Chapter - 1

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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 research 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 was 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. Therefore, to achieve the goal of balanced regional development by providing banking facilities to the weaker sections of the society through vigorous branch expansion programme, public control over banks considered to be essential. 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.

On the eve of bank nationalisation speaking about the objectives of the bank nationalisation, then Prime Minister, Mrs. Indira Gandhi said in a
Radio broadcast that, "Public ownership and the control of the commanding heights of national economy and its strategic sectors are essential and important aspects of new social order which we are trying to build in this country. We regard this as particularly necessary in a poor country which seeks achieve speedy economic progress, consistent with social justice, in a democratic political system one which is free from the domination of the few, and in which opportunities are open to all".

It is clear from her statement that the primary objective of bank nationalisation was to provide the banking facilities to the backward and deprived sections of the society so that existing regional disparities could be minimized and finance could no more be the bottleneck in their balanced development. Basically the objective of bank nationalisation was to convert the banking of classes into the banking of masses. This conversion is sought be achieved by the following objectives:

(i) Rapid expansion of banking services by opening up of new bank branches, especially in the unbanked and neglected areas of the country. In such areas non-availability of finance is the only factor which is responsible for existing regional imbalances.

(ii) Provision for adequate and liberal finance so that banks could contribute to the development of the priority sectors which include most neglected areas of the economy such as small scale industries, agriculture self employed persons, water and transport operations, education and professionals.
(iii) To reduce the concentration of economic power from the few hands so that wide disparities between income and wealth could be minimized.

Apart from these objectives mobilisation of savings and its canalization awarding to the priorities of the country were also the major objectives of bank nationalisation. These objectives are reflected in the following statement given by the Prime - Minister (Mrs. Indira Gandhi) in the parliament at the time of nationalisation, she said: "

"Our sole consideration has been to accelerate development and thus make a significant impact on the problem of poverty and unemployment and to bring about progressive reduction of disparities between rich and poor sections of our people and between the relatively advanced and backward areas of our country."

"Nationalisation of major banks is a significant step in the process of Public Control over the principal institutions for the mobilisation on people's savings and canalising them towards productive purposes ... It is necessary to mobilise the savings of the people to the largest extent and to utilise them for productive purposes in accordance with our plans and priorities. Government believe that public ownership of major banks for which there has been wide spread public support, will help in the most effective mobilisation and development of national resources so that our objectives can be realised with a greater degree of assurance."

Thus the goal of the nationalisation was to maximise benefits for all sections of the society by minimising regional disparities and providing credit
facilities especially to the priority sectors of the economy. It certainly provides greater convenience in implementing state policies as the profit for surplus also goes to the state instead of share holders after the nationalisation. But profit is not the only aim, banks can afford to be more adventurous and face challenging situation with greater force and confidence.5

Thus nationalisation is not an end in itself but a mean to an end. Its success would largely depend upon the fulfilment of its objectives laid down at the time of nationalisation.

1.1 BANKS - PRIOR TO NATIONALISATION

Banking has been practiced in India since ages. Its origin can be traced us early as 500 B.C. in the country. But the first purely Indian Bank established in India was Oudh Bank which came into existence in 1881 with the establishment of people's Bank in 1901, the beginning of the 20th Century proved a turning point in the development of Indian Banking. The Swadeshi Movement was launched in 1905 and gave a great philip to Indian enterprises and left an impact on Indian banking too. 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.6

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. Instead of nationalisation the banks. The Government introduced Social Control in 1967, under which the depending policy of banks was guided by the National Credit Council (NCC) for which the Finance Minister was the Chairman. The Commercial Banks under Social Control focussed on the needs of the farmers and small business enterprises.

Before 1967, no one had heard of the term of social control. All India Congress Committee (AICC) inserted some lines in its manifesto regarding the social control.
"It is necessary to bring most of the banking institution under social control ... in order to serve the cause of economic growth, fulfill our social purposes more effectively and to make credit available to the producer in all fields where it is needed. Thus it was a mid way between public ownership and private control of banking in the country."7

The scheme of social controls could not be able to ensure that the banks would become an integral part of the development plan because they still continued to be privately owned. As much banks under private sector for some obvious reasons can not ignore the consideration of private profit. But this would mean that social control makes little difference to the principles which motivate banks. It would only result in marginal transfers of funds from one sector to another as the sectors and classes catered to continue to be those catered to earlier. Under the scheme bigger capitalists and landlords continued to get the finance from banks. And thus it was observed that social control and private ownership of banking business are not compatible at all.

There was a loud criticism of the scheme of social control, particularly, on the basis of its inefficiency in fulfilling the objective of providing financial assistance to the backward and deprived sections of the society, keeping in view of the social welfare of the society as a whole, major banks of the country were nationalised by the Government of India.8
1.2 ROLE OF FINANCE IN ECONOMIC DEVELOPMENT

The development or upliftment, whether it is cultural, social, economic or political depends on the various financial resources available to the country either from within or from outside. 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.

"Petrick's Remarks:

It seems to be the case that where enterprise leads finance follows. The same impulse within an economy which sets enterprise on foot makes owners of wealth venturesome, and when a strong impulse to invest is fettered by lack of finance, devices. One invested to release if... habits and institutions are developed.⁹

Like in any developing country, in India too, commercial banking has been the hub of the financial system and has played a pivoted role in economic development. Apart from performing the key functions of providing liquidity and payment services to the real sector and managing bulk of the financial intermediation process, the banking sector has contributed to the process of economic development by serving as a major source of credit to all sections of the economy, be it the household, industry, government or the weaker sections of the society. It would be therefore, in the fitness of things to state that, like anywhere else in the world, in India too
the banks have played their role as growth facilitators and the evolution of banking is closely interwined with the growth and evolution of the real sector.¹⁰

"Indian banking has been playing a very vital role in Indian Economic activities. Banking has played a great role in developing savings habit amongst the people, lending to needy sectors of society, financing poverty eradication programmes like 20 Point Economic Programme, IRDP, DIR etc. We are now on the threshold of the 21st Century. Banking is moving from local to global. Banking being a service - oriented industry, customer satisfaction is the integral part of the business. Every type of customer has his own locus standing and expectations. For example, rural area customers step in for deposits and small loans for agriculture and allied activities, urban and metro area customers have different expectations from banks. It is natural. As their expectations are different, so are their complaints."¹¹

The role of banking in a developing economy is comparatively more creative and purposeful than in developed countries. In a centrally planned economy like that of India, the course of development is laid down and the economy has to move along that course. 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.
1.2.1 PROMOTION OF SAVINGS

The promotion saving is the first stage of capital formation. It denotes that part of Income which people save for various purposes. But they require assets in the form of which they can keep their savings in safe custody and get a rate of return as well. Commercial bank promotes saving by providing a wide range of deposits with varying combination of liquidity and rate of interest to suit the needs and preferences of different savers. Thus, it [Commercial Banking] does not help in stimulating savings by a battery of incentives - interest on deposits, free or cheap remittances of funds, safe custody of valuables and financial consultation.12

1.2.2 FINANCING

Financing is the second stage of capital formation and is "the activity by which claims to resources or either assembled from among those released by domestic saving or obtained from abroad or specially created usually as bank deposits or notes and then placed in the hand of investors.13

It consists of mobilising the resources from those who have got excess of money income but are not making a productive use of it and lending the resources so that they could be utilised by those who need them to make a productive and portfolio use.14

1.2.3 MOBILISATION OF RESOURCES

Economic development depends upon mobilisation of resources and their effective utilisation. Among the financial institutions which are engaged
in the task of mobilising savings and investment, commercial banks have created a nucleus in the process of economic growth. Commercial banks are the repositories of the community's savings. They provide to the saver of convenient avenue for investment of surplus funds with an assured repayment either on demand or on due date, as the case may be. Thus commercial banks encourage habits of thrift and industry among people. As a matter of fact the greatest utility of the modern banking system consists in effectively pooling the "cash" balances on liquid circulating capital of the community; in assembling the temporary surpluses of some business enterprises and individuals and in applying them to the temporary deficits of others.

This clearly reflects the key role played by banks in harnessing vast magnitude of resources for economic development of the country.15

1.2.4 LENDING

The most profitable of all assets is bank loans and advances. Bank loans and advances may be made to businessmen either by the system of overdrafts of an agreed amount or by discounting bills of exchange. Loans and advances carry a high rate of interest because of the risk involved, low liquidity and the difficulty of shifting them to other parties. They involve great risk to the bank because of the possible failure, and, in extreme cases, involvency and liquidation of the borrowers. Again, these loans and advances have a low liquidity low shiftability in the sense that they can not be converted into cash easily as and when the bank requires additional cash to meet
withdrawals; nor is there any possibility of shifting them to other commercial banks or the central bank of the country. As a matter of fact, all bank failures may be ascribed to faulty policies regarding loans and advances. From the point of view of safety of the bank and its liquidity, loans and advances are poor assets. But the high yield of these assets compensates for the difficulties associated with them. These assets, thus have low liquidity but high yield.\textsuperscript{16}

\subsection*{1.2.5 CREATION OF CREDIT}

Credit is pivot around which the economic activities glitter. Credit has become so important in modern society that a imagine of a modern economy without credit is a misnomer. Today almost all bulk economic transactions are settled by means of credit instrument. Credit provides a convenient and economical medium of exchange by supplementing or superseding other forms of money. It facilitates exchange of goods from one person to another person. It renders the monetary system of the country elastic by permitting expansion and contraction of the fiduciary money supply based on the metallic resources. Credit makes the optimum use of economy's capital resources possible. Through the use of credit not only are the funds formed together. They are also apportioned between the different competing uses in the most efficient manner. By influencing the rate of capital formation credit influences output and employment in the economy. Expansion of credit helps to pull the economy out of depression while a restriction of it may exercise a restraining influence upon boom. A cyclical expansion of
credit by the banks and other credit institution may accelerate the employment of unused factors and thus help in increasing the output which may stimulate spending and saving vice versa.

That the banking system of a country plays a vital role in its economic development, by financing the credit needs of trade and industry, is obvious. Banks do it by creating credit. Bank credit in fact refers to bank loans and advances and creation refers to the multiplication of loans and advances. As every bank loan creates an equivalent deposit, credit creation by banks implies also multiplication of bank deposits. What is lent out by a bank comes back to the bank by way of deposit becomes the basis for loan or investment which again returning to the bank as fresh deposits becomes the basis for a new loan, and so on. The term bank here denotes the banking system as a whole. It is immaterial whether the deposits multiplied through the process of loans and advances are kept with the same bank or with another bank. What really matters is that these deposits should not disappear.¹⁷

1.2.6 INVESTMENT

Finance, alone is not sufficient for economic growth unless accompanied by Investment. The provision of finance alone will not guarantee development; unless realistic painstaking preparations have been made to execute useful projects, and unless these individual projects form an interrelated whole of type likely to generate its own further finance, no process
of financial mobilisation however efficiently and smoothly organised, can take the place of such preparation. So the volume of investment must increase so that the resources are used for the production of capital goods. Thus the function of banks is to help the others in promotion and investment operations.

In modern days, the role of banks is not merely confined to that of saving mobilisers, rather in developing economics, like India, their contribution is there in every field such as agriculture. Industry, rural development, exports and so on. The socio-economic needs of India warrant high priority for the development of rural sector, mainly agriculture and allied activities, small scale, cottage and village industries and service sector which are collectively called priority sector in India.

Since agriculture is the main occupation of the country, so credit is an important factor for the promotion of this sector. And people from the agriculture sector need credit as they need other inputs for cultivation such as seeds, water, fertilizers etc. to increase the agricultural productivity of land which gets adversely affected due to the inadequate and untimely supply of agricultural credit.

Commercial banks have launched some new schemes of providing short term credit to farmers for the purchase of seeds, fertilizers and other agricultural inputs. Medium and long term finance, for the purchase of tractors and other equipments and for electrification and installation of electric or diesel pump sets, or for land development or improvement have also
provided by the banks to bring drastic improvements in the agricultural sector in the economy.

Commercial banks operating in the country are also encouraging self employment so that people with technical qualifications and with no job in hand could be benefited. For such people and for those who do not want to go for a job, banks now operate a variety of schemes under which they provide financial assistance to young entrepreneurs who come forward with feasible projects for setting up small new projects artisans and craftsmen have also been given financial assistance to make them purchase of tools and implements and raw materials. Establishment of industrial units have also been encouraged in rural areas where they could generate employment opportunities.

Commercial banks in India not only provide financial assistance to the small scale units but they help sick units also by providing them adequate working capital facilities. Apart from the financial support they also assist them in preventing and detecting sickness in its early stages. Thus, in the industrial field. The banker, serves as a friend, philosopher and guide to industrial units.  

To sum up, banks have become an omnibus institution in the modern days to which people from all walks of life of varied interests get help and became successful in their objectives of life. A successful and resilient banking system in a country portends health and vigour where as a sterile and malevolent system results in crippling and strait jacketing of a country's economy.
1.3 REVIEW OF LITERATURE

The entry of commercial banks in the hitherto neglected sector can be marked with the establishment of the Imperial Bank of India and its conversion into the State Bank of India in 1955, with the objective of spreading banking facilities to priority and weaker section of the society. However, it was only after the nationalisation of 14 major commercial in 1969, that commercial banks as a class began to enter the priority sector in a big way. The banks were further assisted in their efforts of serving the rural client etc. with the establishment of Regional Rural Banks in 1975 and nationalisation of six more commercial banks in 1980. As the State Bank of India has now completed more than 40 years of their mass presence in priority sector and their performance over the years depict a mixed picture of success or failure. A few studies conducted with respect to this very objective have been reviewed are as under :-

Rustam S. Davar expressed his view that the nationalisation of banks have been stated to include the enlargement of resources for economic growth, the development of agriculture and industry in backward regions as well as making bank credit available to priority areas which had hither to been neglected. To achieve these objectives, it was felt that the banks policies of lending the funds should be controlled by the Government instead of by a few monopolist shareholders who, it was claimed in the past diverted bank resources to their self - desired channels ignoring the needs of the country's economic planning. In this way the use of bank money for purpose
of speculative activities and unproductive works sought to be eliminated. The bank resources were now to be utilised for encouraging new entrepreneurs. It was also proposed to secure professional standards in bank management and provide adequate training facilities for banking personnel by securing reasonable terms of employment for the banking industry's staff.\textsuperscript{22}

H.C. Agarwal reveals his ideas "about the performance of banks, which used to provide short term finance to trade and industry. The Quantum of advance was linked to the assets owned by the borrower - the more the assets, the more the money lent. Thus the basis of the advance was the security offered to the bank. The security - oriented approach resulted in a large chunk of bank credit being utilised only by big industrial houses and traders. Banks were an unknown institution to small entrepreneurs, agriculturists, artisans, transport operators, and a host of people with small means. But nationalisation of fourteen commercial banks has radically changed the concept of bank lending. Banks now consider the viability of the project while entertaining the credit proposals and not merely the availability of assets with the borrower. Bankers are now adopting need-based approach, although collateral security, wherever available, continues to be accepted as a cover for advances. As a result, the neglected sectors of the economy, have been identified as priority sectors, are gradually coming within the field of banking. He calls, today, the main thrust of bank lending is towards the following areas which have been identified as priority sectors."\textsuperscript{23}
A.S. Chawla, K.K. Uppal, Keshav Malhotra expressed that "there is, therefore, need to outline the futuristic role of banking, where we have to go in the coming decades and what stresses and strains. We are likely to encounter in the process of further development. Seminar on 'Banking towards 21st Century' was an attempt to foresee the banking scene towards end of the century and to decide, in the light of that, the live of action that should be adopted by the Banks. The activities of banks have increased manifold in volume variety and geographical coverage and all are related to the needs of national development. Highlights of banking in recent years has been; greater stress on district credit planning; revamping of branch expansion policy; intensive hunt for deposit mobilisation, and introduction of schemes and programmes like Lead Bank Scheme, Differential rate of interest scheme, 20 Point economic programme, Integrated Rural Development Programme, Scheme for Educated Unemployed Youth. Thus commercial banks have adopted a new Social Philosophy achieving Socialistic pattern of society through allocation of available resources to the poor and under-privileged classes thereby raising levels of employment and income. All these development have been in desired direction.

They said that however, everything is not viewed in positive terms. Because on one hand banks have expanded their sole in socially desired manner, they have miserably failed on quality fronts. The deteriorating customer service, declining profitability, mounting overdues, competition from other competition from other non-banking financial Institutions are
some of the problems which, if not tackled by banks in a intelligent way, are likely to hamper the progress already achieved."^{24}

K. Subramaniam focussed "Combining public good with private enterprise. According to him it is the essence of the liberalisation philosophy. The implication of this to the banking sector is unambiguous. Banks have to make rural banking on integral part of their commercial character. Over the nationalisation period, a very sound foundation has been laid for rural finance in terms of a wide network of branches, a substantial deposit base and an enormous range of bankable activities. The next stage, obviously, is to provide a commercial orientation to rural finance. A stage has been reached in the evolution of rural banking where a system based on concessions and patronage can be safely replaced with a system based on commercial cooperation and partnership. Such a transition would, of course, throw up many basic issues such as how can new banking innovations to introduced purposefully and profitability into rural operations, what kinds of institutional backup are required and so on. These and related issues are discussed in the third part of this volume 'Managing Rural Banking'.^{25}

The guidelines for advances to priority sector were brought out by Reserve Bank of India in a consolidated from in March 1984. Since then there have been a number of development in the area of priority sector lendings. Government of India introduced several schemes with focus on flow of credit to the 'Weaker Sections'. The Agricultural Credit Review Committee, the Committee to examine the adequacy of institutional credit
to the SSI sector, the committee on the financial system (Narsimham Committee) and Expert Committee on IRDP appointed by Government of India / Reserve Bank of India have been reviewed the lendings to the priority sector. The implementation of the recommendations made by these committees necessitated changes in the guidelines on priority sector lendings.26

Shri Munivelu Tiruttavi Centralized his point of view, "In the post-reform period Banks are exposed to a competitive and market driven environment. Among financial statements of a bank, Balance sheet is an important document that reveals the financial performance, health and soundness of the bank. Strong Balance Sheet is an ideal marketing tool that gives the bank many advantages in today's extremely competitive environment. Banks with sand Balance Sheet are in a position to secure several advantages under Autonomy Packages and greater freedom in the branch expansion programme. Financial magazines have started rating the banks in the country based on certain performance parameters. Accordingly banks are classified as good, unsatisfactorily and even worse. Based on the profitability track record, Banks are graded into three categories - A, B, and C i.e. net profit / operating profit / loss making loans. Thus the Balance sheet of a bank has become a barometer to measure the stability of the Bank."27

K.M. Shajahan highlighted some important issues of priority sector bank lending in this paper. According to him "priority sector bank lending
was an active instrument of our financial policy with an aim to restore sectoral balance within credit disbursement and to channel credit to the weaker sections within these sectors. But banking sector reforms initiated as a part of the liberalisation programme. Since the beginning of the 1990s has almost brought the priority sector lending policy to a halt. Moreover, the position of the poorer states in regard to priority sector bank credit seems to have worsened because of the manner in which priority sector targeting has been done by linking it to total bank credit rather than to bank deposits.\textsuperscript{28}

V.T. Dehejia expressed his satisfaction about the growth of the public sector banking which "has also assisted the private sector banking in various ways. Commercial and Co-operative banks can now take advantage of the services offered by the State Bank's offices all over the country. In particular, the Bank has been providing extensive remittance facilities to these banks. These facilities enable them not only to augment their cash resources in the event of sudden drawings but also facilitate transfer of funds to other centres either for lending or for investment. This ensures a flow of resources from areas where they are collected to areas where they are needed."\textsuperscript{29}

L.D'Mello expressed his satisfaction about "the credit plan, which would be the operational part of the area development plan, thus is not a mere exercise in estimation of credit needs of an area on the basis of available macro-economic data but a blueprint for action by banks and financial institutions. Such as action plan can be prepared only on the basis of an intensive study of a small area such as Community Development Block."
Intensive study of blocks would reveal not only the type of economic activities which should be encouraged in the context of local resources and needs but also their costs and income in money terms. According to him it is hardly possible that costs and incomes of various possible schemes would be uniform all over a vast area which a district in India is. The study group of the National Credit Council whose recommendation led to the introduction of the Lead Bank Scheme, however, had suggested that the district should be the unit in an area approach, because it is in relation to a district that most statistical and other data are available.  

Basant K. Pradhan, P.K. Roy, M.R. Saluja, Shanta Venkatram covered the Rural - Urban disparities, Income distribution, expenditure pattern and social sector. "This paper is based on the most recent primary household lends data obtained from a survey on income, expenditure, poverty measures for 1994-95 and human development indicators for 1996 in rural and urban India as a part of the project Micro Impact of Macro and Adjustment Policies (MIMAP). Empirical results show wide disparities in levels of living in terms of economic and social indicators in rural and urban India. The comparison of the distribution with a similar survey conducted in 1975-76 shows the changes in the pattern of income distribution and the gap between the shares of income in rural and urban areas during the last two decades."

Tara S. Nair "reviews the major trends in rural financial intermediation in India by public sector commercial banks in the post-nationalisation period. It then examines their role in the newly emerging institutional forms with a
thrust on micro finance services. A healthy rural financial sector must be developed to meet the needs of agriculture, infrastructure, the rural poor such as agricultural labourers, artisans and self-employed persons."

K.J.S. Satyasai, K.C. Badatya, "aruges for a total revamping of the rural credit system and not cosmetic changes. The aim should be the satisfaction of the ultimate borrower at minimum cost. Cost reduction per unit of business can be achieved by integration of short and long term wings, renationalisation of co-operative structure by removing one of the tries, exploiting scope and scale economies available in rural lending. The limitations of the co-operative system such as inability to offer all types of financial services that commercial banks/RRB's do such as money transfer, restricted area of operation and activities, inability to cater to credit needs for all purposes from a single outlet, low level of professionalisation etc. have to be overcome. Real success comes when co-operatives take full advantage of their ability to have close interface with the clientele. This ability almost matches similar ability of non-institution rural lenders and can never, possibly, be acquired by other institutional agencies.""

Prof. Akhtar Zaheer Rizvi and Prof. Suraiyya Rizvi examined and analysed "In the wake of necessity of growing technological changes, the role of finance in agriculture is very important. The establishment of the reform in the banking world even after nationalisation of twenty commercial banks, the State Bank of India is the single largest bank with the largest, coverage and service mindedness. Thus the role of public sector bank in
India, in agricultural finance called for specific study. Recently Government of India has taken special interest in this connection. The national bank for agriculture and Rural Development has been established to co-ordinate and control all financial institution agencies for the agricultural sector. The need of rural finance by institutional agencies become essential for the modernisation of agriculture and for its speedy, progress. Alongwith finance other factors are also needed to promote the rate of this growth to raise the national income. Massive effort in required not in the field of its production and supply but also in the fair and equal distribution of these inputs.

Infact the total production of agricultural goods increased in successive Five Year Plan but inspite of all these steps taken for improving and strengthening this sector. It is very pitiable indeed, that India is having a low productivity and vast disparities are found to exist among the various regions of the state. An attempt has been made here to analyse measures have been suggested alongwith the role of institutional credit.

In the first phase they have discussed the importance of agriculture in India's economic development. In the second phase they have discussed the causes of poverty indebtedness, and sources of rural credit alongwith the measures for the suitable solution of these crucial problems. The third phase covers and analyses the role of public sector banks in advancing rural credit since 1951. In the last phase they have explained and examined the role and performance and achievement of State Bank of India in overall agricultural development. They have reached to the conclusion that removal of poverty
and unemployment as well as proper agricultural development is not possible without increasing the institutional financing facilities to the rural people, on easy terms and conditions."

Sooden Meenashi "made an attempt to evaluate the dimension of regional disparities in commercial banking services in India since 1975. The researcher examines as to how far the growth of scheduled commercial banking has helped to narrow down the regional disparities in banking services, in different population groups. Apart from it, the growth of commercial banking in different population groups has also been studied. The author has also identified backward and unbanked states of the country. For measuring the overall concentration and dispersion in regional disparities, the Herfindhal Index has been used and the behaviour of inequalities in banking development in explained with the help of coefficient of variation to reveal the aggregate behaviour of selected six indicators the Z-sum technique and Principal Component Analysis (P.C.A.) has been used by the author. The researcher concluded with 'To be precise, the unprecedented macro banking growth in different areas has brought down the regional disparities with respect to most of the indicators in different population groups and at an aggregate level."'

The Report of Banking Commission (1972) dealt with the problem of co-ordination between commercial and co-operative banks, in the context of geographical coverage, loan policies and procedures and resources and organisational aspects. The analysis revealed the existence of inter-state
disparities in the growth of both commercial and co-operative banks in India.\textsuperscript{36}

Basu, C.R. (1991) "presents a new understanding of the dynamic role, which a versatile commercial banking system can play in the process of economic growth. Structurally, his work is divided into two parts. Part one explains how far the commercial banks provided the necessary financial base in the process of economic growth envisaged in the planned economy of India during the period of (1951-1966). Part II evaluates critically the dynamic and diversified role, the commercial banks have played in the post nationalisation period."\textsuperscript{37}

Subramanya, K.N. "This book is a good collection of articles of the experts. This study covers all the important aspects of banking development in India. It critically examines the progress and performance of banks after nationalisation, changing scenario over decades, new dimensions of commercial banking and economic growth, second phase of nationalisation, Branch Expansion, Priority Sector Financing, Credit Planning by Banks, Credit Planning and Economic Development, Credit Deployment by Banks, Monetary Management in India, Tandon Committee report, Chore Committee Report, Custom Service in Banks, Banking consumers and their problems, Professionalisation in Banking Services and Plan for Restructuring Banks.

The major achievements highlighted by the author include the expansion of bank branches with its existing reduction in the bank office population ratio, the change in the credit priorities with an emphasis on
helping the hitherto neglected sectors, the impetus given to deposit mobilisation and the change in the basic approach of the Indian banker from security orientation, to production orientation.\textsuperscript{38}

The Annual Report of State Bank of India, 2000, highlights the economic activity. According to this report "However, notwithstanding some declaration in GDP during 2000-01 due to lower growth in agriculture, industry, and services, India remains one of the fastest growing economies in the world. A decade of reforms has strengthened the resilience of the Indian economy and its ability to withstand periodic shocks.

Within the banking sector, increasing competition and growing risks remain important challenges. The competition for market share is increasing the pressure on profitability and forcing banks to trim costs, particularly transaction costs and improve efficiency. As banks concentrate on consolidation to meet the competition, the key driver in staying ahead of the competition is technology and how will banks use it to meet the needs of their customers. In today's sophisticated markets, credit risk along with Market risk and operational risk are real challenges before banks. When finalised, the new framework for capital adequacy put forward by the Barsel Committee on Banking supervision will put in place a capital framework that is more risk-sensitive and in tune with current market practice. Reserve Bank of India have already advised that these norms will be applicable initially to selected banks with international presence.

A high point in State Bank of India's performance during the year was the launch of the India Millennium Deposit (IMD) programme, which
was a resounding success. With overwhelming response from investors, the Bank mobilised $5.5 billion (Rs. 25,711 crore). By boosting India's foreign exchange reserves, the programme helped meet the challenge of rising oil prices, provided strong support to the rupee and in general, reinforced the country's self-confidence.

Another milestone was reached with SBI's successful foray into insurance. SBI Life launched its first product "Sanjeevan" on 15th June 2001. Incidentally, SBI is the only Bank which has been permitted a 74% Stake in the insurance business. This report states that SBI will also focus on cross and leverage our large customer base and vast distribution network. All these strategies will sustain and improve its profitability, asset quality, etc. and help to achieve its financial goals and objectives.

To sum up the review of literature shows that almost 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."

1.4 FRAME WORK OF THE STUDY

Before the nationalisation banks were Privately owned, urban bised and purely profit oriented. Such set of banking industry was actually
responsible for the concentration of wealth and economic prosperity in the hands of a few. During the prenationalisation period, key sector of the economy including agriculture remained thoroughly neglected, in terms of availability of institutional credit. Priority Sector lending emerged after the nationalisation of banks as a major directed credit basically aimed at extending much needed credit to hitherto neglected key sectors of the economy. With priority sector banks lending becoming one of the most active instruments of the policy.

1.5 OBJECTIVE OF THE STUDY

The sole objectives of bank nationalisation was stated to include the utilisation of resources for economic growth, the development of agricultural and industry in neglected regions as well as making Institutional finance available to priority areas which had hither to be neglected. Hence, accordingly, main emphasis of banking industry after the nationalisation, was shifted from 'credit worthiness of persons' to the 'credit worthiness of purpose'. In short, the banks ought to achieve the objective of development of the economy by financing the priorities of the country.

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 unis 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.

1.6 NEED OF THE STUDY

Prior to establishment of the State Bank of India, the main aim of banking industry was to build their individual business rather than promoting
national welfare, that was the reason their activities were restricted in that
direction only. They concentrated mainly on making more profit with the
minimum amount of risk as a result traders and some sound sections of the
society availed the banking facilities while the others, economically backward,
weaker and priority sectors were totally neglected and deprived of these
facilities. Thus, these privately owned banks became purely profit oriented
top-sided and urban biased. In such a system disparities, in terms of banking
services, such as total number of bank branches, aggregate deposit and
gross credit, were quite obvious and natural. To finance priorities of the
country, the State Bank of India was established under the 'State Bank of
India Act 1955' with the objective of financing the priority and weaker sections
of the society. This bank sought to achieve these objective through branch
expansion programme in the neglected, unbanked and under banked areas
and by providing them the financial assistance on easy and comfortable
conditions.

The literature available during the post establishment period so far,
shows that much of energy has been expanded on the analysis of overall
Indian banking system at the national and the state level but almost no
empirical study has been done so far to evaluate the performance of State
Bank of India in financing the priority sector at district level.

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.

1.7 **SCOPE OF THE STUDY**

A developing economy embodies the character sticks of suboptimally utilised available physical and natural resources, and a large multitude of latent human resources. Human being constitute a society, and the economic and social upliftment of the people are, unquestionably the appropriate indicators of development. In the light of aforementioned statements, it stands to reason that banks should consider social banking an indispensable service to the society rather than an unavoidable obligation.

The term 'social banking' refers to a policy of induced credit delivery by banks to the pre-defined priority sectors such as agriculture, small-scale industry, small-business, retail trade, professional, self employed and economically weaker sections of the society as identified from time to time. Due to greater stress of the banks on elite banking, these sectors had little access to banking facilities prior to nationalisation of the 14 major scheduled commercial banks on 19th July, 1969. The policy of social control on banks was introduced with the enactment of the Banking Laws (Amendment) Bill, 1967. The nationalisation of the 14 banks was the culmination of the ideals of Late Prime Minister Smt. Indira Gandhi, who desired that the institutions, such as the banking system which touches and
should touch the lives of the millions, has necessarily to be inspired by the larger social purpose and sub-serve national priorities and objectives. The Government desired that the bank must earmark a portion of their funds for financing, to the identified priority sectors of the economy.\textsuperscript{41}

Some of the important questions raised again and again in evaluating any human activities are: Is it right or wrong? Is it true or false? Is it proper or improper? Is it adequate or inadequate? In evaluating social projects also we raise similar questions. Evaluation or impact studies of programmes or schemes have become very important aspects of any planning or developmental activities undertaken for social change. Since banks and have been involved in financing many activities under priority sector, there is a need for a comprehensive evaluation of the performance of those lending activities at the individual bank level as well as at the Industry level. The Report of the Working Group on Priority Sector Lending opines that individual banks need to make impact studies of the specific schemes financed by them. The Report also mention that it was necessary that impact study of financing in specific areas (e.g. Backward, Priority Sectors, Tribal, Hill etc.), covering all the schemes should be made on a continuous basis to ascertain the problems encountered in the preparation and implementation of those schemes. This implied that systematic evaluation of various lending programmes on an ongoing basis is very necessary since banks (as implementing agencies) would have to continuously innovate and modify the implementation to ensure efficiency and cost effectiveness.
At present, more than 350 evaluation study reports are available which cover a wide range of activities and programmes. These can be classified into four categories such as: (a) Activity-Specific like poultry, sheep rearing, dairy, etc.; (b) Target-specific such as IRDP beneficiaries, Small farmers, SC/ST, etc.; (c) Scheme-specific, e.g., TRYSEM, PMRY, SEEUY, etc.; (d) Area Specific, viz. a district, a block, a cluster of villages, etc. In many reports one comes across a combination of these four categories.

Financing the priority sector and weaker sectors has its own peculiar feature which the banks have experienced over the years. Therefore the need and scope of this study has been confined to evaluation studies pertaining to priority and weaker section financing. And only, therefore, I have selected this topic, "Role of State Bank of India in Financing the Priority Sector: A Case Study of Aligarh District".

The scope of this study has been confined to evaluation studies pertaining to finance the priority sector by State Bank of India in Aligarh District. Another reason to highlight this topic is as I am a student of Aligarh Muslim University and I am living in Aligarh therefore it is easy for me to collect the data and material from all the Banks and collection of primary data from Survey.

1.8 LIMITATION OF THE RESEARCH WORK

We focused our attention only on the priority sector of the Aligarh District and initial attention has been made only role of the State Bank of India.
The limitations of our research work are:

1. That we have excluded our attention from all other commercial banks except the State Bank of India.

2. The main purpose of the study is to find out the impact and role of the State Bank of India on the development of agriculture and small scale industries in Aligarh District since 1991s.

3. The field survey has been done only in Block Lodha under five villages of 100 borrowers from which 60 farmers and 40 industrialists of district Aligarh was taken.

4. We have collected the information only from three branches of State Bank of India out of 23 branches of Aligarh.

5. We highlighted only two sectors from the priority sector for our field survey. These are agriculture and small scale industries.

6. The informations about income and expenditure was not give by small scale industrialists in figures.

7. We have not done the field survey of small scale industries at the block level.

1.9 **RESEARCH METHODOLOGY**

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.

We have generalised the impact of financing of State Bank of India in the development of the priority sector with the help of primary and secondary data to find out the results of financing on the productivity of various priority sector. We will use some statistical and mathematical measures in finding incremental values.

The Introductory Chapter explains the basic objective of bank nationalisation, the role of banks in economic development, Review of Literature, Objectives of the Study, Need and Scope of the Study and Methodology adopted to test the hypothesis. Next Chapter (Chapter II) elaborates the role of institutional finance for financing the priority sector.
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