2.1 INTRODUCTION

Banking as a kind of business, is of recent origin. In India, banking developed during the nineteenth century and it got a 'big push' in the twentieth century particularly after independence. The commercial banks pool together the savings of the community and arrange for their productive use. They supply the financial needs of modern business. They provide the working capital required by trade and industry in their day-to-day transactions. They also supply the block capital required for the purchase of fixed assets. They also render a number of subsidiary services such as collection of bills and cheques, safe keeping of the valuables of their customers, etc. They provide short-term accommodation by discounting the bills of exchange. Commercial banks are a
permanent and universal feature of the financial system in every country⁹.

Indian commercial Banking system is classified into two groups i.e., a) Scheduled Banks b) Non-Scheduled Banks.

The banks which are included in the second schedule by the Reserve Bank of India are known as Scheduled Banks and the banks which are not included in the second schedule are known as Non-Scheduled Banks. The number of both scheduled and non-scheduled banks is declining mainly because of the Reserve Bank's policy of mergers and amalgamations of small banks with big banks, as a measure of strengthening the banking system. In 1950-51, the number of nonscheduled banks were 430.

⁹. Radhaswami M & Vasudevan S.V., A Text Book of Banking Ed. 1979, P 496
In 1960-61, there were as many as 256 small non-scheduled commercial banks but in 1985-86 there were only 3 such banks.\(^{10}\)

The nationalisation of top 14 banks in July, 1969 and another 6 smaller banks in 1980 gave banking a sense of direction and purpose.\(^{11}\)

2.2 RECENT TRENDS IN COMMERCIAL BANKING

Expansion of bank deposits has been an important feature in recent years. Bank deposits stood at Rs.820 crores in 1951. Table 1 shows the growth of deposits of Public Sector Banks since nationalisation, the deposits have gone up from Rs.2741.76 Crores to Rs. 56,606 crores at the end of December 1982, Rs.128389 crores at the end of March 1992. Aggregate deposits of all scheduled commercial banks grew the end of December 1987 and Rs.235922 by 14.2

---

10. Sundaram, K.P.M. & Varshney, P.N. Banking Theory, Law & Practice Ed. 1990, P 1.52
11. ibid
percent during the year 1992-93 and reached Rs. 271354 crores\textsuperscript{12}.

### TABLE I

**DEPOSITS OF COMMERCIAL BANKS**

<table>
<thead>
<tr>
<th>Year</th>
<th>Volume of deposits (Rs. in crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 1982</td>
<td>56,606</td>
</tr>
<tr>
<td>December 1983</td>
<td>67,278</td>
</tr>
<tr>
<td>December 1984</td>
<td>79,300</td>
</tr>
<tr>
<td>December 1985</td>
<td>94,302</td>
</tr>
<tr>
<td>December 1986</td>
<td>1,11,579</td>
</tr>
<tr>
<td>December 1987</td>
<td>1,28,389</td>
</tr>
<tr>
<td>March 1989</td>
<td>1,57,128</td>
</tr>
<tr>
<td>March 1990</td>
<td>1,85,827</td>
</tr>
<tr>
<td>March 1991</td>
<td>2,02,380</td>
</tr>
<tr>
<td>March 1992</td>
<td>2,35,922</td>
</tr>
</tbody>
</table>


\textsuperscript{12} State Bank of India, Annual Report 1992-93.
Just as bank deposits have expanded, bank credit too has expanded. Total bank credit amounted to Rs.580 crores in 1951. Table 2 illustrates the growth of bank credit. Bank credit increased from Rs.36503 crores to Rs.73114 crores between December 1982 and December 1987. At the end of March 1992, it rose to Rs.143648 crores. Advances of all scheduled commercial banks, at Rs.151894 crores registered and impressive growth of 15.5 percent during 1992-93 against a rise of 7.9 percent, registered during 1991.92.\(^{13}\)

The concept of banking has widened from acceptance of deposits and mere lending of funds to development oriented banking. Banks are now increasingly catering to the needs of industrial and agricultural sectors. From short-term

\(^{13}\) Ibid P.26
### TABLE 2

**CREDIT EXPANSION OF ALL COMMERCIAL BANKS**

<table>
<thead>
<tr>
<th>Year</th>
<th>Volume of Bank Credit (Rs. in Crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 1982</td>
<td>36503</td>
</tr>
<tr>
<td>December 1983</td>
<td>41840</td>
</tr>
<tr>
<td>December 1984</td>
<td>49892</td>
</tr>
<tr>
<td>December 1985</td>
<td>56263</td>
</tr>
<tr>
<td>December 1986</td>
<td>64322</td>
</tr>
<tr>
<td>December 1987</td>
<td>73114</td>
</tr>
<tr>
<td>March 1989</td>
<td>95402</td>
</tr>
<tr>
<td>March 1990</td>
<td>115412</td>
</tr>
<tr>
<td>March 1991</td>
<td>130767</td>
</tr>
<tr>
<td>March 1992</td>
<td>143648</td>
</tr>
</tbody>
</table>

financing, banks have been gradually shifting to medium and long term loans essentially for purposes of development and expansion. In 1951, trading and commercial advances constituted 64% and industrial advances only 35% of total advances granted by banks. By 1968, 68% of bank credit went to large units. At present industrial loans account for 50%, agricultural and allied activities account for 17%, commercial loans account for 16% and miscellaneous loans account for a balance of 17%.

The outstanding gross bank credit to industrial sector increased by 6.2 percent from Rs.61689 crores as on 22.3.91 to 65,488 crores as on 20.3.92. of which medium and large industries accounted for 72.3 percent and S.S.I. accounted for 27.7 percent.14. IDBI. Annual Report

The Government of India is making tremendous effort to achieve a breakthrough in

14. IDBI. Annual Report
agriculture and commercial banks have been asked to enter the field of agricultural finance. They have been prompt in taking up the challenge of financing agriculture, specially after nationalisation. Bank branches in rural areas rose from 159 in 1962 and 1860 in 1969 to 21,793 in June 1992. Rural credit expanded from Rs.540 crores in June 1969 to Rs.174880 crores in June 1992, which accounted for 12.2% share in total bank credit. Over 80 percent of the total outstandings represented direct finance to agriculture for the purchase of seeds, fertilizers, agricultural implements, construction and improvement of wells, development of land, maintenance and development of dairy, fishery, animal husbandry, poultry and piggery.

Another notable feature has been the shift of banking from the big customers to small ones. More than 60 percent of depositors of

commercial banks are savings deposits who range from the office worker to the cultivator of the field. Banks have been making conscious efforts to develop banking facilities for the common man. Savings bank rules and procedures have been simplified to attract small savers. In the field of bank advances too, small industrial and business units have come to occupy a prominent place. At one time, small entrepreneurs were reluctant to approach commercial banks. But this is not so now. The small business units are assured of bank finance on far more liberal terms than big industries. They need not worry about their tangible financial strength, for security is not the sole criterion of granting advances to them. Banks are willing to extend credit to small units which produce something worthwhile and which show their products worth.

Rapid economic development presupposes rapid expansion of banking. Between July 1969 to September 1973, 7450 bank offices were setup.
2.2 COMMERCIAL BANK CREDIT TO SSI SECTOR

Commercial banks are by far the largest single institutional supplier of funds to small industries. They play a very important role in shaping the economy in general and the business world in particular. Commercial banks have been referred to as "department stores of finance"\textsuperscript{16} a term that has been favoured by commercial bankers since it implies that they provide a wide variety of financial services and consequently they place them in a stronger competitive position among financial institutions.

Availability of adequate and timely finance is the most essential requirement for the setting up of a small scale industry. The

small entrepreneurs have limited means and cannot raise the required finance. They are financially weak and are forced to depend on money lenders and indigenous bankers for their financial requirements. Most of the small scale industries run their business with their own capital or borrowings from friends and relatives. They do not, generally, have any access to institutional sources of finance because these institutions are hesitant to entertain small scale industries merely because of their size and poor repaying capacity. They are hardly finding investible surplus because of limited return. Moreover, they are not able to provide sufficient collateral securities. So, financing these units involve greater risk. The scanty information about the units and the unscientific maintenance of accounts are other stumbling blocks in financing this sector.

For a long time commercial banks did not favour financing small scale sector. In order to induce the commercial banks to enter
this field, the Reserve Bank of India, in 1960, introduced a Credit Guarantee Scheme which offers guarantee cover to the extent of 75 percent, and in some cases even 90 percent of the amount lent to SSI units against the risk of loss. Inspite of this, commercial banks did not come forward to play a significant role in this area. In 1968, the National Credit Council categorised certain sectors as priority sectors among which the small scale industry is one. By the end of March 1979, the Reserve Bank of India has directed all the commercial banks to extend at least 33 1/3 per cent of their total credit to the priority sector. Now, the share of priority sector advances in total bank credit has been extended to 40 per cent. Thus, Indian commercial banking system has been pushed to evince interest and extend credit for the development of the small scale sector.

Commercial banks are not just the store houses of the country's wealth but are the reservoirs of resources that are necessary for
economic development. The commercial banks have also come to realise that they are not merely lenders of money but financiers of a project. The work of bankers as lenders is over as soon as the loan is sanctioned. But as financiers, they follow up the credit, ensure the utility of the credit, extend all positive assistance to implement the project and see that the loan is repaid. At first, commercial banks provide financial assistance only for working capital requirements. There is some attitudinal change on the part of the commercial banks as they now extend finance for fixed capital requirements too. It is really a welcome change on the part of the commercial banks. Thus, by extending liberal credit to small scale industries, the commercial banks can keep the wheels of the small scale industry moving faster and facilitates an increase in production, distribution and consumption and thus contribute to the economic development of the country.
The total credit extended by all scheduled commercial banks to small scale industries amounted to Rs. 859 crores at the end of December 1973, showing an increase of Rs. 669/— crores or 350 per cent over June 1968. Scheduled commercial banks' credit to small scale industries formed 12.2 per cent of their total.

2.3 SCHEMES OF ASSISTANCE

Commercial Banks are assisting the small scale industries through the following schemes of lending.

2.3.1. Differential Rate Of Interest Scheme (DRI)

Since 1972, the Differential Rate of Interest Scheme was operating for the benefit of the weaker sections of the community. The Scheme envisaged lending by banks at a concessional rate of 4 per cent per annum to selected low income groups who deserved
financial assistance. The main criteria for selection are the weak economic status of the borrowers as exemplified by those who do not have any tangible security to offer nor can produce a security or guarantee of a well-to-do party, and the productive character of the activity to be financed.

The income ceiling for eligibility under the Scheme is an annual income up to Rs. 3000/- in urban or semi-urban areas and up to Rs. 2,000/- in rural areas. The ceilings on loans for working capital and term loan to a single borrower under the scheme, irrespective of the size, are Rs. 1500/- and Rs. 5000/- respectively. Since 1980, banks can grant advances up to Rs. 6500/- by way of a composite loan to small scale industrialists, village artisans, etc., in the decentralised sector without making any distinction between working capital loan and term loan. The important categories of borrowers are landless persons and
persons with small holdings, persons who work largely on their own and do not employ paid employees on a regular basis institutions for physically handicapped persons, orphanages and women's homes.

The rate of interest to be charged by bank is fixed at a uniform rate of 4 percent i.e., 2 per cent below the bank rate prevailed in the year 1972. Despite the changes in the bank rate revised on numerous occasions thereafter, the rate of 4 per cent remains unaltered. The loans and advances under the scheme are covered under Small Loans Guarantee Scheme of the Deposit Insurance and Credit Guarantee Corporation.

2.3.2 Integrated Rural Development Programme (IRDP)

Improving the lot of the people who are engaged in agriculture and allied activities is the purpose of this scheme. According to the
loan amount, the margin money and securities are fixed. Upto Rs.10,000/- the assets created out of the loan is treated as security. From Rs.10,000/- to Rs.25,000/-, the security should be hypothecation of assets created out of the loan and third party guarantee. For the loan amount above Rs.25,000/- the security should be in the form of hypothecation of assets and mortgage of landed property. However, for tractor, power tillers, fishery boats, etc., loans are granted irrespective of the amount.

Investment loans are granted in the case of other sectors of IRDP.

i. Upto Rs.25,000/-, the security should be hypothecation of assets created out of loan.

ii. For amounts above Rs. 25,000, the security should be the assets created out of loan and mortgage of the landed property.
The bank will sanction the loan amount within 14 days from the date of application. All loans carry the interest rate of 10 per cent per annum. The repayment period for the loan is not less than 3 years depending upon the income generation and the type of activity. The repayment holiday is given depending upon the income generation capacity of the project.

2.3.3. National Equity Fund Scheme

The National Equity Fund Scheme is administered by IDBI through its Small Industries Development Fund (SIDF). The main objective of the Scheme is to provide equity type of support to deserving small entrepreneurs to establish new projects in tiny or small scale sectors to rehabilitate viable sick units. The assistance under the scheme is 15 per cent of the project cost subject to a maximum of Rs.75000/-. New entrepreneurs establishing industrial projects in the tiny or small scale sector including
entrepreneurs who organise themselves as industrial co-operatives. The following are the eligibility criteria for the projects.

(i) The Project should be a new industrial project for manufacture, preservation or processing of goods or existing such project which has turned sick.

(ii) The project is to be located in a village or town with a population of less than 5,00,000.

(iii) The Capital cost of the project is not to exceed Rs.5,00,000.

(iv) If the project is new, it should not avail any other assistance from the Central or State Government including State Financial Corporation and other State level institutions.

The debt equity ratio of the Unit should be 3:1. The minimum contribution from
the promoter is to be 10 per cent of the project cost. Banks shall not seek any security from the borrowers. The loan amount has to be repaid within 7 years.

2.3.4. Self Employment For Educated Unemployed Youth (SEEUY)

The Government of India, in consultation with the Reserve Bank of India, formulated a scheme for providing self-employment to the educated unemployed youth, who are matriculates and above within the age group of 18 to 35 years to undertake self-employment ventures in industry, service and business. This scheme was announced by the then Prime Minister Mrs. Indira Gandhi, in her independence day address on 15th August 1983. The family income of the beneficiary from all sources (salary, agriculture, business, hereditary) should not exceed Rs. 10,000 per annum. The scheme extended to all areas of the country (except cities with more than one million population as per 1981 census).
Advances granted under the scheme is included in banks' priority sector advances. For implementation of the scheme, District Industries Centre (DIC) has been assigned to act as a Nodal Agency for motivating and selecting entrepreneur beneficiaries, identifying and preparing schemes in trade at the district level.

The bank gives composite loans (Term loan and Working Capital Loan) not exceeding Rs. 35,000/- for an industry, Rs. 25,000/- for a service unit and Rs. 15,000/- for a business unit. All the loans for amounts upto Rs. 35,000 will carry interest at the rate of 10 per cent per annum in backward area and 12 per cent in other areas. It is repayable in 3 to 7 years with a moratorium of 6 to 18 months. The security for the bank will be the assets created out of its finance which will be mortgaged or pledged or hypothecated to the bank till the full repayment of the loan. The beneficiaries under the scheme will be eligible for 25 per
cent capital subsidy computed on the total amount of loan from the government which will be held in term deposit in the name of the borrower for a minimum period of 3 years before it is adjusted to the borrower's loan account. The subsidy will be routed through the Reserve Bank of India. The advances are eligible for credit guarantee cover of Deposit Insurance and Credit Guarantee Corporation (DICGC).

The bank has to sanction the loan within 15 days of the receipt of the letter from the DIC authorities. When a loan is sanctioned, the commercial banks give a five days' training to the new entrepreneur at a specified place. All the borrowers to whom loans are sanctioned under the self-employment scheme are given such a rare opportunity of getting trained. After granting loan, the bank has to make post sanction inspection, verification of invoices, assets, etc. once in three months.
2.3.5. **Self Employment Programme For Urban Poor**

(SEPUP)

In order to assist poor families living in cities, municipal towns and corporations who are not benefitted by IRDP, the Government of India introduced this scheme during 1986-87. The scheme should cover metropolitan urban centres with a population exceeding 10,000 according to 1981 census and certain towns and areas irrespective of population where IRDP is not implemented.

The beneficiary has to be a permanent resident in the city or town and should have lived there continuously at least for 3 years immediately prior to the date of application to become eligible for getting loan under this scheme. The loan can be given to more than one person from the family but the total assistance is not to exceed Rs. 5,000/-. All loans up to Rs. 5,000/- will carry interest rate at 10 per cent per annum. The beneficiaries under the
scheme will be eligible for 25 per cent capital subsidy computed on the total amount. The borrowers have to repay the loan amount less subsidy in 33 monthly instalments. The repayment holiday of 3 months is allowed in all the cases.

The advances under the scheme are eligible for credit guarantee cover of DICGC. The security for the bank will be the assets created out of its finance. The bank shall not seek security and third party guarantee for the loan.

2.3.6 Scheme For Urban Micro Enterprises (SUME)

As a component of the Jawahar Rozgar Yojana, this scheme was introduced during 1990-91. The objective of the Scheme is to encourage the unemployed and underemployed urban poor living below the poverty line in metropolitan areas, cities and towns with population exceeding 10,000, to take up self-employment,
ment subsidy, not exceed Rs. 7,200/- per annum, who is a permanent resident of a city or town for the last three years and who possesses a ration card, is eligible for assistance under the scheme, provided he/she has not borrowed under any other similar scheme of the Government. The beneficiaries are identified by urban local bodies such as Panchayats and Municipalities, which forward the applications to identified bank branches. The maximum amount of loan that could be sanctioned is not to exceed Rs. 15,000/- for SC/ST beneficiaries and women and Rs. 12,000/- for others on which interest at 10 per cent will be charged. No margin, collateral or third party guarantee is required. 25 per cent of the cost of the project is available as subsidy, subject to a ceiling of Rs. 5,000/- in the case of SC/ST beneficiaries and Rs. 4,000/- in the case of others. During 1992-93, banks provided credit assistance of Rs. 22.06 Crores to 28,630 beneficiaries.
2.3.7. Prime Minister's Rozgar Yojana Scheme (PMRYS)

A new, Rs.540 crore scheme called PMRY for educated unemployed youth has been formally launched on October 2, 1993, the Gandhi Jayanthi Day. The scheme will provide self-employment to 10 Lakh educated unemployed youth in micro-enterprises, manufacturing services and business ventures. It would provide a loan upto a ceiling of Rs. 1 Lakh, out of which the subsidy element will be 15 per cent, with a ceiling of Rs.7,500/-.

All those who have undergone the Government sponsored technical courses for a minimum duration of six months, besides matriculates and ITI diploma holders, will be eligible for the scheme. Youth between the age of 18 and 35, belonging to the families with annual income of less than Rs.24,000/- would be eligible for assistance under the scheme.
In the four metropolitan cities, the scheme would be implemented through Small Industries Service Institutes, while in the States, the DIC would be responsible for running the scheme.

The banks extend financial assistance to small scale industrial units also through

i) Open cash credit

ii) Mortgage loan

iii) Loan against Demand Promissory Note

iv) Discounting bills

v) Bridge loan to cover the time lag between sanction and disbursement of term loans by Financial Institutions

The total credit extended by all scheduled commercial banks to small scale industries amounted to Rs. 859 Crores at the end of December, 1973, showing an increase of Rs. 669 Crores over June, 1968. Scheduled commercial
banks' credit to small scale industries formed 12.2 per cent of their total advances as at the end of December, 1973, the corresponding figure for June 1978 was 6.1 per cent. By the end of June 1978, commercial banks' financial assistance to small scale industries rose to 1641 crores. The number of small scale industrial units 2,00,563 at the end of December 1973, registering more than a five fold increase over June 1968 (nearly 39000 units). At the end of June 1978, this number increased to 4,07,051.

Table 3 gives particulars of the advances extended to small scale industries by all scheduled commercial banks between December 1982 and March 1991. Particulars regarding total bank credit, total priority sector credit, total credit to SSI sector and number of accounts are given. The percentage of priority sector advances to total bank credit, amount outstanding to total bank credit and the amount outstanding to total priority sector advances are also computed to know the trend in increase during the said period.
<table>
<thead>
<tr>
<th>As on</th>
<th>Total Bank Credit (Rs. in crores)</th>
<th>Total Priority Sector Credit (Rs. in crores)</th>
<th>Total SSI Sector Number of accounts (in '000)</th>
<th>Amount outstanding (Rs. in crores)</th>
<th>Share of SSI Sector's advance in priority sector</th>
<th>Share of SSI Sector's advance in Total advance</th>
<th>Percentage of priority sector advances to total bank credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 1982</td>
<td>34,230</td>
<td>12,342</td>
<td>1050</td>
<td>4,464</td>
<td>36.2%</td>
<td>13.0%</td>
<td>36.1%</td>
</tr>
<tr>
<td>Dec 1983</td>
<td>41,292</td>
<td>14,882</td>
<td>1244</td>
<td>5,389</td>
<td>36.2%</td>
<td>13.1%</td>
<td>36.0%</td>
</tr>
<tr>
<td>Dec 1984</td>
<td>46,296</td>
<td>18,330</td>
<td>1455</td>
<td>6,537</td>
<td>35.7%</td>
<td>14.1%</td>
<td>39.6%</td>
</tr>
<tr>
<td>Dec 1985</td>
<td>52,842</td>
<td>21,631</td>
<td>1642</td>
<td>7,829</td>
<td>36.2%</td>
<td>14.8%</td>
<td>40.9%</td>
</tr>
<tr>
<td>Dec 1986</td>
<td>60,312</td>
<td>25,224</td>
<td>1863</td>
<td>9,127</td>
<td>36.2%</td>
<td>15.1%</td>
<td>41.8%</td>
</tr>
<tr>
<td>Dec 1987</td>
<td>67,856</td>
<td>29,269</td>
<td>2179</td>
<td>10,785</td>
<td>36.6%</td>
<td>15.9%</td>
<td>43.4%</td>
</tr>
<tr>
<td>Mar 1989</td>
<td>84,719</td>
<td>36,050</td>
<td>34544</td>
<td>13,789</td>
<td>38.2%</td>
<td>16.3%</td>
<td>42.6%</td>
</tr>
<tr>
<td>Mar 1990</td>
<td>1,01,453</td>
<td>41,175</td>
<td>27906</td>
<td>15,719</td>
<td>38.2%</td>
<td>15.5%</td>
<td>40.6%</td>
</tr>
<tr>
<td>Mar 1991</td>
<td>1,16,301</td>
<td>44,062</td>
<td>28619</td>
<td>17,530</td>
<td>39.8%</td>
<td>15.1%</td>
<td>37.9%</td>
</tr>
</tbody>
</table>

Total bank credit recorded about two fold increase from Rs. 34,230/- crores in December 1982 to Rs.67,856 crores in December 1987. In the next four years (between 1987 and 1991), it rose to Rs.116301 crores, the increase, being about two-fold again. In short, during 1982-1991, the bank credit recorded a rise of more than three fold.

Similarly, total financial assistance to priority sector went up from Rs. 12,342 crores in December 1982 to Rs. 29269 crores in December 1987, registered an annual average growth of 27.4 per cent. At the end of March 1991, this figure increased to Rs.44,062 crores.

The financial assistance provided by all scheduled commercial banks to small scale sector was of the order of Rs.4464 crores in December 1982; Rs. 10785 crores in December 1987 and Rs.17530 crores in March 1991, recorded
about 2.5 time growth and 1.6 time growth at the end of December 1987 and March 1991 respectively. The total number of accounts of small scale industrial sector was 21.8 lakhs in December 1987, claimed an increase of 11.3 lakhs over December 1982. This number increased to 286.19 lakhs at the end of March 1991.

The share of priority sector in the total advances of all scheduled commercial banks went up from 36.1 per cent to 43.1 per cent, during December 1982 to December 1987. Thereafter, the share sliced down slightly, year after year, due to the changes in the policies of the Government. In the same line, the share of small scale industrial sector's advances to total bank credit rose to 15.9 per cent in December 1987 from 13 per cent in December 1982. At the end of March 1991, it stood at 15.1 per cent. The percentage of the amount outstanding total priority sector advances was around 36 per cent up to December 1987; around 38 per cent
in the next two years and around 40 per cent at the end of March 1991. So, generally, there was a gradual increase in coverage and in the total credit extended to small scale industrial sector, as well.