service Area Approach and found that the allocation of service
area of each branch progressed fairly satisfactorily in all States, though in some
pockets village profiles and credit plans could not be completed. A total of about
6,18,000 villages have been allocated amongst around 42,100 branches and in about
14 percent of the cases, the per branch distribution of villages was rather large, particularly in the north-eastern States where there was an inadequate branch network. Such centers for opening new branches have been identified and over 1,400 additional licenses have been issued so far over and above the number allocated under the seventh five-year plan.

D.K.Kurukshetra in his book has highlighted the development of branch banking during the post-nationalization period especially during the year 1969, 1975 and 1986, and has observed that the due to the nationalization process, apart from the multi-fold increase in bank-branches in most of the gib and economically better States, banks have touched even the remote and neglected areas in most of the backward States and Union Territories. Consequently, Sikkim, Arunachal Pradesh, Dadara and Nagar Haveli, Lakshadweep and Mizoram, which did not even have a single branch till June 1969, had 19, 59, 6, 5 and 50 branches respectively in December 1986. The number of bank Branches have gone up from 567 to 4134 in Andhra Pradesh, from 74 to 978 in Assam, from 273 to 4239 in Bihar, from 171 to 1111 in Haryana, from 42 to 558 in Himachal Pradesh, from 35 to 727 in Jammu and Kashmir, from 343 to 3852 in Madhya Pradesh, from 2 to 63 in Manipur, from 2 to 66 in Nagaland, from 738 to 7352 in Uttar Pradesh and from 1 to 14 in Andaman and Nicobar Islands during the year 1969 to 1986. As a result of this tremendous bank-branch expansion, the population bank branch ratio has come down from 65,000 people per bank-branch in June 1969 to 32,000 people in June 1975 to 20,000 people in June 1980 and 13,000 people in December 1986. He concluded that bank branch expansion can work as an important tool to minimize economic imbalances and regional disparities and in this regard quality should be given priority over quantity.

Dr. Badhuzzama Siddiqui has pointed out that the Reserve Bank of India has made an attempt at gearing up the Branch Licensing Policy to ensure provision of adequate banking facilities in unbanked areas. Creation of banking infrastructure in remote rural areas is an essential pre-requisite for achieving socio-economic objectives set before the banking industry. He further stated that a systematic branch expansion policy was evolved in June 1962 by classifying banks as – a) All India banks, b) Large regional banks, and c) Small regional banks. A radical change was witnessed in the branch expansion programme in post nationalization era, commercial banks as a class, began to enter into the rural sector in a big way. The Branch
Licensing policy of the Reserve Bank of India was, therefore revamped and commercial banks were given license on a liberal scale to open branches in the remote rural hinterland, hilly tracts, tribal areas and other remote areas in the ratio given which was as follows: i) for banks having 60 percent offices in rural and semi-urban areas; one office at an urban centre and one office at a metropolitan/port town centre for every two offices opened in rural/semi-urban centre, ii) for other banks; one office at an urban centre and one office at a metropolitan/port town centre for every three offices opened in rural/semi-urban areas. He said that the branch licensing policy from 1979 to 1982 envisages wider coverage of bank offices in rural and semi-urban centers in deficit districts in which the population served per bank office was more than 40,000 people and added that the branch expansion in urban, metropolitan or port town centers would be highly restrictive and selective. One of the major achievements of nationalization has been a rapid growth of branch network leading to a distinct improvement in population coverage which showed a downward trend of population coverage of less than 16,000 in March 2006 from 65,000 people in July 1969.

Manubhai Shah \( ^{11} \) in this book states that the banking facilities which were primarily confined to urban areas were also introduced in semi-urban areas which was still inadequate for a vast country like India having over more than five lakh villages, as a result of which there are yet a large number of unbanked centers. The Reserve Bank of India estimated that in April 1969, at the time of nationalization of banks, there were 617 unbanked towns of which 136 were towns with a population of over 10,000 each. Evidently, the process of nationalization had to be further accelerated by bringing banking facilities within the reach of people.

S. Narayanan \( ^{12} \) in this research paper concludes that the phenomenal growth of the banking system in India during the past ten or fifteen years has few parallels elsewhere in the world. Commercial banks confined to the urban industrial centers for more than half a century plunged into the unbanked rural areas with plans and programmes to open more and more offices. However an Inter-district analysis of the number of bank branches reveals that the glaring disparities instead of getting eliminated are showing signs of perpetuation. The State Bank group's performance in extending its services to the undeveloped districts has been comparatively poor; in contrast, the group has further strengthened its position in the developed areas over
the years. Similarly the private sector scheduled banks have also contributed their mite in spite of the anxiety to confine to the lucrative business centers in developed districts. The area, population and literacy per bank office in case of districts in the backward regions were very high compared to the developed areas. For instance, during 1975 every 15,261 people in the developed districts had a bank office whereas 61,778 people could have only one bank in the relatively backward areas, which clearly shows the disparities in the provision of banking facilities in the country. He states that the banking set-up as a whole, owes a responsibility to correct this trend in the branch banking so that the fruits of economic development can be extended to the less privileged sections of the society.

Rakesh Mohan in this article has analyzed the history of financial sector reforms in India in terms of a number of segments such as banking, debt markets, forex markets and others like non-banking financial companies. The performance of the different segments of the Indian financial sector has been analyzed on the basis of different indicators and he has found that in general, there has been an improvement in the efficiency, competitiveness and health of all segments of the Indian financial sector and as far as the banking sector is concerned he has concluded that the Indian banking system has acquired a wide reach in terms of expansion of branches and the growth of credit and deposits along with the expansion of branch network which was at its peak during 1970's and 1980's, the population per bank branch remaining at around 15000 in 1990's. Apart from this, the changes in the monetary policy are discussed. The reform process has ultimately led to an overall improvement in the health of financial intermediaries, deepened financial markets and enhanced the available financial instruments.

S.Mahendra Dev in this article has pointed out that the nationalization of banks in 1969 and subsequent developments led to expansion of functional reach of commercial banks, regional rural banks and co-operative credit institutions. However despite the vast expansion, a large number of groups have been excluded from the opportunities and services provided by the financial sector such as small and marginal farmers, women, workers from the unorganized sector including artisans, self-employed people and pensioners. He also points that the Union Finance Minister P. Chidambaram also indicated in the budget of the year 2006-2007 that out of the total number of cultivator households, only 27% receive credit from the formal
sources and 22% from informal sources. It covers the concept and extent and role of banks in financial inclusion along with demand and supply problems. It also suggests ways to extend the financial sector to reach to different parts of the economy and states that depoliticisation of the financial system is required for maintaining the viability of the financial institutions.

S.D Varde in this paper has highlighted the important implications of the new banking policy namely branch expansion. He has suggested three different types of measures to assess on a continuous basis the extent of fulfillment of the basic objectives of disparity reduction and spread of banking habits by expanding network of branches namely: i) disparities among different districts, ii) polarization between more developed and the less developed States, and iii) disparities among different places within each district. He has also explained the concepts of horizontal and vertical disparities and analyzed them. Horizontal disparities mean the differences among different districts in the country with respect to banking presence whereas vertical disparities mean the differences among different centers within a specific district with respect to banking presence. Based on the measurement of these disparities he has concluded that horizontal disparities have been leveled off reasonably well and vertical disparities analysis concludes with a list of 158 districts below the level of intolerance and as many as 250 districts not fulfilling a pragmatically acceptable pattern of banking presence in the countryside vis-à-vis those at the district headquarters. It is therefore necessary to draw up a long-term branch expansion plan covering the period of the next decade with the objective of improving the situation in terms of all these three aspects of banking presence.

2.2.3 Studies of regional disparities in banking development based on bank deposits and bank credits:

Bal Krishan in this research paper has evaluated the performance of scheduled commercial banks in reducing the regional disparities in banking services in rural areas in India during the post-nationalization period. After comparing the regional disparities in banking services in three selected years i.e. 1975, 1980 and 1985 on the basis of relevant indicators like deposit mobilization, credit deployment and credit-deposit ratio, it has been found that the mean per capita rural deposit which was Rs. 30.07 during 1975 increased to Rs. 108.87 in 1980 and Rs. 253.43
during 1985. Similarly as far as credit deployment is concerned, the per capita rural advance increased from Rs. 11.46 during 1975 to Rs. 54.03 during 1980 and Rs. 147.40 during 1985. The Credit-Deposit ratio which was 49.47 per cent during 1975 rose to 57.03 per cent during 1980 and was 72.92 per cent during 1985. All these indicators reveal a gradual decline in the regional imbalances except for the rural deposits per rural deposits per rural branch. It has been concluded that the commercial banks play an important role in decreasing the rural population served per rural branch and cropped area served by these commercial banks. Though disparities cannot be eliminated completely due to some uncontrollable factors, they can be reduced to a greater extent if commercial banks maintain their tempo in the future.

Dr. Pawan Kumar Chugh has observed out that most of the people in India are living in rural areas and almost 30 crore people are living below the poverty line. Nationalization of banks was done due to the negligence of the rural sector by big scheduled commercial banks in India. He analyzed the share of deposits and credits of public sector banks in comparison to private sector banks and according to his study, nationalized banks have maximum share of deposits and credits as well as branches in comparison to all scheduled commercial banks in India, as the deposits of nationalized banks stood at Rs. 5,75,000 as on 2nd March 2002, which constitutes 52.41 percent deposits of all scheduled commercial banks. He further analyzed the group wise deposits, credits in rural area of India as against their own group wise aggregate deposits, credits respectively, so as to know their own contribution to rural area in relation to contribution in other areas. The deposits acquired from rural area were Rs. 8425.3 crores which constituted 5.6 percent of total deposits under rural areas by private sector banks whereas the public sector banks acquired 14.3 percent rural deposits as against the total deposits made by these banks up to March 2002. The situation was very critical in the areas of credit disbursement in rural area by private sector banks as they disbursed 2.23 percent credit to rural areas as against the total credits in 2001-02, at the same time this percent was 16.87 percent in case of public sector banks.

D. Kotwal and K.P. Agrawal in this paper points out that the growth witnessed by the Indian banking industry since nationalization of 14 major commercial banks in 1969 is phenomenal. A macro-analysis of the performance under the main parameters of banking business has been done which reveals that the
industry has made substantial headway, particularly in the areas of branch extension and deposit mobilization. However it still has a long and perhaps strenuous journey to fulfill the social responsibilities entrusted by the Government and the aspirations of the masses. The banking industry is still way behind in the achievement of certain objectives spelt out as early as in 1969 i.e. i) changed approach from class to mass banking, ii) removing inter and intra-regional disparities in credit deployment and iii) extensive financing of priority and neglected sectors. It has been shown that the deposits of banks which were estimated at Rs. 50000 crores by the end of 1982(at a growth rate of 19%) was actually achieved at a level of Rs. 42000 crores approx. Similarly a downward trend was noticed in expansion of branch network and credit deposit ratios during the same period compared to its estimates. It concludes that the Indian Banks Association may perhaps play an active role in monitoring and co-ordinating the individual Bank’s activity. It may be vested not only with recommendatory but also some mandatory powers for regulating these banks.

C.N. Reddy in this book has analyzed some banking parameters on a year to year basis and found out that the total credit extended by the scheduled commercial banks has risen by Rs. 3,81,333 crores (23.3 percent) up to October 12, 2007 as compared with an increase of Rs. 3,66,463 crores (28.8 percent) a year ago. Similarly the investments in shares, bonds, debentures and commercial paper of banks declined by Rs. 5,514 crores(6.7 percent) up to October 12, 2007 as compared with a decline of Rs. 895 crores (1.1 percent) a year ago. On an annual basis, the growth in aggregate deposits at Rs. 5,69,061 crores (at 24.9 percent) was higher than that of Rs. 3,88,528 crores(at 20.4 percent) a year ago. He observed that considerable growth has been witnessed in the financial system of India for the past few years with a chain of more than 65,000 branches, making the Indian banking system one of the largest network in the world and that the gap between the deposit growth and credit growth has resulted in some tightness in liquidity in banking sector but the banks have managed this situation by selling off investments and bulk deposits.
2.3 Studies of regional disparities in banking development based on different States of India:

A.S Chawla in this book has studied the inter-State disparities in banking development for the two years 1972 and 1983 with the help of deposits and credits and observed that so far as the inter-State position is concerned, the State of Punjab occupied the first rank among various other States in India; the other high ranking States included Gujarat, Maharashtra, Karnataka and Tamil Nadu in the year 1972. Punjab was the only State amongst Northern, North-Eastern, Eastern and Central regions to be among the high ranked States in banking development and the low ranked States were Tripura, Orissa, Bihar, Assam, Uttar Pradesh and Madhya Pradesh. However, in 1983, a major breakthrough was observed in case of Himachal Pradesh and Jammu & Kashmir which emerged to be occupying the first and third ranks respectively and for the other States, the rank continued to be of the same ranking pattern except Punjab and the low ranking states were Assam, Bihar, Uttar Pradesh, West Bengal and Orissa.

Dr. D.M. Mithani in this book has analyzed the State-wise disparities and development of banking and put to our notice that only a few advanced States were fairly served while the majority of them has poor banking facilities, as can be seen in June 1969, the all-India average population–bank office ratio was 65,000 but most of the States were having a much higher ratio than the national average, for instance; Andhra Pradesh - 75,000; Assam- 1,98,000; Bihar- 2,07,000; Jammu & Kashmir - 1,14,000; Madhya Pradesh- 1,16,000; Manipur - 4,97,000; Nagaland- 2,05,000; Orissa - 2,12,000 and Uttar Pradesh - 1,19,000, showing a deficiency of banking facilities in these States in 1969. On the other hand, only a few States were in a better position as for instance – Gujarat was 34,000; Haryana – 57,000; Karnataka – 38,000; Maharashtra – 44,0000; Punjab – 42,000 and Tamil Nadu – 37,000. In June 1994, the India population-bank office ratio came down to 14,000, for Andhra Pradesh it dropped to 14,000 which matches with the national average and for other States the ratio dropped as follows: Assam- 18,000; Bihar– 18,000; Jammu & Kashmir– 10,000; Madhya Pradesh– 12,000; Orissa– 13,000; Uttar Pradesh– 13,000 and in States like Gujarat it declined to 12,000; Maharashtra– 14,000; Haryana– 13,000 and Punjab– 9,000. The range of disparities between the rich and poor States has narrowed down due to adoption of the Service Area Approach and the Lead Bank
Scheme by the banks during this period. He further studied the credit deposit ratio trends of scheduled commercial banks was 77.4 percent in 1969 which fell down to 70.70 percent in 1984 which further declined to 60.70 percent by 1999 and to 55.6 percent and the recent trends in the post WTO period indicate more decline in the ratio to 50.30 percent in March 1998 and then to 47.90 percent in March 1999. He concluded that the credit-deposit ratio does not serve as a reliable indicator of credit deployment as the quality of credit rather than the credit deployment per se, is of prime concern for banks.

C.H. Hanumantha Rao  in this article is of the view that regional disparities are a global phenomenon now and regional disparities exist even among various developed countries. We have regional disparities within India among its different states. There are a number of developed States which have pockets of backwardness or where there is a low level of regional development. He has illustrated this by giving an example of the State of Bihar where almost the whole region is less developed or is economically backward. Even a developed State has some less developed pockets. He further states that the backwardness or the low level of development is not so much due to lack of resources, it is essentially due to inefficient allocation of resources in different areas of the State. He concludes that the whole State of Bihar, particularly the eastern zone has inherited a very poor resource base in terms of infrastructure. There are also various suggestions provided to remove these disparities, some of the important suggestions being the mobilization of resources from private accounts and investments, a need for a greater Government support, improving administrative efficiency, provision of more educational facilities etc.

A.C. Minocha in this article  is of the opinion that planning in India continues to be aggressive and sectoral, devoid of spatial dimensions, ignoring the socio-economic and geographical dimensions of different parts of the country, to achieve proper inter-regional and spatial integration. It is not comprehensive as it does not cover all the activities and all sectors. Over the five-year plans, inter-regional disparities have widened. Maharashtra, West Bengal, Gujarat and Tamil Nadu together accounted for 57.37 percent of value-added by manufacture in 1975-76 in India. From the point of index of social development, Kerala appears to be a socially developed State, followed by Maharashtra and Punjab which have higher per capita incomes, the next to follow are West Bengal and Gujarat which also have moderately
higher per capita incomes. Tamil Nadu and Karnataka then follows Haryana with a very high per capita income. The lower rungs of the ladder are represented by Orissa, Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh. It has been found that the policy of larger allocations and fiscal and financial incentives have hardly paid any dividends. In an effort to reduce regional disparities we are increasing inter-personal disparities because the benefits of the schemes for the backward areas are being cornered by the relatively richer sections of the community.

2.4 Studies of regional disparities in banking development Pre- WTO and Post- WTO:

The study under this head covers two periods namely Pre-WTO and Post-WTO. i.e. before the year 1996 and after the year 1996, so as to find the changes in banking development as a result of the establishment of WTO (World-Trade Organization)

G.P. Kapoor$^{24}$ in this book has reported that the Social Control Act of 1968 brought the banking industry under the purview of social lending and the nationalization of banks marked a phase of Government control and domination which brought approximately 85 percent of all the banks’ deposits, advances and investments under the control of the Government and 14 banks which were brought under social control had 4135 branches, with a total paid up capital of Rs. 285 crores, their deposits and credits stood at Rs. 2714.80 crores and RS. 1683.66 crores respectively. He further analyzed the number of bank offices which registered a higher rate of increase of 332.18 percent in the post-nationalization period from 1969 to 1981 as compared to 176.59 percent in the pre-nationalization period from 1947 to 1969, however on account of the coming up of a large number of branches in unbanked areas and a fall in population served per branch, branch expansion registered a very nominal rate of increase of 60.54 percent during 1986 to 1999-2000. As a result, most of the new branches which came up after nationalization were in rural areas. During the same period, the deposits and credits of public sector banks which stood at 93.67 percent and 92.38 percent in 1982 fell to 81.90 percent and 79.40 percent respectively in 1999-2000 due to the changes in the entry norms for private and foreign banks in India. He also observed that the investments of commercial banks earned very little rate of interest as they were called upon to divert
63.5 percent of their total deposit resources in meeting statutory obligations and thus left with only 36.5 percent for investing in other competing and profitable sector.

D.Ajit and R.D. Bandgar in this research paper have discussed the role of banks in financial intermediation and stated that the banking system in India is dominated by public sector banks as in 1970, after nationalization, nearly 85 percent of bank deposits and credits of scheduled commercial banks were accounted for by public sector banks and this proportion has increased in 1980 to 90 percent and in terms of branches, the public sector banks accounted for nearly 80 percent in 1969 which declined to 70 percent by June 1996. Nearly, one-fourth of total bank branches were in rural areas which increased to 44 percent by June 1996 and foreign banks having no virtual presence in rural areas and the public sector banks having a wide-spread network of 44,145 branches and as a result, the public sector banks dominated not only the deposits and credit markets but also allowed them to play an important role in money and capital markets. He further added that the norms regarding credit delivery existed till 1996. At the time of nationalization, the rural branches constituted only 3 percent of deposits and 1.5 percent of bank credits of scheduled commercial banks and by June 1996, the share of rural branches in deposits and credits increased to 15.4 percent and 12.4 percent respectively. On the assets side of balance sheet of banks, nearly 35 percent was accounted by investments in Government Securities in March 1996 but on the eve of nationalization, this figure was only 24 percent. He concluded by stating that the post-nationalization period saw the emergence of policies based on development potential rather than security.

Eresi and Md. Alfaz Hossain in this book has observed that the aggregate deposits of commercial banks increased from Rs. 884 crores in 1950-51 to Rs. 5,025 crores in 1969-70 and further to Rs. 6,05,410 crores in March 1998. Deposits as a percentage of national income has risen from 9.3 percent in 1950 to 15.5 percent in 1969 and further to 22.4 percent in 1975 and to 47.9 percent in March 1998. He has also studied the average annual increase in aggregate bank deposits, bank credits and investments in Government securities during 1950 to 1998 which was of the order of 15 percent, 14.8 percent and 16 percent respectively. The credit-deposit ratio during 1950-1998 averaged to 67.7 percent. Following bank nationalization, the ratio declined progressively from the peak level of 77.8 percent in 1960's to 72.4, 64.8 and 55.7 percent over the subsequent decades till 1998. During 1952-98 the investments in
Government securities indicated by the investment-deposit Ratio averaged to 27.7 percent, which after peaking at 35 percent during 1952-60, it declined steadily to 27.5 percent in 1960-70 and at 24 percent in 1970-80 and it went up to 29.6 percent in 1990-98. The number of bank offices were 8,262 in 1969, increased to 60,220 in 1991 and further to 63,550 on 1997 and 64,218 in 1998. The per capita bank deposits increased drastically from Rs. 88 in 1969 to Rs. 2,368 in 1991, further from Rs. 5,323 in 1997 and to Rs. 6,279 in 1998. The per capita credits also increased from Rs. 68 in 1969 to Rs. 1,434 in 1991 and further from Rs. 2,931 in 1997 to Rs. 3,356 in 1998. It was concluded by stating that after nationalization, almost all the banking activities have expanded tremendously towards a positive direction and in 1990’s and thereafter, with the initiation of financial sector reforms, the emphasis shifted to efficiency and viability of banking system.

2.5 Studies of regional disparities in banking development based on less than three variables and more than three variables:

2.5.1 Studies based on less than three variables:

S.K. Dutta in this article points out that the weaker sections of the community, be they agriculturalists, small scale industrialists, retailers, road or water transport operators or professionals, receive special attention from the commercial banks. In fact, the total advances of all scheduled commercial banks to priority sectors (comprising direct and indirect finance to agriculture, small scale industries and small business including education) increased from Rs. 505 crores in June 1969 to Rs. 1560 crores in September 1973. In September 1973, as much as 24.8 percent of the total advances of all scheduled commercial banks represented credit to priority sectors. He further states that imbalance in the development of various regions is another social evil. It seems to persist despite all efforts. The fourth and fifth Five-Year Plans have laid considerable emphasis on balanced regional development. One criterion of the effective role played by commercial banks in backward areas would be the measure of its credit-deposit ratio, which should be able to indicate how much of the deposits mopped up in the area are being invested in that area itself. It has been observed that the credit-deposit ratios in backward states have not been moving up at the same rate as one would perhaps hope for and it is concluded that the commercial banks have been canalizing funds from the backward regions to the developed regions.
June 1969 and June 1974, the number of offices of all commercial banks in India rose from 8262 to 16,936, thus reducing the ratio of population to bank offices from 65,000 to 32,000. These new offices are mopping up deposits but the dispensation of credit to the various areas has not apparently kept pace therewith, even after allowing for the statutory liquidity requirements. Rural areas had been left completely outside the sphere.

Dr. Smt B.H. Elavia has analysed the growth trends in bank deposits and observed that the main factor responsible for the unprecedented growth in bank deposits was the State ownership of banks which instilled confidence in the public about the safety of their deposits especially between the years 1969 to 1988. An attempt has been made to examine the growth in bank deposits and relate it with the growth in bank branches during the post nationalization period and it was found that during the period from 1969 to 1990, the number of bank offices increased by more than 4 times and in spite of this, the deposits per bank office increased from around Rs.60 lakhs to Rs.230 lakhs, registering a rise of less than 4 times. However, while studying the annual compound growth rates of deposits, it showed a stable rate below 2 percent all through the eighties, which is a disturbing development which requires explaining and giving attention.

G.Rama Krishna & K.Venu Gopal Rao in their book have discussed that in the first decade of nationalization, the accent was on branch expansion. Bank branches till then a privilege of metropolitan and urban areas, spread quickly to every semi-urban and rural areas across the country and the average population served by a bank branch fell dramatically in the first decade from about 63,000 in 1969 to about 20,000 in 1980; in the next decade, the accent shifted to resource mobilization and deposit hunting became a paramount task and the performance of the branch manager in this regard decided the fate of the branch manager; the third decade was a period of reforms whereby new prudential norms were adopted; the fourth decade had witnessed the banks embarking on a massive expansion of credit in an effort to push the economy in to a higher growth trajectory and as a result the per capita bank credit in the country which was just Rs. 69 on the eve of nationalization has risen to Rs. 4,000 in March 2000 and it stood at over Rs. 7,000 in 2003.
2.5.2 Studies based on more than three variables:

Dr. C. Rangrajan, Former Dy. Governor, Reserve Bank of India has stated in his study that, by and large the major objectives of nationalization has been achieved and also there has been a structural transformation of a far reaching impact in credit deployment; as can be seen that between June 1969 and September 1988 the total number of commercial bank offices rose from 8,262 to 55,797 with the number of rural branches rising from 1833 to 31429 and the average population served by bank offices declining from 65,000 to 12,000. Similarly, the number of bank deposits rose from more than 17 times from 16 million in March 1060 to 280 million in December 1986 and the total bank credit recorded a jump from 3,599 crores to 80,000 crores from June 1969 to December 1988 and concluded by saying that the banking industry has truly played the role of “Commanding Heights” in the Indian economy.

Sooden in this article, has studied the extent of regional disparities in commercial banking development from 1975 and 1986 to 1996 on the basis of six indicators of banking development with the help of Principal Component Analysis, the indices of banking development for 21 states of India was made. An analysis of the deposits, credits and branches showed that they registered a higher growth rate in the first half of the study from 1975-85 than the latter half from 1986-1996 and hence the objective of regional development was also achieved in a more desirable manner in the former period compared to the latter.

M.L. Chippa in this article has analyzed the rural banking development on the basis of seven banking indicators with the help of ranking technique and by classifying all States in India in four groups based on their levels of development, which is done with the help of Modified Factor Analysis and by constructing composite indices of rural banking development from the year 1972-79 and it was concluded that the commercial banking system has been successful in removing regional disparities in rural banking development and levels of branch expansion.

R. Kannan studied the inter-State disparities in the banking development in India from 1969-84 with the help of composite index of banking development based on three indicators of population per branch, per capita deposits and per capita credits with the help of Factor Analysis technique. The study indicated a substantial reduction in inter-State and regional disparities in overall growth of banking, however
the concentration was found to be higher in case of credit deployment than in deposit mobilization.

R.V. Dadibhavi provided an insight into the trends in disparities in financial infrastructure development in India from 1971-72 to 1986-87 by constructing a composite index of financial infrastructure by Principal Component Analysis (PCA) on the basis of different indicators of banking development based on branch expansion, deposits mobilized and credit deployment. It was found that regional disparities in the expansion of financial infrastructure narrowed down at a lower rate during the eighties as compared to the early post-nationalization period. He has grouped the selected seventeen States of India into four different levels of financial infrastructure development on the basis of their composite index and has found Maharashtra and Orissa to be the highest and the lowest developed States respectively at the beginning of the study; whereas at the end of the study, Kerala and Assam emerged as the highest and the lowest developed States respectively. He has further stated that the regional disparities in financial infrastructure development have narrowed over the last sixteen years; however considerable variations still exist.

Apart from the above studies directly related to the subject of this research, there were other studies generally conducted with respect to banking development and banking sector reforms in India. These were carried out by Narayanan, Raman Mehta, Dr. C.T. Kurien, Y.V. Reddy, C.P. Chandrasekhar and Parthapratim Pal, Atul Kohli, A.S. Ramasastri, Achamma Samuel and S. Gangadaran, D.M. Nachane, D.T. Lakdawala, Yoginder K. Alagh and Atul Sharma, Dietmar Rothermund and Suranjit Saha, Pradhan H. Prasad, Prof. Chitta Ranjan Pathak, Sudipto Mundle, S.K. Mandal, Pawan K. Aggarwal and H.K. Sondhi, Kumar B. Das, K. V. Sundaram, Buddhadeb Ghosh and Prabir De, V.C. Sinha, C.S. Chandrashekhara, K. Rama Krishna Sarma, N.B. Shete and G.L. Karkal, R.P. Mishra, Naseem A. Zaidi, Dr. Farhat Husain, A.P. Thirlwall, B. Venkatappiah and B. P. Sharma. These studies generally relate to banking development in India during the pre-nationalisation and post-nationalisation era, banking and financial sector reforms in India and regional studies on banking development.
2.6 Research Gap:

After the literature survey pertaining to regional banking development, it was found that:

1. A.P.Thirlwall and Narendra Prasad, Dr. Farhat Hussain, R.N. Malhotra, D.K. Kulshrestha, Rakesh Mohan, S.D. Varde all have studied the dimension of bank branches. The study done by A.P. Thirlwall is for the period 1969-72 and the one done by Narendra Prasad is covering pre-nationalization and post-nationalization period giving an aggregate picture, whereas Dr. Farhat Hussain’s book covers a study from 1969-81 done state-wise as well as on urban-rural basis, whereas the R.N. Malhotra has studied for only one year from 1989-90 only in north-eastern States of India. The study done by Kulshrestha is for a period between 1969-86 which is State-wise as well as urban-rural and the study done by Rakesh Mohan is between 1970-80 on aggregate India basis, S.D Varde has studied branch network from 1969-75 done Bank-wise, S.K. Datta has conducted a study for branches from 1969-74 on aggregate basis.

2. Major part of the review of literature indicates studies done on the three major indicators of deposits, credits, and branches together rather than taking branches of deposits alone. One of these studies includes the one done by H.S. Dua for three years 1969, 1979 and 1989 having a gap of ten years which apart from the above three variables also covers CD ratio and population per bank branch which is done with special reference to the district of Patiala and also state-wise. K. Deb has done a study of the years 1961, 1970, 1977 and 1983 for the three indicators state-wise, Bhagwati P.D. Agrawal and Balkrishan have both studied the three variables and CD ratio from 1967-79 and for a gap of five years in 1970, 1975 and 1980 on Urban rural as well as on aggregate basis and State-wise /region wise respectively. Dr. Pawan Kumar Chugh has done an analysis for the period between 1995-2001 on urban-rural basis, A.D. Kotwal and K.P Agrawal have covered the years between 1969-77 on aggregate basis. D.M. Mithani have again studied the three variables with CD ratio for a comprehensive period from 1969-1995, State-wise as well as on an urban-rural basis. C.H. Hanumantha Rao have studied from 1969-1975 concentrating only on the State of Bihar. A.C. Minocha has studied only deposits and credits from 1975-76, State-wise. Dr. C. Rangrajan and Sooden Minaxi have
studied on an aggregate basis the three variables from 1969 to 1988 and 1975, 1986 and 1996 respectively with the latter study based on index of the variables. The study conducted by R. Kannan is based on seventeen States of India for 1969, 1975 and 1984.

3. Some of the studies are based on banking indicators like investments, or based on only two or more variables like the one done by Benson Kunjukunju covering only population per bank branch and CD ratio from but covering an extensive time period from 1969 to 2006 on urban-rural basis, Manubhai Shah has studied only branches and deposits on aggregate for 1951, 1967 and 1969. C.N Reddy has done a study of only one year randomly from 12th October 2006 to 12th October 2007 covering investments, deposits and credits on an aggregate basis. D.Ajit and R.D. Bandgar has again done an extensive study from 1969 to 1996 only on branches and credits on aggregate. K.Eresi and Md. Alfas Hossain have analysed CD ratio and ID ratio from 1950-98 and also deposits and credits per branch on aggregate basis whereas Dr. Smt. B.H. Elavia has thrown light on deposits and branches in aggregate from 1969 to 1990, and G.Rama Krishna & K.Venu Gopal Rao, in their study, have highlighted deposits and branches bank-wise from 1995-2004.

4. In contrast, M.L. Chippa has done a State-wise analysis of only rural aspects of six indicators based on branches, deposits, advances, CD ratio, deposits and advances per branch from 1972-79. R.D. Dadibhavi in his research article has covered a study of seventeen states from 1971-1987 on urban – rural basis for a six indicators of banking development for urban as well as rural CD ratio, per capita deposits and credits, branches per thousand of population and per 1000 Sq. Km.

5. G.P Kapoor has done a different study analyzing branches, advances and deposits per branch, bank branches and CD ratio by dividing his study period into pre-reform and post-reform from 1982-91 and 1991-2000 respectively. The study of Mahendra Dev is different from the other mentioned studies as it covers only the criterion of bank credits and for a short period of only one year for 2006-07 on aggregate basis. Lastly the study done by A.S. Chawla concentrates only on the State of Punjab highlighting deposits, credits and branches for the three years of 1969, 1972 and 1983.
6. By analyzing the above studies covered in review of literature, it can be noted that most of the studies is only for a limited time period of three to five years except a few extensive studies which are from 1969 and extends till 1990 or 2006 or in one case as is done by K.Eresi and Md. Alfas Hossain covering the years from 1950 to 1998 for almost 48 years. It can also be seen that most of the studies are based on a few selected banking indicators mainly covering branches, deposits and advances. Also a very few studies are undertaken State-wise and region-wise as in most cases it is either undertaken at an all-India aggregate basis or urban-rural basis with a few exceptions.

7. Hence this study would be of great relevance in covering the research gap as it covers a period of seventeen years from 1991 to 2007 for eight selected indicators out of which many of them such as ID ratio, CD ratio are not studies much in the past. Also this study has a very wide scope as it covers almost all the States of India including the Union territories which were 32 in number. Some studies are carried only a few States of India and in some cases it is limited to only one State which covers only backward States whereas this study covers almost all the States as well as the Union territories. In addition, most of the studies have employed regression analysis or Discriminate Analysis, with a very few studies employing Principal Component Analysis(PCA) with the help of weighted indices as is done in this study, which again makes it different from other studies in this significant aspect.

8. In a nutshell, review of literature reveals that most of the studies done so far in the area of regional banking development either relates to the pre-nationalization and post-nationalization period or it is limited to only two or three basic banking parameters of branch expansion, deposit mobilization and credit deployment, but this study is an extensive one covering a study of eight banking indicators.

9. The period covered under most of the studies is also for a limited period of two to five years, whereas this study covers a period of sixteen years from 1991-92 to 2006-07. Some studies are carried only a few states of India and in some cases it is limited to only one State which is a backward State whereas this study covers almost all the states as well as the Union territories. In addition, most of the studies have employed regression analysis or Discriminate Analysis, with a very few studies employing Principal Component Analysis(PCA) with the help of weighted indices as is done in this study.
2.7 Conclusion:

Thus, this study is a modest attempt to cover the gap in the research work done in the past and is an attempt to study the regional disparities for a long span of time including the recent years. Moreover, banks being an integral part of economic development, there is a continuous research on the various aspects of banking development and as regional banking disparities studies during the liberalization periods are very few, this study will help the bankers and policy makers.
References:


