PART - II

CHAPTER - 4

STATE BANK OF INDIA AND AGRICULTURAL DEVELOPMENT

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--- AGRICULTURAL PROSPECT
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4.1. NATURE OF STATE BANK OF INDIA:

The State Bank of India was originally the Imperial Bank of India, before it took the shape of public-sector on 1st July 1955. The All India Rural Credit Survey Committee appointed by Reserve Bank of India, recommended in 1952, the creation of a State Bank of India by amalgamating certain state-owned banks with the Imperial Bank. The committee recommended the setting up of a State Bank of India as "one strong integrated, state partnered commercial banking institution with an effective machinery of branches spread over the whole country for simulating banking development by providing vastly extended remittance facilities for co-operative and other banks and following a policy which would be in effective consonance with the national policies adopted by government without departing from canons of sound business."

Accepting the recommendation of the committee, the government of India enacted the State Bank of India Act 1955. *I

The State Bank of India was established by the statutory amalgamation of Imperial Bank and ten other state associated banks and since 1963 there have been running seven its subsidiaries. That was in line with the opinion expressed by the Rural Banking Enquiry Committee in 1950 that, "if these banks could be

integrated into one institution, and if that one institution could be aligned to national policies, then indeed that would be an extremely important and extremely desirable line of development." The setting up of the State Bank was an important step towards the development of strong commercial banking system. Thus, the nationalisation of the Imperial Bank and the establishment of the State Bank of India was an important milestone on the road to the establishment of an integral commercial banking unit with branches all over the country under effective state control.

Consequently, on 1st July 1955, the Imperial Bank of India was nationalised and in its place, the State Bank of India was established. July 1st, 1955 is, thus, considered as a Red Letter Day and a new chapter of state-ownership in the history of commercial banking in India. *II

Subsequently, with the passing of the State Bank of India (subsidiary bank) Act 1959, the State Bank took over as its subsidiaries the following seven state-associated bank:

   and Jaipur 5. State Bank of Saurashtra.

The State Bank of India is run purely as a Commercial Bank. It responds in a liberal way to the financial needs of the co-operative and small scale institution in the country. The

*II Farhat Hussain: Public Sector Commercial Banking in India, P-21
primary aim of the bank is to extend banking facilities in the rural areas. It provides finances to industries by acting as refinancier to the commercial banks. The Central government cannot interfere in the usual policy matters and day to day working of the bank.

The State Bank of India together with its subsidiary banks is popularly known as the State Bank Group. The group controls nearly one third of the entire banking industry in the country. It has created a strong banking structure with a total of 7577 ordinary branches and 431 special Agricultural Development Branches at the end of December 1987 which is 7505 ordinary branch offices in 1986, 497 branches in 1955.

The State Bank of India had already begun in 1956 in the direction of provision of finance for agriculture in an indirect way. It started providing financial resources to agriculture through Co-operative Bank, Land Mortgage Bank and Co-operative Processing and Marketing Societies. In 1968, with the adoption of new agricultural strategy and change in the official policy, the State Bank of India started providing direct finance to the agricultural sector and for allied activities. After the nationalisation of the 14 major Commercial Banks, State Bank of India started providing directly and indirectly finance to the agricultural sector.

The State Bank of India is expected to help the Reserve Bank in its credit policies and to check any monetary disequilibrium that is likely to develop in the Money Market owing to the developmental activities. The Reserve Bank, holding 55 percent of the share of the State Bank, has the control over
the large resources of the State Bank to make effective its credit policies and tighten its grip over the whole banking system. Moreover, with the help of the State Bank of India, the Reserve Bank would be able to control and regulate the direction of the flow of credit.

4.2 AGRICULTURE PROSPECTS:

Agriculture is the key sector of the Indian economy. Apparently, in the country's development process, the importance of agriculture is both basic and vital. Credit plays an important role in agricultural development. Like any other activity in modern times, agriculture needs finance for its operations. To make agriculture a commercial proposition on business, finance is very essential.

The need for sustained and rapid improvement in agricultural performance remains critical for Indian's future growth and poverty reduction. With two-thirds of the population dependent on this sector and nearly 73 percent of the poor still living in the rural areas, raising both rural income and firm productivity are important not only from the economic point of view of accelerating growth but also for the implications that they have for human development.

The long term trend growth rate in Indian agriculture is estimated at over 2.2 per cent per annum. This needs to be raised to at least 3 per cent. To achieve this, it is necessary to formulate a comprehensive long term strategy. Attention must be paid to areas and products which have recorded low output. Measures must be taken to move in to newer cultivable areas, if possible and non-traditional agricultural products. Greater
emphasis need to be bestowed on increasing value additions per hectare rather than mere enhancement of physical output, particularly, in respect of small and marginal holdings.

The main challenge is to augment foodgrains production in order to meet the projected demand for foodgrains at the turn of the century. Agricultural growth should provide greater income stability and help to reduce regional disparities in agricultural development.

An important factor influencing the pace of future growth in agricultural output will be irrigation and an effective use and management of water resources. A judicious use of available natural resources has become imperative. In this regard, unless the charges for water and electricity and raised to appropriate levels, expansion of irrigation facilities and availability of power will become increasingly difficult and imede faster agricultural development.

Real investment, both public and private in agriculture has slowed down in the eighties. Unless investment is stimulated, it would have implications for achieving the required growth in the future. The sharp rise in subsidies, both open and implicit, has eroded to a considerable extent, the surplus available for public investment in agriculture. Sharp improvement in the real public investment in agriculture would be facilitated if subsidies that are not economically justifiable are eliminated and the distributional concerns are taken care of by appropriate targeting of the poor.

A review needs to be undertaken of the policy instruments which are currently being used to promote agricultural growth, viz, prices, subsidies, procurement, etc. Simultaneously,
other aspects, such as storage, technology, infrastructure needs, etc, relating to agricultural sector, also need to be addressed.

The prospects for agriculture in 1994-95 appear to be encouraging. The monsoon has been good with reports of scanty rains. It is expected that in the current Kharif season, foodgrains output will exceed the level of 1993-94. Agricultural growth in 1994-95 is expected to be around 3 per cent.

Finance is the life blood of all sector development. The State Bank group not only playing a pioneering role in the field of agricultural finance but it is actively working hard for the overall rural development of the country, by implementing the integrated rural development programmes in selected villages, which cater not only to the agricultural and allied village industries' needs, but also to social and cultural needs of the village people, such as health, housing, education, etc. under a comprehensive development plan chalked out for each concerned village in specific terms.

4.3 OBJECT OF THE STATE BANK OF INDIA (SBI):

There were certain laudable objectives behind establishing the SBI by nationalising the Imperial Bank. Here, the major aims and objectives of the State Bank of India discuss below --

1. State owned Commercial Bank:

The main purpose of instituting the State Bank of India has been to set up a strong public sector commercial bank with a view to providing control over the strategic section of the banking sector in the country.
2. Country Wide Spread:

Its aim has been to setup a large network of branches all over the country. According to the State Bank of India Act, the bank has a statutory obligation to open 400 new branches in the rural and semi-urban areas during the first five years of its existence or such extended period as may be permitted by the government.

3. Rural Branches and Agricultural Finance:

The SBI at extending banking facilities in rural areas and provide credit to the rural sector. It's main purpose was to start rural branches to fill the vacuum in those areas where other commercial banks were reluctant to move. For this purpose, the SBI created a special fund called the 'Integration and Development fund', having an initial investment of Rs 50 lakhs.

The SBI shouldered the responsibility of promoting agricultural finance and overcoming the deficiencies of the system of rural finance.

The SBI also aimed at tapping and mobilising rural savings for productive purposes in the rural sector of the economy.

4. Promoting Co-operative Banking:

The State Bank sought to help the growth of Co-operative movement by providing finance, training facilities, etc. To promote agricultural financing, the SBI provides financial assistance to co-operative institutions directly as well as indirectly.

5. Assistance to the Reserve Bank:

The SBI also sought to help the Reserve Bank in effectively implementing its monetary and credit policies. The SBI
also aims at channelising the flow of its credit in tune with the broad objectives of the monetary policy of the country.

6. Supporting General Economic Policy and Planning:

The SBI is supposed to conduct its activities in conformity with the major macro-economic goals and the general economic policies and planning designed by the government.

4.4 FUNCTIONS OF THE STATE BANK OF INDIA:

The functions on the business transactions of the State Bank of India are stipulated under the State Bank of India Act, 1955. Some of the major functions may be mentioned as under.

1. Agent of the Reserve Bank of India:

The State Bank of India acts as an agent of the Reserve Bank of India at all places in the country where there are no branches of the banking Department of Reserve Bank. At such places, instead of Reserve Bank, it plays receives, collects and remits money, bullion, securities on behalf of the government and also transacts other business entrusted to it by the Reserve Bank.

2. Advancing and Lending:

The State Bank of India advances and lends money and open cash credit against the security of: (a) stock, funds, other securities (except immovable property) in which a trustee is authorised to invest trust money; (b) debentures or other securities issued by or on behalf of a district board, municipal board, other local board or committee, under the authority of law: (c) debentures of companies with limited liability; (d) hypothecation of goods to the State Bank; (e) Bill of exchange and pro-notes, etc.
3. Dealing in Bill of Exchange:

The State Bank of India undertakes the business of drawing, accepting, discounting, buying and selling of bill of exchange and other negotiable securities.

4. Investment:

The investment of the funds of the bank in any specified securities and the conversion of the same into money.

5. Remittances:

The issuing of demand drafts, telegraphic transfers and other remittances.

6. Deposits:

Receiving of deposits and keeping cash accounts.

7. Dealing in Gold & Silver:

The buying and selling of Gold and Silver.

8. Underwriting:

The underwriting of the issues of any stocks, shares, debentures, etc.

9. Agent of Co-operative Banks:

Acting as agent of any registered Co-operative Bank.

10. Agent of the Government:

Acting as an agent of the Central and any state government in implementing any scheme for financing the construction of dwelling houses.

11. Borrowing:

The borrowing of money for the purpose of business of the State Bank.

12. Administration of Estates:

The administration of estates for any purpose as an
executor, trustee, or otherwise.

13. Liquidation and consolidator of banking system:

The Banking Regulation Act has authorised the SBI to act as the liquidator of a banking company in the event of its winding up by acquiring its assets and liabilities, if such an application is made by the Reserve Bank of India. In this way, it helps in consolidating and strengthening the banking system.

14. Dealing in Foreign Exchange:

The SBI serves as a major authorised dealer of foreign exchange in the country. It also finances the foreign trade of the country.

Above all, with the passing of the State Bank Laws (Amendment) Act 1973, the State Bank of India renders all normal banking functions on par with the other commercial banks of the country.

The State Bank of India, 1955, in fact spelled out two kinds of functions of the State Bank of India.

(a) permitted functions   (b) prohibited functions.

The discussion about most of the permitted functions have been covered by the preceding analysis in this chapter.

Prohibited Functions: Section 34 of the Act, however, prohibits the SBI from:

1. Making loan on Advance: (a) For a longer period than six months except on otherwise provided in this Act or (b) upon the security of stock on shares of the State Bank or (c) upon the security of any immovable property or the documents of title relating thereto, except necessary for any of the purposes of the Act.

2. Discounting Bills: Discounting bills for any individual on firm for an amount exceeding in the whole, at any one time such
sum as may be prescribed for lending or advancing.

3. Discounting, Lending, Advancing: Discounting, Lending, Advancing or opening cash credits on the security of any negotiable instrument, which (a) at the time of the proposed transaction has a longer period than 15 months to run, if the security is a bill drawn for the purposes of financing seasonal agricultural operations and 6 months in other cases; or (b) if the security is a bill drawn after sight, it is drawn for a longer period than 15 months in the case of a bill drawn for the purposes of financing seasonal agricultural operations and 6 months in other cases.

4. Owning or Acquiring: Owning or acquiring any interest in immovable property except for the purpose of providing building or other accommodation in which to carry on business of the State Bank or for providing residence for its officers and other employees.

It appears, thus, the SBI was somewhat based on the pattern of the Imperial Bank of India, with a major difference that the Central government is empowered to issue suitable directions to the State Bank on policy matters relating to the general interest of the nation.

The SBI Act, 1955, however, provided a somewhat narrow scope for the operations of the State Bank with a view to give accommodation to the Co-operative movement for rural development at that time. Later on, it has been realised that Co-operatives, through significant, cannot adequately serve the purpose, and a plea was made for the direct participation of the commercial banks, including the State Bank, in the field of rural finance.

Further, with the passing of the State Bank Laws (Amendment) Act, 1973, the functions of the State Bank were
enlarged. Besides its specific functions as have been laid down, it also permits the SBI to render all normal banking functions on par with the other public sector commercial banks in the country.

4.5 SPECIAL BRANCH OF STATE BANK OF INDIA (Agri. Dev. Branch)

With a view to providing credit to farmers on an intensive areas basis the State Bank of India and its Associate Banks have initiated new experiment by setting up special "Agricultural Development Branches" in selected intensive centres throughout the country. As a part of the area approach, the State Bank of India has formulated the "village Adoption Approach" in 1973-74, for the financing of agricultural operations for the benefit of small farmers. Under the scheme a branch adopts a few villages for intensive and integrated financing of farmers for meeting their credit requirements. These Agricultural Development Branches have been opened in backward and underdeveloped areas.

The State Bank of India group adopted 4304 villages since the inception of the scheme to 30 September, 1974.*3

The states of Uttar Pradesh, Haryana, Himachal Pradesh and West Bengal passed Bill to enable Commercial Banks to undertake financing of agriculture on a large scale. These Bills became Act during the year 1973-74. During the year 1974-75, three more states viz, Karnataka, Maharashtra and Rajasthan passed the necessary enactment to facilitate lending by Commercial Banks for agriculture as suggested by the Talwar Committee Report. Draft Dill have been prepared by the Government of Assam, Andhra Pradesh, Bihar, Jammu & Kashmir, Meghalaya and Orissa, also.

4.6 OBJECTIVES AND FUNCTIONS OF AGRICULTURAL DEVELOPMENT BRANCH OF SBI:

One of the major strategies of the bank to increase its involvement in the development of agriculture was to open Agricultural Development Branches with adequate technical and extension support at the centres with the requisite potential for agriculture development. The State Bank of India has been playing a pioneering role in financing agriculture and rural development through its special branches called Agricultural Development Branches in the country. This role has been multi-dimensional; and it has always given a lead to others. The scheme of Agricultural Development Branches started by State Bank of India is unparalleled in the history of rural banking not only in this country but also in the whole world.

The objectives of an Agricultural Development Branches are not only to finance agriculture but also to promote agricultural development as a whole in the area of its operations. In other words, it will be the responsibility of the Agricultural Development Branch to develop the various facets of agricultural economy in its area by granting not only crop loans but also term loan including loans for special farming activities. It would render also necessary technical advice to the farmers.

The Agricultural Development Branches of the bank provide a package of assistance which, besides credit support, including technical and other facilities. For the purpose, each Agricultural Development Branches is staffed by a set of technical officers, extension officers, veterinary surgeons, and agricultural assistants according to the requirements of the area. In order to guide the technical wing of the ADB's, each local head office of the bank has a separate technical cell consisting of a chief.
technical officer and technical officers specialising in animal husbandry, agronomy, horticulture, etc.

**Functions of Agricultural Development Branch:**

The major functions of Agricultural Development Branches are summarised below —

1. All types of direct and indirect agricultural lendings, including grant of loans for allied agricultural activities.
2. Deposits from farmers.
3. Remittances, collections etc., on farmers' accounts alone.
4. Lending under DIR scheme (Differential Rate of Interest Scheme - 1972).
5. Financing of cottage and very small agro-based industries like rice milling, oil processing units etc.
6. Financing of artisans engaged in rural arts and crafts.
7. Financing of small units engaged in rural repair shops.
8. Financing of petty rural trade.

Besides the above activities, the Agricultural Development Branches will also accept deposits from farmers and grant-agricultural loans against gold ornaments and silver wares even if requests for such services are received from the villages/areas not covered by them.

The following further activities at centres where ADBs are in the only commercial bank offices.

1. Acceptances of deposits from all types of customers.
2. Extension of collection and remittance facilities to all types of customers.
3. Priority sector lendings for the borrowers established at the centres where the branches are functioning.

**Area of Operation:**

As part of area approach to banking, the State Bank of India has formulated 'intensive centre scheme' the basic objective of the scheme is to select compact areas, where the economy in its
various facets can be improved by the State Bank credit support. Preference is given to areas which are backward and where special schemes of the government are being taken up, like Gramodaya Project, village Adoption scheme, Farm Graduate Scheme, small farmers scheme, Integrated Rural Development Programme etc. Agricultural Development Branches are set-up at such intensive centres with the support of technical and other field staff to assist farmers to make gainful use of credit. The centres are selected in consultation with the state governments. The starting of Agricultural Development Branches constitutes the logical extension of village adoption. These branches are located in areas which are not only backward, but possess the potential for a reasonable quick changeover to new technology and where the small farmers can be made receptive to the new technology within a reasonably short period of time.

The Agricultural Development Branches commence work with the preparation of business plans for a period of 2-3 or 4-5 years. It is done after carrying out intensive survey of the area, identifying the credit needs and formulate bankable schemes with all the details. Each branch covers an area of one or two blocks, or a cluster of about 100-125 villages within a radius of about 40 kms and serves a population of nearly one lakh. These plans are based on the development plan prepared with reference to the potential and local resources of the area; and the progress of the plan is reviewed at regular intervals. Finance is also provided for undertaking allied agricultural activities, such as dairy and poultry, with a view to improving the incomes of small and marginal farmers and making their operations viable. Loans are also granted for construction of godowns, custom service units, etc.
transportation and marketing of crops. The bank thus looked to the area for its development in an integrated manner, covering all the important facts of its agricultural economy.

4.7 NEW DIMENSION OF COMMERCIAL BANKING INCLUDING SBI:

A banking revolution occurred in the country during the post nationalisation era. The commercial banks, especially public sector banks, have drastically changed from their traditional money dealing business to innovative banking and subserved their operation to the needs of nation building activities and socio economic upliftment of the Indian masses. It is observed that Indian banking has changed from class-banking to mass-banking or social banking. There has been a marked diversification of banking business from traditional to non-traditional and even to non-financial areas of operation during the last two decades.

In recent years, there has been a conscious reorientation of banking policy towards the attainment of social goals. The following have been the major shifts in the banking policy of the country:

-- Urban orientation to rural orientation;
-- Profit motive to service motive;
-- Class banking to mass banking;
-- Big customers to small customers;
-- Traditional banking to innovative banking;
-- Short-term finance to development finance;
-- Security based lending to purpose-oriented lending;
-- Credit worthiness of the borrowers to the purpose of borrowing;
-- Self interest to social perspectives.
Indian banking has become development-oriented. There are both quantitative and qualitative dimensions to the progressive changes that have taken place in our banking industry, ushering in a new era in the country's economic progress.

4.8 REGIONAL DEVELOPMENT:

Prior to nationalisation, there has been an uneven geographical coverage by the banking institutions. There were gross regional imbalances in the development of banking sector in the country. Regional imbalances of banking development have been noticed at two levels:

(1) Between urban and rural areas. (2) Among different states of the country.

1. Urban—Rural Disparities and Development:

The Commercial Banks were urban-oriented in their growth. Observing the Table - 4.1, it is clear that, there were 1832 bank branches in the rural areas against of 14471 branches in urban areas and 3322 branches in semi-urban areas. Rural areas were starved of banking facilities. Many villages did not have any bank branches and were thus starved of banking facilities.

To improve the situation, therefore the Commercial Banks, especially the public sector banks, undertook a programme of massive expansion of bank branches in the rural areas, under banked and unbanked areas, which aimed at ensuring balanced regional development of the banking sector in the country.

A comparable picture of the regional disparities which existed prior to bank nationalisation and the trend of development in the post-nationalisation period can be visualised from the data pertaining to the population group-wise position of branches of commercial banks as shown below the Table 4.1.
During the period June 1969, there were 1,832 bank branches in the rural areas, by June 1986 their number had increased to 29,718 and further to 29,920 by March 1987. That means, between 1969 and 1987, as many as 28,088 new branches were opened in rural centres. As such, the rural areas now accounted for nearly 56 per cent of the total bank branches as against 22 per cent in June 1969. This also implies that the public sector banks have opened a large number of new branches in unbanked areas.

### TABLE - 4.1

**DISTRIBUTION OF COMMERCIAL BANK OFFICES AS PER POPULATION (GROUP-WISE)**

<table>
<thead>
<tr>
<th>Population</th>
<th>Numbers of offices at end of</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>June 1969</td>
<td>% to total</td>
<td>June 1986</td>
<td>% to total</td>
<td>March 1987</td>
<td>% to total</td>
</tr>
<tr>
<td>(1) Rural</td>
<td>1832</td>
<td>22.4</td>
<td>29,718</td>
<td>55.8</td>
<td>29,990</td>
<td>55.9</td>
</tr>
<tr>
<td>(places with a population of up to 10,000)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Semi-urban</td>
<td>3322</td>
<td>40.1</td>
<td>10,567</td>
<td>19.8</td>
<td>10,612</td>
<td>19.8</td>
</tr>
<tr>
<td>(places with a population between 10,000-1,00,000)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) Urban</td>
<td>14471</td>
<td>17.5</td>
<td>7195</td>
<td>13.5</td>
<td>7220</td>
<td>13.5</td>
</tr>
<tr>
<td>(places with a population between 1 lakh - 10 lakh)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(4) Metropolitan/port towns</td>
<td>1661</td>
<td>20.0</td>
<td>5785</td>
<td>10.9</td>
<td>5813</td>
<td>10.8</td>
</tr>
<tr>
<td>(places with a population over 10 lakh)</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>8262</td>
<td>100.0</td>
<td>53,265</td>
<td>100.0</td>
<td>53,565</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: RBI Annual Reports on Trend & Progress of Banking in India

2. **State-wise Disparities and Development:**

There has been an uneven growth of banking in the different states of the country. Only a few advanced states were fairly served while a majority of them had poor banking facilities.
In June 1969, the all India average population - bank office (P-B) ratio was 65,000. But most states were having a much higher P-B ratio than the national average. For instance, the P-B ratio of some of states were as follows: Andhra Pradesh 75,000, Assam 1,98,000, Bihar 207,000, Jammu & Kashmir 114,000, Madhya Pradesh 116,000, Manipur 497,000, Nagaland 205,000, Orissa 212,000 and Uttar Pradesh 119,000. These figures reveal the great deficiency in banking facilities obtained in these states in 1969.

On the other hand, only a few states in a better position. For instance, the P-B ratio for Gujarat was 34,000, Haryana 57,000, Karnataka 38,000, Maharashtra 44,000, Punjab 42,000 and Tamil Nadu 37,000.

The table (No - 4.2), shown trend of state wise population bank office ratio. It is observed that, in March 1987, the all India P-B ratio came down to 13,000. The P-B ratio for Andhra Pradesh has also dropped to 13,000 which matches with the national average. The P-B ratio for other states have also dropped to the following figures: Assam 20,000, Bihar 16,000, Jammu & Kashmir 80,000, Madhya Pradesh 14,000, Orissa 15,000, Uttar Pradesh 15,000.

Similarly, the P-B ratio of advanced states also have further declined. For instance, the ratio of Gujarat has came down to 11,000, Maharashtra 13,000, Haryana 12,000 and Punjab 8,000. Thus, the range of disparities between the rich and poor states has considerably narrowed down.

To correct regional imbalances in the banking development, the banks adopted the area approach and the lead bank scheme in their branch expansion programme. Presently, the situation has improved much.
### TRENDS OF STATE-WISE POPULATION-BANK OFFICES RATIO (IN .000s)

<table>
<thead>
<tr>
<th>Name of the state/ Union Territory</th>
<th>Population per bank office</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>June 1969</td>
</tr>
<tr>
<td>1. Andhra Pradesh</td>
<td>75</td>
</tr>
<tr>
<td>2. Assam</td>
<td>198</td>
</tr>
<tr>
<td>3. Bihar</td>
<td>207</td>
</tr>
<tr>
<td>4. Gujarat</td>
<td>34</td>
</tr>
<tr>
<td>5. Haryana</td>
<td>57</td>
</tr>
<tr>
<td>6. Himachal Pradesh</td>
<td>80</td>
</tr>
<tr>
<td>7. Jammu &amp; Kashmir</td>
<td>114</td>
</tr>
<tr>
<td>8. Karnataka</td>
<td>38</td>
</tr>
<tr>
<td>9. Kerala</td>
<td>35</td>
</tr>
<tr>
<td>10. Madhya Pradesh</td>
<td>116</td>
</tr>
<tr>
<td>11. Maharashtra</td>
<td>44</td>
</tr>
<tr>
<td>12. Monipur</td>
<td>497</td>
</tr>
<tr>
<td>13. Meghalaya</td>
<td>147</td>
</tr>
<tr>
<td>14. Nagaland</td>
<td>205</td>
</tr>
<tr>
<td>15. Orissa</td>
<td>212</td>
</tr>
<tr>
<td>16. Punjab</td>
<td>42</td>
</tr>
<tr>
<td>17. Rajasthan</td>
<td>70</td>
</tr>
<tr>
<td>18. Sikim</td>
<td>—</td>
</tr>
<tr>
<td>19. Tamil Nadu</td>
<td>37</td>
</tr>
<tr>
<td>20. Tripura</td>
<td>276</td>
</tr>
<tr>
<td>21. Uttar Pradesh</td>
<td>119</td>
</tr>
<tr>
<td>22. West Bengal</td>
<td>87</td>
</tr>
<tr>
<td>23. Andaman Nicobar</td>
<td>82</td>
</tr>
<tr>
<td>24. Arunachal Pradesh</td>
<td>—</td>
</tr>
<tr>
<td>25. Chandigarh</td>
<td>7</td>
</tr>
<tr>
<td>26. Dadra-Nagar Haveli</td>
<td>—</td>
</tr>
<tr>
<td>27. Delhi</td>
<td>10</td>
</tr>
<tr>
<td>28. Goa, Daman &amp; Diu</td>
<td>8</td>
</tr>
<tr>
<td>29. Lakshadweep</td>
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<tr>
<td>30. Mizoram</td>
<td>—</td>
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<tr>
<td>31. Panchayery</td>
<td>31</td>
</tr>
<tr>
<td><strong>All India</strong></td>
<td><strong>65</strong></td>
</tr>
</tbody>
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Source: RBI Report on trend and progress of Banking in India (1986-87)

### 4.9 LEAD BANK SCHEME:

The lead Bank scheme provides a new strategy of banking and area development in the branch expansion programme of banks in the post-nationalisation phase of banking growth in the country. This idea of lead bank scheme was initiated by the Gadgil study group of the National Credit Council in October 1969. Realising the
deficiency of banking facilities in the rural sector, the Gadgil study group recommended the adoption of an area approach to evolve plans and programme for the development of an adequate banking and credit structure in the rural areas. This idea was further endorsed by the Nariman Committee (the committee of Bankers on branches expansion programmes of public sector banks) in its report submitted in November, 1969. The committee recommended that each public sector bank should act as a "Lead Bank" by concentrating on certain districts to fulfil its social obligations.\

On the recommendations of these two committees, the Reserve Bank of India introduced the 'Lead Bank Scheme' towards the end of 1969. Under the scheme, 398 district in the country were allotted to the public sector banks and a few private sector banks. They were supposed to play the role of leaders in banking development. The lead bank scheme did not imply monopoly of the lead bank in banking business in the district. It only conferred leadership. The lead bank was to act as a consortium leader for co-ordinating the activities of all credit institutions - co-operative banks, commercial banks and others - in its allotted districts for expansion of branch banking facilities and catering to the needs of rural areas. In short "each Lead bank is a leader, coordinator and a guide in the district allotted to it".

Functions of a Lead Bank:

1. To survey the resources and potential for banking development by identifying unbanked centres in the allotted district. 2. To

\*4 Annual report, Reserve Bank of India, 1970.
\*5 Ghosh Alak - Indian Economy P 628.
setup branches in a phased manner. 3. To identify and study local problems. 4. To find out the number of industrial and commercial units and other establishments which do not have banking accounts or depend mainly on moneylenders. 5. To evolve an integrated credit plan by examining the shortage of marketing facilities for agricultural produce and industrial output, stocking of fertilizers and other agricultural inputs and other services catering to local needs. 6. To recruit and train banking staff for counselling the small borrowers and farmers in the priority sectors and follow-up and inspection of the end-use of banking credit. 7. To provide assistance to other primary lending agencies. 8. To keep contracts and liaison regularly with government and semi-government agencies.

The lead banks, as such, are required to chalk out and implement "area planning". They have to integrate their lead bank schemes with district plans for an effective distribution of credit, along with the expanded banking facilities as per local needs.

**Working and Progress of the Lead Bank Scheme:**

The Reserve Bank of India had advised the lead banks to prepare district credit plan for their lead districts and implement them. But July 1978, with the preparation of credit plan for most of the districts by the lead banks. The first phase of credit plans was completed.

However, due to lack of uniformity in these plans, the lead banks were advised to terminated them by December 1979 and to prepare new credit plans for the period 1980-82, as per the guidelines suggested by the Reserve Bank. The Reserve Bank of
India stressed the following objectives of bank lending in its guidelines.
1. To finance labour-intensive schemes which generate employment.
2. To assist weaker sections in all possible ways to improve their productivity.
3. To help increase productivity of land and other allied sector which would reduce unemployment and improve their income standards.

It has also suggested that the District Credit Plans must be aligned with credit based development scheme. Further, they should be prepared on a blockwise basis. A.D.C.P should be accompanied by a separate action-oriented annual plan.

A greater degree of uniformity is seen in the presentation of District Credit Plan and Annual Action Plans in the second and the third round during 1980-82 and 1983-85 respectively.

The third round of DCP ended in March 1985. However, the Reserve Bank of India was to provide new guidelines in view of the seventh Five Year Plan for the fourth round of DCPs. But till October 1986, these could not be finalised. So the Reserve Bank advised the lead banks to prepare their Annual Action Plans for 1987 broadly on the basis of its earlier guidelines.

However, the new guidelines for the preparation of the fourth round of D.C.Ps for the period January 1988 to December 1990 have been finalised and approved by the High Power Committee on Lead Bank Scheme.

4.10 ACTION PLAN :

In September 1985, the public sector banks chalked out their Action Plans for the Period November 1985 to December 1987. The Action Plans involve several measures for improvement in the
quality of service and operational efficiency of the banks. These include:

1. Steps towards revamping credit management and improving the quality of loan assets. 2. Classification of advances on the basis of health codes, timely renewed and review of credit limits. 3. Enforcing operational and monitoring mechanism to check overdues. 4. Imposing financial discipline on the borrowers. 5. Improvements in the payments mechanism. 6. Prompt balancing of books of accounts. 7. Quicker submission of returns. 8. Inter-bank reconciliation. 9. Improvement of customer services in banks. 10. Improvement in in-house keeping.

There have been quarterly reviews of the progress of the Action plans with a view to help the bank managements as well as the Reserve Bank to assess the performance of banks.

4.11 COMMERCIAL BANKS' PARTICIPATION IN THE IRDP:

In recent years, there has been a growing realisation that banks have a social obligation of playing an important role in the process of rural development and allied programmes aimed at alleviation of rural poverty.

The Integrated Rural Development Programme (IRDP) is, by far, the single largest anti-poverty programme launched by the government of India since 1978. The principal objective of this programme is to alleviate poverty by augmenting the income of the poorest families in rural areas, which is sought to be achieved by engaging them in gainful occupations. Financial support is extended to the identified families, so that they may acquire productive assets, technology and skill for economically viable activities. The thrust of programme is at raising the consumption
level of the poorest of the poor, including rural artisans, in order to raise them above the poverty line. Unlike other development programmes the emphasis in the IRDP is on the family as a unit. Households with a total income of Rs 3500 per annum are considered eligible for assistance under this programme which, launched for implementation in April 1978, covered 2300 blocks in the first year and 2600 blocks in the second year. It was extended to all the blocks in the country from October 1980.*6

Moreover, the Central governments and the Reserve Bank of India have taken a number of steps in farming the banking policies and procedures to finance IRDP. These include the following decisions and measures:

(a) 50 percent of direct agricultural advances to go to the weaker sections by 1983. 
(b) 40 percent of priority sector or 16 percent of the total lending to go to agriculture by 1985. 
(c) 12.5 percent of total lending to go to the SSI sector, including village and cottage industries and rural artisans by 1985. 
(d) 1 percent of the total aggregate advances of commercial banks to be made available for lending at 4 percent interest rate under the DIR scheme. 
(e) Branch expansion policy favouring opening of branches in rural and semi urban centres, and giving priority to Regional rural Banks.

Banks, in general, have done well in playing their assigned role. But, there are many shortcomings:

(1) Performance of banks in providing assistance to weaker sections and other beneficiaries of the IRDP has been largely

*6: Reserve Bank of India Reports on Currency and Finance.
target-oriented rather than result-oriented. After providing credit to the deserving beneficiaries, there has been rarely any follow-up to find out whether there has been any productive utilization. (2) There has been an increasingly high proportion of overdues in bank advances. Overdues of the priority sector accounted for twenty percent of the outstanding credit by the end of December 1986. (3) Recovery performance in the case of direct agricultural advances also remained unsatisfactory. (4) No sufficient field work has ever been carried out by the rural branches executives for contacting their present and potential clientele for developmental and promotional work such as mobilisation of deposits, monitoring of credit utilisation, recovery of loans etc.

4.12 INNOVATIVE BANKING

Commercial Banks in India have been adopting the strategy of 'innovative banking' in their business operations since 1973. 'Innovative Banking' implies the application of new techniques, new methods and novel schemes in the area of deposit mobilization, deployment of credit and Bank management. To attract more deposits, Indian banks have introduced many attractive saving scheme such as education deposit plan, perennial pension plan, retirement scheme, recurrent deposit scheme, loan-linked recurring deposit plan, Akshaya Nidhi scheme, pygmy deposit scheme, unfixed deposit scheme etc.#7

To collect deposits from widely scattered area, mobile bank branches have been introduced by a number of banks. A number of

#7 A Guide to Day to Day Banking, a publication of SBOA.
banks have started evening branches, Sunday branches, round-the-clock exchange bureaux, teller system of payment of cheque etc for the benefit of the customer.

Likewise innovations are made on the credit side, too. Banks have introduced education loan scheme, tractor and pump-set loan scheme, cash card/credit card, housing finance, packing credit and post-shipment credit (in export finance), financing on broking for leasing, consumer credit, mutual funds, all of which pool the investors fund for investing in a diversified portfolio of securities so as to spread and reduce risks.

Besides, mechanisation and computerisation processes are being introduced in the day to day working of the banks. In June 1987, the public sector banks had installed about 2750 advanced ledger-posting machines at over 1050 branches. The MICR cheque system has been introduced by banks in all metropolitan cities (Magnetic Ink Character Recognition)

4.13 NOVEL CREDIT SCHEME:

In India, Commercial banks pay special attention to the various novel and innovative credit schemes and facilities in their operations for the benefit of the society at large. Here following schemes:

(a) Differential Rates of Interest Scheme:

The public sector banks have introduced the Differential Rate of Interest (DIR) scheme in 1972 to extend bank credit to the weaker sections at concessional rate of interest.

The scheme is based on the guidelines issued to banks by Union Ministry of Finance in pursuance of the policy decision announced by the government of India in the statement made by the Finance Ministry in the Lok Sabha on 25-3-1972. Under the DIR
scheme, the banks are directed by the Reserve Bank to finance:

1. Scheduled Castes and Scheduled Tribes and others engaged on the modest scale in agriculture and allied activities.

2. The physically-handicapped people on a modest scale by offering loans for cottage and rural industries and vocations like sewing garments, making reasonably cheap edibles, running way-side tea stalls, basketmaking etc.

3. People engaged in elementary processing of forest products.

4. Village artisans in the decentralised sector.

The private sector banks also participate in the 'DIR scheme' on the voluntary basis. Later, in April 1983, the government set up a task force on the DIR scheme to examine the various provisions of the scheme and to suggest modifications. The Union Finance Minister considered its report and the following decision were made.

1. The present form of the scheme will continue to operate by charging interest and the rate of 4 percent per annum to the beneficiaries.

2. The beneficiaries of the DIR scheme should be selected on the basis of eligibility criteria prescribed by the government. They should not be recipients of benefits under any of the subsidy-linked schemes of Central/State government or state-owned corporations.

3. The ceiling of annual family income of borrowers for eligibility for assistance, under DIR scheme, is raised from Rs 2000 to Rs 6400 in rural area and from Rs 3000 to Rs 7200 in urban areas.

(b) Credit Authorisation Scheme:

The credit Authorisation Scheme (CAS) for bank advances was introduced by the Reserve Bank of India in 1965. Under the scheme, all scheduled commercial banks have to obtain prior authorisation of Reserve Bank before granting any fresh credit limit of Rs 1
crore or more to any single borrower. This limit was, however, raised to Rs 2 crores in 1975.

The bank first scrutinize the proposals of the borrowers and then send them to the Reserve Bank for approval. The Reserve Bank goes through the proposal and if found suitable, then it may authorise the concerned bank to sanction the loans asked for. The CAS is being reviewed by the Reserve Bank from time to time and is progressively liberalised.

Recently, following the Vaghul Committee's Report on Money Market, certain changes have been introduced in the CAS for promoting bill financing.

1. From April 1st 1986, in the case of borrowers who enjoy aggregate working capital facilities exceeding the cut-off point under the CAS, the limit sanctioned against book debts should not be more than 75 percent of aggregate limits sanctioned to such a borrower for financing his inland credit sales. 2. Sanctioning of separate additional adhoc inland bill limit is left to the discretion of the banks. 3. All borrowers subject to the CAS have to attain a ratio of bill acceptances to total inland credit purchases of 25 per cent.

(c) Advances to Minority Communities:

In July, 1986 banks were advised to ensure that adequate credit flow is made available to certain identified minority communities, namely, Muslims, Christians, Neo-Buddhists, Sikhs and Zoroastrians.

(d) Housing Finance:

Banks are also providing housing finance. During 1986 banks disbursed housing finance to the tune of Rs 186.21 crores. The government has proposed to set up a National Housing Bank as
statutory corporation. Its major function would be to promote and develop specialised housing finance institutions at regional and local level which will provide loans for acquisition of housing.

(e) Employment-Oriental Scheme:

Commercial Banks actively participated in the employment-oriented schemes introduced by the government during the Sixth and Seven Five Year Plan period. On 15th August 1983, the scheme called self-employment scheme for educated unemployed youth was introduced by the government. Its object is to encourage the educated unemployed youth to get the self-employment in manufacturing or service industries on business availing themselves of the provision of a package of assistance in the form of bank loans.

4.14 MERCHANT BANKING:

The term "Merchant Banking" in tune with the current trend has now become a sort of package assistance extended to promoters engaged in floatation of new companies, preparation, planning and execution of new projects, expansion/diversification of industries and the management of public issues. Merchant banking is a much desired innovative step undertaken by the commercial banks in India.

The need for merchant banking was vehemently stressed by the Banking Commission (1972). According to the Commission, merchant banking institutions are to offer services like syndication of financing, promotion of projects, investment management and advisory services to medium and small savers and to provide funds and trusts to various types. In fact, merchant banking implies a wider range of specialist services, under as follows:
1. Financial and management consultancy. 2. Project counselling.
5. Portfolio management. 6. Formulation of schemes of rehabilitation.
7. Guidance to non-resident Indians for investment in India.

The National Grindlays Bank was the first to introduce merchant banking services in 1967, followed by the First National City Bank in 1970. Among the Indian banks, however, the State Bank of India is the pioneer in starting Merchant Banking Division in 1972. Other public sector banks such as the Bank of Baroda, Canara Bank, Bank of India, UCO Bank etc. entered in the merchant banking in the late seventies and the early eighties.

Basically, merchant banks are more service-oriented. Their main function is to guide the preparation, planning, evaluation and execution of projects which all helpful the growth of industries. However, in specific terms, the main function assumed by the merchant banking division of the National & Grindlays Bank are as follows —

1. To give advice and assistance to Industries/Entrepreneurs in Planning their finances. 2. To assist customers in long-range planning for growth and effectiveness. 3. To match the needs of the customer for all types of finance to national on international level. 4. To promote international investment. 5. To act as an intermediary and expert for advising and assisting in raising share capital or loan capital. 6. To provide specialised service in financing foreign trade. 7. To provide such services and assistance to small and medium sized industries, as well as to the joint sector industries.

Similarly—the following functions have been specified for the merchant banking division of the State Bank of India.
1. To furnish advice, assistance and liaison in the meeting with allied government formalities, required in establishing on expanding industrial projects. 2. To prepare economic, technical and financial feasibility reports and survey reports for setting up new industrial project. 3. To give assistance in raising foreign exchange resources. 4. To render assistance in raising rupee loans from term-lending institutions, development banks, commercial banks and such other industries. 5. To provide assistance and advice in determining the capital structure, in obtaining official consent and in handling and floating capital issues and such other activities as are engaged in by the registrars on issue houses. 6. To advice and assist in restructuring of capital, amalgamation, mergers, etc. 7. To advice and assist in adopting the best form of industrial organisation. 8. To help in financing foreign trade.

In general, the merchant banking activities of the Indian banks have been largely confined to the management of public issues and loan syndications. They have yet to develop expertise in the fields of project counselling, corporate counselling, capital restructuring, profitfolio management etc. The Indian merchant bankers pay little attention to the problem of industrial sickness on the growth of small scale industrial units.

4.15 INDIAN BANKS OVERSEAS:

Overseas business of India banking dates back to 1921 when the Imperial Bank of India opened its branch in London. Then in 1946, the Bank of India opened its branch in London. By the end of 1950's, however, Indian banks were operating at many international centres. In June 1969, there were of Indian banks
with 56 offices in 12 countries. A rapid expansion of Indian banks on international front took place during 1976-1984. At the end of 1984, there were 13 Indian banks with 141 overseas branches. During 1985-87, several unprofitable overseas branches of Indian banks were closed down. Thus, at the end of 1987, there remained only 9 Indian banks with 122 overseas branches.\*8

Indian banks have a narrow international spread. It is mostly confined to six nations, viz - United States of America, United Kingdom, UAR, Fiji Islands, Sri Lanka, and Singapore. There are many inherent weaknesses in the overseas branches of Indian Banks. A few of them are analyse here.

1. Their capital base is miserably low. The capital-assets ratio of other Indian Banks abroad is much lower in comparison to other international banks. For instance, the capital-assets ratio of the SBI is 1:52 as against 4:64 of Citicorp or 2:38 of Dai-Ich Kangyo Bank of Japan. 2. The interest cost of their funds is high and unstable. 3. Their operations are mainly confined to retail banking. 4. Their scale of operations is also very small in comparison with that of other international banks. 5. Their profitability is adversely affected by low capital funds and high cost of lendable resources. 6. Their operating costs as well as operational costs are relatively high. 7. There is lack of consultation, cooperation and coordination among the overseas branches of Indian banks. 8. Lack of efficient management, information system, and absence of risk assessment system has also contributed to high risk and less profitability of overseas.

\*8 Source: RBI Report on Trend and progress of Banking in India.
branches of Indian banks. 9. Overseas branches of Indian banks are basically serving the traditional and protected market by patronising ethnic interest. Their lack of the required competitive skill and efficiency to build up their business against other most sophisticated international banks. 10. They also lack expertise and guidance from the top management. 11. There is lack of a consistent and coherent policy for the growth and expansion of the business of Indian overseas banks. 12. There is lack of appropriate control and monitoring system to guide the overseas branches, business in the changing environment of dynamic world economy.

A recent study made in 1988 by the Reserve Bank of India on Indian banks abroad, suggests that Indian banks operating abroad may have to adopt a prudent strategy of rationalising and consolidating their branches network abroad. Non-viable branches of these banks may have to be closed down. At the same time, Indian overseas banks have to explore the possibilities of expanding their business in other countries like France, Japan and the Netherlands and the USA. It has also been suggested that Indian overseas banks should take steps to minimise risks by introducing a proper loan and investment portfolio management and central information system which can help monitor risk evaluation and management and credit exposure assessment.

4.16 AGRICULTURAL FINANCE CORPORATION:

The Agricultural Finance Corporation (AFC) was established by the Indian Banks' Association in April 1968. Its main function is to help Commercial Banks in financing agricultural projects and participate actively and extensively in the development of agriculture. It has formulated a number of projects and
participate actively and extensively in the development of agriculture. It has formulated a number of projects like Command Area Development, Watershed Management, Animal Husbandry, Fisheries, Sericulture etc.

The AFC also has the honour of getting international assignment from foreign governments/agencies for preparation of feasibility studies/projects and for providing technical experts. During 1985-86, the AFC had undertaken a variety of projects/studies on agriculture and rural development. During 1986-87 it has handled 117 assignments including 10 international assignments on such aspects.

4.17 CONCLUSION:

Here, we have discussed about nature and object of SRI including ADB's and few steps taken by the Indian Commercial Bank for improving their business as a whole. The success of a banker at that level depends on his capacity to understand, co-operate and to influence the other participants in the planning process. This is the new dimension of the banking business in India to which utmost awareness and skill acquisition are demanded.

We may thus conclude with Shri M.G. Parikh, ex-custodian of the Bank of Baroda, that "in order that the association of banks with industry is more fruitful rewarding, may innovations will have to be planned and introduced systematically and a greater degree of managerial competence will have to be developed". *9

*9 "M.G. Parikh: "Banking and Industry" Industrial Development of India; Policy and Problems."