CHAPTER 3

NATIONALISED FINANCIAL INSTITUTIONS IN INDIA

Nationalised financial institutions have been called upon to play a crucial role in India by providing the much needed financial infrastructure.¹ In the logistics of growth, finance is a basic element. Rational distribution of resources is as important as their effective mobilisation. Sound economic development implies proper deployment of the available scarce resources through an appropriate distribution mechanism so as to create conditions favourable for further creation and mobilisation of additional resources. One of the major tasks of the financial institutions is to mobilise savings of the community and deploying them to areas, where they can be used productively. With in the family of financial institutions, it is only the commercial and co-operative banks which have been largely mobilising resources directly from the community.²

Nationalised financial institutions in India had traditionally developed along certain lines. It was felt that the pattern of ownership and organisational set up of financial institution in India had resulted in their being controlled by large industrial houses.³ At the time of independence the banking business in the country was completely in private sector.

¹ Southern Economist (Bangalore)- Volume 22, April 15, 1984, p.18.
² Ibid., p.21.
Therefore, after independence, the demand for the nationalisation of financial institution in India was made by some members who had pronounced leanings towards the left, or who were members of the Socialist and Communist parties. They wanted some measures which would quicken the pace of economic development of the country, and thought that nationalisation of banks would be a valuable means for achieving this end. Their demand became louder at periodic intervals in Parliament, in the Press, and on public platforms.

**RESERVE BANK OF INDIA**

Nationalisation of the Reserve Bank of India in the year 1949 was the first step that was taken by the Government towards satisfying the above demand. Though the passing of the Banking Companies Act 1949 cannot be regarded as a concession, because it was long overdue for the purpose of placing the organisation and working of Indian Joint Stock banks on sound footing, nevertheless, it gave comprehensive powers to the Reserve Bank and the Government over the joint stock banks.

**Reserve Bank of India and Industrial Finance**

The Reserve Bank has always been alive to the need for industrial development of the country. Hence, it took keen interest in the field of industrial finance and co-operated with the Central Government in establishing several institutions for the supply of long term finance to industries.
The Reserve Bank played a significant part in the establishment of the Industrial Finance Corporation of India (IFC) in 1948 and subscribed to nearly 40 per cent of its issued share capital. These shares were, later on, transferred to the Industrial Development Bank of India. It has also subscribed to the bonds issued by the IFC. The Reserve Bank is authorised to make loans and advances to the IFC repayable on demand or on the expiry of fixed periods not exceeding 90 days from the date of such loan or advances against Central or State Government securities. The bank can also lend for fixed periods not exceeding 18 months against Central Government securities of any maturity or against bonds and debentures issued by the IFC and guaranteed by the Central Government and maturing within a period not exceeding 18 months from the date of such loan or advance up to a maximum outstanding amount of Rs.3 crores in the aggregate.1

The Reserve Bank has also subscribed to the share capital of the State Financial Corporations (SFC), which have been established with the object of meeting the term credit needs of medium and small scale industries in different States. The bank also extends financial accommodation to these corporations by way of loans and advances. Further, the Reserve Bank is empowered to purchase, sell and rediscount bills of exchange and promissory notes, bearing two or more good signature one of which shall be that of an SFC and drawn or issued for the purpose of financing

the production or marketing activities of cottage and small industries approved by the bank and maturing within 12 months. The repayment of the principal and the payment of interest in respect of such bills should be fully guaranteed by the concerned State Government. The bank also helps the SFC in co-ordinating their functions. In this connection, the bank sponsored several conferences of representatives of SFCs to discuss questions relating to the policy and procedure governing their operations.

Besides granting financial accommodation, the Reserve Bank takes an active part in the management of the above corporations. The Reserve Bank is represented on the boards of directors of the IFC and SFCs.

In 1957, the Reserve Bank created a Department of Industrial Finance to look after the activities of the bank in the sphere of industrial finance. The department attends to the specialised problems of financing industries and keeps itself in continuous touch with the activities of the Central and State Governments and of various other agencies dealing in industrial finance.

In July 1964, the Reserve Bank established the Industrial Development Bank of India as its wholly owned subsidiary. (The IDBI has no more remained the wholly owned subsidiary of the Reserve Bank with effect from February 16, 1976 in accordance with the provisions of the Public Financial Institution Laws Amendment Act 1975. As such, the ownership and the management

of IDBI has been transferred to the Central Government excepting the provision that a Deputy Governor of the Reserve Bank is nominated by the Bank on the IDBI's Board. Thus, a part of the recommendations that it must be given an independent status has already been implemented by the Government.). It was established with the object of co-ordinating and supplementing the operations of other term-lending institutions. It was also intended to act as a developmental agency for planning, promoting and developing industries to fill gaps in the industrial structure of the country. In the same year, the Reserve Bank set up the National Industrial Credit (Long-term operations) Fund with an initial contribution of Rs.10 crores. The Reserve Bank may use this Fund to purchase bonds and debentures issued by the Industrial Development Bank of India and to grant loans to the IDBI for acquiring shares, bonds or debentures of other specified financial institutions or for the purpose of any other business of the IDBI. The Reserve Bank can also grant loans to IDBI against trusted securities for periods not exceeding 90 days and the securities of bills of exchange or promissory notes arising out of bonafide commercial or trade transactions bearing two or more good signatures and maturing within five years from the date of loan. The IDBI recorded sizeable growth in its operations during the year 1982-83. Total sanction under all the schemes (excluding guarantees) went up from Rs.1706.5 crores in 1981-82 to Rs.2174.8 crores in 1982-83. The cumulative assistance sanctioned and disbursed by the IDBI till June 30, 1983 aggregated Rs.10315.8 crores and Rs.7386.9
crores respectively. The total amount outstanding as on June 30, 1983 stood at Rs.5091.6 crores as against Rs.4019.4 crores in 1981-82.

In short, it may be said that the Reserve Bank is playing an important role in the field of industrial finance by extending financial accommodation to the various special institutions established to meet the medium and long term credit needs of the industrial sector.

In view of the importance of the small scale industrial sector in the country's economy, provision for credit and other assistance to this sector has also claimed the Bank's attention. With this end in view, the bank is administering since 1960, a Credit Guarantee Scheme on behalf of the Union Government. The establishment of the Credit Guarantee Corporation of India Limited in 1971 is another step for the furtherance of this objective. The Bank contributed to its initial capital, besides formulating the scheme for its establishment and for providing managerial assistance.

The amount of short medium and long term financial assistance provided by the Reserve Bank to the industrial sector from 1950-51 to 1982-83 through the Industrial Finance Corporation, the State Financial Corporations, the Industrial Development Bank of India and the State Co-operative Banks is shown in Table No.3.1

Table No. 3.1

Table Showing Industrial Credit Assistance Provided by the RBI

(Rs. in Crores)

<table>
<thead>
<tr>
<th>As at the end of the Year</th>
<th>Long Term Finance to the</th>
<th>Medium Term Finance to the</th>
<th>Short Term Finances to the</th>
<th>Aggregate Financial Assistance provided by the RBI to Industrial Sector</th>
<th>Export Import Bank of India</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>IFCI Shares</td>
<td>SFCs Shares</td>
<td>IFCI Bonds</td>
<td>SFCs Bonds</td>
<td>IFCI Shares</td>
</tr>
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<td></td>
<td>Shares Bonds</td>
<td>Shares Bonds</td>
<td>Shares Bonds</td>
<td>Shares Bonds</td>
<td>Shares Bonds</td>
</tr>
<tr>
<td>1950-51</td>
<td>1.03</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1955-56</td>
<td>1.03</td>
<td>2.00</td>
<td>1.70</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1960-61</td>
<td>1.03</td>
<td>2.00</td>
<td>2.35</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1969-70</td>
<td>2.20</td>
<td>2.43</td>
<td>0.18</td>
<td>20</td>
<td>6.27</td>
</tr>
<tr>
<td>1979-80</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1096.67</td>
</tr>
<tr>
<td>1982-83</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1827.74</td>
</tr>
</tbody>
</table>

It may be seen from the table no. 3.4 that the Bank's aggregate assistance to the industrial sector increased from a small amount of Rs. 1 crore in 1951 to Rs. 40 crores in 1969-70, Rs. 1101 crores in 1979-80 and further to Rs. 1839 crores in 1982-83. In particular, there has been a noticeable rise in this assistance since the commencement of fourth plan in 1969. Further, over 99 per cent of the Bank's assistance has been routed through the IDBI.

There is need for rationalising the entire institutional structure of capital market in India which, at present, is characterised by multiplicity of institutions, both at national and regional level, performing more or less identical functions. Suitable schemes of merger should, therefore, be formulated and implemented by the Bank for the purpose likewise there appears to be no justification for administering the Credit Guarantee Scheme for small scale industries by the Reserve Bank when we have a parallel and separate Credit Guarantee Corporation of India for the purpose. The bank should, therefore, give up the responsibility of administering the Credit Guarantee Scheme for small-scale industries in favour of the later. The Bank's knowledge of various organisational, managerial and functional deficiencies of the institutions engaged in financing industrial and agricultural sectors is, of course, inadequate.

1. Ibid, p. 481.
Reserve Bank and Agricultural Finance

The Reserve Bank of India is the most important external agency that provides resources for the agriculture sector. It was after the nationalisation of banks that a significant change took place in the sphere of rural credit. The Reserve Bank began to be considered as the most suitable agency to play a purposeful and positive role with regard to the promotion of a satisfactory system of rural credit particularly in the context of planned economic development and the need for increased agricultural production. The Reserve Bank provides the following types of finance to the agricultural sector.

Short Term Finance: Short term loans are provided up to 12 months for seasonal agricultural operations and marketing of crops since 1955-56 at a concessional rate of 2 per cent below the Bank Rate. From 1973-74, the rate of interest on short-term credit limit for seasonal agricultural operations is 1/2 per cent below the Bank Rate, with a provision for grant of a rebate of 1.5 per cent upon fulfilment of the stipulation of linking borrowings with deposit mobilisation. Credit limits to state co-operative banks for agricultural operations against Government and other trustee securities are being sanctioned at 2 per cent below the Bank Rate. Advances to state co-operative banks for general banking business, however, continue to be sanctioned at the Bank Rate. The credit

limits sanctioned to state co-operative banks fall into three broad categories:

(i) those sanctioned to the apex banks on behalf of affiliated central banks taken individually, in which case loans are secured by two good signatures provided by state and central co-operative banks,

(ii) those sanctioned to apex banks against the guarantee of the State Government in States where the relatively real conditions of the central co-operative banks and of the credit structure as a whole do not make their signature good enough for loans from the Reserve Bank and,

(iii) those sanctioned to apex banks against the security of the Government and trustee securities belonging to them or to their affiliated central banks.

Short-term accommodation to the co-operative institutions is provided with two objectives, that of fulfilling agricultural credit requirements as adequately as possible, and of helping to build up the co-operative credit structure for serving the requirements of rural economy. The initial aim in offering a concessional rate was to induce the state co-operative banks to avail themselves of the refinance facilities provided by the Reserve Bank. It was also intended as a means of enabling the three-tier structure of the co-operative banks, during the early stages of its development when the total business was likely to be low, to provide the margins necessary for the employment of the required staff at different levels without unduly pushing up the rate of interest to the ultimate borrower.¹

¹. Report of the All-India Rural Credit Review Committee, Bombay, 1969, p.713.
Medium-Term Finance: Medium-term loans for periods from 15 months to 5 years are made to state co-operative banks against the guarantee of State Government for approved agricultural purposes. The rate of interest charged on medium-term loans was formerly 2 per cent below the Bank Rate as in the case of advances for seasonal agricultural operations and marketing of crops. This rate was reduced to 1.5 per cent below the Bank Rate in November 1960. From January 1, 1979 this rate is less than 3 per cent.¹ These loans were originally sanctioned by the Bank out of its general resources, but are now sanctioned from out of the National Agricultural Credit (Long-Term Operations) Fund.

While advancing the medium-term agricultural credit, the bank has always emphasized the importance of rationalization of the medium-term loan policies followed by the central co-operative banks so that their medium-term advances are used only for genuine productive purposes and not as 'ways and means' advances.

Long-Term Finance: In the beginning, the Reserve Bank of India did not advance any long-term loans directly to central land mortgage banks. Since 1948, it has been the practice of the Reserve Bank to purchase debentures issued by land mortgage banks so as to make up any shortfall in public subscription up to 10 per cent of every issue, provided such debentures were guaranteed by the State Government as to repayment of principal.

¹. Ibid, p.561.
and interest. In 1950, this proportion was raised to 20 per cent. In 1953, the Government of India (or the State Government by an arrangement with the Government of India) and the Reserve Bank agreed jointly to subscribe up to 40 per cent of the debentures or the unsubscribed balance whichever was smaller, provided at least 50 per cent of the amount so contributed was used in loans for productive purposes. The Reserve Bank, being usually the residual subscriber now contributed to the extent of 20 per cent of the concerned debenture issue.

In 1974-75 the Reserve Bank of India revised the terms and conditions for floatation of ordinary debentures by the Central Land Development Banks. Hitherto they were issuing ordinary debentures in three maturity patterns of 10, 12 and 15 years. Having regard to the institutional investors preference for 10 years debenture, it has been decided to float ordinary debentures in two patterns having a maturity of 10 and 15 years respectively. The rate of interest on both the types of debentures is 6.25 per cent.

The Reserve Bank of India in March, 1979 set up a committee in consultation with the Government of India under the chairmanship of Sri B. Sivaraman, former member of the Planning Commission.¹ This committee was constituted to review the existing institutional arrangements for rural credit to bring about the necessary improvements in the sphere of agri-

cultural finances. The committee submitted its interim report on November 26, 1979. The committee found the role of Agricultural Refinance and Development Corporation inadequate and therefore recommended the setting up of a National Bank for Agricultural and Rural Development, to reduce the rigours of providing credit for agricultural and rural development as well as to oversee and co-ordinate the working of other financial institutions like lead banks, regional rural banks and co-operatives in the field of agricultural and rural development.

The recommendation of the committee were accepted by the Government and National Bank for Agriculture And Rural Development (NABARD) was established for bringing under one umbrella, agricultural credit operations now being conducted by two separate organisations - the short-term and medium-term credit operations by Agriculture Credit Department (ACD) and the long-term operations by the Agricultural Refinance and Development Corporation of India (ARDC). Both are refinancing agencies for the farm credit provided by the commercial banks. The banks provide credit to land development banks, state co-operative banks, regional rural banks, co-operative banks and at the grass roots level primary village societies.
With the setting up of the National Bank For Agriculture And Rural Development (NABARD) on July 12, 1982, the major functions of the Agricultural Credit Department of the Reserve Bank and the entire undertaking of the Agricultural Refinance and Development Corporation (ARDC) were taken over by the NABARD. The assets and liabilities with the Reserve Bank relating to the National Agricultural Credit (Long-term Operations) Fund and the National Agricultural Credit (Stabilization) Fund were transferred to NABARD. NABARD also took over from the Rural Planning and Credit Cell and Department of Banking Operations and Development of the Reserve Bank the refinance and developmental functions relating to Regional Rural Banks as also the inspection of these banks. Thus, in the sphere of rural credit NABARD has emerged as an apex national institution.

Like the Reserve Bank of India, NABARD will make loans and advances to state governments for periods not exceeding 20 years to enable them to subscribe directly or indirectly to the share capital of co-operative credit societies. NABARD can also give long-term loans directly to any institution concerned with agricultural and rural development. Rs.100 crores share capital of NABARD has been subscribed equally by Reserve Bank of India and the Union Government. For its term loan operations,

NABARD will draw funds from the Government, the World Bank and other agencies. For its short-term operations, NABARD will draw funds mainly from Reserve Bank of India.\footnote{Samiuddin and Mahfoozur Rahman: Co-operative Sector in India, S. Chand & Company Ltd., New Delhi, 1983, pp.174-175.}

The share capital of Rs.100 crores of NABARD was contributed equally by the Central Government and the Reserve Bank of India.\footnote{Reserve Bank of India: Report on Currency And Finance 1982-83, Vol.1, Economic Review, p.164.} The outstanding amounts of Rs.1205 crores in the National Agricultural Credit (Long-term operations) Fund and Rs.440 crores in the National Agricultural Credit (Stabilisation) Fund of the Reserve Bank were transferred to NABARD and formed part of its National Rural Credit (Long-term operations) Fund and National Rural Credit (Stabilisation) Fund respectively. The Reserve Bank also transferred out of its profit for the year 1982-83, an amount of Rs.225 crores and Rs.75 crores respectively, to the said funds of NABARD. In March 1983, NABARD floated bonds of Rs.35 crores which were fully subscribed.\footnote{Ibid, p.164.}

After the formation of NABARD, credits from five donor countries viz.- U.K., U.S.A., Netherland, Switzerland and West Germany were negotiated for a total amount of Rs.133 crores.\footnote{Ibid, p.164.} A salient feature of one of the bilateral credit agreements (Viz, with Switzerland) is that it supports financing of rural development operations of small farmers and industries in the

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tiny and decentralised sector through NABARD. This is the first time that a donor country has extended support for a non farm-credit activity of NABARD. The first NABARD credit project to be submitted to the World Bank, envisaging credit of 400 million U.S. dollars was also prepared.

NABARD And Credit Operations

Credit operations of NABARD during 1982-83 were as follows:

**Short-Term Credit**: Credit limits sanctioned for seasonal agricultural operations at Rs.1120 crores continued to account for the bulk of total short term credit limits. Drawals against these limits amounted to Rs.1938 crores and the outstanding amount at the end of June, 1983 stood at Rs.573 crores. Finance for this purpose was made available at the concessional rate of interest of 3 per cent below the Bank Rate provided borrowings from NABARD were within the aggregate level fixed for each Central Co-operative Bank under the scheme of linking of borrowing with efforts at deposit mobilisation.

Short-term credit limits sanctioned by NABARD for purposes other than seasonal agricultural operations aggregated Rs.342 crores during 1982-83 as against Rs.226 crores in the 1981-82. They included limits of Rs.29 crores for marketing of crops (at Bank Rate) and Rs.14500 crores for production and marketing of handloom products and Rs.38 crores for cottage and village industries.1

1. Ibid, p.172.
Medium-Term Credit: NABARD made an allocation of Rs.45 crores from the National Rural Credit (Long-term operations) Fund to various State Co-operative Banks. Upto June, 1983, credit limits sanctioned amounted to Rs.30 crores. During 1983 credit limits sanctioned to State Co-operative Banks and drawals made by them were Rs.28 crores and Rs.17 crores respectively, as compared to Rs.26 crores and Rs.18 crores respectively in 1981-82.\(^1\)

Long-Term Credit: During the financial year 1982-83 NABARD sanctioned loans of Rs.13 crores (same amount as in 1981-82) to State Governments for contribution towards share capital of co-operative credit institutions. Drawals amounted to Rs.13 crores (Rs.12 crores in 1981-82) and the amount outstanding against State Governments was Rs.128 crores at the end of March, 1983.\(^2\)

NABARD and Regional Rural Banks

With the formation of NABARD the Regional Rural Banks commenced the availment of short-term refinance facility (earlier provided by the Reserve Bank) from NABARD. During 1982-83 (July-June), short-term credit limits of Rs.227 crores were sanctioned to 97 Regional Rural Banks and the amount drawn against these limits and outstanding at the end of June 1983 was Rs.189 crores. In 1981-82, short-term credit limits amounting to Rs.177 crores were sanctioned to 82 Regional Rural Banks against an availing of Rs.162 crores.\(^3\)

\(^1\) Ibid, p.172.
\(^2\) Ibid, p.172.
\(^3\) Ibid, p.175.
The State Bank of India was the outcome of the implementation of the recommendations of the Committee of Direction of the All India Rural Credit Survey which was appointed by the Reserve Bank of India in August 1951. The Committee recommended the setting up of a State Bank as one strong integrated State partnered commercial banking institution with an effective machinery of branches spread throughout the country to stimulate banking development by providing vastly extended remittance facilities to the co-operative and other banks and by following a policy in keeping with the national policies adopted by the Government without, of course, departing from the canons of sound business. The committee was of the view that the State Bank of India should be formed by taking over the Imperial Bank of India and other State associated banks. Following the recommendation of the Committee, the Government of India decided to take over the ownership and management of the Imperial Bank of India and, therefore, the State Bank of India Act was passed in 1955. Accordingly, the State Bank of India was constituted on 1st July, 1955 as a successor to the Imperial Bank of India. Later on in 1959, the State Bank of India (Subsidiary Banks) Act was passed, enabling the SBI to take over as its subsidiaries the eight formerly State associated banks. Subsequently two subsidiaries, were merged into one so that at present there are
seven subsidiaries. The subsidiaries were later designated as "Associate Banks".

It may be truly said that the State Bank of India (SBI) was and has been a pioneer in the field of rural banking. It may be said that it was the State Bank which set the direction and pace in respect of opening branches in rural areas of the country, in providing remittance facilities and credit to co-operative credit societies, to the agricultural sector and to small scale industries. It was the State Bank which gave a lead to other banks in respect of rural banking. To perform this new function which devolved upon it since 1955 the SBI has evolved new strategies and techniques, such as the 'Area Approach' and the 'Village Adoption Scheme' for which it has established Agricultural Development Branches well staffed with trained officials and personnel. It is this which gives SBI a pre-eminent position in the sphere of rural banking and agricultural finance and makes its study instructive.

The State Bank of India's domestic operations scaled new heights during 1983. The Bank recorded a significantly higher growth in deposits, food credit and advances to priority and weaker sections. Its non-food non priority credit, however, showed a smaller expansion mainly because of the absence of any

pick-up in industrial growth and widespread inter-corporate lending. Important dimensions of the Bank's domestic operations were the widening of extension support and counselling services for the weaker sections, an increasingly positive response to their emerging needs and a growing involvement in the community development.

**Branch Expansion**

According to the SBI Act 1955, the State Bank was required to open not less than 400 branches within five years of its inception, mainly in rural and semi-urban areas. The SBI in fact opened 416 branches during that period, thus exceeding the statutory obligation.¹

The tempo of the branch expansion programme has been kept up since then by the State Bank. Under the Reserve Bank of India's new branch licensing policy for the period 1982-85, the bank has been allotted 271 unbanked rural and semi-urban centres for opening branches up to the end of the March, 1985, out of which the Bank opened branches at 166 centres. As at the end of June 1983, the Bank had 6567 branches in India out of which 78 per cent were situated in rural and semi-urban areas.² At the end of 1984, the bank had 42 overseas offices operating in 27 countries.³

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The State Bank Group as a whole (i.e. State Bank of India and its seven associates) had a network of 9630 offices in India at the end of 1983. Nearly 77 per cent of these offices were in rural and semi-urban areas and of this 46 per cent in rural areas alone. Branches of the State Bank Group accounted for about 22.6 per cent of the offices of all commercial banks in the country.1 (Out of total 42733 Commercial Banks offices in India State Bank Group accounted 9630 offices).

Deposit Growth

Aggregate deposits of the bank rose by Rs.2534 crores in 19842 to Rs.2317 crores (20.4 per cent) during 1983 as compared to Rs.1309 crores (13.9 per cent) in 1982 i.e. the total deposits of the bank rose from Rs.11336 crores in 1982 to Rs.13703 crores in 1983 and again Rs.16000 crores in 1984.3 The deposits were just Rs.1227 crores in 1969 at the time of the nationalisation of major fourteen commercial banks in India. The rate of growth of deposits of the Bank at 20.4 per cent was much higher than that of the other scheduled commercial banks (13.9 per cent).

The Banks higher deposit growth in 1983 was due to the increased inflow of deposits from non-resident Indians, availability of large oil deposits, further momentum gained in the various

deposits scheme launched by the Bank in the past, a greater planning push from central and circle authorities and emphasis on marketing approach in deposit mobilisation. Also, selected branches in areas having concentration of traders organised door to door deposit mobilisation campaigns, conducted surveys of deposit potential at certain centres and took follow-up action on the basis of survey reports.

State Bank of India & Credit Expansion

Credit expansion of the Bank amounted to Rs.1143 crores (12.8 per cent) in 1983 as against Rs.1307 crores (17.1 per cent) in 1982. While food advances registered a higher increase of Rs.193 crores (22.6 per cent) in 1983 than Rs.149 crores (21.2 per cent) in 1982, its non food advances showed a lower expansion of Rs.950 crores (11.8 per cent) in 1983 as against Rs.1158 crores (16.7 per cent) in 1982.¹

Although the Bank had to provide a higher quantum of finance for financing mounting inventories and receivables in the case of major industries, such as textiles, sugar, steel & paper etc., the Banks non food credit expansion was lower mainly due to the slack demand for credit from industry. Industry level of inter corporate lending and finance raised through debentures and deposits also kept the demand for bank credit somewhat subdued.

State Bank of India and its Subsidiaries Financing of Agriculture:

On the basis of recommendations of the All-India Rural Credit Survey Committee (1951-52), the three-tier co-operative credit structure with appropriate financial assistance from the Reserve Bank of India continued to be the main agency providing development credit to the agricultural sector in the country. The SBI has been playing a useful role in providing finance to agricultural sector.

The SBI grants advances to:

1. State and Central Co-operative Banks for financing marketing of agricultural produce and distribution of fertilisers, etc. as well as for financing of food grains procurement operation.

2. Central Land Mortgage/Development Banks by way of interim finance pending floatation of debentures (besides the Bank's investment in their debenture issues).

3. Co-operative marketing and processing societies for working capital requirements.

4. Primary Agricultural Credit Societies and Farmers Service Societies to enable them to lend to their member borrowers.¹

The financial structure of co-operative credit societies in many states was financially very weak and it was feared that with increasing demand for credit from the agricultural sector which was undergoing a technical breakthrough, the co-operative credit structure alone and by itself would not be in a position to provide the required agricultural credit.

In 1968, the SBI decided to provide finance directly to agriculturists for all agricultural operations right till the marketing of agricultural produce as also for mechanisation and modernisation of farms, provision of irrigation facilities and development of land. The State Bank also decided to provide financial assistance to special agricultural activities, such as animal husbandry, cattle breeding, etc.

The SBI decided in 1971 "to lay emphasis on an integrated area approach with a view to developing compact areas where economic growth could be accelerated with the Banks support, preference being given to areas which are backward and where special schemes of the Government are being taken up".¹

The State Bank Group aims at the objective that with the State Bank Group's support, there should be improvement in the various facets of the area. The centres to be developed with the support of the State Bank Group are selected in consultation with the concerned State Government. Also, while selecting such centres or areas for development, the bias is in favour of those geographical areas which are covered by Small Farmers Development Agencies (SFDA), Marginal Farmers And Agricultural Labourers Schemes (MFALS), scheme of Rural Electrification Corporation and co-operatively under developed areas, as also those geographical areas where there is concentration of landless agricultural labourers and cultivators belonging to economically backward committees.

¹ Ibid, p.10.
The Banks total agricultural advances rose from Rs. 1567 crores in 1982 to Rs. 1892 crores in 1983, showing a rise of Rs. 325 crores.

Direct agricultural advances of the bank rose from Rs. 1292 crores covering 38.6 lacs farmers accounts in 1982 to Rs. 1575 crores spread over 42.5 lacs farmers accounts in 1983. Direct advances accounted for 15.6 per cent of the total advances at the end of 1983, thus exceeding the stipulation of 15 per cent laid down in this respect by the Government to be achieved by March 1985.

The Banks indirect agricultural advances rose to Rs. 317 crores in 1983 i.e. by Rs. 42 crores as against the rise of Rs. 24 crores in 1982. These advances included Rs. 31.2 crores advanced to 2.7 lacs farmers through 939 primary agricultural credit societies and Rs. 8 crores provided to 58064 farmers through 45 Farmers Service Societies. It is obvious that the focus of direct and indirect financial assistance by the State Bank and its Group has been the small farmer which can be seen from the following table :-
Table No. 3.2

State Bank & its Associates Advances to Agriculture

<table>
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<th>Particulars</th>
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<th>Indirect Finance</th>
<th>Total</th>
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<td></td>
<td>ST</td>
<td>MT/LT</td>
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</tr>
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<td>As on June 1981</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of accounts</td>
<td>2378741</td>
<td>1415277</td>
<td>545831</td>
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<td>Limits Sanctioned</td>
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</tr>
<tr>
<td>Balance Outstanding</td>
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</tr>
<tr>
<td>As on June 1970</td>
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<tr>
<td>No. of accounts</td>
<td>N.A.</td>
<td>N.A.</td>
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<tr>
<td>Limits Sanctioned</td>
<td>94.53</td>
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</tbody>
</table>


In furtherance of the shift in credit policies of the bank towards financing agriculture, the bank had begun evincing active interest in rural credit. In 1970 the bank laid greater emphasis on indirect finance while the outstanding balance was also higher. In 1981, the bank provided more direct finance (short-term and long-term loans) than indirect finance.

1. Indirect Finance includes distribution of fertilisers and other inputs, loans to Electricity Board, Loans to Farmers through Primary Agricultural Credit societies etc.
Agricultural Development Branches: One of the major strategies of the Bank to increase its involvement in the development of Agriculture has been to open Agricultural Development Branches with adequate technical and extension support at the centres with the requisite potential for agricultural development. Due to the difficulties in obtaining fresh licences, the Bank could open only two branches in 1983. Thus, the number of such branches rose from 315 in 1978 to 429 in 1982 and to 431 in 1983. Outstanding advances stood at Rs.576 crores covering 16.1 lacs farmers at the end of 1983 as against Rs.482 crores covering 14.2 lacs farmers at the end of 1982.¹ In 1978 outstanding advances stood at Rs.203 crores covering 8.76 lacs farmers. These branches accounted for 36.6 per cent of the total direct agricultural advances of the Bank and 41.7 per cent of the direct agricultural accounts.

State Bank of India and its Subsidiaries in Financing Small Scale Industries: The primary purpose for which the Imperial Bank was nationalised was to make the Bank to play a promotional role in the context of planned economic development of the country. Besides opening branches in the unbanked centres and financing of the co-operative movement, the State Bank Group has been the most significant single source of institutional assistance to small scale industries in the country. Over the years, the Bank

¹. Ibid, pp.37-38.
has been responding continuously to the expanding and diversified credit needs of small scale industries with a growing emphasis on assisting village and cottage industries and the smaller among the small units and also on providing support services like consultancy, counselling and training in technical and managerial fields. Efforts were also made to develop entrepreneurship in backward areas.

Soon after the State Bank was formed a pilot scheme for provision of co-ordinated finance to small scale industries was started at 9 of its branches. The number of these centres was gradually increased. In the light of the experience gained, the scheme was extended in 1960 to cover the grant of term loans for purchase of fixed assets by small scale units.

The State Bank of India Act enables the State Bank to extend term finance to industries, both big and small. This is a new field, because traditionally banks provide only working capital for industries. In a growth oriented economy, bank finance is needed for capital expenditure expansion and modernisation. The bank grants medium-term loans upto 10 years for the acquisition of plant and machinery for a new project or for modernisation of existing plant and machinery.

Bank's activities in the small business sector are directed towards providing increasing self employment opportunities by financing retail traders, transport operators and professionals.
The number of small business accounts on the books of the Bank increased from 6.9 lacs at the end of 1982 to 7.6 lacs at the end of 1983. The amount outstanding rose from Rs.500 crores in 1982 to Rs.625 crores in 1983. As at the end of 1983, 68 percent of the borrowers had credit limits below Rs.5000 and 48 percent of these advances were granted at branches in backward areas.

As at the end of 1983, the Bank financed 2.6 lacs village and cottage industries and artisans to the tune of Rs.63.6 crores. These advances had stood at Rs.46.5 crores covering 2.3 lacs village/cottage industries and artisans at the end of 1982. Out of the 2.6 lacs village and cottage industries and artisans financed by the Bank at the end of 1983, 36800 were artisans who were given financial assistance to the extent of Rs.8.6 crores. Technical Extension Officers (village industries) have been appointed to help small artisans to improve their production methods and technology.

The State Bank of India has made considerable progress in extending financial assistance to small scale industries (i.e. small scale industrial units in Rural Industries Projects) under its 'Liberlised Scheme'. The number of units which were only just 36935 after the nationalisation of major fourteen banks increased to about 4,69 lacs after the nationalisation of six

1. Ibid, pp.44-45.
2. Ibid, p.46.
commercial banks. The latest data available shows that the number of units increased to about 5.08 lacs, while the limits sanctioned increased to Rs.

276.9 crores, on March 1970 to Rs.

1465.33 crores on December 1980 and to Rs.

1624.47 crores in June 1981. The outstanding balance also increased sharply i.e. from Rs.

152 crores in 1970 to Rs.

1383 crores in 1981.¹

State Bank of India and its Advances to Priority Sector: The Bank continued to make rapid progress during 1983, extending credit to the priority sectors and other weaker sections of the community. As per the recommendations made by the Working Group on the Role of Banks in the implementation of New 20-Point Programme, the RBI issued certain modifications with regard to the implementation of this programme and in the various targets and sub-targets for lending to priority sectors, particularly to the weaker sections. The Bank provided, on an increasing scale, extension support and counselling services covering financial, managerial and technical aspects. Total advances of the Bank to the priority sectors increased from Rs.

3276 crores covering 50.6 lacs borrowed accounts in 1982 to Rs.

3995 crores spread over 557 lacs borrowed accounts in 1983. Between June 1969 and December 1983, the advances by the bank to these sectors showed a 24 fold rise in the amount and a 127 fold increase in the number of accounts. These advances constituted 39.7 per cent of

the total advances of the Bank as against 36.7 per cent at the end of 1982. The Bank is, thus, well poised to fulfil the target of 40 per cent laid down by the Government by March 1985.1

Assistance to Weaker Sections: With the priority sectors, the Government has stipulated that advances to the weaker sections have to reach the level of 25 per cent of priority sector advances or 10 per cent of total bank credit by the end of March 1985. As at the end of 1983, the Bank's advances to the weaker sections specified by the Government stood at Rs.845 crores, accounting for 21.2 per cent of the priority sector advances and 8.4 per cent of the Bank's total advances.

With a view to further increasing the coverage of weaker sections, branches have been asked to prepare bankable schemes especially for the benefit of scheduled castes and scheduled tribes, and also to closely co-ordinate their activities with the concerned state corporations. In addition, branches have been asked to evolve suitable strategies to achieve the goals and to accord due publicity to the facilities available to target groups under the various schemes.

At the end of 1983, the Bank's advances to landless labourers, tenant farmers and share croppers and also to small and marginal farmers with land holding up to 5 acres accounted for 37.1 per cent of the Banks direct agricultural advances.

Similarly artisans and village/cottage industries, with borrowed limits not exceeding Rs.25,000 and situated in villages and small towns, stood at Rs.63.6 crores at the end of 1983. In order to increase the coverage of artisans and village industries, Technical Extension Officers are being appointed.

State Bank of India And the Lead Bank Scheme

Under the Lead Bank Scheme introduced by the Reserve Bank of India in 1969, major commercial banks have been allotted 383 districts of the country.¹ The Lead Bank's were expected to act as pace-setter in their Lead Districts for providing integrated banking facilities. For this purpose, the lead banks were expected to conduct extensive surveys of lead districts allocated to them, with a view to evolving plans and programmes for the integrated development of banking and for filling up existing credit gaps. The Lead Bank was expected to play a major role in the development of banking and meeting credit needs in the allotted districts in co-operation with other banks and other agencies interested in integrated development of the area.

Under the Lead Bank Scheme, the State Bank has been allotted 72 districts. Survey reports for all the lead districts allotted to the Bank were completed by the end of 1973. In 1983 the number of lead districts of State Bank of India increased from 77 to 81.²

The Bank formulated and launched the third round credit plans covering a period of 27 months from January 1983 to March 1985 and also the annual action plans for 1983 for its lead districts. In order to provide the necessary impetus for orderly economic growth, the State Bank has evolved a strategy of formulation of district credit plans on the basis of in-depth studies of representative community development blocks/talukas/growth centres in the districts. In the district credit plans, the bankable schemes which are economically viable and technically feasible are identified and a plan of action for financing such schemes is prepared.

The district credit plans for the Bank's lead districts for the period January 1983 to March 1985 envisaged a total credit outlay of Rs.889 crores by all the participating financial institutions, of which the State Bank's share is Rs.198 crores or 22 per cent of the total outlay. The total credit outlay envisaged in the annual action plans for 1983 was Rs.501 crores for all the participating financial institutions, of which the share of the Bank was Rs.105 crores or 21 per cent. Against this, the Bank disbursed Rs.122 crores in its lead districts upto the end of 1983.

State Bank of India & Regional Rural Banks

The total number of Regional Rural Banks sponsored by the State Bank of India rose to 26 by the end of 1983, covering
55 backward and underbanked districts. During the year, these banks opened 294 branches, taking the total number of their branches to 1454 and their deposits increased by Rs.28.8 crores to Rs.132.1 crores spread over 16.6 lacs accounts at the end of 1982. The loans disbursed by these banks to small and marginal farmers and other economically weaker sections of the rural community during the year amounted to Rs.91.9 crores spread over 15.5 lacs accounts and their outstanding advances increased by Rs.33.5 crores to Rs.161.9 crores. The Regional Rural Banks sponsored by the Bank account for 18.6 per cent of branches, 20.7 per cent of deposits and 21.8 per cent of advances of the 142 Regional Rural Banks operating in the country at the end of June 1983.¹

The Bank has also sanctioned limits to these Regional Rural Banks to the extent of Rs.92.7 lacs at a nominal rate of interest of 2 per cent for granting advances to the poorest among the poor in their areas of operation under the Differential Interest Rates Scheme. Besides, the Bank has deputed 195 officers to these Regional Rural Banks to more important positions in their organisations. In addition, the Bank has also assisted these banks in setting up internal audit machinery at their Head Offices.

¹. Ibid, p.48.
The State Bank of India & Integrated Rural Development Programme

The State Bank launched in 1977 an Integrated Rural Development programme (IRDP) on a pilot basis. With the object of meeting all the developmental needs, including social and cultural needs of the people in selected villages. Under the integrated rural development scheme launched by the State Bank, not only needs of agriculture and allied activities such as village industries are met, but the integrated rural development programme is comprehensive enough to cover health, housing and such other needs of villagers in selected areas. The IRDP is financed partly by subsidy and partly by bank loans. Depending on the status of the beneficiaries, either as a small farmer or as a marginal farmer etc., the subsidy varies between 25 - 33 1/3 per cent the cost of the scheme. This implies a credit support of 3-4 times the quantum of subsidy if the schemes are to be implemented.

The Bank has been extending full support to the Integrated Rural Development Programme at all its rural and semi-urban branches. During 1983, the Bank disbursed loans aggregating to Rs.102.7 crores to 4.7 lacs beneficiaries under the IRDP against Rs.54.4 crores disbursed to 2.6 lacs beneficiaries in 1982. The loans disbursed were just Rs.3.18 crores among 15446 account holder in 1978. Upto the end of 1983, cumulative disbursements under the Programme worked out at Rs.246.7 crores covering 10.8 lacs beneficiaries. The improved performance
under the programme was the result of several measures taken by the Bank at the regional level such as training the branch officials in IRDP implementation, strengthening staff support at rural branches, bringing about better co-ordination between branches and field level functionaries of the Government and persuading the Government to provide infrastructure and back-up support in back-ward areas.

State Bank of India and Differential Interest Rates Scheme

The State Bank has recorded considerable progress under the Differential Interest Rates Scheme of Commercial Bank lending to economically and socially backward class members for productive endeavours, initiated by the Government since July 1972.

The bank's advances under the differential interest rates scheme rose from Rs.34 crores at the end of 1978 to Rs.118 crores at the end of 1983 and to Rs.139 crores at the end of 1984.¹ The number of accounts went up from 7.3 lacs to 12.7 lacs. These advances constituted 1.4 per cent of the Bank's total advances, thus surpassing the target of 1 per cent stipulated by the Government. As at the end of 1984, 76 per cent of the Bank's advances under the DIR scheme were made available through rural and semi-urban branches as against the stipulation of 66 2/3 per cent laid down by the Government.

The Scheme also covers institutions for the physically handicapped persons, orphanages and women's homes. The State Bank can route their funds through the State Corporations for scheduled castes and scheduled tribes. While providing financial assistance for productive purposes to these borrowers, the State Bank generally takes an integrated view of their financial requirements, including unforeseen expenses arising out of sickness and social or religious ceremonies in the family. The State Bank is also making arrangements to enable borrowers of this class to get supply of raw materials and selling their products with the assistance of reliable intermediaries. Table 3.3 depicts the progress of State Bank of India since its inception.

Table No. 3.3

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>(Amounts in crores of rupees)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aggregate Deposits &amp; other accounts</td>
<td>226</td>
<td>1227</td>
<td>9636</td>
<td>10077</td>
<td>11386</td>
<td>13703</td>
</tr>
<tr>
<td>Advances</td>
<td>106</td>
<td>841</td>
<td>7213</td>
<td>7622</td>
<td>8929</td>
<td>10072</td>
</tr>
<tr>
<td>Total Agricultural Advances</td>
<td></td>
<td>92</td>
<td>1111</td>
<td>1440</td>
<td>1567</td>
<td>1892</td>
</tr>
<tr>
<td>Finance to Small Scale Industries</td>
<td></td>
<td>104</td>
<td>853</td>
<td>1075</td>
<td>1194</td>
<td>1438</td>
</tr>
<tr>
<td>Small Business Finance</td>
<td></td>
<td>7</td>
<td>304</td>
<td>427</td>
<td>500</td>
<td>625</td>
</tr>
<tr>
<td>Export Finance</td>
<td></td>
<td>69</td>
<td>475</td>
<td>437</td>
<td>411</td>
<td>428</td>
</tr>
<tr>
<td>No. of Offices*</td>
<td>497</td>
<td>1673</td>
<td>5605</td>
<td>6010</td>
<td>6293</td>
<td>6611</td>
</tr>
<tr>
<td>*(Including Overseas offices)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

NATIONALISED COMMERCIAL BANKS

On July 19, 1969, 14 major Indian scheduled commercial banks in the country, each having total deposits of Rs. 50 crores or more and conducting about 85 per cent of the total commercial banking business were nationalised with a view to ensuring that banks were adequately motivated towards a speedy achievement of the social purposes including the meeting of the legitimate requirements of the weaker sections of the society.

It was expected that the nationalised banks would endeavour to meet the needs of productive efforts of diverse kinds irrespective of size and social status of the borrowers and, in particular, of farmers, small scale industries, and self-employed professional groups, and to create fresh opportunities for backward areas in different parts of the country. This called for a number of changes in the banks' attitude and methods of operation. It was considered necessary to re-orient the concept of security for loans, to pay special attention to the growth-potential and developmental needs of local areas and to forge closer relations with developmental finance institutions. It


2. Prime Minister's broadcast on July 19, 1969 announcing the decision on bank nationalisation.
was also felt that large borrowers did not have more access to the resources of banks than was actually required for productive use and the use of credit for speculative and other unproductive purposes was prevented. Simultaneously, they were required to intensify their efforts, through a co-ordinated branch expansion programme, for deposit mobilisation in all parts of the country and from all sections of the people.

Specific objectives of the nationalisation of commercial banking in India as set forth by the Prime Minister may be summarised as follows:

1. Removing the control of a few large industrial houses over commercial banking in the country.

2. Providing adequate credit to the priority but hereto neglected sectors of the economy like agriculture, small industry exports and so on.

3. To introduce professional management in commercial banking business of the country (in place of hereditary sort of management which was prevailing before nationalisation).

4. To provide proper incentives and stimulus so that a new class of entrepreneurs emerges in the country and,

5. To make provision for adequate training and reasonable terms and conditions of service for bank employees.

Another significant development was the nationalisation on April 15, 1980 of six more commercial banks in the private

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sector, whose demand and time liabilities in India as on the 14th day of March 1980 amounted to not less than Rs. 200 crores. The objective was to enhance the ability of the banking system to meet more effectively the needs of the development of the economy and to promote the welfare of the people more adequately. With the nationalisation of these six banks, the number of public sector banks increased to 28 (comprising the State Bank of India and its 7 subsidiaries and 20 nationalised banks).

Branch Expansion Programme of Nationalised Banks

After nationalisation of the major commercial banks in the country, the branch licensing policy of the Reserve Bank of India in conformity with the objectives of bank nationalisation, naturally favoured opening of commercial bank branches in rural centres, mostly in unbanked and underbanked areas. With this end in view, the Bank drew up a programme of branch expansion in December 1969. This programme envisages the opening of 1350 offices by them in 1970, including 1186 offices at unbanked centres. Towards this end, the Reserve Bank followed the policy

of linking the opening of urban branches to the opening of branches in rural areas. Thus, the policy that was evolved (after some modification in the old policy favouring branch expansion in rural areas) and has been followed since January 1977, was that a commercial bank could open one office in a metropolitan or port-town and a banked centre for every four offices opened in unbanked rural centres. It was also decided that banks should be required to complete the opening of branches in all unbanked community development blocks by June 1978.

The Reserve Bank decided to further revise its policy in respect of branch licensing policy, discarding the prevailing system of linking the opening of urban branches with opening of branches in rural areas. Commercial banks will now be allowed to open branches any where in 'deficit States' and only in deficit districts in the case of 'surplus States'. Opening of branches in metropolitan and urban centres will, however, be subject to the discretion of the Reserve Bank.

Again in 1981, Reserve Bank of India formulated the branch expansion policy for the period from April 1982 to March 1985 in consultation with Government of India. The main thrust

1. A 'Deficit State' is a State where the average population per bank office is higher than the national average in this regard. A 'Surplus State' is one where the average population per bank office is lower than the national average. A 'Deficit District' is one where the population per bank office is higher than the State average.
of the policy continues to be on improving banking facilities in rural and semi-urban areas and reducing inter-regional disparities in the spread of such facilities. The policy aims at achieving a coverage of one bank office on an average for a population of 17,000 in the rural and semi-urban areas by the end of March 1985 as per the 1981 census.\(^1\) State Governments were advised to identify rural unbanked centres where new bank offices could be located. In Uttar Pradesh, a major part of the programme was finalised and the State Government was asked to identify additional centres for completing the programme in accordance with the requirements of the policy. On the basis of the suggestions of the State Governments regarding the centres in rural areas identified for the opening of new bank offices, 5100 centres were allotted to banks according to the guidelines laid down under the policy. As at the end of June 1983, banks were holding authorisation of licences for opening offices at 5475 centres.\(^2\)

The following table gives the number of offices of nationalised commercial banks as at the end of June 1969, 1980, 1983.

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2. Ibid, p.145.
Table No. 3.4
Bank Group-wise Distribution of Nationalised Banks in India

<table>
<thead>
<tr>
<th>Bank Group</th>
<th>19.7.69</th>
<th>June 1980</th>
<th>June 1983</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>820</td>
<td>3597</td>
<td>4639</td>
</tr>
<tr>
<td>Semi-Urban</td>
<td>1171</td>
<td>2334</td>
<td>2643</td>
</tr>
<tr>
<td>Urban</td>
<td>249</td>
<td>1017</td>
<td>1172</td>
</tr>
<tr>
<td>Metropolitan/Port Town</td>
<td>225</td>
<td>792</td>
<td>907</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2465</strong></td>
<td><strong>7740</strong></td>
<td><strong>9361</strong></td>
</tr>
</tbody>
</table>

14 Nationalised Banks

<table>
<thead>
<tr>
<th>Bank Group</th>
<th>19.7.69</th>
<th>June 1980</th>
<th>June 1983</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>703</td>
<td>6428</td>
<td>8858</td>
</tr>
<tr>
<td>Semi-Urban</td>
<td>1465</td>
<td>3726</td>
<td>4043</td>
</tr>
<tr>
<td>Urban</td>
<td>928</td>
<td>2659</td>
<td>2972</td>
</tr>
<tr>
<td>Metropolitan/Port Town</td>
<td>1072</td>
<td>2543</td>
<td>2691</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4168</strong></td>
<td><strong>15356</strong></td>
<td><strong>18564</strong></td>
</tr>
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</table>

6 Nationalised Banks

<table>
<thead>
<tr>
<th>Bank Group</th>
<th>19.7.69</th>
<th>June 1980</th>
<th>June 1983</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>-</td>
<td>2726</td>
<td>1400</td>
</tr>
<tr>
<td>Semi-Urban</td>
<td>-</td>
<td>2726</td>
<td>693</td>
</tr>
<tr>
<td>Urban</td>
<td>-</td>
<td>2726</td>
<td>593</td>
</tr>
<tr>
<td>Metropolitan/Port Town</td>
<td>-</td>
<td>2726</td>
<td>501</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6633</strong></td>
<td><strong>25822</strong></td>
<td><strong>31112</strong></td>
</tr>
</tbody>
</table>

Source: Reserve Bank of India, Report on Currency and Finance for the relevant years.
The nationalisation of major commercial banks led to the creation of additional responsibilities for the scheduled commercial banks. One such responsibility was the mobilisation of savings through bank deposits. The need for increasing deposits was not based solely on the requirement of funds for the banks, but it was largely aimed at involving the people of all income groups in the process of economic development through their contribution to the mobilisation of financial resources. "The growth of Bank deposits is a key element in the progress of commercial banking system. It reflects greater degree of sophistication in financial trading customs and practices".  

Mobilisation of deposits is a pre-requisite for the deployment of credit and fulfilment of other obligations by the commercial banking system. Deposits constitute the single largest source of bank funds. Hence, the successful performance of its role hinges crucially upon its ability to tap the saving potential of all sections of society and more particularly, the rural sector. On account of deliberate efforts made to mobilise rural deposits, there has been a tremendous increase in the volume of deposits mobilised by commercial banks.

With the opening of more offices of scheduled commercial banks in rural and semi-urban centres, particularly unbanked ones,

there has been a distinct quantitative change in the contribution of these offices to aggregate deposits of the banking system. The overall position of deposits can be seen from the following table:

Table No. 3.5

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<tr>
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<tbody>
<tr>
<td></td>
<td>Depo-</td>
<td>% to Total</td>
<td>Depo-</td>
</tr>
<tr>
<td></td>
<td>sits</td>
<td>Total</td>
<td>sits</td>
</tr>
<tr>
<td>Rural</td>
<td>145</td>
<td>3.1</td>
<td>5261</td>
</tr>
<tr>
<td>Semi-Urban</td>
<td>1024</td>
<td>22.0</td>
<td>9368</td>
</tr>
<tr>
<td>Urban</td>
<td>1209</td>
<td>25.9</td>
<td>9947</td>
</tr>
<tr>
<td>Metropolitan</td>
<td>2287</td>
<td>49.0</td>
<td>15837</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4665</strong></td>
<td><strong>100.0</strong></td>
<td><strong>40413</strong></td>
</tr>
</tbody>
</table>

Source: Reserve Bank of India, Basic Statistical Return for the relevant years.

The share of rural and semi-urban offices in total deposits as at the end of June 1982 was 13.9 per cent and 23.2 per cent respectively as against mere 3.1 per cent and 22 per cent in 1969. The percentage of urban and metropolitan deposits in total deposits as at the end of June 1982 was 24.9 per cent and 38 per cent respectively as against 25.9 per cent and 49 per cent.
respectively. Just before the nationalisation of major banks, the efforts of the banks in mobilisation of rural deposits have been remarkable. In percentage, it increased more than four times. Thus increasing trend was noticeable in the case of semi-urban offices also, the percentage share of their deposits having increased from 22 per cent to 23.2 per cent. The share of urban and metropolitan offices in total deposits on other hand, declined over the 13 years period. The percentage of urban offices decreased from 25.9 per cent to 24.9 per cent and that of metropolitan decreased from 49 per cent to 38 per cent.

Advances By Commercial Banks

Commercial Banks have been called upon to play a key-significant role in rural development of India by providing the much needed financial infrastructure. Credit being a key input and the co-operatives having not been able to meet the credit requirements of the rural sector fully, commercial banks have been rightly assigned a major role in meeting the financial requirements of rural developments. To what extent commercial banks can play their role in this regard depends on the spread of rural branches, mobilisation of rural deposits and deployment of credit in rural areas.

One of the most controversial aspects of the performance of commercial banks relates to the deployment of credit in
different sectors of the economy. From the beginning, commercial banks have been accused of grossly neglecting the credit requirements of the rural sector. In fact, the view held in certain quarters led to the demand for the nationalisation of commercial banks during 1960s which the government tried to meet in the form of imposition of social control measures over commercial banks in 1967. Also, this formed the main basis for nationalisation of major Indian scheduled commercial banks in 1969 and 1980. The objective was to bring about a proper alignment between the increasing tempo of rural activities and the availability of credit from the commercial banks to sustain such activities. The following table shows the trends in rural credit deployment between June 1969 and June 1982.

Table No. 3.6
Table Showing The Trends in Rural Credit Deployment

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td></td>
<td>Advances</td>
<td>% of Total</td>
<td>Advances</td>
</tr>
<tr>
<td>Rural</td>
<td>54.29</td>
<td>1.5</td>
<td>2642.84</td>
</tr>
<tr>
<td>Semi-Urban</td>
<td>406.57</td>
<td>11.3</td>
<td>4200.65</td>
</tr>
<tr>
<td>Urban</td>
<td>722.00</td>
<td>20.0</td>
<td>5635.28</td>
</tr>
<tr>
<td>Metropolitan</td>
<td>2426.00</td>
<td>67.2</td>
<td>12381.63</td>
</tr>
<tr>
<td>Total</td>
<td>3608.86</td>
<td>100.0</td>
<td>24860.40</td>
</tr>
</tbody>
</table>

Source: Reserve Bank of India, Basic Statistical Returns for the relevant years.
It is evident from the table no. 3.6 that rural advances of commercial banks increased from a mere Rs.54.29 crores in June 1969 to Rs.2642.84 crores in December 1980, and again to Rs.3792 crores in June 1982. In contrast, the advances made to semi-urban and urban areas registered a less significant increase. The credit in rural areas increased about 70 times by June 1982 as compared to their level in June 1969. The rate of increase achieved in respect of credit to semi-urban and urban centres is somewhat less impressive. In semi-urban areas the advances increased to about ten times while in urban they increased to about eight times. In regards to metropolitan centres, the advances increased by about five times. The efforts made by banks in deploying more funds in rural and semi-urban areas during the post nationalisation period are reflected in the significant improvement in the credit ratio over the period. If we compare in relation to percentage, we find that the advances in rural areas which were just 1.5 per cent at the time of nationalisation increased to 12.2 per cent in June 1982, while in metropolitan towns, it was just the reverse, the percentage having declined from 67.2 in 1969 to 47.8 in 1982. With regard to semi-urban and urban sectors though the percentage increased, the increase was not very significant.

Commercial Banks And Finance to Industry: Banking in India has undergone a tremendous transformation during the last few
decades. Banks had to act not only as purveyors of credit, but also as harbingers of social and economic changes by acting as catalytic agents to promote economic development through a variety of enterprises, many of which may be tiny, and yet capable of generating productive energies. This is all the more necessary in a developing country like ours where industrial production has to be increased to meet the ever growing consumption demand, the rate of growth of unemployment has to be checked and adequate number of jobs have to be provided to the unemployed.

Banks have been assisting industrial sector in a variety of ways. Bank lending to industry has witnessed, both quantitative and qualitative changes, some of which are quite significant. The structural changes in sectoral deployment of gross bank credit is provided in the Table No.3.7:-
Table No. 3.7

Table Shows The Trends in Sectoral Deployment of Bank Credit

<table>
<thead>
<tr>
<th>Category</th>
<th>March 1968</th>
<th>June 1980</th>
<th>March 1983</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount % of Total</td>
<td>Amount % of Total</td>
<td>Amount % of Total</td>
</tr>
<tr>
<td>1. Large &amp; Medium Industries</td>
<td>1857</td>
<td>7702</td>
<td>13234</td>
</tr>
<tr>
<td></td>
<td>60.6%</td>
<td>36.1%</td>
<td>38.4%</td>
</tr>
<tr>
<td>2. Small Scale Industry</td>
<td>211</td>
<td>2534</td>
<td>4480</td>
</tr>
<tr>
<td></td>
<td>6.9%</td>
<td>11.9%</td>
<td>13.0%</td>
</tr>
<tr>
<td>3. Agriculture &amp; Allied Activities</td>
<td>67</td>
<td>3152</td>
<td>5269</td>
</tr>
<tr>
<td></td>
<td>2.2%</td>
<td>14.8%</td>
<td>15.3%</td>
</tr>
<tr>
<td>4. Internal Trade (including procurement &amp; wholesale)</td>
<td>588</td>
<td>4741</td>
<td>5299</td>
</tr>
<tr>
<td></td>
<td>19.2%</td>
<td>22.3%</td>
<td>15.4%</td>
</tr>
<tr>
<td>5. Others (include Services, Personnel Loans etc.)</td>
<td>341</td>
<td>3182</td>
<td>6150</td>
</tr>
<tr>
<td></td>
<td>11.1%</td>
<td>14.9%</td>
<td>17.9%</td>
</tr>
<tr>
<td>Total</td>
<td>3064</td>
<td>21311</td>
<td>34432</td>
</tr>
</tbody>
</table>

Source: Reserve Bank of India, Basic Statistical Returns for the relevant years.

The above table shows the distinct shift in emphasis in sectoral deployment of bank credit over the post-nationalisation period. It would, thus, be seen that while by the end of March 1968 about 67.5 per cent of the total bank credit was claimed by Industry (both large & medium and small scale industries) this share went down to 51.4 per cent by March 1983. As between large and medium industry and small scale industry, the share of former
went down consistently from 60.6 per cent in March 1968 to 38.4 per cent in March 1983 while the latter recorded significant increase from 6.9 per cent to 13 per cent during the same period. The share of agriculture and allied activities increased from 2.2 per cent in 1968 to 14.8 per cent in 1980 and further to 15.3 per cent in 1983. In case of internal trade which includes wholesale trade and food procurement, the percentage increased from 19.2 per cent in 1968 to 22.3 per cent in 1980 but after that it reduced rapidly and came down to 15.4 per cent in 1983.

Commercial Bank's Role in Providing Credit to Priority Sector: Extension of credit to small borrowers in the hitherto neglected sectors of the economy is one of the principal tasks assigned to the public sector banks. To achieve this objective, the banks have drawn up schemes to extend credit to small borrowers in sectors like agriculture, small scale industry, road and water transport, retail and small business which traditionally had very little share in the credit extended by the banks. The endeavour has been to create a suitable climate and provide a viable infrastructure for all round development in rural areas. The scheme of credit to priority sector is a comprehensive programme of activities which include agricultural growth, development of economic and social infrastructure, as well as conservation of resources land, water and human. It has two important aspects, viz., economic development with a close interaction between
different sections and sectors, and economic growth specifically directed to the rural poor.

Though financing of agriculture and rural development programme by commercial banks started in 1955, in the true sense, this trend developed only after the nationalisation of banks. The main feature of the post-nationalisation development of banking in India is its thrust into the rural sector. Before nationalisation, banking was hesitant in financing agriculture. Over the last decades or so, the operation of public sector banks have been re-oriented in response to the socio-economic demands of our developing society. The main thrust of priority sector credit is towards weaker sections not only in terms of providing incentives for development but also linking economic activities to a planned infrastructure. This programme lays emphasis on tackling problems of unemployment and under-employment and rural poverty by optimum mobilisation and utilisation of manpower and other resources, to raise the standard of living and the quality of life, particularly of the poor. To tackle the problem of weaker sections under this programme, public sector banks have introduced special schemes and simplified application forms and lending procedures.

The banking business progressed to a great extent during the seventies. The Reserve Bank of India took keen interest in the deployment of credit to the rural sector. The most important
among the stipulations laid down by the authorities in regard to credit deployment, currently in force are as under:-

1. Bank finance to priority sector to reach 40 per cent of their total credit by 1985.

2. Bank lending to agriculture and to the units under the Differential Interest Rates (DIR) scheme to be 16 per cent and 1 per cent respectively of the total credit.

3. 12.5 per cent of total lending to go to small scale industries sector, including village and cottage industries and rural artisans, by 1985.

4. Branch expansion policy favouring opening of branches in rural and semi-urban centres and giving priority to regional rural banks, and

5. Banks credit at rural and semi-urban centres to be 60 per cent of the deposit mobilised there. In addition, to these, there are other expectations from the banking industry, such as (i) full systematic implementation of the district credit plans and (ii) increased deployment of credit for the development of backward areas.

Commercial banks had all along neglected the priority sector and had shown a very unimpressive record of performance which is evident from the table no.3.8.
Table No. 3.8

Public Sector Banks Advances to Priority Sectors

<table>
<thead>
<tr>
<th>Sector</th>
<th>No. of Accounts in 000</th>
<th>Amount Outstanding Rs. in crores</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Agriculture</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A. of which Direct finance</td>
<td>160</td>
<td>8154</td>
</tr>
<tr>
<td>B. of which Indirect finance</td>
<td>5</td>
<td>1103</td>
</tr>
<tr>
<td>2. Small-Scale Sector¹</td>
<td>53</td>
<td>1051</td>
</tr>
<tr>
<td>A. of which Road &amp; water transport operators¹</td>
<td>2</td>
<td>277</td>
</tr>
<tr>
<td>B. of which Small scale Industries¹</td>
<td>51</td>
<td>774</td>
</tr>
<tr>
<td>C. of which Setting up of industrial estates.</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>3. Other Priority Sectors42</td>
<td>2606</td>
<td>2992</td>
</tr>
<tr>
<td>A. of which Retail trade &amp; small business.</td>
<td>33</td>
<td>1733</td>
</tr>
<tr>
<td>B. Professional &amp; self employed persons.</td>
<td>8</td>
<td>831</td>
</tr>
<tr>
<td>C. Education</td>
<td>1</td>
<td>42</td>
</tr>
<tr>
<td>4. Housing Loans</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>5. Consumption loans</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Priority Sector Advances</td>
<td>260</td>
<td>12914</td>
</tr>
<tr>
<td>6. Exports</td>
<td>204</td>
<td>1489</td>
</tr>
<tr>
<td>Total Bank Credit</td>
<td>3016</td>
<td>21959</td>
</tr>
<tr>
<td>% of priority Sector Advances to total Bank Credit</td>
<td>14.6</td>
<td>35.9</td>
</tr>
</tbody>
</table>

1. The total is based on number of units and not on number of accounts in respect of Small Scale Sector.

Note: Annual Statistical Returns for the relevant years.
Data on outstanding advances of public sector banks to priority sectors on the eve of bank nationalisation and as at the end of 1980 and 1981 are shown in table no.3.8. The number of borrowed accounts under priority sector advances increased substantially from 2.6 lacs at the end of June 1969 to 129.1 lacs at the end of December 1980 and again to 152.5 lacs at the end of December 1981. Their advances to these sectors moved up from Rs.441 crores in June 1969 to Rs.7,888 crores in December 1980 and again to Rs.10,240 crores in December 1981. The share of priority sectors in total bank credit increased from 14.6 per cent in June 1969 to 35.9 per cent in December 1980 and to 38.5 per cent by the end of December 1981.

Within the priority sector, advances to agriculture rose from Rs.162 crores in June 1969 to Rs.3,435 crores in December 1980 and again to Rs.4,522 crores in December 1981. In 1969, the major portion of the advances to agriculture was granted to indirect finance, but after that, major portion of the advances was granted to direct finance. Small scale sector advances the major portion of which was granted to small scale industries also rose from Rs.257 crores in June 1969 to Rs.3,624 crores in December 1980 and to Rs.4,679 crores in December 1981. Other priority sector advances rose by Rs.807 crores from 1969 to 1980 and by Rs.158 crores from 1980 to 1981. Retail trade and small business, and professional and self-employed persons were the main beneficiaries claiming 76 per cent and 22 per cent.
respectively. Banks outstanding advances for housing and for consumption given to weaker sections amounted to Rs.36 crores and Rs.16 crores respectively as at the end of December 1981.

Commercial Banks and Differential Interest Rate Scheme

The concept of lending to the poor at low rate of interest originated at a meeting of the Union Finance Minister with the chief executives of the public sector banks on 22nd July 1970. Shri Y.B. Chavan, the then Union Finance Minister suggested that "lower interest rates should be charged carefully selected low-income groups, who deserve financial assistance for productive endeavour but who cannot easily negotiate with banks, while higher interest rates may be charged to the more affluent borrowers". Following this suggestion, the RBI appointed a committee in September 1970 under the chairmanship of Dr. R.K. Hazari, the then Deputy Governor of the RBI to determine, inter alia, the criteria for identifying the low-income group borrowers who could be granted the benefits of lower rates of interest without impinging on the profitability of the banking institutions. The committee submitted its report in May 1971.

The Government then evolved its own guidelines for selecting the eligible borrowers and decided that a uniform rate of interest of four per cent should be charged to such

borrowers and each public sector bank was expected to lend under the scheme half per cent of its total advances, which meant Rs.20 crores in 1972. The criteria initially laid down for identifying the eligible borrowers were revised in March, 1973.

With a view to ensuring that the benefits of the scheme flow to the rural areas and the depressed classes, the Government of India laid down in June 1977 that at least two thirds of the advances under the DIR scheme should be given in the rural and semi-urban areas and at least one-third of the total advances under the scheme should be given to persons belonging to scheduled castes and scheduled tribes. Banks were advised to correct regional and sectoral imbalances in accordance with these norms by March 1979. Besides, banks were required to set aside about Rs.40 crores for lending to harijans at 4 per cent rate of interest for setting up small-scale industries and for engaging themselves in other gainful vocations. The scheme is now extended to the entire country. Previously, the scheme was being implemented by the public sector banks having lead responsibilities, but since June 1977 other private sector commercial banks have been allowed to implement the scheme on voluntary basis. The overall progress of the banks under the DIR Scheme can be seen from the following table.
The progress under the scheme reveals that there has been spectacular and phenomenal rise in terms of number of borrowed accounts as well as amount outstanding from December 1972 to June 1982. The number of accounts increased from mere 0.26 lacs in December 1972 to 22.46 lacs in June 1980 and to 30.85 lacs in June 1982. The amount outstanding stood at Rs.88 lacs in December 1972, Rs.15,698 lacs in June 1980 and Rs.28,066 lacs in June 1982. The percentage of DIR advances has risen from merely 0.02 per cent in December 1972 to 0.83 per cent in June 1980 and to 1.05 per cent in June 1982 which is a tremendous achievement.

Table No. 3.9

Advances of Public Sector Banks Under DIR Scheme

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of accounts (in lacs)</td>
<td>0.26</td>
<td>22.46</td>
<td>30.85</td>
</tr>
<tr>
<td>Amount Outstanding (Rs. in lacs)</td>
<td>88</td>
<td>15,698</td>
<td>28,066</td>
</tr>
<tr>
<td>Percentage of DIR advances to total advances</td>
<td>0.02</td>
<td>0.83</td>
<td>1.05</td>
</tr>
</tbody>
</table>

Source: Reserve Bank of India: Basic Statistical Returns for the relevant years.
Commercial Banks And Integrated Rural Development Programme

Integrated Rural Development Programme as a means to alleviate rural poverty on a national scale cannot be implemented in isolation as is done at present, but it should be implemented as an integral part of rural development for which the approach and method need to be determined.

The Integrated Rural Development Programme (IRDP) in its present form was launched in 1978-79 in 2300 selected blocks all over the country. The programme was in operation in about 2,600 blocks in 1980. With the addition of 300 new blocks every year, the coverage of blocks by 1982-83 was 5011. The programme aims at providing assistance to 15 million families - 3000 families on an average in each block during the Sixth Plan period. This target is sought to be achieved by providing assistance annually to at least 600 families per block on an average. The Sixth Plan allocation for the programme is 1500 crores to be shared equally by the Centre and the States. For this programme credit support (excluding subsidy) from the banking sector would be to the extent of Rs.3,000 crores. Thus, aggregate investment on the programme during the Sixth Plan would be Rs.4,500 crores.¹ This programme is a synthesis of the strategies tested and found effective for implementing special programmes like the Small Farmers and Marginal Farmers, Development Agencies. The IRD's main objectives was to

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raise families in the identified target groups above the 'poverty line' and to create substantial additional opportunities of employment in the rural sector. In fact, the programme intends to be seen an instrument for achieving some of the major objectives of the Sixth Plan. The target group consists of the poorest among the poor in our rural areas—small and marginal farmers, agricultural and non-agricultural labourers, rural artisans and craftsmen.

The IRDP is a programme for the poor. It may not be practicable for the poor people to draw up schemes for their own advancement. But the beneficiaries are to be fully involved in the selection of the schemes meant for them. It would be totally pointless to impose a scheme on an unwilling or a reluctant beneficiary. The beneficiary himself should be convinced of the usefulness of the scheme for himself and his family. His motivation and morale are always to be kept in view so that he takes care of the investment with unflagging interest. The draft Sixth Five Year Plan for 1978-83 defined the principal objectives of planning as achieving with in a period of 10 years:

I. the removal of unemployment and significant under employment,

(II) an appreciable rise in the standard of living of the poorest sections of the population, and,

(III) provision by the State of some of the basic needs of the people in these income groups, like clean drinking water, adult literacy, elementary education, health care, rural roads etc.

Since progress in bank lending was not in accordance with the targets fixed under the IRDP, banks were asked in February 1983 to take all possible steps for increasing their lending under this programme. Total subsidy per year is estimated at about Rs. 300 crores, while the expected credit support from banks is about Rs. 600 crores.¹ Each bank would review its own performance quarterly at the Board level on the basis of returns of progress submitted by branches. The progress made in extending credit support to IRDP is given in the table no. 3.10.

Table No. 3.10

**Progress of Integrated Rural Development Programme**

<table>
<thead>
<tr>
<th></th>
<th>April 1980-81</th>
<th>March 1981-82</th>
<th>1982-83</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subsidy allocated</td>
<td>250.55</td>
<td>300.66</td>
<td>400.88</td>
</tr>
<tr>
<td>Subsidy utilised</td>
<td>158.64</td>
<td>264.65</td>
<td>359.59</td>
</tr>
<tr>
<td>Term Credit Disbursed</td>
<td>289.05</td>
<td>467.59</td>
<td>713.98</td>
</tr>
<tr>
<td>No. of SC/ST families assisted</td>
<td>781047</td>
<td>1000597</td>
<td>1405660</td>
</tr>
<tr>
<td>Total No. of families assisted</td>
<td>2726747</td>
<td>2713418</td>
<td>3455447</td>
</tr>
</tbody>
</table>

Source: Ministry of Rural Development, Government of India.

It is observed from the table no. 3.10 that the number of families assisted under the programme increased from 27.13 lacs in 1981-82 to 34.55 lacs in 1982-83 and term loans disbursed by banks increased from Rs. 468 crores to Rs. 714 crores. There was also an impressive increase in the number of scheduled castes/tribes assisted from 10 lacs in 1981-82 to 14 lacs in 1982-83.

**Commercial Banks & Regional Rural Banks**

Today rural credit in India is being provided by three agencies viz., co-operatives, commercial banks and regional
rural banks which are obliged to confine their lendings only to the weaker sections of the society. Even though these three agencies are functioning simultaneously, they are covering a very small portion of the total rural area of the country. As per the Regional Rural Banks Act of 1976, the RRBs provide for the development of agriculture, trade, commerce and industry and other productive activities in the rural areas such as facilities to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs. In fact, there is an urgent need for ensuring better spread of banking facilities in rural and semi-urban areas. Perhaps, time is ripe for determining which of these three institutions would be best suited for deciding on centres that may be identified as eligible for a bank branch.

The Central Government is empowered, on the request of any bank called 'Sponsor Bank' to establish in a State or Union Territory one or more Regional Rural Banks. Each RRB will operate within the local limits to be specified in the notification. If it is necessary, a RRB might also establish branches, or agencies at any place within specified locality notified by the Government.

A 'Sponsor Bank' will assist the RRB sponsored by it in several ways. The Sponsor Bank will subscribe to the share capital of the RRB, it will assist the RRB in its establishment, recruitment and training of personnel of the RRB, and in general provide such managerial and financial assistance as may be mutually agreed
upon between the Sponsor Bank and the RRB.¹

Upto March 12, 1976, eleven Regional Rural Banks were set up out of which three were in U.P. alone. In March, 1978, the number of RRBs increased to 48 and to the deposits and advances of 48 Regional Rural Banks amounted to Rs.37.11 crores and Rs.52.27 crores, respectively. Advances granted to small and marginal farmers, landless labourers and rural artisans by the RRBs amounted to Rs.48.39 crores that is 92.6 per cent of the total advances on March 1978.²

During the year 1980,³ 17 more RRBs were set up. Thus, the total number of RRBs stood at 73 covering 130 districts in 17 States. The total number of branches of RRBs rose from 1990, as at the end of June 1979 to 2678, as at the end of June 1980, i.e. by 688.

Further progress was made during the year 1982-83 in setting up of new Regional Rural Banks. The steering Committee on RRBs had identified 91 districts for setting up of RRBs. Twenty one new RRBs were established during the year covering 38 districts, thus bringing the total number of RRBs to 142 and the

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number of districts covered to 247 spread over 21 states at the end of June 1983. The number of offices in operation of these 142 RRBs totalled 6413 at the end of June 1983 recording an increase of 1296 offices over the position at the end of June 1982. According to available information, U.P. had the highest number of RRB offices i.e. 1310 while Manipur has only 4 offices.

As in June 1983, deposits and advances of 132 reporting RRBs amounted to Rs.518 crores and Rs.624 crores respectively. A detailed break-up of advances is available upto December 1982 according to which direct advances to small farmers, landless labourers, rural artisans and other weaker sections amounted to Rs.552 crores at the end of December 1982 as against Rs.263 crores at the end of June 1981. The share of weaker sections in total credit was about 91 per cent. As at the end of December 1982, RRBs had advanced a total amount of Rs.36.1 crores in 1,64,338 accounts under the IRD programme.

The role of Regional Rural Banks in providing credit to rural sectors is on the increase. By March 1985, it is proposed to set up 170 Regional Rural Banks with a network of 9,000 branches. So far as weaker sections are concerned a target of 25 per cent

2. Ibid, p.150.
3. Ibid, p.150.
of priority sector advances or 10 per cent of total bank credit has been fixed for March 1985. It has also been fixed that 1 per cent of the total advances of the banking sector must be for the DIR schemes by the end of March 1985.

**Commercial Banks & Lead Bank Scheme**

The Lead Bank Scheme introduced by the Reserve Bank of India marks, "a major step towards the implementation of the two fold objective of mobilisation of deposits on a massive scale throughout the country and of setting up of lending to weak sectors of the economy".  

In August 1969, the Reserve Bank Of India appointed a Committee of bankers with F.K.P. Nariman as the chairman, "to evolve a co-ordinated programme for ensuring the setting up of adequate banking facilities in the unbanked districts of the country".

The Committee, among other things, recommended that, "banks would be allotted specific districts where they would take 'the lead' in surveying the potential of banking development, in extending branch expansion and expanding credit facilities".  

The Reserve Bank of India accepted these principles and evolved the Lead Bank Scheme. Under the Lead Bank Scheme, districts were allotted to the State Bank Group (the State Bank of India and its seven subsidiaries) and the fourteen nationalised banks and two other Indian commercial banks. A Lead Bank would be responsible for taking a leading role in surveying the credit needs, development of branch banking and extension of credit facilities in the districts allotted to it.

The success of the scheme is seen by the fact that surveys were completed in 338 districts by the end of June 1974. By the end of June 1978 banks prepared district credit plan for 359 districts.

With a view to doing away with the deficiencies in the existing district credit plans and to synchronise them with the five year plans of the Government the lead banks were advised in September 1978, to terminate the existing credit plans in December 1979, and prepare fresh plans for the period January 1980 - December 1982 along with annual action plans for 1980.

1. Ibid., pp.275-76.
To ensure uniformity in the coverage of the second round of the credit plans, detailed guidelines were issued by the Reserve Bank of India to all lead banks. At the end of June 1980 out of 397 districts only 40 districts credit plan were delayed owing to inaccessibility of the areas, and disturbed law and order situation in the north-eastern region of the country.

Summary & Conclusion

The above description shows that the financial assistance rendered by the nationalised financial institutions to co-operative sector has been substantial. It has enabled the co-operative sector to provide the required credit to the borrowers. It has also helped co-operative marketing and processing societies in regard to their working capital requirements. Assistance to weaker sections and to small scale industries has been another healthy feature. The assistance rendered by nationalised financial institutions has been in the form of lead Bank Operations, Integrated Rural Development Programme, Differential Interest rates, etc. However, the assistance will be more fruitful if the entire institutional structure of capital market in India which at present is characterised by multiplicity of institutions is rationalised. Moreover, the remote areas which are at present inaccessible should be linked with better roads and better facilities of transportation and communication.