CHAPTER - I

DEVELOPMENT OF COMMERCIAL BANKING IN ASSAM
INTRODUCTION:

One of the basic objective to nationalise the major commercial banks in India was to extend the ambit from "class banking" to "mass banking". In India, the real achievement of planned development is only possible through proper functioning of banking as well as financial institutions.

Before nationalisation and introduction of Social control, banks had moorings mostly in urban and metropolitan areas and the large industrial houses reap the benefits from the banking sector. It was so because there has been no policy compulsion for the banks to achieve equitable distribution of credit. Although, the Reserve Bank of India has assumed promotional and developmental role after nationalisation, there has been no proper direction in terms of policy. In other words, the lending policies of banking sector were highly imbalanced providing credit facilities to only one or two sectors and the rest were ignored. No doubt, bankers were also mainly interested in providing credit facilities to big industrialists and traders. Hence, a large number of sectors of the economy such as agriculture, small scale industries, transport operators, retail traders etc., which were not in a position to provide a tangible security were deprived of bank credit.

Therefore, it became necessary to reorient the banking system to fulfil the need of weaker sections through the transmission of "class lending" to "mass lending" to those sections of the population which could never get any credit from a bank and had to rely solely on money lenders and indigenous bankers.

But after nationalisation, banks have been asked to achieve a rational allocation of credit by increasing the flow of credit to the hitherto
neglected sectors like agriculture, small scale industries, retail trade, transport operators and other small business which have been classified as "Priority Sector". The branch expansion policies have been introduced to facilitate rural and unbanked centres. Besides, banks have been directed to achieve the targets of lending to priority sector within the stipulated time. Accordingly the poorer and weaker sections of the society have got the opportunity of receiving loans on concessional terms. In the beginning, banks have been hesitant to undertake risks by providing credit to priority sector as it was a new field of their operation. Hence, to encourage this type of lending, the Reserve Bank of India introduced some supportive measures like Credit Guarantee Scheme, Refinance facility etc. While it became essential on the part of the banks to strengthen the base of their organisational set-up by introducing multi-tier administrative set-up, proper but effective planning, adoption of better control and monitoring steps over the bank branches while delegating wider loan sanctioning power to them.

In addition, the banks should take steps to performance budgeting techniques for ascertaining the planned growth of deposit resources and balanced deployment of credit to different sectors in conformity with the actual need. This complex multi-dimensional nature of objective and targets threw open a new vista to the Indian commercial banks.

1.1. Banking Development in India: Usually, banks are the most important financial intermediaries in almost all the countries and India is no exception. Banks perform the role of a bridge between the savers and users of funds.
Banking existed in India in ancient time also though the form or degree of operation was different from the present time. In Indian history, the ancient bankers were known as Seths or Shroffs. They were to be found among the Vaishyas, Jains, Marwaris, Chetties, Khatris, Auroras, Multanis etc. In the year 1770, the Bank of Hindusthan, the first modern bank, was set-up in Calcutta on the British pattern. Later, various banks were established in different places most of which followed the British pattern. But when India became independent in 1947, it inherited an extremely weak banking structure with 640 banks of which only 96 were scheduled banks and the rest were small non-scheduled banks. The banking facilities were heavily concentrated in metropolitan centres, cities and port towns with a very high proportion of total advances going to trade.

1.1.1. Evolution of Commercial Banking in Pre-Nationalisation Period:

Under the active guidance of the Reserve Bank of India, a wide spectrum of changes, conforming to the dynamic economic scenario, has been implicated in the banking structure during the period between 1947 and 1969. This period witnessed the efforts of the Reserve Bank of India (RBI) towards institutionalisation of savings to adopt the credit system to the emerging needs of the economy and also consolidation of the banking structure.

The enactment of the Banking Regulation Act, 1949, was a milestone in the Indian banking history. Prior to that, the structure of Indian banking up to the time of independence in 1947 was devoid
of any purposive control or direction. The Banking Regulation Act, 1949, conferred a wide range of powers relating to supervision and control over banking including establishment of banks, mergers and amalgamations and also maintenance of certain operating standards. The Act vested licencing power with the RBI which made it mandatory for banks to get its prior permission for opening branches. It gave the Reserve Bank of India the authority to conduct inspection of banks, thus enabling it to make qualitative assessment of management including the methods of business from the point of view of the depositors' interest.

The Reserve Bank started the system of inspection of banks in 1950. For this purpose, the RBI evolved certain criteria to judge the efficacy of a bank's working and included among others, the volume of reserves, the nature of security affecting liquidity and quality of advances. Through the inspection system, it was possible for the RBI to identify deficiencies such as over-extended advances, incidence of bad and doubtful advances, ineffective control over branches, and non-observance of usual procedures for sanctioning of advances.\textsuperscript{1}

Regarding bank supervision, it would be worth mentioning here the observation of the former RBI Governor, Shri R.N. Malhotra, "Our efforts to develop an effective legal and institutional framework to widen and strengthen the supervisory processes have been quite substantial and generally compare well with the experience in other countries".\textsuperscript{2} The Banking Regulation Act, 1949 provided the framework

\textsuperscript{1} RBI, \textit{Report on Trend and Progress of Banking in India}, 1957.

\textsuperscript{2} Malhotra, R.N : \textit{Changing Practices of Central Bank Supervision, A speech delivered on the Occasion of 125th Anniversary of Allahabad Bank}. 
for bank supervision and the RBI is the supervising authority. The management of a bank is a matter of prime concern for supervisory authorities. On the board of public sector banks there is a nominee each of the RBI and the Central Government. The RBI has powers to nominate its officers on the boards of private sector banks. Again, the standards for evaluating bank performance were drawn up on the basis of the working of the well managed banks which many of the smaller banks, as it transpired, could not meet. It became easier for larger banks to qualify for the high standards set by the authorities and they could get licences under Section 22 of the Banking Regulation Act, certifying their financial soundness and the banking methods. This in fact, lead to the growth and strengthening of the bigger banks.

Thus, these particular aspects of the RBI's inspection and supervision system contributed to the disappearance of many small banks and the growth of the bigger ones. The banks which could not improve their performance and operational methods inspite of repeated advice from the RBI after periodic inspections, were closed down through the revocation of their existing licences. This procedure paved the way for placing the banks under moratorium and amalgamation with other banks. During the fifties, the amalgamation and mergers were on a voluntary basis as authority for compulsory amalgamation was not favoured.

In 1960, in the wake of failure of two private sector banks, the authorities acquired power to grant moratorium to banks and to frame schemes for compulsory amalgamation or reconstruction. This signified a major change in the structure of the banking system of the country. The
number of Indian scheduled commercial banks declined from 76 to 58 and more significantly, the number of non-scheduled banks declined from 474 to only 17 between 1951 and 1968 as presented in Table-1.1.

**Table-1.1**

**Number of Commercial Banks Operating in India (1951-68)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Indian Scheduled Commercial Banks</td>
<td>76</td>
<td>72</td>
<td>67</td>
<td>61</td>
<td>58</td>
</tr>
<tr>
<td>Foreign Banks</td>
<td>16</td>
<td>17</td>
<td>15</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Non-Scheduled Banks</td>
<td>474</td>
<td>334</td>
<td>210</td>
<td>27</td>
<td>17</td>
</tr>
<tr>
<td>All Commercial Banks</td>
<td>566</td>
<td>423</td>
<td>292</td>
<td>103</td>
<td>90</td>
</tr>
</tbody>
</table>

Source: RBI, Compiled from various issues of Statistical Tables Relating to Banks in India.

In spite of the amalgamation and mergers, the banking facilities during the period did not show any decline, as there was a near doubling of bank offices as shown in Table-1.2. The number increased by 2678 between the period, 1961 and 1968, while it rose by only 861 between

**Table-1.2**

**Number of Offices of Commercial Banks in India (1951-1968)**

<table>
<thead>
<tr>
<th></th>
<th>1951</th>
<th>1956</th>
<th>1961</th>
<th>1968</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Bank of India</td>
<td>643</td>
<td>850</td>
<td>1436</td>
<td>3379</td>
</tr>
<tr>
<td>Other Scheduled Banks</td>
<td>2004</td>
<td>2116</td>
<td>2954</td>
<td>5104</td>
</tr>
<tr>
<td>Non-Scheduled Banks</td>
<td>1504</td>
<td>1101</td>
<td>622</td>
<td>207</td>
</tr>
<tr>
<td>All Commercial Banks</td>
<td>4151</td>
<td>4067</td>
<td>5012</td>
<td>8690</td>
</tr>
</tbody>
</table>

Source: RBI, Compiled from various issues of Statistical Tables Relating to Banks in India.
1951 and 1961. This was the result of correcting mal distribution in branch network which was marked by the heavy concentration of branches at larger urban centres.

Besides, between 1951 and 1969, the increase in paid-up capital of banks was very meagre, recording an increase of only 13 crore i.e. from Rs 33 crore to Rs 46 crore. As a result of the slower pace of increase in reserves and paid-up capital from Rs. 59 crore to Rs. 109 crore, the owned funds as a ratio of aggregate deposits also declined sharply from 8.7 percent to 2.8 percent in the same period, as shown in Table-1.3.

### Table-1.3

**Trends in the Growth of Banking Sector in India**

(1951-68)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Paid up Capital (Rs.)</td>
<td>33.3</td>
<td>32.5</td>
<td>36.5</td>
<td>44.4</td>
<td>46.0</td>
</tr>
<tr>
<td>Reserves (Rs.)</td>
<td>25.3</td>
<td>31.5</td>
<td>37.3</td>
<td>51.7</td>
<td>63.0</td>
</tr>
<tr>
<td>Aggregates Deposits (Rs.)</td>
<td>835.3</td>
<td>989.6</td>
<td>1746.0</td>
<td>2949.9</td>
<td>4338.3</td>
</tr>
<tr>
<td>Total Bank Credit (Rs.)</td>
<td>516.3</td>
<td>708.3</td>
<td>1319.6</td>
<td>2288.2</td>
<td>3396.3</td>
</tr>
<tr>
<td>Investment in Govt. Securities (Rs.)</td>
<td>315.5</td>
<td>359.9</td>
<td>558.6</td>
<td>810.7</td>
<td>1054.6</td>
</tr>
<tr>
<td>Paid up Capital &amp; Reserves as percentage of Aggregate Deposits</td>
<td>8.7</td>
<td>7.8</td>
<td>4.8</td>
<td>3.7</td>
<td>2.8</td>
</tr>
<tr>
<td>Total Bank Credit as percentage of Deposits (C-D Ratio)</td>
<td>61.8</td>
<td>71.6</td>
<td>75.6</td>
<td>77.6</td>
<td>78.3</td>
</tr>
<tr>
<td>Investment in Govt. Securities as percentage of Deposits</td>
<td>37.8</td>
<td>36.4</td>
<td>32.0</td>
<td>27.5</td>
<td>24.3</td>
</tr>
</tbody>
</table>

Although the Reserve Bank of India, in 1961, directed all the banks to increase this ratio to at least 6 percent.³

1.1.2. *Social Control of Banks*:

Under the impact of increased development outlay, the organised sector of commercial banking system was becoming predominantly oriented, from the inception of planning, towards large industries and big industrial houses. This was facilitated to an extent by the policy to preserve the existing system of control over banking which was in the hands of private sector, except State Bank of India (SBI) which had less than a third of the share in the banking system. The nature and dimensions of banking growth were largely decided by those who controlled large industries and they moulded the pattern of branch expansion and credit allocation to suit their own requirements. The impetus for a change in credit structure originated during this period from the agriculture sector, particularly as the co-operative credit agencies were not able to meet the entire credit needs of the agricultural sector of the country. Consequently efforts were made in the direction of providing credit through the commercial banking system under the aegis of social control.

This matter took a serious turn in May 1967 which resulted in a debate in the Rajya Sabha. A resolution was passed which committed the Government to initiate such steps including nationalisation as may be necessary to extend effective social control over these institutions. In

accordance with this, an in-depth examination of the policies and practices of commercial banks were undertaken which led to the formulation of social control announced in the Parliament in December 1967.

The objective of 'social control' as envisaged at that time was to ensure, without actual take-over of banks by the Government the achievement of those social ends that nationalisation could conceivably secure. It is said in the resolution of Ministry of Finance in 22nd December, 1967 that "these were to ensure in the immediate future, an equitable and purposeful distribution of credit, within the resources available, keeping in view the relative priorities of developmental needs".4

The major instrument for the purpose of implementing social control was the National Credit Council. It was established for determining the priorities for grant of loans and advances for investment, having regard to the availability of resources and requirements of the priority sectors, in particular, agriculture, small scale industry and exports".5 It was a measure to achieve a reorientation of the outlook of banking system. The chairman of a bank had to be appointed with proper permission of government and each director had to be appointed with Government's approval under the social control. This gave way to mass entry of politicians in the boards of banks. The social control measures were intended to meet the main shortcomings of the banking system, namely the priority sectors such as agriculture, SSI and exports had not been receiving their due share of bank credit.

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5. Anjaria, J.J. : "New Dimensions in Central Banking" lecture delivered at the 7th Seanza Central Banking Course.
The National Credit Council addressed itself to several main issues during the period from March 1968 to March 1969. The first meeting held in March 1968 agreed on issues like deposit mobilisation and credit allocation to particular sectors. The National Credit Council appointed a standing committee under the Chairmanship of the Governor of the RBI to formulate concrete proposals for the consideration of the Council. The proposals made by the Standing Committee including that commercial banks should take up financing of agriculture and rural industries on a much longer scale than before. The second meeting of the Council set up five study groups on different subjects, such as:

i) Deposit Mobilisation by Commercial and Co-operative Banks, under the Chairmanship of Shri T.A. Pai.

ii) Credit Needs of Industry and Trade under the Chairmanship of V.T. Dehejia.

iii) Organisational Framework for Implementation of social objectives under the Chairmanship of Prof. D.R. Gadgil.

iv) Area/project approach for Agricultural credit under the Chairmanship of P.N. Damry.

v) Bank Finance for Road Transport Operators under the Chairmanship of V.D. Thakker.

The last meeting of the National Credit Council was held on 21st March, 1969 as the nationalisation intervened. At this meeting, certain targets for branch expansion were suggested on the basis of the report of the Study Group on Deposit Mobilisation.6

Social control nevertheless set the tone for nationalisation and the formulation of the objectives thereof. Since the social control in its shape was in vogue for a very short duration of less than two years, its quantitative impact was minimal. It, however, brought about a qualitative change in the outlook and approach of banks, transferred from 'security' oriented bank lending to "purpose" and "priority" oriented lending.

Another step in this direction was the enactment of the Banking Laws (Amendment) Act, 1968. This Act provided for a reconstituted Board of Directors, the majority of whose directors would be non-industrialists, persons from agricultural co-operatives, economists, accountants, lawyers and the like.

1.1.3. Nationalisation of Major Banks:

The social control measures as provided in the Act were not deemed to be sufficient for attainment of the desired goal of social justice and economic progress in the country. On July 19, 1969 the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance was promulgated and the Bill was passed and received the consent of the President on March 31, 1970. Under the provisions of this Ordinance (now Act) the Government acquired the undertakings of 14 major banks making their operations fully subserve the national policy objectives and making them as instruments in implementing the developmental programme of the country under the successive five-year plans.

The main objective of nationalisation as set forth in the Preamble to the Banking Companies (Acquisition and Transfer of Undertakings)
Act, 1970 was "to control the heights of the economy and to meet progressively, and serve better, the needs of development of the economy in conformity with national policy and objectives and for matters connected therewith or incidental thereto".7

Nationalisation of banks was considered essential in order to gain control over the commanding heights of the economy and utilise the banking system as an effective instruments of economic development. This was correctly referred to by the late Prime Minister Indira Gandhi in the following words, "An institution such as the banking system which touches and should touch the lives of millions, has necessarily to be inspired by a large social purpose and has to subserve national policies and objectives. This is why there has been widespread demand that major banks should be not only socially controlled but publicly owned".8

The Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 also specified the amount of compensation to be paid to the shareholders of each bank.


In India, scheduled commercial banks fall into two groups (i) Public Sector and (ii) Private Sector. Public sector banking, that is banking owned by the Central Government consists of (a) State Bank of India, (b) Seven Associate Banks, (c) 20 Nationalised Banks* and (d) 196 Regional Rural Banks. On the other hand, the private sector banking consists of (i) Other Scheduled Commercial Banks and (ii) Foreign Banks.

1.2. Early History of Banking in Assam: The development of banks in the later part of the 19th century saw the advent of banking system in Assam. In the time of British Rule, the British Agency Houses of Calcutta had a semblence of transaction with a few industrial enterprises and tea gardens of Assam. This offset the growth of local financers who, later on, were converted into private banks like the Sylhet Loan & Banking Company, (1881), the National Company (1863) and the Bharat Banking Company. However, a number of banks started elsewhere in British India, opened their branches in Assam e.g. Comilla Banking Corporation. These banks were

** The State Bank of India (SBI) has seven associate banks constituted under the State Bank of India (Subsidiaries) Act, 1959. The seven banks are State Bank of Bikaner & Jaipur (earlier these were two separats banks for Bikaner and Jaipur which were subsequently merged), State Bank of Indore, Mysore, Patiala Saurashtra, Hyderabad and Travancore.

* Reduced to 19 banks on account of merger of New Bank of India.

9. Sylhet was a part of Assam before the partition of 1947.
little more than loan offices receiving deposits and in very few cases providing for withdrawal by cheques.\textsuperscript{10}

However, due to the absence of a well-organised banking system in Assam, Government Treasuries made all payments of the Government Bills and also received payments on behalf of the Government, hence the Government treasuries were over burdened. So, the then Government of Assam requested the Controller of Currency, Delhi to ask the Imperial Bank of India to open its branch in some districts of Assam. As a result of this, the Imperial Bank of India opened its first branch in Dibrugarh in 1923 owing to the intense lobbying by the tea-planters of Dibrugarh.\textsuperscript{11} In the year 1926, Imperial Bank opened its second branch at the then capital of Assam, Shillong.

In fact, these banks were a little hesitant to deal with the local people and also with the local banking companies which were financially not sound. Hence, the problem of banking persisted and under this situation a number of scheduled commercial banks incorporated in other states, opened their branches in Assam. Some of these banks were Comilla Union Bank, Nath Bank, Calcutta Commercial Bank etc. As these banks opened branches in urban areas only, the need was felt for providing banking facilities to the local people by opening branches of their banks in some towns of Assam. At the same time a few philanthropists of Assam took initiatives to

\textsuperscript{10} Jain, J.P : \textit{Indian Banking Analysed}, 1949, p. 289.

start Gauhati Bank Ltd., on July 19, 1926, as a shareholder non-scheduled commercial bank. The next year i.e. 1927 saw the establishment of a new Bank namely Bank of East. Moreover, the difficulties faced by Government Treasuries in undertaking Government transactions were eased with the incorporation of the Bank of Assam Ltd., on April 29, 1936, which was the first scheduled Bank of Assam.¹²

During the World War II in between 1941 & 1946, the increased economic activity saw a substantial growth of banking system in the state. But at the same time, the prevailing situation saw the growth of many non-scheduled banks started by many a laymen. The obvious outcome was the failure of a sizeble number of these banks as mismanagement and rampant corruption were the order of the day. According to Dr. P.C. Goswami, many banks failed in Assam after the cessation of war due to shortage of cash resources to meet the demand of depositors.¹³ The situation deteriorated with the partition of the country in 1947, as a good number of banks having the Head Office in Assam suspended their operations in Assam.

¹.2.1. Banking in Pre-Nationalisation Period :

The confidence of the public on the banking system nose-dived after the liquidation and thereby closure of all branch offices of the scheduled banks like Comilla Banking Corporation, Comilla Union Bank and Nath Bank in Assam. This precipitated a rush of the depositors to withdraw their entire deposits from their respective banks. The subsequent

12. ibid.
consequence was the failure of the banks to meet up this sudden rise of demand and thus in 1950-52, 47 banks including a few scheduled banks had wound up their businesses. Some non-scheduled bank also had downed their shutters even without prior information to their customers.\textsuperscript{14} This was due to the direction of RBI to up the non-scheduled banks failing to comply with the provisions of the Banking Regulation Act, 1949. As a result, United Mercantile Bank wound up their business in 1954, followed by the Assam Banking Corporation (Dibrugarh) in 1953 and Bank of East (Gauhati) in 1953.\textsuperscript{15} However, the Gauhati Bank Ltd., the only surviving non-scheduled bank in the state continued to operate till 1972 with the active co-operation of its shareholders, depositors and public. In August 1972, it was merged with the newly established scheduled bank namely Purbanchal Bank Ltd. which was later on merged with the Central Bank of India in September 1990.

An analysis of bank offices in Assam along with their deposits and advances during the period from 1950 to 1968 as presented in Table-1.4, highlights the performance of commercial banks in spreading banking facilities in the state. It is seen from the Table that in 1950, only 3 scheduled commercial banks with their 18 branches operated in Assam. In the year 1955, when State bank of India was nationalised, the bank had opened its branches in all sub-divisional headquarters by end of 1960. At the end of 1968, only 12 scheduled commercial banks operated in our state with their

\textsuperscript{14} ibid, p. 165.
\textsuperscript{15} RBI, Banking & Monetary Statistics in India, July 1954, p. 302.
branch network of 74. The only foreign bank of the state is ANZ Grindlays Bank operated till now. Regarding deposits and credits, the period indicated only 10.94 percent increase in respect of deposit and 7.67 percent increase in case of credit while all India credit-deposit ratio was 78.3 percent. The banking activities in the pre-nationalised period were mainly confined to the trading community and the middle class families as most of the bank offices were opened in the urban and semi-urban areas.

Table 1.4
Growth of Scheduled Commercial Banks of Assam in Pre-Nationalisation Period (1950-68)

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Operating Bank Office</th>
<th>No. of Branch</th>
<th>Deposits (Rs. in lakh)</th>
<th>Credits (Rs. in lakh)</th>
<th>C.D. Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>3</td>
<td>18</td>
<td>434</td>
<td>107</td>
<td>24.7</td>
</tr>
<tr>
<td>1955</td>
<td>5</td>
<td>21</td>
<td>655</td>
<td>159</td>
<td>24.3</td>
</tr>
<tr>
<td>1960</td>
<td>-</td>
<td>-</td>
<td>1466</td>
<td>838</td>
<td>57.2</td>
</tr>
<tr>
<td>1965</td>
<td>9</td>
<td>64</td>
<td>3058</td>
<td>1230</td>
<td>40.2</td>
</tr>
<tr>
<td>1966</td>
<td>9</td>
<td>65</td>
<td>3655</td>
<td>993</td>
<td>27.2</td>
</tr>
<tr>
<td>1967</td>
<td>9</td>
<td>67</td>
<td>3875</td>
<td>943</td>
<td>24.3</td>
</tr>
<tr>
<td>1968</td>
<td>12</td>
<td>74</td>
<td>3967</td>
<td>1395</td>
<td>35.2</td>
</tr>
<tr>
<td>All India</td>
<td>90</td>
<td>8690</td>
<td>43383</td>
<td>33963</td>
<td>78.3</td>
</tr>
</tbody>
</table>


Note: i) (-) desh indicates not available.
ii) All India figures are only for 1968.
iii) Figures are at end December.
1.2.2. Banking in Post-Nationalisation Period:

It was believed that the development activities in different parts of the country would accelerate further by the active participation of nationalised banks in the development processes. Hence, the development and working of commercial banking in Assam during the post-nationalisation period (1970-2000) deserves a special importance.

The major objectives of nationalisation were wider geographical coverage through branch expansion, mobilisation of adequate amount of savings in the form of bank deposits, extension of banking activities in the rural areas and removal of regional imbalances and the like. It is in the light of these objectives of nationalisation, an attempt has been made to study the development and working of commercial banking in Assam after nationalisation.

1.3. Branch Expansion Programme in India: In August 1969, the Reserve Bank of India appointed a committee on Branch Expansion programme under the Chairmanship of Shri F.K.F. Nariman, who was the Custodian of Union Bank of India, to recommend an appropriate policy in regard to expansion of branch network of commercial banks. The Committee, among other things, recommended location of new branches in unbanked and underbanked centres. However, in the absence of relative statistics about economic profile of a centre, the Committee recommended that population at a centre should be accepted as the basis for opening branches and that is granting licences in banked centres, the RBI may be guided by the criterion of one office per 10,000 population. Simultaneously, the practice of allotting centres for opening branches under the lead bank
This led to rapid expansion of branch network of commercial bank all over the country including Assam. Again, on February 25, 1970, the RBI had revised its branch expansion policy of commercial banks on the basis of Lead Bank Survey Report. As per the revised norms, a bank which have 60 percent or more of it offices in rural and semi-urban areas as on 31st Dec. 1969, is eligible to open offices each in an urban and a metropolitan port/town for every two offices opened in rural and semi-urban centres. For other banks it is one office at an urban centre for every three offices in semi-urban and rural centre. Again, the RBI had modified its branch opening policy with effect from 1st January, 1977. As per this formula, popularly known as "4:1:1 formula", a bank can open one office each in a metropolitan/port town and a banked centre for every four offices opened in unbanked-rural centres.

Further, in September 1979, the Reserve Bank formulated a comprehensive branch expansion policy covering the period of 1979 to 1981 and later the policy was extended upto March 1982. In fact, this policy was the outcome of recommendation given by different committees at different

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   'Rural' group includes all centres with population of less than 10,000.
   'Semi-urban' group includes centres with population of 10,000 to one lakh.
   'Urban' group includes centres with population of 1 lakh to 10 lakhs.
   'Metropolitan' group includes centres with population of 10 lakhs and more.
time viz, the Committee on the Functioning of Public Sector Banks or James Raj Committee (1978), the Committee on Regional Rural Bank, i.e. Dantwala Committee (1977) and Kamath Working Group to study problems arising out of the adoption of Multi-Agency approach in Agricultural Financing. (1976).

This policy aimed at opening new offices in those areas where the average population per bank office is higher than the national average of 20,000 as at the end of June 1978.19

The Reserve Bank of India formulated another branch expansion policy with effect from April 1982 to March 1985 to improve banking facilities in the rural and semi-urban areas.20 Again in April 1985, RBI adopted another branch expansion policy for the five year period (1985 to 1990). As per this new policy, a bank centre covered a population of 17,000 (as per 1981 census) in the rural and semi-urban area of each development block.21 However, in June, 1994, scheduled commercial banks were asked to open at least one specialised Agricultural Finance Branch in each state to adequately deal with high-tech agricultural financing where they are convenors of the respective State Level Banker's Committee. Again in 1995-96, Banks were advised by RBI to set up 100 specialised branches in 85 identified districts to meet the requirements of Small Scale Industries.22 It is disturbing that Assam was not included among 353 specialised SSI branches opened in different States/ Union Territory till March 1997.

22. RBI, Report on Trend & Progress of Banking in India, 1995-96, p. 103 & 104
Table 1.5

<table>
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<td>(52.9)</td>
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<td>Semi Urban</td>
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<td>11324</td>
<td>11344</td>
<td>11356</td>
<td>11465</td>
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<td>(18.8)</td>
<td>(18.7)</td>
<td>(18.7)</td>
<td>(19.2)</td>
<td>(21.4)</td>
<td>(21.5)</td>
<td>(21.6)</td>
<td>(21.5)</td>
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<tr>
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<td>7524</td>
<td>8042</td>
<td>8046</td>
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<td>8745</td>
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<td>(19.2)</td>
<td>(16.7)</td>
<td>(13.0)</td>
<td>(13.5)</td>
<td>(13.4)</td>
<td>(13.7)</td>
<td>(14.0)</td>
<td>(14.1)</td>
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<td>(15.9)</td>
<td>(16.1)</td>
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<td>Metro - metropolitan</td>
<td>1503</td>
<td>3939</td>
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<td>5595</td>
<td>5624</td>
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<td>7808</td>
<td>8653</td>
<td>8941</td>
<td>9073</td>
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<tr>
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<td>(18.2)</td>
<td>(13.0)</td>
<td>(10.4)</td>
<td>(9.4)</td>
<td>(9.3)</td>
<td>(9.4)</td>
<td>(9.4)</td>
<td>(11.5)</td>
<td>(11.7)</td>
<td>(12.2)</td>
<td>(13.1)</td>
<td>(13.3)</td>
<td>(13.5)</td>
<td></td>
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<td>Total</td>
<td>8262</td>
<td>30202</td>
<td>57699</td>
<td>59756</td>
<td>60220</td>
<td>60570</td>
<td>61169</td>
<td>61803</td>
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<td>64116</td>
<td>66306</td>
<td>67041</td>
<td>67339</td>
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Notes: i) Number of offices includes Administrative offices also.
ii) Figures in bracket indicate percent share in total.
Table - 1.6

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<td>Rural</td>
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<td>219</td>
<td>820</td>
<td>882</td>
<td>893</td>
<td>870</td>
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<td>843</td>
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<td></td>
<td>(8.1)</td>
<td>(48.6)</td>
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<td>(73.1)</td>
<td>(73.3)</td>
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<td>(68.0)</td>
<td>(66.0)</td>
<td>(65.9)</td>
<td>(64.7)</td>
</tr>
<tr>
<td>Semi-Urban</td>
<td>44</td>
<td>158</td>
<td>218</td>
<td>218</td>
<td>218</td>
<td>242</td>
<td>244</td>
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<td>(59.5)</td>
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<td>(19.1)</td>
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<td>(20.4)</td>
<td>(21.3)</td>
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<td>(22.0)</td>
<td>(20.3)</td>
<td>(20.3)</td>
<td>(20.7)</td>
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<tr>
<td>Urban</td>
<td>24</td>
<td>74</td>
<td>105</td>
<td>106</td>
<td>107</td>
<td>107</td>
<td>116</td>
<td>119</td>
<td>127</td>
<td>126</td>
<td>128</td>
<td>174</td>
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<td>(32.4)</td>
<td>(16.4)</td>
<td>(9.2)</td>
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<td>(13.8)</td>
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<tr>
<td>Total</td>
<td>74</td>
<td>451</td>
<td>1143</td>
<td>1206</td>
<td>1218</td>
<td>1219</td>
<td>1223</td>
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<td>1240</td>
<td>1269</td>
<td>1268</td>
<td>1265</td>
</tr>
</tbody>
</table>

Source: i) RBI, Statistical Table Relating to Banks in India, 1999-2000.
ii) SLBC, Agenda Notes, relevant issues.

Notes: i) No. of offices includes Administrative offices also.
ii) Figures in bracket indicate percent share in total.
1.3.1. **Branch Expansion in Assam**

The branch expansion of the commercial banks in Assam and at national level is shown in Table-1.5 and Table-1.6 respectively. It is seen from the Tables that the impressive performance of banks with regard to geographical coverage of branches since nationalisation is evident from the fact that there was nearly a 8 (eight) fold increase in the number of offices from 8262 in June 1969 to March 2000 as 67339 in India, while it was 17 (seventeen) fold increase from only 74 number of offices in Dec. 1969 to 1265 offices as on March 2000 in the case of Assam.

In Assam, rural branches covered a maximum of 64.7 percent while urban branches occupied only 13.8 percent as on March 2000 against 8.1 percent and 32.4 percent respectively in 1969. On the otherhand, semi-urban branches covered a maximum of 59.5 percent in 1969 but gradually declined to only 20.7 percent on 2000 which is close to national percentage of 21.6 percent.

1.4. **Priority Sector Lending**

The term "Priority Sector" indicates those activities which have national importance and have been assigned priority for development of the country. It refers to those vital sector of the economy of the country which have socio-economic importance and also closely related to the betterment of the lives of the mass people. The concept of "Priority Sector" has been evolved only after nationalisation to ensure that the assistance from the banking system flowed in an increasing manner to the vital sectors of the economy and according to national priority. Prior to nationalisation, banks were functioning only as
profit making bodies and operating mostly in developed areas. In fact, advances were being given against securities and not based on purpose or viability. The bankers were not willing to stake their funds in risky ventures or advances made to the neglected sectors of the economy where practically no securities will be available. But the nationalisation has enjoined on banks the responsibility of improvement of the lives of underprivileged under the socio-economic consideration. In February 1968, the Government of India started a scheme of Social Control of Banks aimed at bringing about some changes in the management & credit policy of commercial banks. However, the major instrument for the purpose of implementing social control was the National Credit Council. At the 2nd meeting of the National Credit Council in July, 1968, the term "Priority Sector" was defined to include only two activities, i.e. agriculture and small scale industry. So, the Reserve Bank of India traced out a list indicating the type of advances which would be eligible for compliance with the lending targets for these sectors and the list sent to the banks.

It is interesting to note that the composition of the priority sector remained somewhat ambiguous even after nationalisation. From then on, the priority sector lending data among the banks revealed a heterogeneity in compilation of data. Therefore, in the year 1972, RBI adopted a more comprehensive definition of the priority sector on the basis of the report submitted by the Informal Study Group on statistics relating to Priority Sector. Hence priority sector included Agriculture, Small Scale Industries,

Road & Water Transport Operators, Retail Trade, Small Business, Professional & Self-employed persons, Education, etc. Over a period of two decades this composition of priority sector has undergone some modification in the activities covered. According to new RBI guidelines, Housing for weaker sections, Pure consumption loans, Funds provided to Regional Rural Banks (RRB's) and Loans to Self-Help Group/Non-Government Organisation (SHGs/NGOs) etc. are also included in the priority sector.24

The Reserve Bank of India had set targets and sub-targets for priority sector lending from time to time. In November 1974, the banks were advised to raise the share of priority sector lending to 33.3 percent by March 1979. The system of giving sub-targets for agriculture and weaker section commenced during the eighties. The next upward revision in the priority sector lending target was in March 1980 under which all public sector banks were directed to increase their advances to priority sector to 40 percent of the total bank credit by 1985 from the existing target of 33.3 percent. However, the target 40 percent of the total bank credit in priority sector still continue. It has been apprehended that the distribution of priority sector advances of scheduled commercial banks has not been equitable among the different segments of the priority sector. So some sub-targets were fixed by the Reserve Bank of India within the overall target of 40 percent which would be discussed in chapter-II in detail.

As a result of different steps taken up by the Reserve Bank of India for credit deployment of commercial banks, there has been a

significant structural change in the pattern of credit distribution as shown in Table-1.7. The Table exhibits that the percentage of credit deployed in medium and large scale industries by commercial banks in India declined from 60.6 percent in March 1968 to 38.3 percent in March 2000 while priority sector's percentage rose from 10.6 percent to 31.3 percent during the same period. On the otherhand wholesale trade revealed a declining trend while the others indicated a rising trend during the aforesaid period.

### Table-1.7
**Sectoral Distribution of Credit by Commercial Banks in India (1968-2000)**

<table>
<thead>
<tr>
<th>Sectors</th>
<th>March 1968</th>
<th>March 2000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>% to Total</td>
</tr>
<tr>
<td></td>
<td>(Rs. in Crore)</td>
<td>Credit</td>
</tr>
<tr>
<td>I Industry-medium &amp; large</td>
<td>1857</td>
<td>60.6</td>
</tr>
<tr>
<td>II Priority Sectors:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Agriculture</td>
<td>67</td>
<td>2.2</td>
</tr>
<tr>
<td>b) Small Scale Industries</td>
<td>211</td>
<td>6.9</td>
</tr>
<tr>
<td>c) Other Priority Sector</td>
<td>47</td>
<td>1.5</td>
</tr>
<tr>
<td>Total Priority Sector Advances</td>
<td>325</td>
<td>10.6</td>
</tr>
<tr>
<td>III Wholesale Trade</td>
<td>432</td>
<td>14.1</td>
</tr>
<tr>
<td>IV Food Credit</td>
<td>109</td>
<td>3.6</td>
</tr>
<tr>
<td>V All Others</td>
<td>341</td>
<td>11.1</td>
</tr>
<tr>
<td>Total Bank Credit</td>
<td>3064</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: i) RBI, Statistical Table Relating to Banks in India, 1967-68.  
1.5. **Need for the Study**: In Assam, more than 89 percent of the total population live in villages and almost 71 percent of the working population in Assam dependent on agriculture & allied activities which is one of the important component of 'priority sector'. On the otherhand, at present, tea, coal and petroleum are the only large scale industries in Assam and only a few industries may be termed as manufacturing industries, e.g. plywood, cement and match industries and all other industries can be classified as small scale and cottage industries.

After nationalisation, almost all nationalised banks have opened their branches in the state, with the exception of few banks. Even though banking sector in the state has attained noticeable achievement in terms of branch expansion, deposit mobilisation, credit deployment, but their performance in regard to credit deposit ratio has been unsatisfactory. The two districts namely Golaghat and Jorhat, are rural as well as agro-based populated districts. Notwithstanding that the state and both the districts have exceeded the target of priority sector lending as fixed by the Reserve Bank of India, it is as yet not very clear how far the constituents of the priority sector have been benefited by such loans and advances. Hence, it is time that a study be undertaken to assess the spread and effectiveness of the scheme and also to look at the quantum of overdues generated by the priority sector constituents. It is with this intention that the present study on impact of priority sector lending has been undertaken.

1.6. **Objective of the Research Work**: This work has been undertaken to analyse the quantum and share of priority sector advances in the districts
of Golaghat and Jorhat in particular and Assam as a whole in conformity with the RBI guidelines. The specific objective of this work are as under:

i) To examine the organisational and other steps taken by the banks in Assam to realise socio-economic policy objectives and targets relating to priority sector lending.

ii) To examine the quantum, share and effectiveness of priority sector lending.

iii) To study the overdue problem of bank credit in the priority sector and

iv) To suggest certain measures for improving recovery under priority sector lending.

1.7. Research Methodology: The work is mainly analytical and data based. The analysis of data has been done to arrive at the inter relationship of facts and policies at the national level, procedures formulated and followed at the institutional level and the results achieved both by the lending institutions and the beneficiaries of bank lending to priority sector in Assam as a whole and the two districts in particular. The main emphasis of the analysis is on the study of quantitative and qualitative impact of various policy measures relating to priority sector lending in the state.

1.7.1. Sources of Data:

In order to assess the significance of priority sector lending by banks in Assam materials are collected both from primary and secondary sources.

Secondary data were collected from various publications of the Reserve Bank of India, Government of India, and the Indian Bank's
Association. Primarily, the study has covered the period commencing from social control over banks and more importantly since nationalisation of banks in 1969 till 2000. It will be worth mentioning here that, the Reserve Bank of India had published the Basic Statistical Return Relating to Banks in India from 1972, where district-wise banking statistics are available. As such the district-wise data for the study were incorporated from 1972 to 2000. The data which have not been published by the RBI were collected from the Regional or Zonal offices of the Nationalised Banks, Lead Bank Department of the State Bank of India (Guwahati) and from office of the Reserve Bank of India, Guwahati. Data collected were processed and analysed with the help of suitable statistical techniques and econometric tools.

For the purpose of collecting primary data two districts, namely, Golaghat and Jorhat were selected. The two districts were deliberately selected as one is more developed and other is less developed as well as recently bifurcated district. Both the districts under study are covered by eight development blocks each, and more than two sub-divisions, hence one development block from each sub-division was selected. From each block two villages, altogether twelve villages of two districts have been selected for the study. While selecting the villages, certain aspects such as location of the villages, availability of infrastructure facilities like transport, communication, market etc. have been considered. Data have been collected from three hundred (300) families of these twelve (12) villages. The study plan was well depicted by chart-I.
Chart 1
Selected Development Blocks and Villages of Golaghat & Jorhat Districts

GORJHA DISTRICT

BLOCK VI
Majuli Development Block, Kamalabari

Villages:
11. Bongaon
12. Aini Chapori

BLOCK V
Central Jorhat Development Block, Chipihola

Villages:
9. Dewan Gaon
10. Mudai Gaon

BLOCK IV
East Jorhat Development Block, Selenghat

Villages:
7. Hatimurua Gaon
8. Dilia Gaon

BLOCK III
Golaghat South Development Block, Sarupathar

Villages:
5. Naharbari Gaon
6. Gohain Gaon

BLOCK II
Golaghat West Development Block, Bokhakhat

Villages:
3. Haldibari Gaon
4. Panbari Gaon

BLOCK I
Golaghat East Development Block, Padumoni

Villages:
1. Padumoni Gaon
2. Fatual Gaon

GOLAGHAT DISTRICT

Selected Development Blocks and Villages of Golaghat & Jorhat Districts
1.7.2. *The Sample Design*:

The selection of household was based on random sampling method from the list of borrowers obtained from two branches each from State Bank of India, Lakhimi Gaonlia Bank, Assam Co-operative Apex Bank and United Bank of India, which is the lead bank of both the districts. One branch each from Indian Bank and Allahabad Bank also selected for study. Samples of three type of priority sector household, namely, agricultural borrower, SSI borrower and other priority sector borrower, viz, retail trade, professional & self-employed persons, transport operators etc. were taken up by purposive random sampling method. The size of sample was 30 loanee from each branch of the banks selected for the study. Thus a total number of 300 household were selected from ten bank branches to make the study purposeful and representative.

These 300 priority sector beneficiary households were selected from the 1652 beneficiaries of the selected bank branches functioning in six development blocks of both Golaghat and Jorhat districts selected under study. Therefore, coverage of households for our survey purpose constituted only 18 percent.

1.7.3. *Schedule of the Study*:

The schedule used to collect primary data contained both open ended and cross-ended questions, demographic questions, behavioural questions and attitudinal questions too. Personal interview method was followed to collect necessary information from the chosen respondents. The types and size of different priority sector household have been treated as
independent variable and the various aspects related to bank loan such as repaying capacity, income generation etc. as dependent variables. The main indicators included in the schedule related to income, employment, saving, investment etc.

In order to evaluate the impact of the loan on the economy of the loanee household, both inter-temporal and cross-sectional approaches were used. In the inter-temporal approach the level of income, average earning and employment were compared for two period of time—one before taking loan and other after taking loan. In the cross sectional approach, the existing situations of the loanee priority sector household from different income classes have been compared. An estimation of the economic benefits of each priority sector borrower group in terms of improvement in income has been made to show the effectiveness of various priority sector loans and their suitability for the upliftment of the poor loanee priority sector households.

1.7.4. Limitations of Study:

Though the study is based on the data collected from the point of view of the objectives and hypotheses of the study, yet it has been subject to certain limitations.

First of all, the sample size cannot be said to be adequately large so as to cover maximum number of households. Only 300 households from two districts, i.e. Golaghat and Jorhat were selected due to resource constraints.

Secondly, the schedule were not always canvased to the head of the family due to their absence at the time of interview. In such a situations,
other responsible adult family member of the household were interviewed for collecting necessary information.

Inspite of these limitations, the findings of the study is expected to be of both practical and academic interest as it may reveal the impact of bank finance on priority sector beneficiaries.

1.7.5. Analysis of Data :

Data collected under survey from the sample beneficiary households have been analysed in order to assess the impact of priority sector lending in both the districts of Golaghat and Jorhat. It is assumed that if a borrower utilises the bank loan efficiently and derives better income, then the credit delivery in this case can be considered as effective. Similarly, when the lending bank is able to recover the principal and the interest from the borrowers as per repayment schedule, then the loan portfolio is of good quality. An attempt has also been made to generalise the results so obtained from the selected development blocks of both the districts, taking into account the various constraints as well as limitation of the study.

1.8. Statistical Tools used for Analysis of Data : In course of our study the following tools are used to express the progress of priority sector lending by commercial banks and to make comparision between two or among the variables.

i) Simple Growth Rate : It simply gives the percentage of increase in the current year over the previous year data. Symbolically, it can be expressed

\[
SGR = \frac{Y_f - Y_o}{Y_o} \times 100
\]
Where,

SGR = Simple Growth Rate

\[ Y_j = \text{Value of variable in the current year} \]

\[ Y_0 = \text{Value of variable in the previous year}. \]

ii) **Compound Growth Rate** : It is used to ascertain and to express how changes have taken place on the basis of the base year and the end year values. So,

\[ \text{CGR} = \left( \frac{Y_j}{Y_0} \right)^{1/t} - 1 \times 100 \]

Where,

\[ \text{CGR} = \text{Compound Growth Rate} \]

\[ Y_j = \text{Value of variable 'Y' at the end year} \]

\[ Y_0 = \text{Value of variable 'Y' at the base year} \]

\[ t = \text{Differences of year between the end year and the base year}. \]

iii) **Co-efficient of Variation** : This statistical tool has been used to find out and to compare the dispersion in terms of selected variables and when required. So,

\[ \text{C.V} = \frac{\text{Standard Deviation}}{\text{Mean}} \times 100 \]

Besides, we have also used different tables, chart and graphs to make comparison.

1.9. **Hypotheses** : The following are the main hypotheses that have been postulated in **prehension** for our study.

i) The commercial banks in Assam have not given priority to agricultural and small scale industrial sector.
ii) The major portion of priority sector credit granted by commercial banks goes to the other priority sector.

iii) The recovery rate is abysmally low under various priority sector lending scheme.

1.10. **Chapterisation**: The work is divided into nine chapters. The break-up of the Chapter are:

**Chapter-I** deals with the early history of commercial banking in Assam with a brief discussion of the growth and development of banking in the pre-nationalisation and post-nationalisation period. The objective, hypothesis and methodology are also covered in this chapter.

**Chapter-II** elaborates the concept of priority sector lending and various segments of priority sector. Procedure and guidelines for sanction of loan to beneficiaries by the commercial banks have been the subject matter of this chapter.

**Chapter-III** basically deals with the trend and progress of priority sector in India as a whole and Assam in particular. The sectoral distribution of credit in favour of priority sector lending has been discussed in detail with some relevant Tables and Graphs in the chapter.

**Chapter-IV** highlights the profile of the two districts, i.e. Golaghat and Jorhat which we have selected for the field survey. The socio-economic profile of sample priority sector household are also incorporated in the chapter.

**Chapter-V** deals with the financing of agriculture sector by commercial banks as a major segment of priority sector lending. Moreover,
the achievement of banks in financing agricultural sector and problem associated with lending in both Golaghat and Jorhat districts are also discussed in this chapter.

Chapter-VI attempts to evaluate the progress of small scale industries as another segment of priority sector lending in the state since bank nationalisation. Achievement of banks in financing small scale industries under Annual Credit Plan in Golaghat and Jorhat districts and problem in financing small scale entrepreneurs have been discussed in the chapter.

Chapter-VII discusses the overall bank credit to transport operators, retail trade, small business, professional & self employed persons, housing and credit to people belonging to weaker sections etc. under 'other priority sector'. Problems faced by banks in Golaghat and Jorhat districts are also covered in this chapter.

Chapter-VIII deals with the recovery of priority sector dues and problem associated with it. Mounting overdues under priority sector lending and measures taken by banks to recover the overdues in Assam, have been covered in this chapter.

Chapter-IX summarises and brings into conclusion the discussions of all chapters. Recommendations and suggestions too are offered in the chapter.