"ROLE OF STATE BANK OF INDIA IN FINANCING THE PRIORITY SECTOR : A CASE STUDY OF ALIGARH DISTRICT"

ABSTRACT OF THE THESIS

National Planners of our country have strategically decided to use the Indian Banking System, particular the organised part of it, as a tool for economic growths. Implementation of this strategy called for certain structural changes in the total banking system. Nationalisation of major commercial banks in two stages in one of the major dynamic changes that has greatly influenced the position and performance of total banking system and its structural. Some of the main economic factors which compelled the Government to nationalise the major Commercial Banks are as under -

(a) Before the nationalisation, distribution of bank offices was uneven. Big industrial and commercial towns were over crowded with the bank branches while there was a dearth of such banking facilities in the rural areas. Non-availability of such facilities in these areas was due to the profit yielding prospectus of the private sector banks as they had a priority for profit - Motto over 'service motto'. As a result, banking industry in the country, became urban biased and purely profit oriented.

(b) Due to the faulty credit policy of banking industry discrimination against economically backward class had been noticed during the pre-nationalisation period. Such person with huge financial resources had been given credit while many needy and deserving persons without
adequate financial resources and guarantee as well had not been able
to get the same. Hence it was observed that this pattern of credit
distribution does not go in favour of the objective of equality and
other social goals of the country.

(c) It had been observed that the commercial banks were responsible for
the concentration of economic power and the intensification of
disparities in income and wealth in the country as they were owned
and controlled by a few towns, who were able to determine the pattern
of allocation of funds according to their own vested interests and
convenience. The existing system had its effect on social and political
structure of the country also. Socially the working of the private sector
banking created interclass imbalances in the distribution of income
and wealth but intra capitalists - class also get affected as the big
business - class was tend to get much them the others, resulting further
increase in the concentration of economic power. By controlling all
the media of mass communication and by influencing the academic
and intellectual class through financing of educational and resarch
institutes, this class is capable to capture the political power and
make it justified to the public of the country.

(d) Inspite of the fact that the agriculture is the basic industry in the
country on which the majority of country's population depends for
its subsistence, it had been completely ignored by the commercial
banks. There was no provision of providing long term credit to the
farmers for agricultural operations and land improvements. They had been providing credit to traders and big business houses but not to the vital priority sector of the economy, viz. agriculture. Small Scale Industries, so that balanced development could have been attained.

It was thus realised that the Indian commercial banking system had not fulfilled its main role of attaining the balanced regional development in the country. It was completely controlled and organised by the few hands who used public funds for their personal interests. Priority sectors were completely ignored. Regional development was never seriously considered while providing credit facilities to economically weaker sections of the society had always been exploited by the economically stronger class. Thus, lending process was not economically justified. As a result, the banking system in India emerged as urban - biased, privately owned, profit oriented and lap sided.

Hence to dynamise the economy and speed up the rate of economic development of the country, the need for the government to take over the 14 major commercial banks, was the need for their nationalisation, and at last July 19, 1969, 14 major commercial banks of the country with Rs. 50 Crore or more were nationalised by the govt. with the objective that it would accelerate the growth of the economy. It also emphasized on expanding the bank credit to the priority sectors.

A new era in the development of Indian banking started when Reserve Bank of India came into existence in 1935 and aimed at the building up of a
sound and adequate credit structure and started providing long term finance to industries also.

Early years of independence were full of zeal and enthusiasm. In the zeal national leaders though of the nationalisation of the banking industry so that existing regional imbalances could be eliminated and balanced development could be achieved. The Banking Company's Act had been brought in 1949 and on March 16th, as per the recommendations of Rural Credit Survey Committee. The RESERVE BANK OF INDIA was nationalised. In Mid 50's the Imperial Bank of India was also converted into the STATE BANK OF INDIA.

The motives behind the nationalisation of the RBI and the State Bank of India were different. The main motive behind the nationalisation of the Reserve Bank of India as to control the monetary policy and establish a co-ordinated relation between the Govt. and Bank, while the decision to obtain control of State Bank of India was motivated by the need for a strong institution through which the Govt. could inject credit into the vast rural areas and to garner savings in those areas for the benefit of the economy.

In 1963, the demand for nationalisation of the Banking Industry gained moment and a resolution was brought before the Government demanding the overall nationalisation of banks.

The development or upliftment, whether it is cultural, social, economic or political depends on the various financial resources available to the country either from with in or from otuside. Financial intermediation, thus, has a
positive role to play in the economic development as finance is the basic input for the economic development of the country. As, commercial banks are the major source of providing financial assistance to the public, can play a significant role in the process of economic development.

The rate of economic development depends on the rate of capital formation. The rate of capital formation, in turn depends on three distinct but interdependent activities viz., saving, investment and proper allocation of funds and it is through these three stages of capital accumulation that banking contributions to economic growth.

No serious attempt has been made so far to investigate whether the priority sector, in terms of banking facilities available of nationalised banks especially by the State Bank of India, have been financed at district level. Taking it into consideration one could feel that a systematic study about financing the priority sector at district level by State Bank of India should be done. Therefore, I have choosen Aligarh District for the research work to find out the role of State Bank of India in financing the priority sector and to produce new results.

Since establishment of S.B.I. more than four decades have been passed. It is high time to review the situation whether with the passage of time the financing priority sector have been successfully made or not by the State Bank of India at Aligarh District. In a way, this study seems to be the pioneer study of evaluating the performance of the State Bank of India in terms of branch expansion, deposit mobilisation and credit disbursement in financing the priority sectors of Aligarh district.
Since the establishment of the State Bank of India in the country, this bank has registered a remarkable growth in terms of financing the priority sectors of the country. But despite of all the achievements, it is still doubtful whether priority sector and weaker section of the society in terms of the availability of banking facilities, deposit mobilised and credit disbursed, have been significantly improved or not.

Thus, an attempt has been made in the present study, to examine its objectives how far the growth of the State Bank of India since establishment has helped to finance the priority sectors, in terms of banking services of SBI available, in Aligarh District. We have the main objectives of this research work which are as given below -

1. To examine the role of Institutional finance in the development of the priority sectors of India;

2. To find out the importance of The State Bank of India in financing the priority sector;

3. To examine The State Bank of India's role in lending Agriculture, Small Scale Industries, Small Road and Water Transport operators, Retail Traders, Small Business, Professional and Self Employed Persons, State Sponsored Organisations for Scheduled Castes / Scheduled Tribes, Education, Housing, Consumption Loan. Except agriculture and SSI units all these sectors comes in the category of other priority sector;
(4) To examine change in incremental ratio in production by investing the bank loan in Aligarh district with the help of cost benefit analysis;

(5) Problems faced by the Bank and the borrowers in this regard;

(6) Conclusion and some suitable suggestions.

The thesis in hand reports the results of the above study in six chapters. The chapter one is Introductory chapter, which presents the 'Review of previous researchers, need and scope of the study, Research methodology, and Limitation of the research work. The chapter second present the priority sector lending and the guidelines of RBI to the priority sector. The chapter III presents about the State Bank of India. Chapter fourth presents the profile of Aligarh district with map and scope of priority sector in the Aligarh district. Chapter five represents the State Bank of India's lendings towards priority sector specially in Aligarh District with the sources of Primary and Secondary data. An attempt has been made to know the impact of loan on the borrowers. The final chapter presents the conclusion findings and suggestions.

Our research work will be mainly based on Secondary data and we have collected data in this regard from Lead Bank of Aligarh (Canara Bank). We have also collected data from the Branches of the State Bank of India of Aligarh District.

We have taken interviews from some investors who have taken loan for agriculture purposes as well as for the development of small scale industries. We collected primary data by giving them a questionnaire to
know the impact of bank loan and on agriculture as well as on Industries data. We examined and analysed how far the productivity production, the income of the borrowers increased and how far the Share of this Bank in this regard.

Administratively Aligarh district is a part of Agra Commissionary. It is the biggest district of the Commissionary in terms of size and population. The internationally renowned Aligarh Muslim University is situated here. The district is known as Tala Nagri. The famous lock industry of the district is quite known in the country. The other industrial units such as hardware, moonga moti, electronic and electrical industrial unit are also established. Agro processing units in the fold of multinational, Small Scale Industrial units and tiny units are working in the district. According to map in the South direction, District Hathras and District Etah is situated, in the North-East direction, District Badayun is situated, in the North direction, District Bulandshahr is situated, in the West direction, Mathura is situated of the Aligarh District. Haryana state touches the border to the North-West direction of the Aligarh district.

Aligarh is part of South Western Semi arid zone. The geographical area of the district in 3691.50 Sq.km. The soil alluvial is very fertile. The temperature varies considerably - during the months of December / January the mean maximum temperature is around 21°C and the mean minimum is around 7.6°C. The relative humidity values around 35% and 98% of the land has assured irrigation facility to the net cultivable area. The cropping intensity is 159%. The major cropping season is Rabi. The farmers have
been taking three crops in a year. The major crops grown are wheat, bajra, barley, rice, rapeseed, mustard, sugarcane, potatoes, groundnut, linseed, moong, peas, arhar, sunflower and millets. For the purpose of research and improving the yield of the various crops and also training the farmers to account them for modern means of cultivation, A KVK of Chandra Shekhar University, Kanpur has been established. The district also known for certain industrial activity such as lock, hardware, moonga, moti, handloom and agro processing units. The district is not having any forest wealth and mineral resources. However due to the advent of modern transportation the lack of raw material has been over come. Industrial power position is the hinderance in the industrial growth.

It is more than four decades of the State Bank of India's establishment which has witnessed a tremendous progress all over the country. The State Bank of India has been playing a vital role in the development of Indian economy till the advent of establishment of the State Bank of India under the Parliament act 1955. Before 1955 Banks in India were known to be working purely on the commercial pattern. This was the success of the State Bank of India which encouraged government to the nationalisation of 14 major commercial banks in 1969 and again 6 banks in 1980 was nationalised. In the Post-nationalisation era, banking shifted from "Class Banking" to "Mass Banking" and consequently social banking perhaps eclipsed the importance of the profitability aspect of banks.

In modern times the banks are to be considered not only as the dealers of money but as the leaders in economic development. They are not just the
store houses of the country's wealth but are the reservoirs of resources necessary for economic development. Their primary objective is to mobilize the savings and direct them in the some productive channels. Basically, they as a bridge, between those who require funds and those who have surplus funds but are unable to make an effective and productive use of them. Banks, thus, how become an instrument of a more efficient use of savings as they provide a convenient avenue to the saver and the investor a source of finance. Hence, out of their saving they provide financial assistance to the industry. Trade and commerce and give a push to the development of the economy.

A number of studies have been conducted in our country on various issues or aspects of banking industry. Researchers have made a number of attempts to study the extent of variations in banking services at all India level. Most of the studies point out that imbalances in banking services have been minimised since nationalisation. A very few studies point out lendings to the priority sectors at a district level. The present study is the pioneer study in which an attempt has been made to examine how far the State Bank of India is successful in lending the priority sectors specially in Aligarh district. Prior to establishment of the State Bank of India, a general observation was 'where enterprise leads finance follows'. The dictum was full applicable to all the banks. The geographical coverage and concentration of banking offices was, therefore, a reflection of the pattern of industrial development. The rural sector, small scale industries, education, retail traders, small
businessman, professionals, S.C. / S.T., other neglected and weaker sections of the society were fully deprived of financial assistance provided by Banks. As their motive of providing the financial assistance, was not governed by credit worthiness of purpose but by 'credit worthiness of persons'. Such attitude of banks was basically responsible for widening imbalances among the regions which helped in the concentration of economic power in a few hands and in the creation of industrial and business monopolies. Banks were not being utilized in the national interest rather funds of the banks have been used for the promotion of the business and industrial concerns of directors. Hence banks were lacking a sense of 'social justice' the interest in the development priorities and the need for financing the economically weaker sections of the society whose credit worthiness is no doubt poor but their urge for development was very genuine. Inspite of the fact that agriculture is the basic industry of the country, was completely ignored. They remained indifferent toward the credit needs of the farmers and land improvements. Moreover it was also realised that banking industry in general is supporting anti-social elements and under stable activities such as hoarding and speculation and investing the public savings in certain pockets according to their vested interests. Thus, it was realised that banks are actually aggravating inter-regional, inter-state and inter-district imbalances. And such a policy of banking industry went against the welfare of the general masses resulting serious imbalances, neglection of priority and the weaker sections in the country.
In the present work apart from evaluating the performance of the State Bank of India, an attempt has also been made to identify the credit lendings to priority sector specially in Aligarh District on the basis of primary and secondary data.

The State Bank of India was not as much successful in credit lending towards the priority sector in the blocks as it was successful in the city. In the agricultural lending only six and seven blocks' performance has shown satisfactory and in other blocks either the amount was not financed or if it was financed, the amount was very small. Likewise in the allied sector only four or five block's performance is satisfactory while in other blocks the State Bank of India has shown poor lendings, the target could not achieved.

The SSI sector is also in worst condition. The State Bank of India lent very small amount to this sector as well as target amount was very small. Only two or three blocks were benefited through the SBI's lendings. In other blocks either the amount of lending was very small or no amount could be lent to SSIs. While SSI is an important sector of the economy. It can not be ignored.

I have surveyed 60 farmers and 40 industrialists. I have tried to find out the impact of bank loans on the borrowers. How much new income generated after investing the loan? How much they are beneficiary from the loan? The result of this efforts came out positive. The income increased after investing the loan of Farmers as well as Industrialists. I have seen 8% negative effect in the agriculture. I find that the negative impact of loan was due to misuse of the loan amount i.e. they used borrowed amount for domestic purposes instead of investing the amount for farming.
According to the report of field survey 92% farmers were benefited after investing the loan. Their income increased Rs. 175 Per month as per farmer and Rs. 2100 per annum as per farmer.

Industrialists do not give me any information in figures. Therefore, I have taken interview of industrialists they accepted that after investing the loan their income increased. But during past 10 years the profit ratio of their income are decreasing. They told me that the main reason of reducing their profit is lack supply of power. For the firms it is necessary that 12 hours continuous supply of power must flow in the peak hours. But in Aligarh district power flows only from 12 to 16 hours. They used the generators which raised their cost of production. But they cannot raise the sale price of product. Therefore the increase in the cost of production reduces their profit.

Today there is tuff competition in the market. Due the globlisation policy the new multinational companies are entering in our country. Their products are qualitywise better and cheaper. They are technically advanced and produce international mark product. They used more advanced machinery and used less labour to produce their products. Therefore, their product is made under short period with large quantity in comparision to Indian industries. Therefore, their cost of production is also less than from Indian products. Aligarh is untouched from it. If the small scale industries want to live in this tuff competition they should improve quality of products and the product should be cheaper. If they improve the quality their cost of production will raise. They are not in condition that they increase the sale
price of the products. The increment in cost of production every Industrialist cannot afford. In Aligarh the milk processing unit Glaxo has been sold in the hand of MNC Heinz India Ltd. due to reducing profit and in the last reduction in the profit generated a huge loss to the company. This is very miserable condition for SSIs.

Recently a bill of security was passed in the both houses of Parliament Lok Sabha and Rajya Sabha. This bill has given more rights to the bank and other financial institutions. According to this Bill, the bank has the right to take action against the borrowers who do not pay the payment of loan at the time whether they are in condition or not. If they want to pay the limit amount, the action will not be taken otherwise bank have the right to sell their mortgage property. This will help in declining the ratio of NPA as well as more loan can be sanctioned to the needy people. This bill makes the banks more powerful. This is a good step in the right direction. Bank should implement this rule with strict hand so that the NPA can be reduced.

Keeping all the facts in mind, that after analysing the primary and secondary data as well as after taking the direct interviews of the farmers, industrialists and bank employees, we reached to this conclusion that State Bank of India has certainly played very strong positive role in financing the priority sectors of the economy. We have no hesitation in saying and proving that State Bank of India is pioneer in financing for priority sector directly or indirectly. In case of Aligarh we have examined from all point of views that State Bank of India has played very positive role in financing the priority sector.
Lastly we can say that the working of the Bank should improve and adequate quantity of loan should be granted to the needy farmers timely so that it may be utilised fully to achieve the target on the other hand recovery procedure of loan should also be more effective and easy. The insurance scheme of the crops should also be implemented effectively. The procedure of lending to the real beneficiaries should be easy. Lengthy procedure should be avoided to help the borrowers. For achieving the real goal, we hope that after adopting the above measures SBI which is very helpful to the farmers, industrialists and common persons, will be more helpful and fruitful for the betterment of the investors of priority sector. The production and demand of the goods in priority sector will increase and we will be able to achieve the target of economic development and welfare of the people by adopting the new measures and policies.

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