E.C. No. 78

ESTIMATES COMMITTEE
(1973-74)

(FIFTH LOK SABHA)

SIXTY-SECOND REPORT

MINISTRY OF FINANCE

(Department of Banking)

Extension of Credit Facilities to Weaker Sections of Society and for Development of Backward Areas

LOK SABHA SECRETARIAT
NEW DELHI

April, 1974/Vaisakha, 1896 (Saka)

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TO
THE SIXTY-SECOND REPORT OF ESTIMATES COMMITTEE (FIFTH LOK SABHA) ON THE MINISTRY OF FINANCE (DEPARTMENT OF BANKING) - EXTENSION OF CREDIT FACILITIES TO WEAKER SECTIONS OF SOCIETY AND FOR DEVELOPMENT OF BACKWARD AREAS.

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(1973-74)

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21. Shri Jharkhande Rai
22. Shri P. Ganga Reddy
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*Nominated by the Speaker as Chairman with effect from 22nd January, 1974 *vice* Shri Kamal Nath Tiwari died.

**Elected with effect from 29th November, 1973 *vice* Shrimati Jyotsana Chanda died.

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28. Shri M. G. Uikey
29. Shri G. P. Yadav

SECRETARIAT

Shri Avtar Singh Rikhy—*Joint Secretary*

Shri G. D. Sharma—*Deputy Secretary*

INTRODUCTION

I, the Chairman, Estimates Committee, having been authorised by the Committee to submit the Report on their behalf, present this Sixty-Second Report on the Ministry of Finance (Department of Banking)—Extension of credit facilities to weaker sections of society and for development of backward areas.

2. The Committee took evidence of the representatives of the Ministry of Finance (Department of Banking) on the 14th, 15th and 16th January, 1974. The Committee wish to express their thanks to the Officers of the Ministry for placing before them the material and information which they desired in connection with the examination of the subject and for giving evidence before the Committee.

3. The Committee also wish to express their thanks to the President and other representatives of the Federation of Associations of Small Industries of India, Federation of Indian Chambers of Commerce and Industry and Dr. Bhabatosh Datta, former Member, Banking Commission for furnishing Memoranda to the Committee and also for giving evidence and making valuable suggestions.

4. The Committee also wish to express their thanks to all the Associations and individuals who furnished memoranda on the subject to the Committee.

5. The Report was considered and adopted by the Committee on the 16th April, 1974.

6. A summary of recommendations|conclusions contained in the Report is appended (Appendix V).

7. A statement showing the analysis of recommendations|conclusions contained in the Report is also appended to the Report (Appendix VI).

NEW DELHI;
April 23, 1974.
Vaisakha 3, 1896 (*S*).

R. K. SINHA,
Chairman,
Estimates Committee.

CHAPTER I

INTRODUCTORY

A. Historical

1.1. The banking system in any country touches the lives of millions of people and has an important role to play in its rapid economic development and achievement of socio-economic goals. In India, the first attempt to bring the working of commercial banks in accord with the national policies and objectives was made in 1955 when the Imperial Bank of India was nationalised* and converted into the State Bank of India with a view to 'extension of banking facilities on a large scale, more particularly in the rural and semi-urban areas and for diverse other purposes'. Prior to that, the Reserve Bank of India was acting as banker to the Government, bankers' bank and as the inspector of the banking system since 1934**.

1.2. In the decade and a half following 1955, the other commercial banks expanded considerably along with the growth of the economy. However, their response to the multifarious economic needs of the community was somewhat slow, fitful and halting. While well-to-do and well-known customers were sought for eagerly, new unknown borrowers were often shunned. Many sectors of economic activity, though conducive to the production of goods and services useful to the community, were regarded as being out of bounds for the banks. Large areas of the country were either unbanked or sparsely banked. Banking remained the privilege of a very small proportion of the community and millions of people, eager in search of work and capable of undertaking viable and productive endeavours, had no access at all to the funds of the banking system. They had access only to indigenous money-lenders whose interest charges were unconscionably high.

1.3. Need was, therefore, felt for bringing about a re-orientation in the working of the banking system and a Scheme of Social Control over banks was introduced† by Government in 1968 with a view to distributing the resources of the banking system 'equitably and purposefully in conformity with the development requirements

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**Vide* State Bank of India Act, 1955.

***Vide* Reserve Bank of India Act, 1934 and Banking Regulation Act, 1968.

†Under the Banking Laws (Amdt.) Act, 1968.

so that the priority sectors receive their due share and particular clients or groups of clients are not favoured in the distribution of credit'. The Scheme was tried for sometime but the progress continued to be slow and halting.

1.4. With a view to ensuring that the banks were 'inspired by a larger social purpose and subserve national priorities and objectives—such as rapid growth in agriculture, small industries and exports, raising of employment levels, encouragement of new entrepreneurs and the development of backward areas'—Government soon found it necessary to take a direct responsibility for the extension, diversification and working of a substantial part of the banking system. Accordingly, the following 14 major Indian scheduled banks, with deposits of Rs. 50 crores or more, were nationalised w.e.f. 19th July, 1969*:—

1. Central Bank of India, Bombay.
2. Bank of India, Bombay.
3. Punjab National Bank, New Delhi.
4. Bank of Baroda, Bombay.
5. United Commercial Bank, Calcutta.
6. Canara Bank, Bangalore.
7. United Bank of India, Calcutta.
8. Dena Bank, Bombay.
9. Syndicate Bank, Manipal (South India).
10. Union Bank of India, Bombay.
11. Allahabad Bank, Calcutta.
12. Indian Bank, Madras.
13. Bank of Maharashtra, Poona.
14. Indian Overseas Bank, Madras.

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*Vide Banking Companies (Acquisition and Transfer of Undertakings) Ordinance dated 19th July, 1969, which was subsequently replaced by the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1969. This Act was declared void by the Supreme Court on 10th February, 1970. Thereupon the Government promulgated the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance dated 14th February, 1970 which was subsequently replaced by the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, providing *inter-alia* for the acquisition of the banks w.e.f. 19th July 1969 i.e. the date on which they were initially acquired.

1.5. As on 18th July, 1969, the above 14 banks had deposits aggregating Rs. 2626 crores* accounting for 56 per cent of the total deposits of the banking system in the country and 4168 offices comprising about 50 per cent of the total number of bank offices. The State Bank of India and its seven subsidiaries (*viz.* State Bank of Bikaner and Jaipur and the State Banks of Hyderabad, Mysore, Patiala, Saurashtra, Indore and Travancore) which were already in the public sector, accounted for about 27 per cent of the total deposits and nearly 30 per cent of bank offices. With the acquisition of the undertakings of 14 major Indian banks, the public sector in banking accounted for 83 per cent of the total deposits* and over 80 per cent of the number of bank branches in the country. Thus the public sector came to control the commanding heights of the banking system in order to 'meet progressively, and serve better the needs of development of the economy in conformity with national policy and objectives'.

B. Aims and Objectives

1.6. The nationalised banks were required to shoulder many social responsibilities. Their aims and objectives, as broadly indicated in various Government pronouncements† and the Annual Reports of the Ministry of Finance, are as follows:—

(i) Mobilise deposits on a massive scale throughout the country and not in cities and large towns only.

(ii) Accelerate lending to productive endeavour of diverse kinds irrespective of size and social status of the borrower particularly in the hitherto neglected sectors such as agriculture, small industry and exports and promote rapid growth thereof.

(iii) Sustain and generate gainful employment in the direct and indirect manner on a much larger scale than before.

(iv) Secure a more equitable distribution of credit throughout the country by having a balanced programme of branch expansion, particularly in States and areas which had lagged behind or were unbanked|underbanked.

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*As at end of December, 1968, the paid-up capital of these banks was Rs. 28·5 crores *i.e.* just a little over one per cent of their deposits.

**Thirteen foreign banks which had 129 bracnhes in the country but had their Head Offices abroad and nearly 50 Indian banks which were left out of the scope of nationalsation had between them about 17% of the deposits.

†Prime Minister's broadcast to the nation on 19-7-1969; speech in Lok Sabha on 29-7-1969; speech in Raiya Sabha on 7-8-1969 and Annual Report of the Ministry of Finnance for 1969-70, pp. 93-94.

(v) Encourage new entrepreneurs and contribute to the development and growth of all backward areas.

(vi) Serve as active catalysts in viable development in as many sectors of the economy as possible.

(vii) Provide improved and extended service to the general public.

For the speedy achievement of these objectives, it was contemplated to bring about "a number of changes in the banks' attitudes and methods of work *e.g.* re-orientation of the concept of 'security' for loans; paying special attention to growth potential and developmental needs of the local areas where branches are situated; taking better care of the requirements of under-developed areas and backward sections of the population; working in unison with developmental and term-financing agencies; reaching mutual understanding with State Governments; ensuring that large borrowers do not have to be lent more money than is actually required for productive use; and refusal of credit for unsocial or unproductive purposes". It also called for continuous efforts towards giving of a professional bent to bank management and provision of adequate training on a common basis as well as reasonable terms of service for bank staff.

1.7. The Committee enquired as to whether the above changes were spelt out in specific terms and to what extent have the aforesaid objectives been realised. They were informed during evidence that "Immediately after nationalisation, the Government did not want to go out in a big way for the reason that the whole question was before the Supreme Court. In the meantime, the Reserve Bank did provide guidance to the banks which was more or less a continuation of what the banks had already started doing. After the interim period was over, the Finance Minister called a meeting of the Custodians of the different public sector banks in July, 1970 and thereafter a number of letters have been issued, instructions* have been given, meetings have been convened".

1.8. As regards the achievement of the objectives, the Secretary of the Department stated that "since nationalisation, there has been

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*Certain Committees were set up by Government/R.B.I. on various aspects such as Thakkar Committee to work out credit schemes for self-employed; a Committee to sort out guarantee against small loans; Hazare Committee on differential interest rates; Talwar Committee on State Enactments, etc.

Instructions/Guidelines were issued by the R.B.I. in respect of financing of agriculture on 16-12-1970; Credit Guarantee Scheme on 1-3-1971; Credit Schemes for self-employed on 19-3-1971; etc.

a tremendous tempo of expansion in the banking system. The number of banks offices in 1969 was 8,321 and today the number is 16,503. The deposits have risen from Rs. 4,669 crores in 1969 to about Rs. 9,952 crores today. The provision of credit for the agricultural sector and for the weaker sections has advanced from year to year in a very significant manner. In 1969, the number of borrowal accounts was only 2.6 lakhs throughout the country whereas today it is approximately 20 lakhs. The percentage of credit given to priority sectors which was hardly 14.9 per cent has reached 24.3 per cent".

1.9. The Committee note that for more than a year after nationalisation, no concrete steps were taken by Government in implementation of the new role and objectives of the nationalised banks on the plea that the matter was before the Supreme Court. The first guidelines on financing of agriculture were issued in December, 1970. In the opinion of the Committee, this crucial period could have been utilised by Government to work out the various schemes and to issue necessary guidelines to the banks so as to enjoin on them the speedy achievement of objectives of nationalisation in an effective manner from the very beginning. In any case, Government could have taken recourse to the Scheme of Social Control over banks for the purpose of issuing necessary instructions earlier.

1.10. The Committee also note that while the progress, made by public sector banks after nationalisation in areas like deposit mobilisation and branch expansion, has been somewhat satisfactory, in other important and vital areas-like lending to weaker or priority sectors, particularly agriculture; removal of regional disparities in banking, development of backward areas, provision of improved service to the public—which were the main objectives of nationalisation, the progress has been slow and has rather fallen much short of requirements and public expectation. These matters as well as other inadequacies noticed in the achievement of their objectives by the nationalised banks, are dealt with in the Chapters that follow.

CHAPTER II

GROWTH OF DEPOSITS AND CREDIT EXTENSION TO WEAKER SECTORS

A. Growth of Deposits

2.1. As indicated earlier, one of the tasks set for the nationalised banks was to mobilise deposits on a massive scale not in cities and large towns only but also in rural areas. The Committee understand that for attracting deposits, the banks had devised a large variety of schemes to suit for the requirements of diverse types of depositors—like schemes to cater to needs of daily wage earners, annuity deposit scheme, house building deposit scheme, retirement plan account, monthly interest scheme, Prize bonds scheme, etc.

2.2. Table below shows the total deposits mobilised by public sector banks since nationalisation:

Rs. in crores.

Year	Public Sector Banks		All Scheduled Commercial Banks	
	Total Deposits	Percentage increase	Total Deposits	Percentage increase
June, 1969	3871	..	4646	..
June, 1970	4426	14·3	5275	13·5
June, 1971	5212	17·8	6216	17·8
June, 1972	6400	22·8	7596	22·2
June, 1973	7570	18·3	9049	19·1
December, 1973	8354	..	10,000	..

It will be seen that the total deposits of public sector banks rose from Rs. 3871 crores in June, 1969 to Rs. 8354 crores in December, 1973 registering an increase of Rs. 4483 crores in four and half years *i.e.* Rs. 996 crores per year on an average. The annual growth rate has shown a declining trend after June, 1972.

2.3. The Committee enquired as to how far the above increase in deposits fulfilled the objective and whether any overall or bank-wise targets were set. The Secretary of the Department stated during evidence that "There has been a phenomenal increase in deposits with the public sector banks as also the commercial banks. There are no targets". It was also stated that for the Fifth Five Year Plan the Resources Working Group of the Planning Commission had made projections for additional resources of the order of Rs. 10,560* crores from the banking system as a whole, with public sector banks accounting for 85 per cent. These estimates were stated to have been based on the assumption that the prices did not show any abnormal rise during the Plan period.

Thus the public sector banks are expected to mobilise deposits of the order of Rs. 9000 crores during the Fifth Plan period—*i.e.* Rs. 1800 crores per year on an average.

2.4. The Committee appreciate that the deposits of the public sector banks have risen from Rs. 3871 crores in June, 1969 to Rs. 8354 crores in December, 1973, i.e. an increase of Rs. 4483 crores in four and half years which works out to about Rs. 996 crores per year on an average. The Committee however note that the increase in deposits of other scheduled commercial banks has also been some what of the same order.

2.5. The Committee understand that no overall or bank-wise targets had been laid down for mobilisation of deposits by banks in public sector during the Fourth Plan period. In the Fifth Plan, an overall projection of additional resource mobilisation of Rs. 10,560 crores has been made for the banking system as a whole, out of which the share of banks in the public sector is of the order of Rs. 9000 crores which works out to mobilisation of additional deposits at the rate of Rs. 1800 crores per year. The Committee need hardly stress that if this ambitious target which practically implies doubling of additional deposit mobilisation achieved during the Fourth Plan period, is to be realised, a far more systematic and intensive drive would have to be made.

2.6. The Committee recommend that Government/banks should have an annual plan for additional deposit mobilisation which should in turn be broken into targets for the region and branches as may be practicable and suitably reflected in the performance budgets which are now to be prepared by the banks. The Committee stress

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*According to the Draft Fifth Plan, additional resources from commercial banks are 8981 crores *vide* p. 64 of Plan, Vol. I.

that the actual progress made in raising additional resources should be critically examined in the light of achievements so as to roll forward the target where possible and to take remedial measures where necessary, to see that the targets laid down are realised.

B. CREDIT EXTENSION TO WEAKER SECTIONS OF SOCIETY

2.7. The extension of credit to weaker sections of society is the prime objective of the nationalised banks and on its effective achievement depends the success of the nationalisation.

(a) Assessment of Credit requirement/Gaps

2.8. As indicated earlier, one of the basic objectives of bank nationalisation was to eliminate the dependence of weaker sections of society on 'the local money-lenders' whose interest charges were unconscionably high. Asked to what extent the requirements of farmers and other weaker sections were being met by banks now and how far they still depended on money-lenders, the representative of the Department stated during evidence that "we are not in a position to give you perfect statistical information on the subject— There was a Committee appointed under the Chairmanship of a former Deputy Chairman of the Planning Commission to look into what are the credit gaps in the different sectors—they (Gadgil Committee Report, October, 1969) tried to indicate on certain assumptions—their answer was that taking the year 1967-68, the total credit requirements of agriculture were something like Rs. 1460 crores and as against that, institutions were providing roughly 38.6 per cent". The All India Rural Credit Review Committee appointed by the Reserve Bank of India in their Report (December, 1969) had also estimated the requirements for agricultural credit. On that basis, it was projected in the Fourth Plan that short-term requirements would be Rs. 2000 crores by the last year of the plan *i.e.* 1973-74, out of which Rs. 750 crores (*i.e.* 38 per cent) would be met by Cooperative banks. The medium and long term requirements were placed at Rs. 2000 crores for the Plan period as a whole, out of which Rs. 700 crores (35 per cent) was expected to be met by the Land Development/Mortgage Banks. For the Fifth Five Year Plan, short term agricultural credit requirements had been projected at Rs. 3000 crores by the last year of the Plan, out of which cooperative and commercial banks were expected to meet Rs. 1700 crores (*i.e.* 56 per cent). Medium and long term credit requirements were placed at Rs. 2400 crores for the whole Plan period out of which Rs. 575 crores were expected to be met by commercial banks and Rs. 1825 crores by Co-operative Banks. The Fifth Plan estimates were stated to be based on the assumption that there would be no significant price rise in the Plan period.

2.9. When pointed out that the above studies were made before nationalisation and the estimates also appeared to be conservative and that they should themselves make the study through bank branches all over the country on the basis of applications pending or rejected for want of money, etc., the Secretary of the Department stated that "we will try to do it in the course of this year". It was also admitted that "otherwise, whatever projections we are making, may not be meaningful, the targets have to be related to the requirements. We appreciate the fact that a study will have to be made. We shall initiate the necessary steps so that a study may be made by all the proper agencies".

2.10. In regard to small scale industries, it was stated that on the basis of "certain assumptions which are more in the nature of guess work—the banks are meeting 60 to 65 per cent of the requirements of this sector—The difficulty would, of course, be overcome when the census which is now being undertaken on a massive scale for all small scale industries will be completed in about two years' time." Asked if that census covered the financial aspects also and whether they had seen the proforma, it was stated "It covers that also. They are still preparing the proforma. The Ministry of Industrial Development through the State Government agencies, have started this investigation from 1st December."

2.11. As regards assessment of credit requirements in professional and self-employed sector and other sectors. It was stated that—"There is no estimate of the total credit needs—it has not been attempted either by the Department or by earlier authorities. This is a much bigger task—a problem of the planners, statistical institutions". When asked whether any credit gaps were estimated by the Gadgil Committee in these sectors, it was stated that "while it was possible to have a particular estimate of the credit requirements of agriculture and small scale industries, it was not possible in respect of other weaker sections. According to that Report we should go on a collective approach. In other words, we will take each branch wherever it is and have an estimate of credit gaps within an area of 10—15 Kms. within the branch functioning and try to improve all the credit needs of the branches".

2.12. The Committee are surprised to note that though the banks were nationalised mainly to provide the credit needs of the weaker

sections of society and to save them from exploitation by the money-lenders, no study appears to have been made after bank nationalisation to assess broadly the total credit requirements of these sectors, the extent to which the same could be met by the banks and the remaining unfilled gaps. In the opinion of the Committee such an assessment was an essential pre-requisite for planning credit extension to these sectors.

2.13. The Committee also note that before nationalisation some estimates of credit requirements/gaps were made by the Gadgil Committee and the All India Rural Credit Survey Committee in regard to two sectors only i.e., agriculture and small scale industries, on the basis of which Fourth Plan projections were made, but these are stated to be "in the nature of rough guess". The same is the case regarding Fifth Plan estimates which in addition are based on the assumption that there would be no price rise during the plan period. As regards the small scale industries, the Department has assumed that the census which is being undertaken by the Ministry of Industrial Development would cover the assessment of credif requirements also. The Committee are surprised that credit extension programmes by banks for priority sectors have been mainly based on assumptions or "rough guess" of requirements.

2.13. The Committee recommend that the Department should immediately have the necessary studies undertaken to assess the credit gaps in agriculture and other priority sectors through bank branches or other appropriate agencies and thereafter prepare an integrated plan of action by setting short-term and long term targets related to requirements so as to gradually achieve the objective of meeting substantially the requirements of these sectors, by a time bound programme.

(b) **Definition of Weaker Sections**

2.15. The Committee were informed by the Ministry that the subject of extension of credit facilities to the weaker sections had been crystalised as extension of credit facilities to the priority sectors which comprised agriculture, small scale industry, road and water transport operators, professionals and self-employed persons and education.

2.16. The Committee enquired about the basis for treating 'priority sectors' as weaker sections, reasons for excluding exports therefrom and whether any review thereof had been made. The representative of the Department stated during evidence that there were four considerations which led them to concentrate attention on these sectors:

> "These are the sectors which are extremely important from the point of view of production and employment........ in which the weaker sections of the community will be found predominantly....are the most important means of livelihood in most of the backward regions of the country....in the past had never attracted the attention of the banks. These were the four considerations why we concentrated our attention on these sectors, namely, agriculture, village and small scale industries, handicraft, small trades, road and water transport and things like that. In this we also included small scale industries which are now not as much neglected by the banks as they were, but from the point of view of increase in production, promoting an egalitarian society, we found that this is also important, and that is why we put all of them under priority sectors."

As regards exports, it was stated that "Exports is also a priority sector........But for the purpose of concentrating our attention on the sectors which had been completely neglected by the banking system, we have been putting more emphasis on agriculture and these various sectors........we do take care of exports".

2.17. In regard to the review of the list of priority sectors, the representative stated that—

> "This list has not been changed. It is only for three or four years that the list has been in existence. Actually for the first time the words 'priority sectors' were used in the context of social control."

When suggested that it might be useful to review it every year in order to find out if anything was left out and include the same, he said "It is too short a period". The Secretary of the Department added that "The main thing is that if something is left out it should be given priority............It may be, as you say, that some review of the situation may be needed." It was also amplified that "There is nothing sacrosanct about the relative priorities, but depending upon the context of the economy, we do try shift the emphasis from time to time to cover particularly the entire weaker sections of the society."

2.18. In regard to the small scale industries the representatives the Federation of Associations of Small Industries of India had stated during their evidence before the Committee that there were tiny units among small industries i.e. those having capital investment upto Rs. 1 lakh and that small units having investment upto Rs. 3 lakhs could be regarded as weaker sections. Explaining this, the representative of the Department stated that "We are following the same definition as has been followed by the Industrial Development Ministry, namely that the capital assets should be of the order of Rs. 7.5 lakhs and below..........amongst small scale industries there are various categories such as tiny, medium and so on........ We are impressing upon banks to give them greater attention. Redefining small scale industries and within them having special groups like tiny units and so on is a slightly larger issue."

2.19. The Committee note that the weaker sections of society have not been defined as such so far and that the main approach for the purpose of bank credit has been that the sectors which had remained neglected by the banking system should receive priority treatment. They also note that the list of these priority sectors has remained the same since the introduction of Social Control over banks in 1968 and there has been no review thereof, except some shift in emphasis as between the sectors in the context of the prevailing economic conditions.

2.20. While under the present list of priority sectors an exhaustive coverage of the weaker sections of society has been included, it has not been ensured that the benefit of the schemes reaches the really weaker sections of society for whom it is mant. With this end in view, the Committee recommend that a review of the list of priority sectors and the coverage thereof should immediately be undertaken for identifying the weaker sections of society as also the really weak among them and arrangements made to cover them under these schemes. Thereafter, such a review should be undertaken well before the conclusion of Plan period so that the policy for next Plan period can be modified in the light of experience gathered.

(c) Progress of credit to Priority Sectors

(i) *Decline in Growth Rate*

2.21. After keeping a certain minimum level of cash at their branches and with the Reserve Bank under liquidity requirements, the banks deploy the remaining resources for investment in Government and other approved securities and for extending credit to different sectors of the economy which is called the bank credit.

2.22. Table below shows the overall progress of credit given by public sector banks to the various sectors since nationalisation:—

(Rs. in crores)

	June, 69	June, 70	June 71	June 72	June 73
1. Total Credit (Its % age to Deposits) . . .	3017 (78)	3578 (80)	4080 (78)	4620 (72)	5337 (70)
2. Credit given to large & medium industries, whole sale trade & for food procurement & exports. . .	2576	2869	3173	3561	4032
(Its Percentage to total credit)	(85·4)	(78·7)	(78)	(77·1)	(75·7)
3. Credit given to priority sectors (excluding exports) .	441	769	907	1059	1295
(Its Percentage to total credit)	(14·9)	(21·3)	(22)	(22·9)	(24·3)

It will be seen that the total available credit which was 78 per cent of deposits in June, 1969 rose to 80 per cent in June, 1970 but thereafter there was a decline and it stood at 70 per cent in June, 1973—thus indicating an increasing trend towards investment in Government securities, etc. after June, 1970.

The credit to large and medium industries and other large borrowers which declined from 85.4 per cent of total credit in June, 1969 to 78.7 per cent in June, 1970, further declined by 3 per cent only in the next three years and stood at 75.7 per cent in June, 1973.

2.23. The credit to priority sectors which was 14.9 per cent of total credit in June, 1969 rose to 21.3 per cent in June, 1970 but in next 3 years the rise had been 3 per cent only being at 24.3 per cent in June, 1973. The same declining trend in growth rate is discernible after June, 1970 under each of the priority sectors as would be apparent from the following statement:—

Public Sector Banks advances to Priority Sectors

(Rs. in crores)

Outstanding as on the last Friday of

Priority Sector.	June, 69	June, 70	% age annual increase	June, 71	% age annual increase	June, 72,	% age annual increase	June, 73	% age annual increase	No. of accounts June, 69	No. of accounts June, 73
1. Agriculture											
(a) Direct Finance*	40·20 (1·4)	160·38 (4·3)	300	206·57 (4·8)	29	231·89 (5·0)	12	297·86 (5·6)	28	1,60,020	12,46,326
(b) Indirect Finance**	122·09 (4·1)	141·26 (3·9)	16	134·59 (3·3)		156·58 (3·4)	16	170·83 (3·2)	9	4,461	1,24,361*
Total Agr.	162·29 (5·5)	301·64 (8·2)	86	340·96 (8·1)	13	388·47 (8·4)	14	468·69 (8·8)	21	1,64,481	13,70,687
2. Small Scale Industries.	251·10 (8·5)	369·50 (10·3)	47	442·20 (10·8)	20	527·10 (11·4)	19	644·86 (12·1)	22	50,850	1,58,683
3. Road & Water Transport Operators.	5·49 (0·2)	24·42 (0·7)	345	39·85 (1·0)	63	50·43 (1·1)	27	62·71 (1·2)	24	2,324	43,923
4. Retail Trade & Small Business.	19·37 (0·6)	64·45 (1·8)	233	71·98 (1·8)	12	77·43 (1·7)	8	94·76 (1·8)	22	33,241	2,31,742
5. Professionals & Self-employed	1·91 (0·1)	6·64 (0·2)	248	8·61 (0·2)	30	12·16 (0·2)	41	21·21 (0·4)	74	7,769	1,07,343

6. Education	0·80	2·06 (0.1)	158	3·70 (0.1)	80	2·92 (0.1)		5,20 (0.1)	10	1,477	10,106
7 (a) Total (1 to 6)	440·96 (14·9)	768·71 (21·3)	74	907·30 (22·0)	18	1058·51 (22·9)	17	1295·43 (24·3)	22	2,60,142	19,22,484
(b) Total Credit	3017	3578		4080		4622		5337			

(Figures in bracket indicate percentage to total credit)

*Credit provided directly to farmers for financing agricultural operations.

**Credit for distribution of fertilisers and other inputs, advances to State Electricity Boargds, Loans to farmers through primary credit societies and other types of indirect finance.

Data not comparable because of changes in definition.

2.24. Thus it would appear that while in the first year June, 1969 to June, 1970 the total advances to priority sectors increased from Rs. 441 crores to 769 crores (rise of 74 per cent), the annual rate of growth was only 17 per cent to 22 per cent in the following three years. Sector-wise the decline in annual rate of growth in extending credits has been as follows:—

(i) Agriculture: Percentage rise in direct advances came down from 300 per cent in June, 1970 to 28 per cent in June, 1973 and of indirect advances from 16 per cent to 9 per cent.

(ii) Small Scale Industry: From 47 per cent in June, 1970 to 22 per cent in June, 1973.

(iii) Road and Water Transport Operators: From 345 per cent in June, 1970 to 24 per cent in June, 1973.

(iv) Retail trade and small business: From 233 per cent in June, 1970 to 22 per cent in June, 1973.

(v) Professionals and Self-employed: From 248 per cent in June, 1970 to 74 per cent in June, 1973.

(vi) Education: From 158 per cent in June, 1970 to 10 per cent in June, 1973.

2.25. Explaining this, the representative of the Department stated during evidence that "The point you are making is quite right in so far as the first year is concerned. Thereafter the increase order has not been sustained........This lending system to priority sectors really started during the Social Control Scheme period. This was the first flush of enthusiasm. Even certain targets were given to the banks; there was on the part of the people operating in the field an enxiety to see that somehow or other the financial target was to be attained. This had continued for sometime..........We realised that this was not the method of lending. Ultimately we thought if the funds could be utilised properly, we should make some improvements. And from 1971 onwards this aspect of qualitative improvement in lending has been uppermost in our minds, even if it meant that our financial targets did not show always accelerated figures but even for deceleration we were not worried."

Another reason given for decline in growth rate was the increase in deployment of banks' resources in Government securities and cash balances which rose from 25 per cent of deposits in June, 1969 to 30 per cent in June, 1973.

2.26. Asked whether any overall or bank-wise targets were set for lending to priority sectors, it was stated that "We did fix targets in the first year and the experience was not happy. The lower rung people at the village level just wanted to spend the money and reach the target. So, it became very difficult to realise the loans in subsequent years. We have now instead of fixing the targets and asking them mechanically to reach the targets, adopted the method of performance budgeting".

2.27. In regard to the Fifth Five Year Plan it was stated that the broad picture drawn up was that out of the additional anticipated deposits of Rs. 10,560 crores, about 40 per cent would be locked up of the Central and State Governments and the remaining (Rs. 3500 crores would be available for giving credit; out of which Rs. 1500 crores (30 per cent) would be required for public sector enterprises of the Central and State Governments and the remaining (Rs. 3500 crores) would be available for meeting the credit needs of the rest of the economy. It was also stated that for priority sectors they would notionally liks to reach 33-1|3 per cent of total advances as against the present 24.3 per cent.

2.28. In his D.O. letter dated the 18th December, 1972 to the Chief Executives of banks regarding preparation of performance budgets, copy furnished to the Committee subsequent to evidence the Secretary of the Department had admitted that:

> "While in terms of absolute amounts credit to the priority sector has shown some increase, as a percentage of total advances it has indeed shown a marginal decline This is a matter of great concern. It is obvious that one cannot go on taking refuge behind reasons like consolidation and emphasis on recovery. It is imperative that the bank credit to the priority sector increases at the rate substantially higher than the credit to other sectors."

It has also been stated that:

> "After social control........*ad-hoc* targets came to be fixed for lending to agriculture, small scale industry and other priority sectors. Targets were not rationally conceived and planned. It came to be realised that each public sector bank should have a performance budgeting system to translate its objectives into meaningful and feasible action programmes and to ensure that such programmes are implemented and the objectives realised."

2.29. The Committee note that during the four years after nationalisation public sector banks have been able to increase credit to priority sector by Rs. 854 crores i.e. from Rs. 441 crores in June, 1969 to Rs. 1295 crores in June, 1973 constituting 24.3 per cent of their total credit.

The Committee, however, find that in the first year of nationalisation the advances to the priority sectors rose from Rs. 441 crores in June, 1969 to Rs. 769 crores in June, 1970, registering an increase of 74 per cent. But from the second year onwards this growth rate had not been sustained, in fact there had been a decline. The annual growth rate of advances during the following three years ranged between 17 per cent to 22 per cent. Even when reckoned as a percentage of total credit, the increase which was 6.4 per cent in the first year (from 14.9 per cent of total credit in June, 1969 to 21.3 per cent in June, 1970) had been only 3 per cent during the following three years, being 24.3 per cent at end of June, 1973. The same declining trend is discernible in each of the priority sectors in varying degrees.

The Committee further note that in December, 1972 i.e. after 2½ years of nationalisation, Government themselves realised that the decline in the growth rate of advances to the priority sectors was "a matter of great concern" and they could not go on "taking refuge behind reasons like consolidation and emphasis on recovery". Government, therefore, stressed on banks the need for proper planning of credit for these sectors with feasible section programmes and rationally conceived targets.

2.30. The Committee are not convinced that the nationalised banks have been able to meet the genuine requirements of credit of weaker sections of society in whose name nationalisation scheme was implemented. They feel that this is mainly due to the lack of systematic follow-up. The Committee hope that atleast now Government would take steps to strengthen the planning machinery at various levels so that the bank credit to these sectors increases at a rate substantially higher than at present. Planning should be done from the grass root level to enable the banks to extend greater credit facilities where required in the larger national interest for productive purposes. The Committee would, therefore, like Government and the Banks to study the requirements of weaker sections in detail at the branch, area and regional levels and have a realistic plan with accent on production and without compromising the chances of recovery of moneys to the advanced.

2.31. The Committee stress that specific targets and programmes for extending credit assistance to weaker sections should be specifically mentioned in the performance budgets which are now to be prepared by the banks so that it provides complete plan for action as also for review of achievements. The Committee need hardly point out that unless concerted action is taken by all concerned, it would not be possible to achieve the objective of increasing credit to priority sectors from the present level of 24.3 per cent to 33-1/3 per cent in the Fifth Plan. The Committee would like to be informed of concrete measures which are being taken to realise this objective.

(ii) *Performance Budgets*

2.32. In December, 1972 instructions were issued to the banks to prepare their annual finance plans for 1973 on the lines* suggested by the Banking Commission for performance budgeting, giving adequate information on such vital aspects as growth of deposits, expansion of credit particularly to priority sectors, branch expansion, recruitment and training programmes, etc. In regard to the progress made in this behalf, the representative of the Department stated during evidence that "out of the 14 banks about six or seven have done some performance budgeting in the sense that it is not the fixation of target done at the head office but it is self-imposed target for each branch........while all the banks have in principle started this, the quality varies from bank to bank........I hope, in three or four years time all the banks will have drawn up the performance budget". The Secretary of the Department added that, "It may not take four years time. You will appreciate there are a large number of newly opened branches where the staff may take time to be in a position to acquaint themselves with the local condition."

*The Banking Commission in their Report (January, 1972) suggested that "in the case of banks, budgets may be prepared for the calendar year with a system of monthly reporting. On the basis of business survey reports, received from the Branches and the prevailing monetary policy, the head office of each bank should formulate its overall performance targets for the year and invite each branch to fix its own share of the overall targets through budgets prepared separately for different types of activities. In regard to the activities carried on at the head office, the head office should itself prepare the budget. From the consolidated budget, the head office should prepare:

(a) Funds Flow Chart based on the consolidated projections of deposits, advances etc. to estimate the overall need for investments and borrowing during the budget period for the bank as a whole, and

(b) a forecast profit and loss account and balance sheet as at the end of the year and at the end of each quarter for the purpose of check up."

2.33. Asked to furnish copies of instructions issued and of performance budgets prepared by the banks so far including follow-up action taken, the Department has stated in a written reply in March, 1974 that "The banks have been addressed to send us copies of such budgtes prepared so far by them". As regards the follow up action, it is stated that the National Institute of Bank Management (NIBM) organised a seminar at Poona in June, 1973 to "discuss the basis of a sound performance budgeting system and its effective implementation....The Seminar recommended that the banks may introduce the performance budgeting system effective from 1974....in a phased manner beginning with one compact region (consisting if, say 30—40 branches) and progressively expanding it to other regions, so that latest by the year 1976, the entire bank would have a performance Budgetary system....initial steps have already been taken by all of them to introduce the system of business plan/performance budgeting in one or two selected regions....Although each bank is making appropriate adjustments to get over the problems thrown up by the introduction of the system of performance budgeting, they would like these problems to be discussed in a second seminar....The NIBM plans to hold this seminar sometime in May, 1974."

2.34. The Committee note that though Government instructions of December, 1972 required the banks to introduce performance budgeting from 1973 onwards, later on it had been proposed to make it effective from 1974 in a phased manner region-wise, completing it in all the offices of a bank by 1976. They also find that the introduction of this system is still in a nascent stage in the various banks and certain initial difficulties are yet to be overcome. While the Committee recognise that preparation of performance budget involves a special effort, they are not convinced that it should have taken the banks more than one year to translate the idea into reality.

2.35. The Committee attach the highest importance to the preparation of performance budgets on the right lines so that it can provide an instrument for realistic planning, management control and appraisal of achievements. The Committee need hardly suggest that the banks should take guidance of the Reserve Bank of India, National Institute of Bank Management and other leading organisations in the field so as to make sure that the performance budget is prepared on sound lines in order to serve truly the objective with which this innovation is being made.

2.36. The Committee would like to draw attention in the above context to the detailed recommendations that they had made in

the 24th Report (Fifth Lok Sabha) and 48th Action Taken Report on the Revision of Form and Contents of the Demands for Grants, wherein they had inter alia indicated the need for including meaningful data in the performance budgets in the interest of better management by authorities and accountability to public and Parliament. The Committee would like the Department of Banking to ensure that the points of relevance to banking mentioned in the afore-mentioned Reports are got suitably reflected in the performance budgets being prepared by the banks. They would like to reiterate that the performance budgets should not be encumbered with mass of minor details but should contain such information on key factors of a programme or plan of action as would provide data for effective managerial control and throw up norms and standards for proper appraisal of performance.

(iii) *Credit to large borrowers*

2.37. As indicated earlier, the credits to large and medium industries and wholesale trade (including for food procurement and exports) which were Rs. 2576 crores in June, 1969 increased to Rs. 4032 crores in June, 1973. As a percentage of total credit, there has been a decline of 6.7 per cent in the first year (from 85.4 per cent of total credit in June, 69 to 78.7 per cent in June, 70) but in the following three years the decline was 3 per cent only being 75.7 per cent of total credit in June, 1973.

2.38. At the time of nationalisation it was envisaged by the Ministry to restrict loans to large borrowers for productive use only and refuse credit for unsocial or unproductive purposes. Asked to what extent the loans have been refused on this account, the respresentative of the Department stated during evidence that:

> "After nationalisation, the corner stone of our policy has been to ensure that the legitimate needs of trade and industry are met. When the banks were nationalised this is what the Prime Minister said in her statement in Parliament: 'I would like to reiterate my assurance that even after nationalisation the legitimate credit needs of trade and industry, big or small, will be met'. Our whole objective right after that has been to identify the legitimate needs of big and medium industries. For that, a series of steps have been taken *i.e.*, scrutiny of applications from large borrowers by the Directors of the banks, examination by RBI of all loan applications for more than Rs. 1 crore or Rs. 25 lakhs where borrowing period ex-

When asked whether they were in a position to meet all the requirements of large borrowers as well as of priority sectors and fulfil the commitment made on the floor of the House, he said "All that we are in a position to do is to see that they are not given funds for non-productive and unsocial purposes". It was also stated that the percentage of loans to large and medium industries which was 61 per cent of total advances in 1968 had not come down to 46 per cent. As regards giving loans to public enterprises for food procurement, etc., it was stated that "That is a question of public policy".

2.39. The Committee note that though it was envisaged to restrict loans to large industries/borrowers for productive use only and refuse credit for unsocial and unproductive purposes, in actual practice the approach since 1970 has been to identify the 'legitimate needs' of such borrowers after a scrutiny of their loan applications, particularly those for big amounts of more than Rs. 1 crore or Rs. 25 lakhs where the borrowing period exceeded three years. The result has been that the credit to large borrowers, which as a per centage of total credit declined by 6.7 per cent in the first year (from 85.4 per cent in June, 1969 to 78.7 per cent in June, 1970) registered a decline of 3 per cent only in the subsequent three years (being 75.7 per cent in June, 1973). The credit to priority sectors had also increased at the same rate of 3 per cent in these last three years.

2.40 While the Committee have no objection to the legitimate credit needs of the large industries/borrowers being met by the banking institutions, it is a moot point whether the existing procedures are effective enough to ensure that finances from public institutions are in fact going into productive uses in the larger public interest. The Committee are emphatic that banking institutions in the public sector should so regulate their procedures and scrutiny as to make sure that the moneys taken from them by large industrial houses/borrowers are put to productive use and are not allowed to be diverted for any un-social or un-productive purposes.

2.41. The Committee recommend that a review of the policies and procedures followed by the banks for granting loans to large industrial houses and borrowers should be undertaken without delay and effective action taken to plug all loop-holes in this regard. The Committee would like to be informed of concrete action taken in pursuance of this recommendation.

(iv) *Exploitation of Concessions*

2.42. In their Memorandum to the Committee, the Andhra Handloom Weavers' Co-operative Society had submitted that the two slogans viz., extension of credit facilities to weaker sections of society and development of backward areas were too vague and were being exploited by 'stronger' sections of society or in areas which were not really backward. As an instance, they stated that rich textile magnets and their agents had set up nearly 2 lakhs 'binami' powerlooms in the names of poor handloom weavers who were actually the wage earning workers of these looms.

2.43. Asked whether the Department was aware of this problem and if so what remedial steps had been taken by them, the representative of the Department stated during evidence that:

> "So far as the concessions we are giving for the backward areas are concerned, they are irrespective of whether one belongs to a weaker section or not......the thrust there is, by any method let us try to have a production venture in these backward areas......So far as the weaker sections are concerned, they are identified in a slightly different manner on an individual basis. It is quite likely that there are people who have taken advantage of the definition of the weaker section and tried to get concessions they are not entitled to—it will be ensured that this is not enlarged so that the concessions to the weaker sections really go to them".

2.44. When pointed out that there were a number of instances where big business houses had taken undue advantage of the concessions involving bank employees also who were later on transferred from those branches (e.g. Bhiwandi Branch of Union Bank, Junagarh branch of Bank of Baroda, etc.) and asked if they had any machinery to detect such cases, the Secretary of the Department stated "We will check this up very thoroughly. I am told a vigilance case has been started by the Director of the Union Bank".

Elaborating further, the Additional Secretary of the Department said "I am not denying it. It is a question of the managements at different levels attuning themselves to the changed circumstances. It takes time. There are very bad cases that have come to our notice. We have not hesitated to hand over such cases to Vigilance. So far as detection is concerned, we have brought the banks under the supervision of the Vigilance Commission. After nationalisation, every employee has become a public servant with the result that the CBI can take action against him......... To prevent these will require still greater vigilance at every level. All I can say is that we will endeavour to see that the people who indulge in these sort of things are not shielded."

2.45. Asked whether it was a fact that the bank managements were feeling themselves weak and were not taking any action for fear of trouble by the employees' Unions, he said "after nationalisation, they do realise the need for public accountability—but to do it overnight is a little difficult. All that we could do is to tighten up things."

2.46. In this connection the Committee also note that on a number of occasions* instances of fraudulent transactions occuring at various bank branches in advancing loans to agriculture, small scale industries, etc., involving banks employees also, had been brought to the notice of Government in Parliament and they had promised remedial measures like study by R.B.I. of systems and procedures, etc.

2.47. The Committee are greatly perturbed to know that in the name of weaker sections of society certain other sections have taken advantages of the schemes by setting up 'binami' units. The Committee would like the authorities to review the position in detail and take effective measures to prevent this abuse of concessions intended for weaker sections. The Committee would like to be informed of detailed action taken by Government to eliminate this malpractice.

2.48. The Committee also notice from the Questions raised on the floor of the two Houses of Parliament that there have been some cases involving fraudulent transactions. While it is true that the incidence of such transactions may not be very large, the Committee feel that the evil should be nipped in the bud by taking deterrent action against delinquent officials and by tightening up procedures to obviate recurrence of such cases.

(v) *Credit Squeeze*

2.49. It was brought to the notice of the Committee by the representatives of the Federation of Associations of Small Industries of India that though Government pronouncements were that credit flow to priority sectors should not be reduced, in actual practice the RBI's squeeze was being applied to all the sectors.

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*Lok Sabha U.S.Q. 3235 dt. 23-8-1972, USQ 4416 dated 23-3-1973; discussion on Calling Attention Motion on 24-8-1973.

2,50. Asked whether the Department had issued any instructions to RBI in the matter, the Secretary of the Department stated during evidence that "I did bring to the notice of the Reserve Bank (through personal letters to the Governor) that this credit squeeze should not apply to the priority sectors. The Governor confirmed this and has written that while implementing the policy, the banks should give their primary consideration to the priority sectors including exports and for meeting the primary needs and seasonal movement of commodities". This matter was also discussed in a meeting of Chief Executives held in January, 1974. Asked about the outcome of that meeting, he said, "The result was that this policy of restricting the credit should continue—But it will be ensured that there is no genuine hardship caused—with regard to these sectors, they have been exempted."

2.51. In regard to small scale industries, it was explained that the Reserve Bank, while announcing their credit restraint policy, had exempted completely those units which had got the cash credit facilities below Rs. 2 lakhs. That took care of the bulk of the small scale units. For those having credit facilities above Rs. 2 lakhs the restriction of stepping up margin by 10 per cent had been removed but of increasing minimum interest rate to 11 per cent still continued.—"Those units which have got the cash credit facilities for Rs. 2 lakhs or more have also got the sales turnover of over Rs. 8 or 9 lakhs, that is four times this cash credit facility. In that sense, they have to be made a part of the credit squeeze which applies to the medium and large industries."

2.52. Asked whether recently there has been any direction from the RBI to other banks to be stringent in advancing loans even in respect of self-employed scheme, it was stated "This is a temporary phenomenon—it is our idea that this restraint should not have any bad effect, so far as the loans to priority sectors are concerned."

2.53. The Committee recognise that in a situation of inflation such as the one prevailing at present, it is but natural that there should be a policy of credit squeeze. The Committee have no doubt that in applying this squeeze the banks would ensure that the genuine requirements particularly of weaker sections falling in the priority sectors are not adversely affected and that they continue to get reasonable facilities and financial accommodation in the interest of achieving larger production and social objectives with which the banks were nationalised.

(vi) *Disparity in disbursal of credit among States*

2.54. The State-wise position regarding credit given by public sector banks to priority sectors was as follows as at the end of September, 1972*: —

(i) *Agricultural Sector.*—42 per cent of total direct advances have been given in the States of Tamil Nadu, Andhra Pradesh and Maharashtra. Similarly, bulk of indirect advances have been given in Tamil Nadu, Maharashtra, U.P. and Chandigarh.

(ii) *Small Scale Industries Sector.*—35 per cent of advances have been given in the States of Tamil Nadu and Maharashtra.

(iii) *Professional and Self-Employed Sector.*—39 per cent of advances have been given in Maharashtra and Mysore States.

(iv) *Road and Water Transport Operators Sector.*—46 per cent of advances have been given in the States of Bihar, West Bengal, Gujarat and Maharashtra.

(v) *Retail Trade|Small Businessmen Sector.*—88 per cent of advances have been given in the States of Maharashtra, Mysore and Tamil Nadu.

(vi) *Education.*—73 per cent of advances have been given in the States of Gujarat, Maharashtra, Mysore and Tamil Nadu.

2.55. The following reasons were given during evidence for this imbalance: —

(i) Better banking facilities in certain States and people being more institutional minded.

(ii) In certain States (like West Bengal and Bihar) the overdues position of agricultural advances was very bad. Apart from this, their State Governments were giving large sums directly as agricultural advances (taccavi loans) at a cheaper rate of interest of 6-1/4 per cent as against 9 per cent to 10 per cent of the banks, which were later on written off and no repayment was insisted upon.

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*For more details please see RBI Bulletin, Apr., 1973—Supplement on Banking Statistics, Statement 11.

As an instance, it was stated that the West Bengal Government had written off such advances to the extent of Rs. 9 crores and similar was the experience with Bihar.

(iii) In some States like Maharashtra and Tamil Naidu the number of small scale units was larger than in other States and they were expanding.

2.55. Regarding the steps taken for securing an equitable distribution of advances, the representative of the Department stated that they were asking the public sector banks to open more branches in underbanked States (like Bihar, Orissa, Assam, Rajasthan, Himachal Pradesh etc.) and pay greater attention to their needs. It was also stated that "this regional disparity is something which has been inherited from the past—and three to four years are not something which can remedy this. All that we can make sure is that we do not accentuate it further—some dent has been made in the problem so far as banking field is concerned". The Secretary of the Department added "We are ready to obey your instructions that regional imbalance should go. If there are some genuine requirements in these States, we cannot refuse. We will ask the banks as to why they did not come forward in other States and helped them. We will study the publicity aspect also".

2.57. It was also stated that during the Fourth Plan for agricultural advances they had divided the States in three categories according to the level of development. In category 'A' there were Andhra Pradesh, Gujarat, Kerala, Maharashtra, Mysore and Tamil Nadxu. In category 'B' were Haryana Punjab, U.P., West Bengal and the rest of the States were in category 'C'. At the end of Fourth Plan period, the share of category 'A' States would be 73 per cent of the total agricultural advance, the share of category 'B' 15.8 per cent and the share of category 'C' States 9.4 per cent." In the Fifth Plan, there would be a shift in category 'B' and 'C'. In category 'C' and 'B' States the share would increase from 9.4 per cent to 25 per cent and from 15.8 per cent to 25 per cent respectively while in category 'A' States it would come down from 73 per cent to 46 per cent.

2.58 The Committee note that there has been disparity in the disbursal of bank credit among various States under every sector. While some States got lower share of banks credit others lagged far behind. Of the total advances given to agricultural sector upto September 1972, about 42 per cent had been given in the three States of Tamil Nadu Andhra Pradesh and Maharashtra. Similarly in

small scale industries sector 35 per cent were given in Tamil Nadu and Maharashtra; in professionals and self-employed sector 39 per cent were given in Maharashtra and Karnataka; in education sector 73 per cent were given in the four States of Gujarat, Maharashtra, Karnataka and Tamil Nadu, etc. The Committee realise that to a certain extent this may have been due to inherent difficulties of availability of infra-structure etc. in certain States. But this alone should not have resulted in such wide disparities. Moreover, the nationalised banks were made responsible to disburse credit in such a manner as to bridge these disparities and not to accentuate the same. The plea that in certain States the number of small scale units was larger and hence greater amount of advances were given is also not wholly tenable, as the banks could have attracted small scale industries to under-developed States by offering credit on easy terms and in co-ordination with State Governments helped in the creation of necessary infra-structure.

2.59. The Committee need hardly stress that one of the major roles of the nationalised banks is to narrow down the regional imbalances and to ensure an equitable distribution of bank credit among the various States. They would recommend that the Department should make a study in depth of the factors leading to the existing imbalances in the extension of bank credit including publicity aspect and issue suitable instructions to the banks so as to secure a more equitable distribution of credits among the various States.

2.60. The Committee also note that for purpose of agricultural advances during the Fourth Plan, Government divided the States in three categories according to the level of development. For the Fifth Plan there will be a shift in the quantum of credit made available and States which are less advanced in agricultural field would get greater share of these advances. The Committee would like the Department to highlight the progress and achievements made in this behalf in the Annual Reports.

CHAPTER III

GROWTH OF BRANCH EXPANSION AND CREDIT EXTENSION TO BACKWARD|NEGLECTED AREAS

A. Branch Expansion

(i) *Planning and Programming*

3.1. As indicated earlier, one of the objectives set for the nationalised banks was to correct regional imbalances by having a balanced programme of branch expansion and extending banking facilities in unbanked|underbanked centres especially in rural areas.

3.2. Asked whether any such programme for branch expansion was drawn up, the Committee were informed by the Department that "the R.B.I.—Co-ordinates the branch expansion programmes of commercial banks—In December, 1969, the R.B.I. drew up a programme of branch expansion covering 22 public sector banks and 8 private sector banks. These banks were expected to open 1350 offices (1186 at unbanked centres) during the year 1970—the number of offices actually opened was 1155 including 997 at unbanked centres—In December, 1971, the R.B.I. addressed the commercial banks, designated as the lead banks, setting out a perspective plan for branch expansion covering the period 1972-74. For this three-year period the banks were set the target of opening 5,000 branches—1763 offices were opened by the banks during the year 1972 (including 830 in unbanked centres). Starting with 1973, a three-year rolling plan* of branch expansion was to be drawn up. Reserve

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*It was decided in January, 1973, that each bank should prepare a rolling plan for a 3-year period. The plans of individual banks would be incorporated into an overall plan The plan for the first year would be more definite and detailed than the ones for next 2 years The latter were to be revised in the light of achievements in the first year. Thus each year a new 3-year rolling plan would emerge. It was envisaged that such an advance planning would pay particular attention to needs of backward areas and would be helpful in :—

(a) ensuring an even spread of opening new branches in the year;

(b) formulating manpower plans in advance; and

(c) making advance information available to State Governments (other organisations regarding branch expansion programme and enable them to provide the necessary infrastructure which had in the past been a handicap in branch expansion work.

Bank asked all the banks (in February, 1973) to draw up the plan—detailed one for the first year and aggregative ones for the subsequent two years—banks were able to draw up firm plan for 1973 on the basis of the licenses| allotment already pending with them—The overall target was, however, set around 1,500 offices. Upto the end September, 1973, commercial banks have opened 1043 offices. For 1974—76, the R.B.I. has asked the banks to forward their plans. The exercise is, however, not yet complete." It was also stated that for 1971, no target was set out but the number of new offices opened was 1805.

3.3. The Committee also enquired about the bank-wise targets and performance in regard to branch expansion. It was stated by the Department that "The Reserve Bank of India had not set targets for each individual bank separately but had allotted to different banks, a large number of centres which showed sufficient potential for sustaining a bank office. It had guided the banks and regulated its licensing mechanism in such a manner as to ensure fulfilment of the overall targets that were set for the banking system as a whole. The idea of each bank having a rolling plan for branch expansion originated in 1973 and nearly six months had elapsed before this exercise could be initiated. Since bank-wise targets were not set down, any assessment of the performance of a bank in the sphere of branch expansion in relation to the target is not at present possible. However, since the preparation of the rolling plan is now taking place on a firm footing, it should be possible to know in advance the exact parameters of the branch expansion programmes of any given bank and subsequently assess performance with relation to these targets."

3.4. The Committee note that during the period from 1970 to September, 1973 a total number of 6748 new branches have been opened by the all comercial banks including the 22 public sector banks. The Committee also note that while a terget of opening 1350 new offices was set for 1970, the actual achievement was 1155 offices, resulting in a shortfall of 195 offices in that year. No such targets were, however, laid down for 1971 though actual achievement was 1805 offices. For the following three years 1972—74, a cumulative target of opening 5000 new branches was laid down under the perspective plan and in 1972 the number of new branches opened was 1763. In 1973 the concept of planning for a 3-year rolling plan was changed and a tentative target of opening 1500 offices was fixed for 1973. Targets for 1974 are yet to be settled, though three months have already elapsed. The Committee also note that no bank-wise targets for branch expansion were set down during all these years.

3.5. The Committee are constrained to observe that there have been frequent changes in the policy of planning for branch expansion programme of the banks during all these years. They expect the Department and the Reserve Bank of India to take concrete steps atleast now for ensuring timely finalisation of the programmes and annual targets under the 3-year rolling plan. The Committee would also like the Department and the Reserve Bank of India to set region, area and bank-wise annual targets for branch expansion under the 3-year rolling plan and keep a watch by a periodic assessment of the performance of the banks in this behalf.

(ii) *Area-wise Progress*

3.6. For purpose of branch expansion, places with a population upto 10,000 have been classified as rural centres, beyond that and upto 1 lakh, as semi-urban, between 1 lakhs and 10 lakhs as urban and over ten lakhs as metropolitan towns, besides certain port towns. Table below shows the centrewise progress of branch expansion by the public sector banks since June, 1969:—

As at the end of June

Centre	1969	1970	1971	1972	1973
(i) Rural . .	1505	2597 (73%)	3681 (42%)	4450 (10%)	4645 (15%)
(ii) Semi-urban . .	2622	2935 (12%)	3190 (9%)	3515 (10%)	3781 (8%)
(iii) Urban . .	1175	1302 (11%)	1466 (13%)	1896 (30%)	2103 (11%)
(iv) Metropolitan/Port Towns . . .	1297	1419 (10%)	1550 (9%)	1697 (10%)	2008 (20%)

(figures in brackets show annual percentage increase)

3.7. It will be seen that in rural areas the number of bank offices increased from 1505 in June, 1969 to 2597 in June, 1970 (*i.e.*, a rise of 73 per cent) but in subsequent years the annual rate of growth has been coming down and was only 15 per cent in June, 1973. Similar is the position regarding offices in semi-urban areas. In urban and metropolitan/port towns the rate of growth of bank offices has gone up.

3.8. Explaining this, the representative of the Department stated during evidence that "one of the reasons—may be that in 1971 census—some of the rural centres which were earlier classified as rural have become semi-urban. I should like to assure the Committee that this idea of keeping the tempo in the rural areas is very much in our mind and there is a formula* which the Reserve Bank follows."

3.9. In this connection it was observed by an eminent non-official in his Memorandum to the Committee that the definition of 'rural' areas was such that it covered a number of semi-urban or even urban areas—*e.g.* in West Bengal 'rural' locations of bank branches included sub-division towns like Mekhligang and Tufanganj and also semi-urban or sub-urban locations like Naihati, Panagarh, etc. He felt that if the standard definition was changed to cover the really rural areas, the number of rural offices would be found to be considerably smaller than claimed.

3.10. The representatves of the Department explained that a sub-committee of the National Credit Council, which consisted of bankers also, had made this classification in 1968 and that "for the purpose of our policy we have combined the rural and the semi-urban". It was also stated that "this classification is based on the population of the ctntre and does not take into account the administrative status of the Centre".

3.11. Asked how many of the new branches covered population upto 5000 and how many beyond that, the Secretary of the Department stated that "we do not have that information". When enquired as to how many of the new branches had been opend 5 miles away from a District town or semi-urban areas, it was stated in a post evidence note that to ascertain this information would be "extremely difficult and time consuming task". It was, however, stated that "almost every year about 95 per cent of the total number of rural offices opened by commercial banks have been located at unbanked centres".

3.12. It was also brought to the notice of the Committee that the inter-district distribution of 'rural' branches was markedly uneven in certain States—*e.g.* there were districts in Madhya Pradesh

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*According to the formula laid down by R.B.I., banks were stated to be divided into two categories viz., (i) which already had proportion of rural plus semi-urban branches more than 60 % of total branches were entitled to open one branch each in urban metropolitan areas if they opened two branches in rural/semi-urban areas; and (ii) those which had this proportion less than 60% they were allowed to open 2 branches in urban metropolitan areas provided they opened 3 branches in rural / semi-urban areas.

and Uttar Pradesh (Balaghat, Gwalior, Uttar Kashi, etc.) where the number of rural branches was even les than five as at end of June, 1972. In this connection the Department stated that "whether a particular district will have large number of rural branches or not will depend on the size of the district, the degree of urbanisation obtaining in that district as also the availability of potential growth centres in the rural areas."

3.13. The Committee note that in the first year after nationalisation the number of offices of public sector banks in rural areas increased by 73 per cent but in subsequent years this growth rate had declined to 15 per cent in 1973. Similar is the position regarding offices in semi-urban areas. In metropolitan port towns, the rate of growth of bank offices has gone up from 10 per cent in 1970 to 20 per cent in 1973.

3.14. The Committee would like the Department and the Reserve Bank of India to analyse the factors that have retarded the growth rate of opening of bank offices in rural and semi-urban areas and take immediate remedial measures not only to sustain but improve upon the growth rate from year to year.

3.15. The Committee also note that the classification of different centres on population basis for branch expansion viz. Rural, Semi-urban, Urban and Metropolitan was decided in 1968. It is likely that under this classification, which defines rural centres as those having a population upto 10,000, most of the new bank offices may have been located near the sub-divisional or district towns and not in the interior rural areas. Obviously there have been significant changes in the rural scene with the development of transport, communication, water, power and other infra-structural facilities since 1968. The Committee, recommended that the classification of rural, semi-urban, urban areas, etc. may be reviewed with a view to classify centres with population upto 500 only as rural so as to locate branches in really rural areas and thereby help in their growth potential.

(iii) *State-wise position.*

3.16. The following table shows State-wise the number of offices of public sector banks as at the end of 1972. increase in number since nationalisation and the average population coverage per office:—

Region/State and Union Territories	Bank Offices		Population coverage (all commercial banks)	
	No. of offices	Increase since nationalisation.	Population (1971 Census) (in lakhs.)	Average population per office. in Dec. 1972
1	2	3	4	5
I. *Northern Region*				
1. Haryana	245	105	100·36	31,000
2. Himachal Pradesh	117	77	34·60	28,000
3. Jammu & Kashmir.	80	65	46·16	36,000
4. Punjab	530	236	133·51	19,000
5. Rajasthan . .	532	219	257·65	41,000
6. Chandigarh .	32	13	2·57	7,000
7. Delhi.	338	145	40·65	9,000
TOTAL . .	1874	860		
II. *North-Eastern Region*				
1. Assam .	149	82	146·25	95,000
2. Meghalaya	17	10	10·11	60,000
3. Manipur . .	7	5	10·72	1,53,000
4. Nagaland . . .	6	3	5·16	86,000
5. Tripura . . .	14	9	15·56	1,11,000
6. Arunachal Pradesh	5	5	4·67	94,000
7. Mizoram . . .	1	1	3·32	3,32,000
TOTAL : . .	199	115		
III. *Eastern Region*				
1. Bihar . .	571	326	563·53	98,000
2. Orissa . .	204	108	219·44	1,01,000
3. West Bengal . . .	749	322	443·12	53,000
4. Andaman & Nicobar Islands. .	4	3	1·15	29,000
TOTAL : . . .	1528	759		

1	2	3	4	5
IV. *Central Region*				
1. Madhya Pradesh	705	375	416·54	57,000
2. Uttar Pradesh .	1277	645	883·41	61,000
Total : .	1982	1020		
V. *Western Region*				
1. Gujarat .	1290	536	266·97	21,000
2. Maharashtra .	1560	604	504·12	28,000
3. Goa, Daman & Diu .	122	37	0·57	7,000
4. Dadra & Nagar Haveli .	4	4	0·74	19,000
TOTAL : . .	2976	1181		
VI. *Southern Region*				
1. Andhra Pradesh .	791	353	435·02	42,000
2. Kerala	574	243	213·47	21,00
3. Karnataka . .	996	481	292·99	21,000
4. Tamil Nadu	1119	405	411·99	26,000
5. Pondicherry	23	12	4·71	19,000
6. Lakshadweep . .	4	4	0·31	8,000
TOTAL : . .	3507	1498		
All India. . .	12066	5433		

3.17. It will be seen that there are wide inter-State disparities in the extension of banking facilities. On the basis of population per office, the coverage of public sector banks as at the end of 1972 was far less in Eastern, North-Eastern and Central States (e.g. Orissa 1.01 lakhs per office, U.P. 61,000) as compared with other States (Gujarat 21,000, Punjab 19,200).

3.18. The representative of the Department explained during evidence that "If one takes the starting point *i.e.* 1969, there were large inter-State disparities. Our conscious endeavour has been to see that these disparities do not get accentuated further but get reduced—the percentage increase in the number of offices between June, 1969 and August, 1973 was about 89 per cent. So far as Orissa was concerned it was 130 per cent. in U.P. it was 104 per cent. in Gujarat it was only 76 per cent. For population coverage, it was 34,000 for Gujarat per branch, now it is about 20,000. For Orissa it was about 2,12,000 per branch and today it has come down to 95,000. For Assam it was 1,98,000 and now it has come down to 96,000 per branch".

3.19. Asked what population they would ultimately like to cover per branch, the Secretary of the Department stated "It should come down to between 10,000 and 15,000". It was also stated that "population is one of the factors—we take into account the possibility of business, type of activity going on and the potential for gowth".

3.20. The Committee note that after nationalisation, Government and the nationalised banks have taken steps to open more bank offices in the hitherto unbanked/underbanked areas and thereby narrow down inter-State disparities existing in this behalf. Nevertheless, there is still considerable difference in the population coverage per bank office particularly in Eastern, Northern Eastern and Central States as compared with other States.

3.21. The Committee need hardly emphasise that one of the major objectives of the nationalised banks is to correct regional imbalances in the provision of banking facilities. They expect the Department, the Reserve Bank of India and the nationalised banks to so devise their branch expansion programmes as to achieve early fulfilment of this objective.

(iv) *Credit-Deposit Ratio*

3.22. During the course of debate on the Banking Companies (Acquisition and Transfer of Undertakings) Bill, 1969 in the Lok Sabha, the Prime Minister *inter alia* observed on 29th July, 1969, that "Analysis of the State-wise credit-deposit ratios has shown that it is very low in several States such as Assam, Bihar, Rajasthan, Orissa, Uttar Pradesh, Madhya Pradesh, Haryana and Punjab. This had led to the complaint that banks mobilise resources in the form of deposits in certain areas and utilise them elsewhere, thus aggravating regional imbalances. These trends can be corrected and the policy of balanced regional development, which has frequently been emphisised, can be implemented when banks are under public control."

2.23. The Committee enquired about the latest position in this regard. A statement showing the State-wise distribution of deposits, advances of all commercial banks (including nationalised banks) and the credit-deposit ratio during each of the years from 1966 to 1972, as furnished by the Department is given at Appendix I. Another statement showing the credit-deposit ratio area-wise is given at Appendix II. It will be seen therefrom that the credit-deposit ratio still continues to be low in the above States and is less than 50 per cent in most of them.

In fact in a number of these and other States like Orissa. U.P., Madhya Pradesh, Himachal Pradesh, etc. the position has worsened compared to 1969—the lowest ratio was 14,75 per cent in Himachal Pradesh at end of 1972. Area-wise, the credit-deposit ratio continues to be less than 50 per cent in rural and semi-urban areas.

3.24. Explaining this, the representative of the Department stated during evidence that "Roughly about 40 per cent (of deposits) is utilised in the form of Government securities, cash balances—Again in a particular State, it depends upon the various factors, level of economic activities, type of schemes and thing like that. Those States where a large number of big industries are located, there the crtdit deposit ratio is likely to be higher. For example—in the case of sugar mill it is located in U.P. but the credit is made available in Bombay. The way the data are currently available—this will be shown in Maharashtra annd not in U.P."

3.25. On attention being drawn to the aforesaid observation of the Prime Minister, the Secretary of the Department stated that "We cannot reduce the genuine demand of certain sectors, but we can improve what can be given to the weaker sectors—with the help of the Lead Bank it will be possible for us to exploit the existing centres and to develop them and to see that the utilisation of bank deposits in that particular area is atleast to some extent proportionate".

3.26. It has also been stated in a note furnished to the Committee subsequent to evidence that to increase portfolios in States having low credit deposit ratio "State-level Committees, with bankers and heads of the development departments—have been formed in Orissa, Himachal Pradesh, M.P., U.P., J. & K., Haryana and Bihar" so as to act as a clearing house for proposals. Other States were considering the setting up of such Committees.

3.27. The Committee note that there has not been much improvement in the credit-deposit ratio of several States (like Assam, Bihar,

Rajasthan, Orissa, Uttar Pradesh, Madhya Pradesh, Haryana) as was expected at the time of bank nationalisation in 1969 and it continues to be less than 50 per cent in most of these States. In fact, in some of these and other States (Orissa, Uttar Pradesh, Madhya Pradesh, Himachal Pradesh, etc.) it has registered a declining trend.

3.28. The Committee need hardly emphasise that the nationalised banks were expected to serve as instruments for correcting regional imbalances and ensuring that there was greater utilisation of deposits in the area itself. While the Committee would like that genuine credit demands of the various areas are met, they see no rason why the credit deposit ratio should continnue to be less than 50 per cent in several States. The Committee would urge the Department and the banks to take concrete measures immediately for bringing about tangible improvement in the credit-deposit ratio of various States like Orissa, Assam, Bihar, Uttar Pradesh, Madhya Pradesh, etc., particularly those where it has registered a declining trend, at the earliest.

(v) *Performance of new branches*

3.29. In regard to the performance of new branches, the Committee were informed during evidence that "the new branches have been able to mobilise deposits of the order of about Rs. 11 lakhs per branch on an average. So far as advances are concerned that would come to about Rs. 6 lakhs." As to how many of the new branches had annual deposits and advances of this order, it was stated that "We have only the consolidated figures for all the branches". It was also stated that none of the new branches opened had been closed down.

3.30. Asked how many of the new branches were working at a profit and how many at a loss or no-profit no-loss basis, the Secretary of the Department stated that "No precise information is available————When a new branch is opend, the first year it is not expected to make a profit————Since nationalisation three or four years have lapsed, this is not the time to make that kind of review whether some of the branches are profitable or whether some of the branches are promising." When it was suggested that the banks were custodians of others' money and they should keep the perforance of branches constantly under review, he said "that point is well taken". Elaborating further, the representative of the Department stated that "for years together, these rural branches will perhaps have to have losses. The reason is simple........After nationalisation, it is our objective to earn more profit through metropolitan and urban branches and subsidise the rural branches. In the rural sector, even if we have a very large credit-deposit ratio, there may be difficulty in making profit because the technical staff for extension service employed there (agricultural graduates, etc.) is very large—Today, in the small scale industry, the percentage of supervision cost over advances is 3.50 per cent roughly. But in the case of agricultural sector, it is much more than that.........In many of the branches because of the very large number of technical and extension staff that we need, they will continue to have these losses. It is not a matter which is really worrying the individual banks or the banking system as a whole."

3.31. On being pointed out that the Committee were also not against this but it should be economical, the representative of the Department stated that in their scheme of having agricultural development branches "The idea is that we should reduce also the technical and other staff for different branches. This is one of the specific objective". Asked whether they had laid down any criteria for staffing of rural branches, it was stated that "We have no laid down any criteria as such. Each individual bank board at their level takes a view as to the type of staff and the quantum of staff that should be made available. It may be that initially the establishment cost of this extension office may be large making the bank run at a loss. But this should not go on for more than three years or so—In a matter of three or four years, even these rural branches will start making profits. When asked whether they agreed that there should be economy in staff and it should not go on swelling in every branch, it was stated that "so far as, non-technical staff are concerned, yes. But as far as technical staff are concerned, in order to boost advances banks should not."

3.32. The Committee also enquired about the criteria adopted for opening new offices, it was stated that "There are several things which the bank takes into account for the purpose of opening of branches. The Lead Bank Scheme survey helps the banks to know something about the districts—There is a sort of capacity to take up the work in that particular area. Taking into account also the availability of infra-structure in that particular place, the scheme is taken up."

3.33. When asked whether any change had been made in the criteria as a result of experience gained, the Secretary of the Department stated that "The main criteria has been to open branches where there have not been any banking facilities. We are proceeding on the basis of three years rolling plans." On being pointed out that before nationalisation there was only one bank working at Betia (Bihar) *i.e.* Central Bank of India but after that State Bank of India also opened its branches in that place with the results that there was overlapping and a large number of staff was deployed to serve a particular area, it was stated that "You have rightly pointed it out—It is a fact that after nationalisation when the Reserve Bank first drew up a programme of opening branches in December, 1969, in some places it so happened that more banks were given licences than were perhaps necessary at that time—We are now devising a three year rolling plain——we do not think that this sort of overlapping will occur in future.

3.34. Asked if before opening any new branch in a place and incurring expenditure, it would not be proper to ascertain whether the bank already working there could cater to the needs, it was stated that "A bank has to submit a proposal to this effect to the Reserve Bank and it is for the Reserve Bank to look into it". It was also stated that proposals were made by the banks after discussion at district level, consultative committee meetings convened by the Lead Banks.

3.35. The Committee note that the new bank branches have been able to mobilise annual deposits of the order of Rs. 11 lakhs and make advances of Rs. 6 lakhs per branch, on an average. They also note that no review has so far been conducted to find out precisely as to how many of the new branches were making profits and how many were runnig at a loss or no-profit no-loss basis. Government expect that though initially the rural branches would incur losses, due to a large number of technical and extension staff employed there, in three or four years time they should start making profits. During evidence, the need for conducting a detailed review of the new bank branches and economy in establishment costs by laying down suitable staffing criteria was recognised by the representatives of the Department.

3.36. The Committee recommend that Government should immediately have a comprehensive review, conducted of the functioning of all new bank branches/offices opened after bank nationalisation with a view to finding out the true state of affairs of their working reducing overheads, economising in their establishment costs by prescribing suitable staffing criteria and work norms and placing on sound footing such of the branches as do not show promising results even after the normal gestation period of three years. The Committee would also like the Department to keep the performance of new branches constantly under review by having a suitable built-in-mechanism in this behalf.

3.37. The Committee further note that the main criteria to open new branches has been to provide them "where there have not been any banking facilities" subject to the availability of necessary infrastructure. While the Committee are in favour of opening of new branches particularly in rural and backward areas, they expect the Banks to work out carefully the financial implications of establishing each such branch so that decisions could be taken having regard to all important factors and to facilitate review of the working of the new branch with reference to the assumptions made at the time of opening. The Committee suggest that in the light of this review, guidelines should be laid down for opening of new branches in the interest of achieving best results.

3.38. They also observe that in the past, under the branch expansion programme, drawn up with the approval of the Reserve Bank of India, there have been some cases where more banks were given licences to open branches in an area than was necessary, with the result that there has been overlapping and unduly large complement of banks' staff deployed to serve a particular area. As assured during evidence, the Committee hope that remedial measures would be taken to avoid recurrence of such over-lapping in future.

D. Land Bank Scheme

3.39. In December, 1969 the Reserve Bank of India issued instructions for the implementation of the Lead Bank Scheme by the nationalised banks and three private sector banks, under which 338 Districts of the country (*i.e.* all districts except metropolitan cities of Greater Bombay, Calcutta, Madras and Union Territories of Delhi, Chandigarh and Goa) were allocated among them for development (list giving bank-wise allocation of Districts is given at Appendix III) having due regard to the contiguity of districts regional orientation of banks, etc. One of these banks was declared as "Lead Bank" for the district and was made "responsible for taking the leading role in surveying the credit needs, in the development of branch banking and extension of credit facilities in the respective district". The scheme also envisaged that "there is clearly no intention that the lead bank should have monopoly of banking business in a District. The bank assigned the lead role is thus expected to act as the consortium leader and after identifying through survey, areas requiring branch expansion and areas suffering from credit gaps, it should invoke the co-operation of other banks operating in the District (including Co-operative Banks) for opening branches as well as for meeting credit needs*".

3.40. In regard to the progress made in implementation of the scheme the Committee were informed during evidence that 318 districts had been surveyed so far and that district level consultative committees (consisting of representatives of commercial banks, other financial institutions and State development authorities in a District) had been set up in respect of 223 districts. It was also stated that since the commencement of the scheme, public sector banks had opened 5,599 offices in the country, of which 2259 were located in the lead districts of these banks, while 3340 were located in districts other than their lead districts. The number of offices located in unbanked centres was 3,193 almost all of them in areas covered under the Scheme.

3.41. The Committee discussed a number of features about the working of this scheme with the representative of the Ministry which revealed:

"(i) *Survey reports*: At the Chief Executives' meeting held in November, 1971, the Finance Minister while expressing disappointment with the progress of Lead Bank Scheme had observed that "Survey reports were being prepared mechanically and they were not action oriented". This was also brought to the notice of the Committee by an eminent non-official. The representative of the Department admitted during evidence that "the quality of work in some cases was not very good". He attributed this to lack of "expert manpower" and said that "this has

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*Specific functions of a Lead Bank were spelt out as follows in the scheme :—

(a) surveying the resources and potential for banking development in its district ;

(b) surveying the number of industrial and commercial units and other establishments, farms which do not have banking accounts or depend mainly on money lenders, and increasing their owned resources through the creation of surpluses from additional production financed from the banking system;

(c) examining the facilities for the marketing of agricultural produce and industrial productions, storage and warehousing space, and the linking of credit with marketing in the district ;

(d) Surveying the facilities for the stocking of fertilisers and other agricultural inputs and the repairing and servicing of equipment;

(e) recruitment and training of staff, for offering advice to small borrowers and farmers, in the priority sectors, which may be covered by the proposed credit insurance schemes and for the follow-up and inspection of the end use of loans;

(f) assisting other primary lending agencies; and

(g) maintaining contacts and liaison with Government and quasi-Government agencies.

> been brought home to them (banks) now that they should prepare a kind of impressionistic survey, showing the economic possibilities of a District."

(ii) *Achievement of District Level Consultative Committees:*

3.42. In their Memoranda to the Committee, it has been observed by non-officials that the district level consultative committees had achieved "very little" and that their working "left much to be desired owing mainly to mistrust and suspicion among banks and lack of understanding of the role and functions of the Committee". In a note submitted to the Committee subsequent to evidence, the Department explained that "While it is difficult to quantify the achievements of these coordination committees—it can be said that these committees have played an important role in facilitating the rapid expansion of the branch net work of commercial banks". The functions of these committees were stated to be "to evolve methods and procedures for stepping up lending to priority sectors, identify development schemes and allocate growth centres among different banks".

(iii) *Need for a plan of action:*

3.43. In his inaugural address at the Chief Executives meeting held in January, 1973, the Finance Minister *inter alia* observed that "Time has come now for the lead banks to prepare a plan of action on the basis of surveys conducted in their districts. The implementation of this suggestion on a trial basis has been taken up in two districts of U.P. (Rai Bareily and Gorakhpur) and Madhya Pradesh (Ujjain and Seoni)—The Punjab National Bank has also prepared an intensive scheme". Regarding the progress of these trials, the representative of the Department stated during evidence that some sort of a plan had been prepared for each one of the Districts and the same were being discussed at committee meetings. It was also stated in a note furnished subsequent to evidence that "The lead banks have only recently completed the first phase of the scheme *viz*, of surveying and identifying the requirements of their lead districts and evolving a suitable machinery for co-ordinnated action. They have now taken up the task of evolving credit schemes for the benefit of small borrowers in various sectors—It would, however, be unrealistic to expect these banks to undertake the formulation and implementation of district development programmes entirely on their own. The role of the lead banks is to supplement the efforts of the existing development authorities and not to substitute them." The above experiments in districts of U.P. and Madhya Pradesh were stated to have been undertaken "as a part of the strategy for increasing the involvement of banks in the development of the districts."

(iv) *Initial misunderstanding above scope of scheme:*

3.44. The Banking Commission in their Report (January, 1972) had *inter alia* observed that there was serious misunderstading about the scope and objective of the scheme initially—one view was that lead banks were responsible for survey, indentify potential and make other banks to open branches; other was that they had themselves to open branches. The representative of the Department stated that "This has been cleared now". A Study Team appointed by the Reserve Bank of India in 1970 examined the working of the scheme, held discussion with the concerned banks to ensure that all fully understood the scope and objectives of the scheme and the tasks ahead.

3.45. The Committee note that though the Lead Bank Scheme was introduced as far back as 1969, so far survey reports have been prepared in respect of 318 districts out of 338 districts allotted to various banks and District Level Consultative Committees have been set up in 223 districts only. They also note that the quality of the survey reports has not been up to the mark and that the consultative committees too do not seem to have played their role effectively so far. The Committee further observe that the Lead Banks have yet to grapple with their basic tasks of involving themselves in the process of economic development of the district concerned by evolving suitable credit plans and programmes.

3.46. The Committee cannot help expressing their disappointment at the very slow and tardy progress achieved under the Lead Bank Scheme. They would like the banks and the Department to immediately gear up their lead banks machinery so as to complete without delay the pending work of preparation of proper survey reports, setting up approriate consultative committees in the remaining districts by adhering a time bound programme and formulate suitable credit schemes in conjunction with the State development authorities for the economic advancement of the district concerned. The Committee also expect the Department to watch the progress of the scheme by a periodic stocktaking of the position.

3.47. The Committee need hardly stress that the composition of the District level consultative committees should be broad-based Besides including persons who are active in industry, commerce, education, social uplifts and representatives of Zila Parishads, it should be ensured that adequate representation is given to representatives of weaker sections of the society who are actively engaged in the work of improving the economic and social conditions of the weaker sections.

C. Re-structuring of the Banking System

3.48. It was brought to the notice of the Committee by an eminent non-official that under the Lead Bank Scheme almost every bank had shown better performance in lead districts allotted within its main area of operation rather than in districts assigned at distant regions. He felt that the fragmentation of lead bank responsibilities far away from the Head Office of a bank or main area of operation had led to a number of co-ordination and communication difficulties, with the result that there was wasteful opening of branches by banks within 100 yards from each other, neglect of backward areas, delays in reconciliation of accounts, etc. He suggested that the nationalised banks should be grouped under six or seven regional organisations, each being responsible for its own region. These regional banks could be allowed to operate a few branches outside their allotted regions and the State Bank of India could provide the necessary linkage in this behalf.

3.49. The Committee enquired about the bank-wise performance under the Lead Bank Scheme, changes made or contemplated as a result of experience gained and whether Government had considered the advisability of restructuring the banking system as suggested above. The representative of the Department stated during evidence that "Different banks are at different stages of work and it is rather difficult to give a judgement as to which has done better and which has not done so well— In areas which were not previously well banked, the large banks (like Bank of India, Central Bank of India) had to be given lead bank responsibility very far away from their ethnic areas.... they had to develop the infra-structure within the banking system...... There has been initially a kind of delay on their part." The Secretary of the Department added that each bank was "faring very much better in the ethnic area but some additional work to it in unknown place is not bad. It brings a definite specialisation and it takes an objectives view. They are doing all right from that point of view."

3.50. Regarding restructuring of the banking system, the Secretary of the Department stated that "this was one* of the recommendations of the Banking Commission and we have not found it useful to accept. For the present it is felt that the 22 banks structure is not doing badly. If they are merged, all kinds of complications will arise."

Asked about lead bank responsibility being given on a Statewise basis as in a number of States there was no Head Office of

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*The Banking Commission in their Report recommended that "early steps should be taken for re-organising the national banks into two or three all-India banks and six other banks each specialising in developing banking services in a broad region———" (Para 15·58 of Report).

any bank, he said. "The advice given to us is unanimous that it should not be a State-wise bank. Banking should cover entire economic areas. It so happens that a majority of the banks are located at Bombay with their head offices...... It is difficult to divide them up like that".

It was also stated that no changes in the Lead Bank Scheme allotment were contemplated for the present.

3.51. In this connection the following extracts from the Finance Minister's reply to Unstarred Question No. 5201 in the Lok Sabha on 29th March, 1947, are also noteworthy:—

> "While any restructuring of the banking sector, which is a delicate and sensitive sector would have far-reaching implications and repercussions, the proposed structure of the banking system as visualised by the Commission for a country like ours does not promise any significant improvement over the existing structure. On balance, Government have, therefore, decided not to accept the recommendations of the Commission regarding the restructuring of the banking system in the manner envisaged by them. Government have, however, taken note to keep under continual review the question as to what would be the most appropriate structure for the banking system within the existing constraints."

3.52. The Committee note that under the Lead Bank Scheme, banks have fared better in the districts in their ethnic areas than in the lead districts allotted to them in distant regions. The Committee also note that no changes in the allotment of districts under the lead bank scheme are contemplated by Government for the present.

3.53. The Committee further note that Government have not accepted the recommendation of the Banking Commission on the restructuring of the banking system as they feel that the present 22 banks structure is "not doing badly" and if they are marked "all kinds of compiicatiosn will arise.". The Committee, would like Government to keep under review the question as to what would be the most appropriate structure for the banking system within the existing constraints and bring forward concrete proposals at the appropriate time to ascertain public reaction and parliamentary approval before effecting any major structural change.

D. **Credit Extension to backward districts/areas**

3.54. As indicated earlier, one of the objectives of bank nationalisation was to stimulate growth and development of backward districts/areas. The Committee enquired about the special credit schemes undertaken for the development of backward districts/

areas. The representative of the Department stated during evidence that their approach had been to leave it to the district level consultative committees, set up by Lead Banks, in which there were representatives of the other financial institutions and district development authorities as to what type of schemes should be taken up for development of backward areas.

3.55. It was also stated that to stimulate flow of investment to backward areas, the long term financial institutions* have, in consultation with the Department, undertaken a number of schemes including extension of credit at concessional rates of interest, on easy terms, etc. A note giving briefly the features of schemes of these institutions as indicated in the Annual Reports of the Ministry, etc.. is given at Appendix IV.

3.56. Asked whether any guidelines were issued by the Department for formulation of schemes by the long term financial institutions, extent to which they have stimulated flow of investment to backward areas and how co-ordination was ensured between these institutions and the commercial banks particularly lead banks, the representative of the Department stated during evidence that "The Industrial Development Bank of India is the apex institution for these long term institution. It is through the IDBI that instructions have been issued and under the umbrella of the IDBI the schemes have been formulated". Regarding the flow of investment to backward areas, it was stated that 40 per cent of total assistance in the case of IDBI, 29 per cent in the case of IFC and 17.7 per cent in case of ICICI had gone to the backward areas but "we do not have statistics about how much investment has been stimulated in a particular area". As for co-ordination, the IDBI was stated to be co-ordinating with commercial banks in the field of long term financing. It was also stated that in the Bill recently introduced in Parliament for restructuring the IDBI "much more coordination is contemplated between the commercial banks and the all-India financial institutions both in regard to the operations in backward areas and also in regard to promotional activities of the small and medium enterpreneurs".

3.57. A leading Federation of Chambers of Commerce and Industry, in their Memorandum and evidence before the Committee, observed that "Development of backward areas had attracted Government's attention quite some time back. The Planning Commission had appointed two committees to locate backward areas and to suggest measures which would stimulate growth. However, systematic effort was not made to foster development in backward regions and, as such, the problem today remains substantially the

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*IDBI, IFC, ICICI, LIC, Unit Trust of India and 18 State Financial Corporations.

same as in the past". Apart from suggesting grant of additional incentives (*i.e.* stepping up capital grant given by Central Government from 15 to 20 per cent, rebate in excise duties, etc.), they made the following two specific suggestions:—

(i) *Definition*: At present the lists of backward districts for interest subsidy from banks and those for State incentives and Central incentives were different. There should be a standard list for all these concessions.

(ii) *District Development Authority*: For quick development of backward areas, really backward pockets in a district should be picked up and they should receive concerted attention of all district authorities including banks through a properly constituted District Development Authority.

3.58. In regard to the definition of backward districts, the representative of the Department stated during evidence that for Differential Interest Rates Scheme they were following the list of backward districts, prepared by the Planning Commission which was based on the criteria* laid down by the Pande Committee Report (1968). There was another Wanchoo Committee Report which indicated what sort of incentives should be given for promotion of industries in backward areas. This list was slightly different. It was also stated to be possible that State Governments might be having different lists of backward districts.

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*The following criteria was recommended by the Pande Committee :—

(*i*) Districts outside a readius of about 50 miles from large cities or large industrial projects.

(*ii*) Poverty of the people as indicated by low per *capita* income starting from the lowest to 25 per cent below the State average.

(*iii*) High density of population in relation to utilisation of productive resources and employment opportunities of indicated by :—

(*a*) low percentage of population engaged in secondary and tertiary activities (25 per cent below the State average may be considered as backward).

(*b*) low percentage of factory employment (25 per cent below the State average may be considered as backward).

(*c*) non and/or under utilisation of economic and natural resources like minerals, forest, etc.

(*iv*) Adequate availability of electric power or likelihood of its availability within 1—2 years.

(*v*) Availability of transport and communication facilities or likelihood of their availability within 1—2 years.

(*vi*) Adequate availability of water or likelihood of availability during 1—2 years.

3.59. As regards having a District Development Authority, the representative stated that "The State Governments have development organisation and it is a matter with which State Governments are concerned. So far as we are concerned, we propose to proceed through the district consultative committee". When asked whether to make banks responsible for development of backward areas there was need for any amendment to the Act, the Secretary of the Department stated that "There was no need for any change in Act. At the most methods could be changed."

3.60. In this connection, the following extracts from the speech of Minister of Planning in Rajya Sabha on 15-3-1974 in the course of debate on the Resolution regarding Economic Development of the States and Union Territories in the Eastern Region are also pertinent:—

> "I am one of the persons who insisted for the nationalisation of the banking industry in the country—I was very clear in my mind that we wanted these banks to function as an effective instrument for the socio-economic transformation of the country. Unfortunately the experience is sad. I have already taken up the matter with the Finance Minister, who is also seriously looking into it. But I do agree that the banking institutions or the public finance institutions cannot forget that the social objectives as are accepted by the country have to be fulfilled and that they will have to operate on the same lines. If they are going to give some special privileges or some special concessions to the monopolies, these disparities will not go—the Government is seized of the matter."

The Minister of Planning also indicated in Rajya Sabha in reply to Starred Question No. 591 on 21-3-1974 that the Government were re-examining the criteria prescribed to identify the backward districts or States.

3.61. The Committee are constrained to observe that though one of the objectives of bank nationalisation was to stimulate growth and development of backward districts|areas, no special measures seem to have been taken by the nationalised banks in this direction. The approach of the Department has been to leave it to the district level consultative committees, set up in lead districts to take care of backward areas in the normal course, this being "a matter with which State Governments are concerned".

3.62. While the Committee recognise that the development of backward districts|areas is the main responsibility of the State Governments, the nationalised banks have also been entrusted with a specific responsibility in this behalf. The Committee trust that at least now the Department and the banks would take concrete steps towards the fulfilment of this objective by formulating special bankable schemes for the development of backward districts|areas, bringing about suitable changes in their methods of operations, if necessary, as was agreed to by the Secretary of the Department.

3.63. The Committee further find that certain measures have been taken by the long term financial institutions for stimulating greater flow of credit to backward districts|areas under the umbrella of the Industrial Development Bank of India but these too do not seem to have made much of impact as yet and the position remains substantially the same as before. The Committee also note that the Government is seized of the matter as to why there has not been the desired socio-economic transformation of the backward areas. The Committee would like the Government to examine in a comprehensive manner as to why the backward districts/areas have not made any perceptible progress despite planning and developmental efforts during all these years and take effective measures to locate problem areas and plan an integrated developmental approach by all concerned agencies for the improvement of these areas.

3.64. The Committee further note that there are different lists of backward districts for purpose of interest subsidy from banks and other Central Government incentives. It is also likely that the State Governments may be having still a different list. They also note that the Government are re-examining the criteria prescribed to identify the backward districts. The Committee hope that the backward districts|areas would soon be more precisely defined by the Government for the guidance of all concerned.

3.65. The Committee would also like a special section to be devoted to the achievements of the nationalised banks in the matter of development of backward districts and areas in the Annual Reports of banks| Department.

E. Differential Interest Rates Scheme

3.66. In March, 1972 Government decided to introduce a Scheme of differential interest rates for implementation by the public sector banks, so as to help the weakest among the weaker sections of the community. Guidelines in this behalf were issued by the R.B.I. in June, 1972 and the same were further modified in March, 1973.

as a result of review of the working of the scheme. It was stipulated to give advances at a concessional rate of interest of 4 per cent to people of low income groups in 163 backward districts (extended to 265 districts in 1973). The eligibility criteria was that the annual income of beneficiaries should not exceed Rs. 2000 in urban|semi-urban areas and Rs. 1200 in rural areas which was subsequently raised to Rs. 3000 & Rs. 2000 respectively in 1973. The amount of loan admissible was Rs. 500 for working capital and Rs. 2500 for other requirements. This was later raised to Rs. 1500 and Rs. 5000 respectively.

3.67. The scheme was designed to help the people of modest means engaged in agricultural activities, cottage and rural industries, indigent students, physically handicapped persons including orphanages and women's Homes and it was enjoined on the banks to take the following steps:—

(i) to ensure that the loans given were for productive purposes;

(ii) to extend guidance to borrowers in a number of ways like provisions of raw materials, marketing, etc.;

(iii) to ensure that the borrowers were not exploited by others;

(iv) each bank to select at least one branch in every 8 or 10 branches from out of backward districts;

(v) to ensure that a borrower was able to stand on his own within a period of 5 years (except indigent students) and the concession was done away with thereafter;

(vi) each bank to lend under the scheme about ½ to 1 per cent of its aggregate lending at the end of previous year; and

(vii) each bank in its annual report to devote a chapter describing its operations under the scheme, social benefits achieved, etc.

3.68. The total advances given under the scheme amounted to Rs. 6.81 crores at end of September, 1973 (account Nos. 1.62 lakhs)—with S.B.I. group Rs. 2.92 crores, Bank of Baroda Rs 82.51 lakhs, Syndicate Bank Rs. 81.44 lakhs, Union Bank of India Rs. 60.30 lakhs and other banks ranging from Rs. 2.54 lakhs to Rs. 39.24 lakhs. The total advances constituted 0.13 per cent of aggregate lending of Rs. 5337 crores of public sector banks at the end of June, 1972 as against the target of lending ½ to 1 per cent thereof.

3.69. The Committee enquired about the extent of implementation of the above guidelines by each bank, number of persons made viable, reasons for shortfall in lending and poor performance of certain banks. The representative of the Department stated during evidence that all the banks had implemented the guidelines except to the extent that they had selected one out of four branches rather than one out of 8 to 10 branches for the purpose. Regarding viability, it was stated that "It is too early to be able assess this—even in the scheme it was mentioned that vitability should be reached over a period not exceeding five years". As regards reasons for shortfall in targets and poor performance of certain banks, it was sttated that "this scheme started towards the end of September, 1972 and the identification of various centres, etc. took sometime—some changes had to be made in the light of experience— Actually it is only from March (1973) onwards that the scheme picked up tempo". As to the time by which they would reach target of 1 per cent, the Secretary of the Department stated "The scheme is a five years scheme, we will reach it earlier". When asked whether all the inteded category of persons were getting the benefit, he said" "That is the expectation".

3.70. In their Memoranda to the Committee non-official organisations have expressed the view that the scheme has not been of much help and banks were faced with the difficulties of high cost of operation and elaborate procedure to be complied with. It was suggested that more multi-service programmes should be undertaken for an economic and effective operation of the Scheme.

3.71. The Committee note that though instructions for implementation of the differential interest rates scheme were issued by Government in June, 1972, it was only from March, 1973 that the scheme "picked up tempo". They also note that upto September, 1973, (i.e., in 15 months time) a total amount of Rs. 6.81 crores has been advanced by the banks under the scheme which constitutes about 0.13 per cent of their aggregate lending in a year. The performance of most of the banks has been much below expectation. Even the target of lending 1/2 to 1 per cent of aggregate advances of banks every year under the scheme, which was already low, had not been reached.

3.72. The Committee are not happy with the progress made under the scheme which is designed to improve the economic lot of the weakest among the weaker sections of society. The Committee would like to be informed of the concrete measures taken to ensure that the target of extending 1 per cent of aggregate advances to beneficiaries in backward areas and those coming from the lower income groups is achieved in the current year.

CHAPTER IV

SECTOR-WISE OPERATIONS, SCHEMES AND PROGRAMMES

A. Agricultural Sector

(i) *Guidelines and their implementation*

4.1. The agricultural sector was rather an unknown field to the traditional bankers with urban bias. After nationalisation, the RBI, after a study of the existing policy and procedures, issued guidelines on financing of agriculture to the banks in December, 1970* enjoining on them *inter-alia* the following:—

(i) Banks should adopt an "area approach" and each bank should decide on the "command area" it would serve to avoid any overlapping.

(ii) Powers should be delegated to branch agents so as atleast 80 per cent of proposals could be cleared by them without reference to the Central Office.

(iii) Branch agents should work out rational scales/norms of finance for various crops grown locally.

(iv) Where scales had been worked out, margins and mortgage security should not be insisted upon.

(v) Preliminaries should be completed well in advance and funds disbursed at the right time of crop season.

(vi) Repayment schedule should coincide with sale of produce.

(vii) Small farmers (with land between 2.5 to 5 acres) should be identified and credit schemes supported by technological advice so as to make them viable farmers, commencing operations from areas where Small Farmers Development Agencies had already identified such farmers.

(viii) Effective machinery for post credit supervision should be set up at the Head Office to judge implementation of policies, understand problems and lacunae in the field and ensure timely recoveries.

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*Vide RBI Circular letter dated the 16th December, 1970.

(ix) Branch agents in a centre/area should remain in touch with cooperatives to avoid overlapping for working out common norms and scales, etc., and also keep informed of schemes of Agricultural Refinance Corporation.

4.2. It was also stressed on the banks that their efforts should be so directed as to achieve the following objectives:—

(i) Move cultivators to a higher technological plane of activity, particulary marginal and potentially viable farmers by assisting them in adoption of improved package of practices.

(ii) Investments should result in a better input—output coefficient and higher incremental income by ensuring lending for discernibly productive purposes.

(iii) Making credit available at the right time and in adequate quantity.

(iv) Inculcating banking habits in cultivators by linking deposits to credits.

(v) Moving into more difficult areas and also consolidating position of recovery by old loans.

Implementation

4.3. The Committee enquired about the extent of implementation of the above guidelines by each of the banks as well as the achievement of the objectives and the following position emerged:

(i) *Area Approach*:

Upto March, 1973 a total number of 6870 villages had been adopted, with the State Bank of India group alone having adopted 3690 villages through their 124 Agricultural Development Branches opened so far in the country. Other banks were stated to be "watching the results of these branches and they were also adopting the villages."

In regard to the result of SBI's experiment, it was stated that "the result is satisfactory. Wherever agricultural branches have been opened by the State Bank, there has been considerable enthusiasm in the locality". Asked why the other banks were not adopting this method since the results were satisfactory it was stated "it may not be possible for all the nationalised banks to go in for such a large number of intensive agricultural branches—they are certainly going to intensify their operations in certain areas. But they may not exactly follow the way of the SBI".

(ii) *Delegation of powers*:

It was stated that "Now, most of the banks have delegated powers to their branch officers, so that they can sanction all loans covered under the Credit Guarantee Scheme, *i.e.*, (shortterm loans upto Rs. 2500 and medium term upto Rs. 10,000)—From the figures which we have from the RBI at the end of March, 1973, we find that 79 per cent of the farmers who have been granted short term loans by the public sector commercial banks own upto 10 acres of land and 62 per cent own upto 5 acres of land. So, this would show that most of the loan amounts in these rural branches are in respect of farmers with small land holdings. It is only in case of bigger farmers requiring larger amounts of loans that the proposals have to be referred to the next higher authority. The emphasis was on clearing 80 per cent of the proposals. This has been largely done".

(iii) *Working out scales/norms*:

It was stated that the matter was discussed regularly at the District Consultative Committee meetings and "Now, the practice is for all the financing agencies in a particular area to reach a consensus about the rational scale of finance".

(iv) *Margins and Security*:

In case of short term loans upto a certain limit banks were stated to be not insisting on any margins or mortgage security but giving loans on personal guarantee of borrower or hypothecation of standing crops.

(v) *Timely disbursal*:

The representative stated that "This has been done always and is also being done now". When pointed out that there was a major complaint that though loans were applied for in time, they were granted six months later when the crop season was over, he said "The experience of the branches has been that there are farmers who have taken loan from a cooperative bank—they try to conceal the fact—The bank tries to get the information from the Society. So, there is delay. If everything is otherwise OK, we do not see any reason why a loan proposal—should not be cleared within a month or six weeks". He, however, agreed to ascertain the actual position from banks and go into the matter.

(vi) *Repayment coinciding with sale*:

This was stated to be done invariably. Farmers were given "about one month's time or six week's time before the end of harvest and the date of repayment."

(vii) *Consultancy Service*:

The representative stated that "We must admit that consultancy service is not working uniformally in all the areas but it exists in all the branches—This service is available to the small/marginal farmers both from the Government agricultural extension agency (under Block Development Officer) and from the commercial banks where they have adopted the villages."

Asked whether Branch Managers were members of the Block and District Development Committees it was stated "It depends upon the Block Development Officer whether he calls the local branch manager or not. We do not think that this is being followed all over the country". When suggested that this should be done to avoid any duplication in consultancy/development work, etc., the Secretary said "We wish the State Governments would agree to make the local branch managers members of this Committee. Usually, they do not......... The State Governments never say 'No'—Apart from meetings (of regional consultative committees), the Finance Minister has written a formal letter to all the State Chief Ministers".

(viii) *Machinery for post-credit supervision*:

This was stated to be "now being done by the banks".

(ix) *Coordination with Co-operatives*:

It was done "through Lead Bank Coordination Committees".

(x) *Linking deposits to credits*:

It was stated "This is attempted by all the branches though not made a condition for sanction of loan."

(xi) Moving into more difficult areas, consolidating recovery position, etc.

The recovery of agricultural loans was stated to be "50.7 per cent as at end of June, 1972. In some States, the recovery was good, in others it was very bad."

4.4. The Committee regret to note that the progress in regard to the implementation of the various guidelines for agricultural finance has been slow and tardy. Under the strategy of area approach, out of a total of about 5.67 lakhs villages in the country, only 6870 villages had been adopted by the banks, that too mainly by the SBI group. Powers to the extent envisaged do not seem to have been delegated to branch managers, with the result that there are delays in sanction and disbursement of loans. Credit norms for various crops have not been worked out precisely by branch managers and the consultancy service to the small farmers is available to a limited extent only.

4.5. The Committee cannot help feeling that though the guidelines on financing of agriculture issued by the RBI in 1970 indicated the strategy to be followed by the banks in this regard, there appears to have been no adequate follow-up to ensure their implementation. Had this been done, the progress in agricultural financing would have been much better. The Committee trust that atleast now, the Department would closely follow-up the implementation of the various guidelines by each bank, ascertain the difficulties, if any, in implementation so as to take immediate remedial measures and ensure sustained progress in this regard by periodical stock-taking of the position. The Committee attach particular importance to making credit available at the right time of crop season and linking its repayment to the sale of produce.

4.6. The Committee also note that the efforts of the Department to make Branch Managers members of the Block and District Development Committees in all the States have not yet met with uniform success. They feel that the association of the representatives of local Banks with these Committees may be helpful to the Banks in understanding better the development problems of the area. The Committee recommend that the matter should continue to be vigorously pursued at the highest levels with the State Government authorities so as to secure effective participation of the Bank at the grass root level.

4.7. The Committee are concerned to note that recovery of agriculture credit extended is only to the extent of 50.7 per cent. The Committee see no reason why this cannot be improved upon by more efficient linking of recovery with the sale proceeds of products by beneficiaries and a more careful scrutiny of applications at the intial stage and a closer follow up till the money is recovered.

(ii) Schemes and Programmes

4.8. Banks credit is being provided to the agricultural sector in the form of (i) direct finance to the farmers and (ii) indirect finance to the dealers for distribution of fertilizers and other inputs, *i.e.*, advances given to State Electricity Boards for rural electrification and energising tube wells; loans given to dealers of pesticides and pumpsets and loans through primary credit societies, etc.

4.9. Different schemes have been evolved by the banks for this purpose to suit the areas of operation. Apart from the Area approach scheme, under which villages are adopted for intensive assistance; group guarantee scheme under which groups of farmers and share croppers are financed on the guarantee of each other and scheme of financing primary agricultural credit societies, there are a number of other special schemes which have been introduced for small farmers to enable them to improve their production and to adopt new methods of agriculture. Salient features of some of these schemes are given below:—

Scheme	Purpose	Terms of security/Extent of loan repayment		Interest
1	2	3	4	5
Crop loan	Purchase of improved seeds, fertilisers, pesticides etc.	Given against hypothecation of standing crops with one or two sureties and mortgage of land where necessary. Repayable in 12 months.	75 to 90 per cent of total cost of inputs.	9½ to 11 per cent.
Medium term loan	Instalment of pumping set, purchase of tractor, sinking of well	Given against hypothecation of assets acquired and mortgage of land. Repayable in 3 to 7 years.	75 per cent of total investment. In exceptional cases up to 100 per cent	9 to 11 per cent.
Minor schemes	Animal husbandry, poultry, fishery, piggery, dairy etc.	Give against hypothecation of goods equopment acquired. Repayable in 5 years.	75 per cent of total cost.	9 to 11 per cent.

1	2	3	4	5
Custom service	For agricultural Graduates and Engineers to set up agro-service centres.	5 to 7 years	75 to 85 per cent of the cost or more (in special cases)	9 per cent and above depending on Bank rate.

4.10. The 'direct finance' given to agricultural sector increased from Rs. 40.21 crores (account Nos. 1.60 lakhs) in June, 1969 to Rs. 297.86 crores (account Nos. 12.46 lakhs) in June, 1973. The 'indirect finance' increased from Rs. 122.09 crores (account Nos. 4461) in June, 1969 to Rs. 170.83 crores (account Nos. 1.24 lakhs*) in June, 1973. The Committee enquired whether any appraisal had been made to find out the impact of this credit by way of addition to agricultural produce, how many small|marginal farmers had been made viable and which of the banks had shown poor performance.

4.11. The representative of the Department stated during evidence that "I am afraid such appraisals have not been attempted so far. These have necessarily to be made on micro basis, taking certain selected areas. To our knowledge, this has not been done by any institute." When asked whether they proposed to undertake any such study, it was stated that so far as SFDA/MFAL programmes were concerned some studies were being undertaken by the Ministry of Agriculture through the Programme Evaluation Organisation of the Planning Commission and the R.B.I.

4.12. Regarding bank-wise performance, it was stated that "we do keep a watch on the performance of all the public sector banks in the field of priority sector advances—it is a bit premature to accuse one bank at the expense of the other about their performance and there have been historical reasons for this. For instance, banks like Canara and Syndicate—had started much earlier to finance the middle class sections—and the number of accounts was much higher at the time of nationalisation of these banks than in the bigger banks (like Punjab National Bank). It will take sometime for the bigger banks to come upto the standard—We are constantly urging all the banks to extend their agricultural finance to the small and marginal farmers more and more and this is being largely done". The Committee also asked for similar information in regard to other sectors.

*In regard to disproportionate rise in the account numbers of indirect finance, it was stated that "Previously banks used to give us the data according to the number of societies—Now they are giving us the total number of membership".

Regarding small scale industries they were informed that "Roughly, on an average, Rs. 100 crores of additional advances were made available annually—on assumption of an average of four times the turnover roughly, this seems to have contributed to Rs. 400 crores of production". In regard to professional/self-employed sector and other sectors, it was stated that "We have no data".

4.13. In this context, the Committee were informed by an eminent non-official that "some of the individual Branch Managers in some places are doing that (*i.e.*, keeping data on addition to net value of output). Atleast, one of the banks, I know in the Eastern Sector is collecting some data about the position of output before and after the commercial banks came in".

4.14. The Committee note that different schemes have been evolved by the various banks for credit assistance to the agriculture sector. The Committee need hardly emphasise the importance of rapid expansion of credit to the agriculture sector on which the whole economy of the country and well-being of the people rests. They recommend that the working of all schemes evolved by banks for meeting credit requirements of this sector should be reviewed by an expert group with a view to enlarging/modifying their scope and initiating new schemes in fields like minor irrigation/tube wells, area development, etc. for increasing the credit assistance to this sector.

4.15. The Committee also note that no appraisal has so far been made to ascertain the impact of bank credit by way of addition to net value of output the number of small/marginal farmers and other beneficiaries made viable, etc., which are the ultimate objectives of these credit assistance schemes to weaker sections of society. The Committee recommend that, after a study of the position of data kept in certain eastern bank branches in this behalf, the Department should issue suitable instructions to banks for the collection and maintenance of information about these vital aspects as well as other socio-economic benefits accruing to an area as a result of the bank credits. The data thus collected, should be highlighted in a consolidated manner in the Annual Reports of the Banks and of the Department.

4.16. The Committee also note that due to historical reasons, the performance of some of the banks in lending to agriculture and other priority sectors has been better than the other banks. They hope that by a periodic review of bank-wise performance in this regard, the Department would take suitable measures to bring about significant improvement in the achievement of all the banks at an early date.

4.17. Certain other features came to the notice of the Committee while examining agricultural advances. These are discussed in subsequent paragraphs.

(a) *Advances mainly given for plantations in certain States*

In West Bengal, out of total advances of Rs. 87.20 crores given for agriculture sector as at end of June, 1972 (all commercial banks) Rs. 68.82 crores had been given for plantations and the remaining Rs. 18.38 crores only were given for other weaker sections of agricultural sector. This was explained as due to concentration of tea plantations in West Bengal, 60 per cent of which were stated to be weak.

(b) *Advances mainly given in Capital towns of States*

In West Bengal, out of total advances of Rs. 87.20 crores as at end of June, 1972, Rs. 79.71 crores had been given in the city of Calcutta. Similarly, out of Rs. 26.16 lakhs given in Himachal Pradesh, Rs. 19.44 lakhs were given in Simla; out of Rs. 54.89 crores in Maharashtra, Rs. 19.11 crores were given in greater Bombay and out of Rs. 53.57 crores in Tamil Nadu, Rs. 24.48 crores were given in the city of Madras. This was explained as due to the head offices of most of the Banks being located in Capital towns. Further, indirect advances given to State Electricity Boards, etc. were also there.

(c) *Loans getting diverted to big farmers*

At the Finance Minister's meeting with the Award staff held in January, 1973, the representatives of the banks expressed the view that even among the recipients of credit in priority sectors, big farmers and pople with larger means had been preferred or a large proportion of credit was going to monopoly houses. Asked whether they had enquired about this, the representative of the Department stated that this was not a fact. In the Boards they got return about this and were keeping a constant watch whether the bank advances were going more to smaller farmers or not. It was also stated that at the end of March, 1973, 40 per cent of all farmers who received short term loans from public sector banks, had land holding of 2.5 acres and those holding land upto 5 acres were 62 per cent. When a holding-wise break up of total number of farmers in the country (*i.e.*, those holding land upto 2-1|2 acres, between 2-1|2 to 5 acres and above 5 acres) and percentage of total credit given under each group was asked for, it was stated in a post evidence note that the

Ministry of Agriculture had stated that this data was "being compiled by each State|Union Territory under the Agricultural Census Operations—However, even this data, when available, would not give the number of farmers operating the holdings".

4.18. The Committee also enquired whether proper use of the funds by the recipients in the agricultural and other sectors was ensured. It was stated that each bank was now required to give to the R.B.I. in their Basic Statistical Returns, a break-up of the purpose for which loans had been given. In the first year, there had been some cases of improper use of advances and frauds by the dealers of pump sets. "We have issued instructions to all the Commercial Banks that no loan should be given to a farmer through an intermediary. Secondly, the Field Officers of the banks are now going and inspecting the land—the supervision over the end use of loans has been much more intensified."

4.19. The Committee note that in certain States like West Bengal 80 per cent of the agricultural advances have been given for tea plantations, etc. They feel that such large scale extension of advances for tea gardens cannot be regarded as a help to weaker sections. While the Committee have no objection to financial assistance being made available to any section in national interest they feel that there should be correct classification in respect of such advances so as to facilitate proper evaluation of the lending activities of the banks. Similarly the advances given in the capital towns of States should also be properly classified in the district-wise classification.

4.20. The Committee were also assured that the Boards of Directors of the banks were keeping a constant watch that the agricultural advances mainly went to the small farmers. They hope that the Boards would ensure this as well as the proper use of funds by the beneficiaries through periodic assessment of position in this behalf.

(iii) Inter-Institutional relationship and co-ordination

4.21. The importance of properly co-ordinated institutional frame-work for rural finance needs no emphasis.

The Committee understand that at the meeting held with the Chief Executives of banks in January, 1973, the Finance Minister *inter alia* observed that "He had not yet succeeded in getting the State Governments to enact legislation based upon the Model Bill recommended in the Talwar Committee Report (1970) —— to avoid frequent resistence to the entry of commercial banks in the agriculture field monopolised by the Co-operatives". The Committee enquired about the latest position in this regard and whether the banks were still encountering resistance from Co-operatives or other institutions.

4.22. The representatives of the Department stated during evidence that "So far only five States (*i.e.*, West Bengal, Madhya Pradesh, Haryana, U. P. and Himachal Pradesh) have enacted the legislation. Apart from legislation, there are other measures suggested by the Comittee (like giving land alienation rights to tribal cultivators, making equitable mortgage permissible in more areas, exemption from payment of stamp duty, recovery of arrears by State Governments, etc.) which we are following with the different State Governments——we hope that by the end of this year, a majority of States will be able to enact this legislation." As regards giving alienation rights, it was stated that in West Bengal they had passed a legislation that any tribal could mortgage his land in favour of commercial banks and get loans. Bihar had done it partially (in Chhota Nagpur area) but all States had not yet done it. Regarding equitable mortgage, it was stated that in most of the States (like Bihar, West Bengal, etc.) they had extended the benefit of equitable mortgage to sub-Divisional Headquarters. In regard to exemption from stamp duty, it was stated that most of States had already done up to Rs. 5,000 to Rs. 10,000. The difficulty in this regard is that "each State Government is giving exemption from year to year basis and not permanently——We are pursuing this matter with different State Governments". Recovery of arrears by State Governments was being done in 5 States only where Model legislation had been enacted.

4.23. Regarding resistance from Cooperatives it was stated that "The position has changed over the years. When commercial banks first entered the field of agricultural credit, there was a lot of resistance from the Cooperatives. The Cooperatives of the country have now definitely realised that they will have to co-exist with the commercial banks———in terms of national policy, the primary role for disbursing agricultural credits will rest with the cooperative sector——the commercial banks have to go to those areas only where the Co-opative banks are weak and defunct or virtually dissolved, in consultation with the respective State Governments."

4.24. The Cooperative structure (i.e. Co-operative bank and Land Development Mortgage banks) was stated to be strong in States like Gujrat, Tamil Nadu, Karnataka, Punjab and Haryana but in the eastern States (especially West Bengal, Bihar and Orissa) the overdues were very high and they were not working satisfactorily. The Department of Cooperation and the Ministry of Agriculture and the RBI were taking steps to strengthen the Cooperative structure in these States by giving rehabilitation assistance, reviewing their working etc. In regard to the position of audit of accounts of these societies, it was stated that in States like Tamil Nadu and Karnataka this was being done regularly but in some other States they were in arrears.

4.25. The Committee were also informed that in areas where the Co-operative structure was weak, the commercial banks were financing primary agricultural credit societies. This scheme was already in operation in some States (Uttar Pradesh, Andhra Pradesh, Madhya Pradesh, Haryana, Karnataka, Orissa, West Bengal, Bihar, J & K and Maharashtra) and it was intended to extend it to other States also. Further in pursuance of the recommendations of the National Commission on Agriculture, 13 Farmers Service Societies had recently been organised in six States (Bihar, West Bengal, U. P. Karnataka, Manipur and Tripura) for servicing small and marginal farmers and the commercial banks were taking a leading role in financing these primary societies also.

4.26. The Committee enquired if any other changes were envisaged in the financial infra-structure in rural areas as a result of experience gained. They were informed that the Banking Commission as well as the National Commission on Agriculture had suggested combining of the Agricultural Refinance Corporation and the Agricultural Finance Corporation*, which were also operating in the rural areas, but Government had not accepted it as their roles were quite different. Other recommendations of the Banking Commission for setting up of rural subsidiary banks by commercial banks in States where the Co-operative structure was weak as well as of transferring responsibility of Co-operative banks from States to the Central sphere have also not found favour with the Government. In regard to the latter, it was stated that there was resistance from the State Governments and the Department of Co-operation at the Centre to this proposal and that "there were no coordination difficulties."

4.27. When asked whether they had studied the pattern of one man service branches in Japan, where the man at the spot goes

*It was stated that the ARC was a statutory body with 75 per cent of its shares being held by the RBI. It was refinancing agricltural development programmes of all the bankks. Whereas the A.F.C. a Company was a consortium of 36 commercial banks and examined project cases as were referred to it by these banks. It also provided technical assistance to State Governments.

with the money, gives loans to agriculturists according to requirements and again goes at the time of harvest and collects loan with interest, the representative of the Department stated that "we do not know what was done in Japan—in the circumstances in which we find ourselves, I do not think this is going to be a great success".

4.28. The Committee are concerned to note that though as far as back as 1970, the Talwar Committee made a number of suggestions to facilitate operations of commercial banks a rural areas and avoid any conflict with the Cooperative banks already functioning there, there has been little progress so far towards their implementation. They are unable to understand why the State Governments, particularly those where the Co-operative structure is weak, should not welcome these desirable reforms and implement them. The Committee would recommend that the Department should emphasise the urgency of these reforms on the State Governments through the various forums, including the meetings of Regional Consultative Committees, etc., and ensure their implementation within a set time-limit.

4.29. The Committee also note that the Cooperative banks structure is weak in a number of States, particularly in the eastern States and steps are being taken to strengthen it as well as to supplement their efforts by direct financing of primary agricultural credit societies, etc. by the commercial banks. They also note that no significant changes in the existing rural financial infra-structure are envisaged by Government at present. The Committee would however like to stress that commercial banks should profit from the experience of cooperative banks which have been working in agriculture field for a number of years in order to ensure that sound practices which are in the interest of farmers and banks are adopted while those which have led to such a large incidence of bad debits in States in the eastern region are avoided.

4.30. The Committee would also suggest that the Department should ensure that there are cordial relations and full coordination between the various financial agencies operating in the agricultural sector, by a periodic review of the position.

4.31. The Committee further recommend that a study of the working of financial institutions in the agricultural sector in Japan, particularly their one man service branches should be made by the Department with a view to benefit by their experience and making suitable changes in our own rural financial infra-structure arrangement.

Other Suggestions

4.32. The Committee would also like to make the following other suggestions which were agreed to by the representatives of the Department during evidence:

(i) *Issuing Pass Books of Land Records*

To facilitate giving loans speedily, the idea of issuing pass books to farmers containing full record of the land owned by them, should be vigorously pursued with the State Governments. According to the information available, only Madhya Pradesh Government was stated to have started this experiment. The Secretary of the Department agreed that "the idea is attractive. We have everything at one place—all the relevant details regarding the borrower."

(ii) *Rural Branches to maintain records of agriculturists of the area*

All bank branches in the rural areas should maintain a register giving such particulars|data of agriculturists of the area village-wise as would enable them to have an idea of the total credit needs of that area, the capacity of an agriculturist to take a loan and return it with interest after the harvest etc. The representative of the Department stated that some such records were being maintained in respect of villages adopted by the banks and the co-operative banks were also maintaining records by way of a "a normal credit statement". The Committee would like the Department to examine this matter in a comprehensive manner in consultation with State Governments, if necessary, and issue detailed instructions to the banks in the matter.

(iii) *Loan Account Pass Books*

The scheme of issuing loan account pass books to the borrowers, as is prevalent in the Indian Overseas Banks, should be introduced in all the banks.

(iv) *Loans to Adivasi tribal cultivators*

Commercial banks should be allowed to give loans to Adivasi tribal cultivators in States like Madhya Pradesh, Orissa, Andhra Pradesh, Maharashtra, where they constitute a sizeable population and other States on the same "contract" basis as was being done by cooperative banks.

(v) *Loans to cane-growers on the guarantee of sugar factories*

To facilitate grant of loans to sugar cane growers, the direct tie-up arrangement between the sugar mills and sugar cane-growers, which exists in certain States (like Andhra Pradesh, Tamil Nadu, Rajasthan) may be extended to other States also (like Bihar, Punjab, U.P.). The possibility of extending this arrangement to khandsari field may also be considered.

B. Small Scale Industries Sector

4.33. The Committee were informed that no guidelines had been issued by Government for lending to the small scale industries "as this sector has been constantly under review of the All India Small Scale Industries Board" and ever since 1958, the programmes had been given "a good specific thrust" by the Central and State Governments as well as the State Bank of India.

4.34. The bank credit to this sector which stood at Rs. 251.10 crores (account Nos. 50,850) in June, 1969 increased to Rs. 645.86 crores (account Nos. 1.59 lakhs) in June, 1973.

4.35. The Committee note that the Banking Commission in their Report (January, 1972) had pointed out various lacunae in the banks lending to this sector and had *inter-alia* made the following suggestions:—

(i) Credit should be given with an eye on its end-use.

(ii) Interest rates should be made more reasonable by reducing cost of operations, etc.

(iii) There should be a complete re-orientation of attitudes from security-based to need-based financing.

(iv) There should be non-financing multi-service agencies for providing package of assistance to new entrepreneurs.

(v) There should be no undue delay in disposal of loan applications and they should be time bound.

4.36. The Committee enquired about the action taken by Government on the above suggestions. The Secretary of the Department stated during evidence that these had been accepted but Government instructions had not yet been issued. After the case was received from the Cabinet Secretariat "we will issue guidelines to all the banks in the course of the year". He also admitted that "Today one of the diffivculties of the small units is that servicing of them takes too much time——If complete information is given, application should not be delayed for more than two months".

4.37. When pointed out that there had been cases when entrepreneurs from foreign countries with foreign exchange had come to the country for establishing small industries but they had to run from office to office to get clearance and did not get any encouragement, the representative of the Department agreed to look into the cases and added "it cannot be said that banks are not doing anything." The Committee were also informed that the Department did not envisage any difficulty in meeting the Fifth Plan estimated additional credit of Rs. 1050 crores from Commercial banks, for creating about 1.5 lakhs more jobs in the Plan.

4.38. For improving flow of credit to this sector, the non-official organisations in their Memoranda to the Committee had also made a number of points which are summed up below:—

(i) To serve as catalytic agents, consultancy service Centres should be set up jointly by nationalised banks, RBI and IDBI.

(ii) There should be Local Advisory Boards at District level with representatives of different sections of society to watch proper distribution of credit.

(iii) Increased credit should be made available to handloom weavers through their primary and apex co-operative societies.

(iv) *Security & Margins*:

(a) *Security*: When primary tangible security is available for working capital no collateral or third party guarantee should be asked for.

(b) *Margins*: Banks were demanding a margin of 50 per cent for term lending which needed to be brought down to 20-25 per cent. Further, margins retained by various lending institutions should be uniform. There was a case for reviewing the matter so as to increase term loans.

(c) *Rate of Interest*: Rates of interest charged by State Bank of India, Nationalised banks and State Finanical Corporations should be uniform.

(d) *Service Charges*: No service charges should be levied and banks should follow the practice of the State Bank of India in this regard.

(e) *Financial Participation*: Schemes for participation of banks in the capital of small scale industries should be worked out and introduced on a pilot basis.

(v) It was also submitted that a special class of guarantors had come about who regularly provided guarantee to banks on behalf of small scale units on commission basis.

4.39. The representative of the Department stated during evidence that Guidance Bureaus had already been set up by some banks (State Bank of India, Bank of India, Punjab National Bank, Bank of Baroda, etc.) in collaboration with the Federation of Associations of Small Industries in India and that they could "only supplement" the efforts of Government agencies and the private concerns. Consultative Committees already existed at State and District levels to ensure proper distribution of credit. A high level committee had recently been set up under the Chairmanship of Shri Sivaraman to go into all the problems of handloom industry including its credit aspects.

4.40. As regards security and margins, it was stated that the third party guarantee was not now insisted upon; margins were now generally upto 20 per cent; uniformity in rate of interest might not be possible as the methods of raising resources by banks were different, nor was financial participation feasible as most of the small units were of unlimited liability character. As regards service charges, it was stated that the State Bank of India, which was also doing treasury functions on behalf of Government and had the largest resources, was expected "to do something more for less developed classes than the other banks". It was also stated that the service charges of other banks were not more than 1 to 2 per cent. When pointed out that 2 per cent was high, the Secretary of the Department agreed that 'it should be between 1 to 1½ per cent."

4.41. In regard to the prevalence of special class of guarantors working on commission basis, it was stated that they had issued instructions that no loans should be given with insistance on personal guarantees. When pointed out that in some places the bank staff indulged in these practices and had their people, the Secretary of the Department stated "That is true. This is a question of corruption—This is a case for strengthening our Vigilance Organisation".

4.42. The Committee note that unlike other priority sectors, no guidelines have been issued by Government for lending to the small scale industries laying down clearly the principles and the strategy for giving of bank credit to this sector. The Committee regret to note that although the Banking Commission in their report in January, 1972, had pointed out various lacunae in giving bank credit to the small scale industries sector and had made important suggestions like reducing cost of operations, re-orientation of attitudes no instructions have so far been issued in the matter. The

delay of over two years in implementing recommendations of a high-powered Commission is a sad reflection on the working of the Government Departments. The Committee would like Government to finalise their decision and issue the necessary instructions to the Banks in this regard.

4.43. The Committee also note that unduly long time is being taken by the banks in processing loan applications of small entrepreneurs and there are delays and difficulties in the clearance of proposals by other concerned agencies even in respect of cases where foreign exchange or help from the banks is assured. Besides, there are deficiencies and draw-backs in the existing methods of security, margins, guarantees, interest rates, service charges, etc. The Committee recommend that the Department should examine all these aspects in a comprehensive manner, in coordination with the Small Scale Industries Board|Department of Industries and thereafter issue detailed guidelines to banks and all other concerned.

4.44. The Committee are also very much concerned with the availability of finance to the handloom sector which provides extensive employment opportunities to weaker sections of society in rural areas. They note that Sivaraman Committee is examining at present the credit problems of the handloom industries (including traditional handlooms) and desire that this Committee should expedite its recommendations. The Committee would like Government|Banks to examine these recommendations on receipt without loss of time so as to evolve comprehensive guidelines to meet the genuine financial requirements of the artisans working in the handloom sector.

The Committee would like to be informed of the concrete action taken in pursuance of these recommendations within six months.

C. Professionals and self-employed sector

4.45. In pursuance of the recommendations of the Thakkar Committee Report (December, 1970) the R.B.I. issued guidelines to the banks in March, 1971* for financing various categories of self-employed persons *i.e.* persons having technical knowledge of setting up of small industrial units, engaged in public utilities, cottage industries and transport operators and professionals like doctors, engineers, etc. The main objective was to help employment generation and it was enjoined on the banks to take *inter alia* the following steps:—

(i) To rationalise their existing special credit schemes for this sector in order to make them more effective & pu-

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*Vide RBI circular letter,dated 19-3-1971.

poseful and to constantly watch for new areas of action and formulate schemes to meet the needs of the situation.

(ii) Adopt simplified model application forms suggested by the Thakkar Committee & make them available in all local languages.

(iii) To urgently organise a rapid training programme to provide necessary orientation to branch officials and have periodic meetings for review of implementation of the schemes.

(iv) To provide technical guidance|assistance in securing land|shed, machinery, raw materials and advice on financial, accounting and taxation, labour management, marketing and other aspects of business. They were also called upon to consider as to how best integrated financial and management assistance could be arranged or organised on the lines of multi-service agencies suggested by the Thakkar Committee.

(v) Assistance provided should be needbased, taking care of the total requirements of a borrower.

(vi) Credit should not be denied merely for want of a third party guarantee.

(vii) To minimise time in processing applications by appointing technical and other experts for appraisal.

(viii) Special consideration should be shown to needs of backward areas and smaller borrowers in respect of security, margins, rates of interest, repayment etc.

(xi) To organise adequate follow-up|supervisory arrangements to keep track of the end-use of funds and for effecting recoveries.

(x) To keep in touch with changes in the proprietorship of small enterprises so as to guard against entry of any financiers into the group.

(x) To exercise a measure of innovative capacity and healthy competition with other banks in formulating new schemes so as to generate greater employment, even beyond the categories of self-employed listed by the Thakkar Committtee.

4.46. Banks were stated to have evolved a number of schemes for this sector which differed from bank to bank, the salient features of some of them are that loans ranging between Rs. 500 and Rs. 25,000|- short-term and medium term are given both for starting and expanding the vocation against the hypothecation of assets created out of loan, demand promisory note, insurance policy or any other tangible security which the borrower can give. Interest is charged at 9 to 11 per cent with margin ranging from 15 to 30 per cent and repayment of medium term loan spread over 3 to 7 years in easy monthly instalments. Under the special schemes devised for technical entrepreneurs for setting up small scale industrial units, entire financial requirements of a project is met (ceiling in some banks being Rs. 2 lakhs for individual and Rs. 3 lakhs for Joint Ventures). Security of assets acquired or collateral guarantee, where offered is accepted and loans for custom service units|agro service centres are recovered over a period of 5 to 7 years. The total credit to this sector increased from Rs. 1.91 crores (account Nos. 7769) in June, 1969 to Rs. 21.21 crores (account Nos. 1.07 lakhs) in June, 1973.

4.47. Asked about the extent of implementation of the aforesaid guidelines by each of the banks, number of unemployed engineers| agricultural graduates provided employment and accretion to net produce as a result of assistance provided so far, the representative of the Department stated during evidence that except for some modification made in the guideline of providing technical assistance in an integrated manner all the other gudelines "have been taken up for implementation". The review of schemes was being done by the special officers incharge of schemes in the banks and new schemes were brought out by them from time to time. The application forms were stated to have been made available in regional languages "in some of the branches".

4.48. Regarding technical assistance which the guidelines envisaged to be provided in an integrated manner, it was stated that "The banks are taking steps to set up development advisory or consultancy services. They go by different names in different banks". When asked how they were going to avoid duplication with other Government agencies providing similar services like small scale industries organisation, the Secretary of the Department stated that—

"There are various specific organisations for that. But the demand is so much that duplication will not arise. We shall help only those who do not get any advice otherwise. We have a pool of consultants at regional headquarters. These people will be touring. If a particular branch sends a request that they have got some cases ready for consultation they will go there....the advice that the bank will be giving to the borrower will convert his scheme from vague idea into a viable one. This is the help which others may not be able to give". It was also stated that nothing was charged for consultancy service provided by banks to priority sectors.

4.49. In regard to the impact of assistance in terms of generating employment and accretion to output, it was stated that they had no data nor was the break-up of advances made to each category of beneficiaries (*i.e.*, Engineers, Doctors, etc.) available.

4.50. The Committee also draw the attention of the witnesses to the observation made by the Finance Minister at the Chief Executives meeting held in November, 1971 that "for creating self-employment opportunities, banks should set definite tasks for themselves and follow a target oriented programme". The representative of the Department stated that "to set a target as such was not resorted to after the experience of the first year. What has been done in its place is to strengthen the planing machinery—so that we may have a much better use of the resources....so there is a qualitative improvement in lending rather than pursuing any particular financial target".

4.51. The Committee also enquired as to how the small scale units in this sector were distinguished from those in the small scale industries Sector. It was stated that "In the case of self-employed sector, since this is a recent origin after nationalisation, we have no definition as such". It was also stated in a post evidence note that "In the case of the selfemployed, one would have to be guided by the amount advanced and generally all advances eligible for cover under the credit guarantee schemes could be considered as advances to small units".

4.52. The Committee note that guidelines issued by the R.B.I. in March, 1971 for giving finance to professionals and self-employed sectors "have been taken up for implementation by the banks" with some modification in the guideline for providing technical assistance in an integrated manner. They also note that simplified application forms have been made available in regional languages "in some

of the branches" and that no data regarding the generation of employment, accretion to output etc., as a result of the bank assistance, is available.

4.53. The Committee are not happy that it should have taken the banks more than three years in implementing the guidelines. They need hardly emphasise that the nationalised banks have a crucial role to play in helping to generate more productive and viable employment. They expect the Banks and the Department to ensure that the guidelines are fully implemented with a sense of urgency and the scope of self-employment schemes is widened. The Committee would also like the Banks to have an adequate follow-up of the schemes and maintain statistics so as to know at any time the number of persons extended assistance (profession-wise) and the accretion to net output and employment.

4.54. A careful analysis should also be made of schemes which failed to take off and resulted in bad debts to obviate such mistakes in processing future applications and take effective action against those who failed to safeguard public interest.

4.55. The Committee further note that different arrangements are being made by the banks for providing technical consultancy|guideance service to the borrowers and the same has not been organised in an integrated manner, as was envisaged in the guidelines. While the Committee see no objection to this, they would like to strike a note of caution that there are already various Government and other agencies in the country providing consultancy services to the small entrepreneurs. It is imperative that there should be no overlapping or duplication in this field. The Committee would like the Department/Banks to take special interest in affording credit faciavoid unnecessary expenditure.

4.56. The Committee attach great importance to the extension of assistance to smaller of the Small Scale Units and would like the Department/Banks to take special interest in affording credit facilities in all genuine cases in order to encourage new entrepreneurs with skill but limited finance to enter the field.

4.57. The Committee also note that there is no clear distinction between the small scale units assisted under the self-employed sector and those falling within the small scale industries sector. This does not appear to be conducive to the efficient dispensation of credit and proper accounting thereof. The Committee would like the Government to clarify the position.

Involvement of Banks in 'Half-a-Million-Jobs Programmes'

4.58. The Committee were informed that in June, 1973, the Department circulated to public sector banks a summary record of discussion that took place in the Planning Commission requiring their involvement in the Government's 'Half-a-million-jobs programme' being implemented by the Commission, for creating jobs for five lakhs educated unemployed during 1973-74. Since this did not amount to any instructions, the Department at the initiative of the Planning Commission, issued a further circular to the banks in September, 1973 spelling out "certain areas of action which should receive continual interest" at various levels in the banks. These *inter alia* called upon the banks to ensure that loan applications under the programme should be disposed of within a period of two months, they should not insist upon higher margins and third party guarantee, provide necessary consultancy service to the entrepreneurs, etc. As there were still some difficulties at the implementation level, a further meeting was held by the Planning Commission in November, 1973 wherein it was *inter alia* proposed to cast a specific duty on banks to create atleast 10 self-employment schemes for educated unemployed in every branch during 1973-74 and the target for 1974-75 was proposed to be 25 such schemes per branch—the total number of bank branches being about 15,000, this meant 1.5 lakhs schemes in 1973-74 and 3.75 lakhs in 1974-75.

4.59. Asked about the progress made in achievement of the above target and the number of educated unemployed provided employment, the representative of the Department stated during evidence that "this is not a target in that sense but a broad indicator, a sort of arithmatic which the Planning Minister had indicated (i.e. in 5 months period from September, 1973 to end of March, 1974 each branch doing at the rate of 2 cases per month)". The Secretary of the Department added that "We have decided after the experience of nationalisation that targets need not be fixed arithmatically. but all the same we explained that we shall do as best as we can. That is, only target per branch was not fixed but the general idea was there.... A specific duty has been cast so that each branch should assist the proposals as they come to the branches..... We have issued instructions." In regard to the progress made, he said "This started only in November|December. We do not know what is the position.... We have not got any reports so far." When pointed out that mere issue of instructions was not adequate and they should have followed them up, he stated "We will certainly follow it up".

4.60. The Committee note that the banks were first advised by the Department in June, 1973 to involve themselves in the 'Half-a-Million-Jobs-Programme' being implemented by the Planning Commission. Since this did not tantamount to any instructions, certain "areas of action" were spelt out by the Department in September, 1973 but difficulties still continued at the implementation level. The matter was further discussed in a meeting convened by the Planning Commission in November, 1973, as a result of which though "target per branch was not fixed. . . . a specific duty has been cast that each branch should assist the proposals as they come to the branches." The Committee further find that there has also not been any close follow up of the instructions issued by the Department.

4.61. The Committee are not impressed at the manner in which the Government's plan for creating half-a-million-jobs opportunities on urgent basis has been dealt with by Banks. They need hardly point out that had there been full involvement right from the inception of the scheme, there would have been more concrete results to show. The Committee would like the Department|Banks to see that while all viable schemes which are resource generating and labour intensive are encouraged, the objective is not got defeated by casual examination and acceptance of schemes which are not viable and would result in waste of funds. The Committee would like the Department/Banks to have a close follow up of the implementation of the schemes in order to achieve the objective of creating atleast 3.75 lakhs schemes in 1974-75 and laying a sound condition for accelerating the pace of implementation in succeeding years. The Committee would also suggest that the achievements under this scheme should be prominently mentioned in the Annual Report and the difficulties encountered and measures taken to overcome them mentioned to some length.

D—Other Priority Sectors

4.62. The Committee understand that no separate guidelines had been issued by Government in respect of other sectors i.e. road and water transport operators, retail traders and small businessmen and education sectors. The guidelines issued for professionals and self-employed sector were stated to cover these sectors also.

4.63. The banks were stated to have evolved different schemes for extending credit to these sectors. Under the schemes for road transport operators, credit is made available to individuals, firms, partnerships and companies to help them own their vehicles. Loan is given to the extent of 75 per cent of cost of vehicle (50 per cent to 60 per cent for 2nd hand vehicles) which needs to be hypothecated to the bank. Rate of interest on such loans is 9.5, per cent to 11 per cent and repayment period 3 to 4 years (2 years for 2nd hand behicle). The total credit to this sector increased from Rs. 5.49 crores (account Nos. 2324) in June, 1969 to Rs. 62.71 crores (account Nos. 43,923) in June, 1973.

4.64. The schemes for retail traders and small businessmen envisage giving medium term loans to cover block capital requirement (purchase of equipment, fixtures, etc.) and short term loans for working capital. From traders, capital and other collateral assets are taken as security and from businessmen stocks are hypothecated. Where a borrower can give a third party guarantee it is also accepted. Rate of interest on these loans is 10 to 11½ per cent, margin 15 to 30 per cent depending on the merit of a case and loans are repayable with a period of 2½ to 3 years. The credit to this sector which stood at Rs. 19.37 crores (account Nos. 33241) in June, 1969 increased to Rs. 94.76 crores (account Nos. 2.32 lakhs) in June, 1973.

4.65. Under the schemes devised for education sectors, credit is given to deserving students for carrying on post-graduate studies in India and abroad. The amount advanced is upto a maximum of Rs. 25,000 each year for studies abroad, with rate of interest not less than 4 per cent and repayment starts one year after completing studies spread over 10 years. Total loans under this head increased from Rs. 80 lakhs (account Nos. 1477) in June, 1969 to Rs. 3.20. crores (account Nos. 10,106) in June, 1973.

4.66. The Committee discussed certain aspects of extension of credit to these sectors with officials and the following points emerged during evidence:—

(i) *Group-wise break-up of credit not available*

Asked about the group-wise break-up of credit in a sector (*i.e.*, separately each for road transport operators and water transport operators; retail traders and small businessmen and studies in India and abroad) it was stated that "We do not have separate break-up of credit—for future, this data could be made available when the BSR system gets going".

(ii) *Data regarding impact of credit not available*

Asked about the number of persons made viable as a result of credit to various sectors, increase in sales turnover of beneficiaries, it was stated that "We do not have any data".

(iii) *Employment after studies not linked*

As to the steps taken by banks to assist such students to find employment on completion of their studies, it was stated that "The bank will give a further moratorium for this purpose".

(iv) *Possibility of many people not being aware of schemes and advantages thereof*

Asked whether the people in different parts of the country were aware of the schemes and the benefits that were available under them the Secretary of the Department stated that "These schemes are advertised. We can emphasis that again".

4.67. The Committee note that though no distinct guidelines have been issued by Government for road and water transport operators, retail traders and small businessmen and education sectors, guidelines issued for professionals and self-employed sector are stated to cover these sectors also. They also note that groupwise breakup of advances in a sector is not available nor any data regarding the impact of assistance in making the beneficiaries viable, increase achieved in sales turnover etc. is maintained. The Committee have already stressed (para 4.15 loc-cit) the need for maintaining such data.

4.68. The Committee would also like the Department to monitor the progress made in implementation of various schemes to make sure that assistance is going to sectors for which it was intended and that it resulted in achievement of objectives underlying the scheme. The Department should keep a watch on the difficulties. encountered in implementation of schemes so as to resolve them speedily in the interest of speedier implementation. The Committee would also like a special watch to be kept on the percentage of bad debts in order to make sure that the resources are not frittered away.

4.69. The Committee further note that though the various schemes devised by the banks are stated to have been advertised, there is likelihood that many people in different parts of the country may not still be aware of schemes and may not therefore take full advantage of these schemes. As agreed to during evidence wider publicity should be given to these schemes.

CHAPTER V

REPAYMENT OF ADVANCES AND CREDIT GUARANTEE SCHEMES

(a) Progress made in repayment

5.1. Tables below shows the State-wise recovery position of agricultural advances (direct) made by public sector banks, as at end of June, 1972:—

(In lakhs of rupees)

	State/Union Territory	Demand	Recovery	Percentage of recovery to Demand
1.	Andhra Pradesh	2095·63	1157·49	55·2
2.	Assam	34·66	8·47	24·4
3.	Bihar	263·11	148·63	56·5
4.	Gujarat	1318·70	705·32	53·5
5.	Haryana	236·05	155·46	65·9
6.	Himachal Pradesh	1·99	0·67	33·7
7.	Jammu & Kashmir	1·38	0·33	23·9
8.	Kerala	200·57	97·64	48·7
9.	Madhya Pradesh	511·79	245·87	48·0
10.	Maharashtra	2641·13	1135·12	43·0
11.	Manipur	0·55	Nil	Nil
12.	Meghalaya	0·03	0·03	100·0
13.	Mysore	1288·94	638·25	49·5
14.	Nagaland	0·15	0·04	26·7
15.	Orissa	68·40	241·17	35·3
16.	Punjab	324·88	190·82	58·7
17.	Rajasthan	338·65	178·86	52·8
18.	Tamil Nadu	1120·56	633·41	56·5
19.	Tripura	0·48	0·24	50·0
20.	Uttar Pradesh	982·87	554·98	56·5
21.	West Bengal	279·37	59·62	21·3
22.	Union Territories	232·49	122·74	52·8
	ALL INDIA	11942·38	6058·16	50·7

It will be seen that while the all-India percentage of recovery was 50.7 per cent, in West Bengal it has been as low as 21.3 per cent, in Jammu and Kashmir 23.9 per cent and in Assam 24.4 per cent only.

5.2. Asked whether any loans had been declared as bad debts and written off, the representative of the Department stated during evidence that "they are not written off so easily without watching at least four seasons—To our knowledge the amount of agricultural loans that might have been written off by the public sector banks will be very negligible".

5.3. In a reply furnished subsequent to evidnce it was further stated that "In the initial years, the banks largely concentrated on providing term loans, which have either yet to become fully payable or, having already become due, are secured by tangible security. It would be premature at this stage to attempt any assessment of the extent of bad debts".

5.4. The Committee also enquired about recovery position of advances under other priority sectors. The representative of the Department stated that loans under small scale industries, professionals|self-employed and retail traders|small businessmen sectors were covered under Credit Guarantee Schemes upto certain ceilings and that the position has been "quite satisfactory." It was also stated that so far only 59 cases had been referred by banks to the Credit Guarantee Corporation for compensation. As regards education sector, it was stated that "so far, we have not come across where there might be defaults and difficulties". On attention being drawn to a press report that in certain States persons to whom loans were given did not establish any industry and were not traceable, the Secretary of the Department stated that: "I think the press report refers to co-operative bank loans. As for us, we are also very conscious of the fact that the vigilance organisation has to be stifiened—Every bank has now a vigilance cell".

5.5. The Committee note that as at end of June, 1972, the all-India percentage of recovery of agricultural advances made by public sector banks in various States was 50.7 per cent. In some of the States, however, the recovery has been less than 25 per cent. The Committee also note that though no assessment of the extent of defaults or bad debts under various sectors, has yet been made by Government, no difficulties are expected in recovery as the advances are secured by tangible security or covered under the credit guarantee schemes. So far, 59 cases involving an amount of Rs. 2.01 lakhs are stated to have been referred by banks to Credit Guarantee Corporation for compensation.

5.6. Nevertheless, the Committee would like to caution the banks and the Department that they are custodians of public money and should not lightly compromise the chances of recovery. The Committee recommend that the Department should make an immediate assessment of the recovery position under each of the priority sectors with a view to improving the position of Banks lagging behind in this respect, strengthening the vigilance organisations of the banks, streamlining recovery procedures and laying down stricter guidelines to obviate incidence of bad debts.

5.7. The Committee would also like Government to critically examine the position in the review meeting with the bank managements also so as to take remedial measures in time in the interest of husbanding resources for productive purposes in the larger interest of the nation.

5.8. The Committee would like a detailed analysis of bad debts under various sectors to be mentioned in the Annual Reports of banks/Department together with significant details of the experience gathered and the remedial measures taken to reduce the incidence of bad debts.

(b) Sredit Guarantee Schemes

5.9. To induce banks to undertake financing of small borrowers (other than those in small scale industries) on a large scale it was considered necessary by Government to introduce a credit guarantee scheme. Accordingly the Credit Guarantee Corporation of India Ltd. was set up in January, 1971, with capital subscribed by R.B.I., S.B.I. and Scheduled Banks, to administer such a scheme.

5.10. The Corporation has formulated three schemes, *viz.*, Small Loans Guarantee Scheme, Financial Corporations Guarantee Scheme and Service Cooperatives Guarantee Scheme—for covering credit given by commercial banks, State Financial Corporations and eligible co-operative societies to small borrowers. It charges a fee of ½ per cent on outstanding amounts and bears 75 per cent of the losses incurred, subject to the following ceilings:

		Limits of Guarantee cover (In Rs.)	Ceilings of losses borne (In Rs.)
1	2	3	4
(*i*)	Transport operators for purchase of one vehicle/ repairs or renovation	1 lakh	75,000
(*ii*)	Retail dealers . . .	1 lakh (annual turnover)	15,000

1	2	5	4
(iii)	Fertilizer/mineral oil dealers	5 lakhs	75,000
(iv)	Medical Practitioners	1 lakh	75,000
(v)	Construction contractors	1 lakh	75,000
(vi)	Engineering Consultants/Architects	50,000	37,500
(vii)	Technicians/skilled craftsman	20,000	15,000
(viii)	Business Enterprises	50,000 (original cost of equipment)	37,500

In agriculture sector, credit granted to joint Hindu families or groups of associations of persons (not being companies/co-operative societies) for agricultural operations (including animal husbandary, poultry, dairy) is also eligible for guarantee cover upto 75 per cent of the amount of loss or ceilings ranging between Rs. 2,500 to Rs. 37,500 whichever is less.

5.11. The credit facilities covered under the three schemes amounted to Rs. 173.42 crores as at end of September, 1972. Upto June, 1973 five banks submitted claims to the extent of Rs. 2.01 lakhs in respect of 59 borrowers. The guarantee fee received by the Corporation during 1972 amounted to Rs. 94.55 lakhs and it showed a surplus of Rs. 104.14 lakhs in that year.

5.12. For small scale industrial units, a separate Credit Guarantee Scheme is being administered by the R.B.I. since July, 1960. All types of credit granted (working capital, term loan, deferred payment, etc.) are eligible for coverage upto 75 per cent of the losses incurred by banks. A fee of one-tenth of 1 per cent per annum is charged on outstanding amounts.

5.13. The Committee discussed the desirability of both the guarantee schemes being administered by one agency and also enquired about reasons for charging different rates of guarantee fees under the two schemes. The representatives of the Department stated that "When we thought of setting up this Corporation, we envisaged that ultimately, after watching the performance of the new Corporation, there will be a single guarantee organisation which will cover all priority sectors. In about a year or so—we will do it". Regarding different rates of fee, he said "when the credit guarantee scheme for small scale industry was started, it started with 1 per cent as fees. Later on, it was reduced to 1|2 per cent, 1|4 per cent an so on. Since, Credit Guarantee Corporation was started recently, we started recently, we started with ½ per cent fees. Fees are all paid by the banks and not by the borrowers. Therefore it does not make much difference". It was also stated that the Corporation "is run on a no-profit no-loss basis".

5.14 In this connection it was represented to the Committee by the Federation of Associations of Small Industries of India that "despite clear directive, the credit institutions had neither taken the calculated risk by reducing the margin money nor have they granted soft or clean loans in deserving cases to any appreciable extent" and suggested that the provisions of the credit guarantee schemes should be further liberalised. The representatives of the Department stated that "We have to review and evaluate and see whether further liberalisation is possible".

5.15. The Committee note that a Credit Guarantee Corporation of India Ltd. was set up in January, 1971, with participation by banks, to cover credit facilities afforded by various financial institutions to small borrowers. They also note that upto September, 1972 the advances of all institutions covered by the Corporation amounted to Rs. 173.42 crores (i.e. in 1 year 9 months time) as against the annual average advances of Rs. 214 crores of public sector banks alone to priority sectors. The Committee feel that the scope and coverage of the Corporation needs to be considerably enlarged and its methods and procedures further rationalised so as to give a real impetus to lending to weaker sections of society by the banks and for development of backward areas. The Committee, therefore, recommend that Government should immediately have a review of the working of the Corporation undertaken in order to enlarge its scope and coverage, and bringing the credit guarantee scheme administered by Reserve Bank of India for small scale industries under its ambit, as was agreed to during evidence.

CHAPTER VI

MANAGEMENT AND CONTROL

(a) **Working Results of Banks**

6.1. Table below shows the working results of the 14 nationalised banks since 1968:—

Item	1968	1969	1970	1971	1972
			(Rs. in crores)		
(*i*) Total working Funds	2960	3408	4029	4685	5548
(*ii*) A. Net profits after adjustment for payment of bonus	6·28	5·93	6·90	8·46	7·58
B. Their percentage to working funds	0·21%	0·18%	0·17%	0·17%	0·13%
(*iii*) Total share capital	28·56	28·88	28·88	28·88	31·00
(*iv*) Reserves	38·58	40·40	43·09	47·02	48·18
(*v*) A. Dividends (paid to Government since 19-7-1969)	4·35	2·33*	4·17	4·43	4·18
B. Their percentage to capital and Reserves	6·52%	3·36%*	5·79%	5·83%	5·29%

6.2. It will be seen that during the four years from 1969 to 1972, Rs. 15.11 crores had been paid by nationalised banks as dividends to Government and Rs. 7.78 crores** had been appropriated to reserves of the banks. However, the net profits expressed as a percentage of working funds have shown a decline from 0.21 per cent in 1968 to 0.13 per cent in 1972. The ratio of dividends to share capital plus

*The dividend of Rs. 2·33 crores (expressed as a percentage of capital and reserves at 3·36 per cent.) transferred to Government [pertains to the post-nationalisation period, of the year 1969 namely 19-7-1969 to 31-12-1969 and not for the whole year 1969.] The percentage of 3·36 per cent should, therefore, be considered as proportinate profit for nearly 51/2 months, the projected annual percentage being 7·39%

**At the time of factual verification, the Ministry stated that the amount actually appropriated to Reserves was Rs. 12·04 crores. "The resons for this change are : the credit to statutory reserves under setion 17 of the Banking Regulation Act is Rs. 13·57 crores for the period commencing from 1-1-1969 to 31-12-1972. There were several other miscellaneous adjustments to the reserves ".

reserves, which is reckoned as return on capital in the banking system, has also declined from 6.52 per cent in 1968 to 5.29 per cent in 1972. From the detailed bank-wise information furnished to the Committee, it is also noticed that the decline in these ratios has generally been in all the banks but in case of four banks, it is more pronounced particularly in one of these banks.

6.3. This decline in profitability was attributed to undertaking of social obligations like extension of banking facilities to unbanked and rural centres which took time to stabilise and make profits, credit to priority sectors involving higher servicing costs and the increase in cost of living index for which award staff was fully compensated.

6.4. The Secretary of the Department, however, admitted during evidence that "with nationalissation it (return) has become somewhat downgraded. The private sector banks used to make around 15 per cent on share capital easily. After the Government took over the shares, the Government expect a minimum return of 5 5 per cent on compensation amount. Asked about steps taken to reduce servicing costs of credit to priority sectors, he stated that "by better organisation and rationalisation of staff, the cost can come down. But as a general proposition, the servicing of large number of small accounts is more expensive than the servicing of a few large accounts."

6.5. In regard to the unsatisfactory performance of one of the banks, it was stated that "there have been other causes for the sad state of affairs. These causes will be known as and when the report (of a fact-finding Committee already appointed) is available. It cannot be said that losses are on account of new branches".

6.6. The Committee also discussed the desirability of spelling out the financial and social obligations of banks. The Secretary of the Department stated that "I would like to submit that one need not make a fine distinction between the two. Eventually the two go together. One cannot discharge the social obligations without being in a position to discharge the economic obligations. All the social obligations cannot continue to be unremunerative for all times to come—If you refer to the various statements either at the time of nationalisation or in the Preamble of the nationalisation Act, you will find that both of them go together".

6.7. The Committee note that during the 3½ years period after nationalisation i.e., from July, 1969 to end of 1972 the nationalised

banks have paid dividends to the extent of Rs. 15.11 crores to Government, besides adding Rs. 12.04 crores to their reserves. The net profits as a percentage of working funds have, however, declined from 0.21 per cent in 1968 to 0.13 per cent in 1972 and the return on capital i.e. ratio of dividends to share capital plus reserves came down from 6.52 per cent to 5.29 per cent during the same period. The downward trend in profitability is noticeable in all the banks but in four banks, particularly in one of them, it is very much pronounced.

6.8. The Committee also note that due to social obligations after nationalisation, Government expect a return of 5.5 per cent from the nationalised banks. While the Committee recognise that the social obligations enjoined on banks are a constraint on earning maximum possible profits, they feel that there is considerable scope for reducing servicing costs of the banks by better management and rationalisation of staff, as was admitted by the Secretary of the Department during evidence. There is no denying the fact that there is scope to instil a greater degree of cost consciousness among the nationalised banks and to bring about a substantial cost reduction in their establishment, overtime and other expenses.

The Committee would like the matter of cost reduction to be gone into in earnestness with a view to see that banks provide a worthy example of efficient and economic functioning in the interest of husbanding resources for national development. The Committee need hardly emphasise that it is necessary for the Banks to keep their overheads and establishment charges to the minimum. For this purpose, a regular cost analysis of each Branch should be conducted by the Banks to ensure that their administrative and staff expenses etc. are commensurate with the work-load and the resources generated.

6.9. The Committee are concerned about the "sad state of affairs" of one of the banks for which a fact-finding Committee is stated to have already been appointed. The Committee would like to sound a note of caution and stress that timely measures should be taken not only to rectify the position in the affected bank but to see that such a situation is not allowed to come to a pass in other banks.

6.10. The Committee also note that Government do not consider it necessary to spell out the social and economic obligations of the nationalised banks as "the two go together". The Committee, however, feel that for a proper appraisal of the performance of the banks, and avoid any uninformed criticism about their working as

also to make the managements well aware of their social and economic responsibilities, it would be desirable if Government make a comprehensive and clear statement of the objectives and obligations of the nationalised banks, laying down inter-alia **their social obligations, return expected on capital, generation of surpluses, etc. The Committee would like Government to lay the statement defining in detail the objectives and obligations of the nationalised banks on the Tables of the two Houses of Parliament so that the parameters for judging the performance of the banks become clear.**

Delays in reconciliation of accounts.

6.11. The Committee enquired about the position of reconciliation of accounts in the banks as they were given to understand that in one of the banks it had been pending for more than seven years. The Additional Secretary of the Department stated during evidence that "the position in that bank has been bad for some time and when it came to the notice of the Board of Directors, special steps have been taken. I am in no position to say that it is at a satisfactory level. Other banks too are taking steps to see that their position does not deteriorate".

6.12. It was further stated in a note furnished to the Committee subsequent to evidence that in 1970, during RBI's inspections the delays in reconciliation of branch accounts in that particular bank came to notice. The matter was discussed by the Board of Directors of the Bank in June, 1971 and necessary directions issued. The systems and procedures of that bank have also been studied and as a result "there has been considerable improvement in the position". With regard to other banks, it was stated that "The RBI has reported that in six other banks there were arrears-two banks have completed the reconciliation of inter-branch accounts upto the end of December, 1972, three upto June, 1972 and one has brought it reasonably under control. The necessary follow-up action is being taken and the RBI has called for half-yearly progress reports in the connection from the banks concerned".

6.13. The Committee are concerned to note that there had been arrears in reconciliation of branch accounts in seven banks and that in one of them, the position had been "bad" for quite some time past. This is a sad reflection on the efficiency of managements of these banks. The Committee expect the Reserve Bank of India and the Board of Directors of the concerned banks to take concerted measures immediately for clearance of the backlog in accounts reconcilliation by a specified period and also to ensure that it does not fall

into arrears in future. The Committee would like managements of other nationalised banks to see that reconciliation of branch accounts is done in time and arrears are not allowed to accumulate.

(b) Board of Directors

6.-14. The powers to make appointment to the Boards of Directors of the Banks vest with the Government. The Committee were informed that new Boards of Directors were constituted w.e.f. 11.12.1972 with 9 to 11 Directors* for the present, replacing the first Boards which were functioning since July, 1970. The office of the Custodian, who was the Chief Executive of each bank, ceased to exist and the Chief Executive has been resignated as Chairman-cum-Managing Director. Besides have representation of Central Government, RBI, employees, depositors and artisans, the new Boards include academicians, journalists farmers, small scale industrialists and persons from backward and tribal areas.

6.15. Asked about the criteria and procedure adopted for selection of representatives of depositors, artisans, farmers small industrialists and other to the Board, the representative of the Department stated during evidence that "We obtain lists of persons from various sources like Reserve Bank, Chief Executives of different banks, sister Departments of Agriculture, Cooperation etc. We receive names from Members of Parliament also. Having drawn up the lists, we have to check regarding their credentials from the State Bank and other Banks which have branches in those local areas. We also scrutinise the list from the income tax, foreign exchange and customs angle. Then we select the Directors". Regarding selection of bank employees, it was stated that "a panel of 3 names is submitted by the representative union which has the largest membership. Out of them, one name is chosen. The Ministry of Labour decides which is the representative union." It was also stated that no qualifications had been prescribed in this behalf.

6.16. In a note furnished to the Committee subsequent to evidence, it was further elaborated that "panels of persons for appointment to the different banks (Boards) are drawn up and in

*Under the Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970, each Board of Directors is to consist of not more than 15 members, *i.e.*, two whole-time Directors one of whom e shall be managing Director ; one official each of the Central Government and RBI, two representatives of employees (one of 'workmen' and the other who are not 'workmen', one of depositor's; three of farmers, workers and artisans and not more than five members from among persons having special knowledge and experience likely to be useful for workig of banks one of the Directors is to be the Chairman of the Board. The terms of office is five years for Chairman/MD and three years for Members.

preparing these panels several considerations (such as equitable representation to different States and Union Territories, adequate representation to Scheduled Castes and Scheduled Tribes etc.) are kept in view".

6.17. In this connection the Federation of Samll Industries Associations of India represented to the Committee that "although Federation had pleaded for giving adequate representation to the small scale industries on the Boards of nationalised banks, this has not been done so far". Explaining this, the Secretary of the Department stated that "Eeverty Board has a representative of small scale industries but we have not given the nomination authority to the Federation".

6.18. The Committee also noticed that at the meeting of Chief Executives held in April, 1971, certain Government Directors observed that "Boards of Directors did not always get the total picture. Some sort of reporting system for all the loans granted in the field should be there to enable the Boards to judge the trends". The representative of the Department stated that they now had the requisite reporting system. When asked whether the Government Directors were effective enough and bought shortcomings to the notice of Government and the action that should be taken the Secretary of the Department stated that "I think so. Some of the specific buildings advances they did not like. The concerned banks were instructed accordingly".

6.19. The Committee note that new Boards of Directors of the nationalised banks were constituted by Government in December, 1972, which besides having representatives of Government, Reserve Bank of India, employees, depositors and artisans include academicians journalists, farmers, small scale industries and persons from backward and tribal areas. They also note that various sources are consulted by the Department in making the panels of persons suitable for appointment to different boards.

6.20. The Committee would, however, like to emphasise that the performance of an organisation depends largely on the quality and effectiveness of its top management. It should be the prime concern of Government to see that in making appointments to Boards, they select the best persons available for these positions who can devote the time and attention that their duties as board members demand and above all, who have at heart weaker sections of society.

6.21. The Committee would therefore like Government to periodically review whether the Board members are able to do justice to their assignments and improve upon the manner of making these appointments as a result thereof. The desirability of laying down minimum qualifications for the board membership may also be considered. The Committee would like to be informed within six months of the specific action taken in implementation of this suggestion.

6.22. The Committee also suggest that the Boards of Directors of all the banks should have a look at their reporting systems so as to ensure that it is adequate enough to keep them contemporaneously informed about trends in deposit mobilisation, loans to priority sectors/backward areas, disposal of loan applications; branch expansion, profitability, decentralisation of powers, manpower development and training, establishment and overhead expenses etc., and focus attention on all vital aspects needed for management control. The Committee also expect Government Directors to exercise due vigilance in bringing problems requiring Government intervention to the notice of the Department in time along with their specific suggestions to resolve them.

(c) **Procedures, Customer Service and Training**

Procedures.

6.23. Several non-official organisations in their Memoranda to the Committee represented that the bank procedures for completion of formalities were so cumbersome and the information asked for was in such great detail that recourse to bank finance often became difficult. One of them even observed that "The backward man is at first afraid to approach the bank, when approached tries to run away from it, when pursued feels suspecious". They urged that very simple forms for loan applications should be evolved and the time taken in proceessing the applications reduced to the minimum. Elaborating this, the representatives of the Federation of Associations of Small Industries of India during their evidence before the Committee stated that "Before nationalisation it used to take upto 3 months to get the sanction but now it takes between 6 months and one year. The reasons for this delay is that the loan application has to go through many hands". The representative of the Federation of Indian Chambers of Commerce and Industry stated that "If person wants to take a loan of say Rs 5000 for purchasing a diesel engine set for his farm, it might take 6 to 8 months; and there is a whole chain of officers and personnel who have to be satisfied; and the number of forms and performance to be filled up is really amazing."

6.24. The Committee enquired as to how much time the banks took now in processing loan applications *vis-a-vis* before nationalisation, whether any study had been made to simplify the formats and procedures and adequate authority delegated to Branch Managers to enable them to dispose of 80 per cent of applications directly as envisaged in the guidelines on agricultural finance. It was stated by the representative of the Department that so far they had fixed a time limit of 60 days for disposal of loan applications under 'Half-a-million-jobs-programme'. For other categories no time limit had been prescribed but the forms and procedures had been simplified for agricultural advances over a year ago as a result of suggestions made by a study Team set up by the RBI and for other sectors on the basis of model forms suggested in the Thakkar Committee Report (1970). The forms were stated to be available in regional languages. It was also stated that the processing of loan applications was delayed due to land records being not up-to-date in many States particularly in Bihar and West Bengal and to tackle it "banks have now taken to area approach—given this considtion, a loan application should not take more than two months to be disposed of". The Secretary of the Department agreed that "I will make an assessment of the time they now take. It can take a very long time only when there is some difficulty--but otherwise if the proposition is a normal one, it cannot take six months to one year's time. I will check up".

6.25. The Committee also called for copies of original and simplified application forms for all the sectors and in reply a set of of some of the revised forms in respect of agriculture sector was furnished by the Department. It is seen there from that generally very bank has a different form for each type of agricultural loan (like crop loan, loan for purchasing pump set, tractor, dairy, poultry farm etc.) e.g. in the Syndicate Bank there appears to be more than 40 forms for agricultural loans. There is also no uniformity in the forms of various banks prescribed for a particular purpose. Further, it is only in the case of a few banks that the particulars required to be filled in are indicated both in English and in Hindi or regional language, otherwise generally they are indicated in English only. It is also not clear whether all the bank have made forms available in their branches in regional languages or fully acted on the suggestions made by the RBI Study Team and the Thakkar Committee in simplifying the forms.

6.26. Regarding delegation of powers, it was stated that "with regard to agriculture, about 80 per cent of the loan applications, if not more, are disposed of at the Branch level—all the banks have done this exercise and they have delegated power to different levels". The Chief Executives were also stated to have "impressed on the field officers that the *bona-fide* mistakes may not be penalised but if there are *mala-fide* cases or cases of wilful negligence or carelessness, they may be".

6.27. The Committee note that certain steps had been taken in the past to simplify banks' loan application forms and procedures in respect of advances under all the sectors and to delegate powers to various levels for quick disposal of most of the loan proposals. They also note that no time limit had been laid down for disposal of loan applications except those made under the 'Half-a-million-jobs-programme' for which a limit of 2 months has been prescribed. From the non-official evidence and during their tours, the Committee gathered the impression that banks are even now taking 6 months to one year's time for disposal of a loan application due to cumbersome forms and procedures and that many levels are involved in taking decisions. They also find that there are a number of different application forms in each bank for different loans under every sector. It thus appears that serious efforts have not been made at standardising the proformace or making them available in all the regional languages.

6.28. The Committee are very much exercised about the excessive delays in the disposal of loan applications after bank nationalisation, despite some attempts at simplification of the formats and procedures. The Committee recommend that the Department of Banking should make an immediate assessment of the average time taken by banks in disposal of loan applications and thereafter take concrete remedial measures for bringing about speedy improvement of the position, including further simplification of the formats and procedures and their standardisation, decentralisation of powers and prescribing a suitable time limit for disposal of loan proposals. The Committee would like the Department to examine critically the performance in this behalf at the review meetings.

(ii) *Customer Service*

6.29. At the time of bank nationalisation, one of the assurance given by Government was "To the general public, we assure improved and extended service."

6.30. It was represented to the Committee by various non-official organisations in their Memoranda that there had been sharp deterioration in the banking services after nationalisation and there were inordinate delays in clearance of cheques, telegraphic transfers, intimation about receipt of payment of D.Ds, bills for collection, withdrawal of money, submission of bank statements etc. They urged for taking constructive remedial measures in this behalf, including revival of spirit of competition among banks and better discipline among the staff. Elaborating this further, the representatives of the Federation of Indian Chambers of Commerce & Industry stated before the Committee that "About the services given by the bank, you may call them inefficient or say that they are giving lower standard of service—the bank people are also some of the highest paid men in the country. Over the years, and particularly since nationalisation, a situation has developed whereby the work motivation or work compulsion has become less and less....In this situation of deteriorating standards of work in the banks, the big men are able somehow to manage their affairs through organisation or influence. The person who really suffers, as a result of this, is the small scale entreprenure whether in the industry or agriculture".

6.31. In this context, the Committee note that at the meeting with Award Staff held in January, 1973 the Finance Minister also drew attention to this deficiency, saying that "there were criticisms whether justified or not, that the service to the customers in the banks had deteriorated after nationalisation. This feeling has to be dispelled.

6.32. During evidence, the Secretary of the Department of Banking admitted that "This complaint is genuine. We are improving our recruitment and training procedures and hope that once we go through some of the measures now in hand, things would improve." He added that "there is competition *inter-se* among the public sector banks. But work motivation has probably gone down. It will require some special efforts in recruitment of correct staff and in the training programmes."

The Committee also enquired about the steps taken for removal of grievances of employees and for securing their greater involvement in the efficient functioning of the banks. The representative of the Department stated that "After the employees have come to the Board and when there has been a greater involvement in the policy itself, there has been some improvement and we expect in course of time the response is going to be better at the field level also." It was also stated that necessary machinery existed for redressal of grievances and that every day most of the Agent's time "is being spent with union leaders discussing matters, real or imaginary, which have been brought to his notice".

6.33. It was also stated by the Department in a note furnished to the Committee subsequent to evidence that "The importance of improvement in, and motivation of, human resources is constantly kept in mind by the banks and a number of measures have been taken and are under way for systematic manpower development and for bringing about the desired change in the attitude and approach of the bank personnel in the discharge of their new tasks and responsibilities. These mainly include (i) association of employees with management; (ii) in the formulation of business plans; (iii) training and orientation of staff; and (iv) career opportunities and prospects and enrichment of job content....Finance Minister also has meetings with the representatives of employees..in order to have a feel of the interest of employees in the functioning of these banks."

6.34. The Committee are very much perturbed to note that work motivation in banks has become less and less and service to the clients is not receiving appropriate attention. The Committee would like to remind in this context the promise of "improved service" to the general public made at the time of bank nationalisation. The lowering of efficiency and work standards in a sensitive organisation like banking is a matter of deep concern. The Committee would like the matter to be examined in depth and a sustained drive launched to improve the image of banks as a service organisation to the public.

6.35. The Committee also note that necessary machinery exists in the banks for redressal of grievances of the employees and with the inclusion of their representatives on Boards of Directors there is some improvement in the employees management relations and other measures are also under way to secure greater involvement of staff in the efficient working of the banks. The Committee expect the bank managements and employees to conduct themselves in a manner that may stand out as an example to others in the country.

6.36. The Committee would also suggest that the management should try their best to resolve without delay the genuine difficulties experienced by the employees and not allow the grievances of employees to accumulate in the interest of sustaining efficient service.

6.37. The Committee also note that measures are in hand to improve the procedures of recruitment of staff in the banks. They

hope that a suitable uniform system for staff recruitment in all the nationalised banks will soon be evolved by the Department and given effect to in the interest of attracting best talent.

(iii) *Training*

6.38. In regard to training of bank personnel, the Prime Minister in her speech in the Rajya Sabha on 7-8-1969 at the time of debate on the Banking Companies (Acquisition and Transfer of Undertakings) Bill, 1969 observed as follows:—

> "Government will take early steps to arrange for intensive training of personnel for technical appraisal of projects and in view of nationalisation it will be possible to pool the resources of the fourteen banks and to promote programmes of training on a common basis."

6.39. The Committee were informed by the Department of Banking that for identifying existing training gaps and achieving reorientation in the outlook of bank personnel, a Committee of Direction for Formulation and implementation of Training programmes of public sector banks had been constituted, with Secretary of the Department as its Chairman and representatives of banks, Principal, Bankers' Training College of R.B.I. Director, National Institute of Bank Management, Bombay as members. The Committee was stated to have met four times so far and made an assessment of the existing situation and possible lines of improvement. Some of its suggestions which were accepted for implementation at the meeting of Chief Executives of Banks held in January, 1973 are as follows:—

(i) Public sector banks must frame their branch expansion plans at least one year in advance.

(ii) They should establish a Management Development Cell/Department to attend to manpower planning and training.

(iii) Banks should ensure that there is maximum utilisation of the training facilities available.

(iv) They should devise a suitable mechanism to ensure job-rotation.

(v) They should develop a personnel inventory of the manpower available and forecast requirements in the light of growth of business.

(vi) The training backlog must be properly defined and cleared by having suitable courses.

(vii) Contents of courses must emphasise the change in the philosophy of banks.

6.40. The Committee enquired about action taken by banks on each of the above points and they were informed during evidence that "All these points are very much under the active consideration of the banks."

6.41. In this connection an eminent non-official who had been connected with training courses of the Bankers' Training College, Bombay stated before the Committee that "The State Bank of India had a good training system for the officers. But the officers were trained in a British or Scotish way. The State Bank trained people dealing with the upper strata of society. For the clerical staff the training was of routine character i.e., at the time of passing cheques you have to check signatures, etc. Certain Banks like the Central Bank of India started training courses but the total amount of work done was very small. At the Bankers' Training College at Bombay training is given to the officers of the commercial banks in various courses, agricultural finance, rural finance, etc. uptil now the Reserve Bank could train only 200 to 250 persons a year. Until we are able to train 16000 people for the management (for manning existing 16000 branches), new people will be coming up and the clerical staff too, we will not be able to do much." He also stated that the outlook of bank staff "has to be changed. There is no difference between the conditions existing four years ago and the conditions which exist now."

6.42. The Committee also noticed that at the Chief Executives meeting held in November, 1971, the Finance Minister had also emphasised the need for re-orientation of the outlook of bank officers in-charge of new offices and new programmes and called for positive efforts in this direction.

6.43. Asked about adequacy and utilisation of existing training capacity, the representative of the Department stated during evidence that "There are 15 colleges (excluding Bankers' Training College of R.B.I.) and 90 training centres belonging to different banks. These facilities have to be augmented. But it is difficult to set up training institutes in a short time. We are attending to the problem. We are trying to have a number of shifts." It was also stated in a note furnished subsequent to evidence that "During the year 1973, banks were able to utilise the aforesaid facilities by conducting a variety of courses, giving special attention to induction courses, for newly recruited clerks and for officers manning rural branches, training about 9,000 officers and 15,000 clerks. During 1974, banks have programmed to conduct training courses for about 15,000 officers and 29,000 clerks."

6.44. In regard to reorientation of the outlook of staff, it was stated that "the point that there must be some change in the outlook of personnel was brought home and they (banks) are trying to implement the directions."

When pointed out that training of staff was more important than the training of branch managers, the Secretary of the Department stated that "you are right, Sir, we have issued one direction that every recruit should go to a training centre before he is posted to a branch—we are trying to organise it properly."

6.45. The Committee note that each bank is having its own training arrangements rather than promoting training on a common basis as was envisaged at the time of bank nationalisation and there are a total of 16 training colleges and 90 training centres of public sector banks. They also note that a Committee of Direction for Formulation and Implementation of Training Programmes has been constituted by the Department to direct the training programmes of public sector banks and its suggestions regarding full utilisation of training capacity, defining training backlog and clearing it, job rotation, change in contents of courses etc. are under implementation by the banks.

6.46. The Committee consider that the utilisation of present training capacity and contents of courses need a thorough reorientation so as to ensure that there is no waste of scarce resources and the training is designed to meet adequately the growing demands of banks for the right type of personnel for manning the new branches. The objectives of bank nationalisation and the sympathetic treatment required to be meted out to the weaker sections of society have to be brought home to trainees through regular/refresher courses. The Committee desire that departmental Committee of Direction for Formulation and Implementation of training programmes should keep this objective prominently in view while finalising training programmes.

6.47. The Committee would also suggest that eminent University Professors, who are concerned with the subject of Banking, should be closely associated with the drawing up of syllabus in the Training Colleges|Centres of the Banks and the syllabus should be periodically evaluated and reviewed in consultation with them and other experts in the field so as to incorporate latest developments in Banking.

6.48. The Committee further suggest that the Department|Banks should also study the methods of training in Bank Management followed in other countries, particularly Japan, U.K., France, U.S.A., West Germany, etc., so as to adopt their significant features and points, applicable to our system of Banking, in the training courses imparted by the Banks.

(d) Government Control, Review and Co-ordination Machinery

(i) *Government Control*

6.49. The public sector banks are under the overall control and supervision of the Ministry of Finance, Department of Banking which was set up as an independent Department in September, 1969 in the wake of bank nationalisation. The Department is headed by a Secretary, assisted by an Additional Secretary and is organised in five functional divisions *viz.* Banking Operation; Industrial Finance, Agricultural Finance; Development, Credit Policy and Co-ordination and Vigilance and Industrial Relations Divisions, each under a Joint Secretary assisted by Director|Deputy Secretary and other complement of officers and staff.

6.50. The total actual staff strength of the Department increased from 79 in February, 1970 to 205 in February, 1974 having at present (51 officers and 154 non-gazetted staff) and annual expenditure rose from Rs. 2.46 lakhs to Rs. 17.83 lakhs.

6.51. Apart from appointment of Chairman|Managing Director and Members of the Boards of Directors of the nationalised banks, Government have powers to issue directions to them on matters of policy involving public interest. In this connection the Committee were given to understand that so far Government had not found it necessary to give directions to any of the nationalised bank. Instructions were, however, issued by the R.B.I. pertaining to credit policy, besides conducting periodic inspections, in the form of directives as a part of its central banking functions. In respect of other matters the R.B.I. issued general guidelines to the public sector banks which they were expected to follow. Accordingly, the various guidelines|instructions in respect of agricultural finance, professionals and self-employed sector, half-a-million jobs programme, etc. have been issued to the banks by the R.B.I.

6.52. Asked whether there was proper balance between Government control and the autonomy of the banks, the Secretary of the Department stated during evidence that "We have maintained the balance between the rights of the owner and the autonomy of th banks—we have representatives on the Board of each bank and there is considerable moral persuation on our side....each bank is reviewed separately by us and at the end of the departmental review, the chairmen of the banks meet the Finance Minister for a further review....There is considerable give and take."

6.53. In this context the following observation of the Prime Minister made at the time of debate on the Banking Companies (Acquisition and Transfer of Undertakings) Bill, 1969 in Lok Sabha on 29th July, 1969 is also noteworthy:

> "We have no intention to set up a Central monolithic agency to run all these banks. While we must strengthen the machinery at the centre, there will be autonomy for each bank and the boards will have well-defined powers. We will give directions, but these will be on policy and general issues not on specific loans to specific parties. We shall be vigilant about the dangers of too much interference—whether it is motivated by political or other considerations....I entirely agree that there should not be bureaucratisation. We must preserve the initiative and incentive, as also the identity of these banks. We want to do this in a way which will not eliminate healthy competition or initiative."

6.54. The Committee note that so far Government have not found it necessary to issue any directions to public sector banks and the various guidelines on priority sectors finance etc. have been issued to banks through the medium of the R.B.I. They further note that necessary balance has been maintained by Government "between the rights of the owner and the autonomy of the banks." While the Committee do not favour any undue erosion of the autonomy of the banks, they expect the Department of Banking also not to be unmindful of their obligations to safeguard the public interests and to ensure that the banks fulfil the objectives for which they were nationalised.

6.55. The Committee further note that the Department is manned by a Secretary, an Additional Secretary, five Joint Secretaries, assisted by Director/Deputy Secretary and a complement of other officers and staff. The total staff strength of the Department increased from 79 in February, 1970 to 205 in February, 1974, with annual expenditure rising from Rs. 2.46 lakhs to Rs. 17.83 lakhs. The Committee hope that with this strengthening of the Department and the active assistance of the Reserve Bank of India it would be possible for the Government to keep effective watch over the working of the banks with particular reference to the effective implementation of the socio-economic goals set before them.

(ii) *Review, Consultation and Coordination Machinery*

6.56. The Department reviews and coordinates the functioning of various banks by obtaining half-yearly reports and through forums of periodic meetings of Chief Executives of banks with the Finance Minister and Regional Consultative Committees, as indicated below:—

(1) *Half-yearly Reports*: Half-yearly reports on a prescribed proforma are stated to be obtained by the Department, covering such aspects as deposit mobilisation, performance of new offices, advances to borrowers of small means, implementation of Lead Bank Scheme, manpower planning, recruitment and training, industrial relations, internal audit and vigilance, delegation of powers, customer service, trends of profitability etc. On the basis of these reports, brief analytical notes are prepared by the Department which form the basis of discussion at meetings of Chief Executives of each of the banks with the Finance Minister for reviewing the performance.

The Committee asked for copies of last two half-yearly reports submitted by each bank and action taken in pursuance thereof. The Department stated in reply that "The reports submitted by the nationalised banks are quite voluminous—preparation of copies of these reports would involve considerable labour and time." A copy of the half-yearly report of the Union Bank of India for June, 1972 was however supplied by them. The Committee note therefrom that the report is of 69 pages and full of mass of details. Even the "brief analytical note" prepared by the Department which reviews the performance for three years runs into 17 pages.

(2) *Meetings of Chief Executives with the Finance Minister.*

6.57. Periodical meetings of all the Chief Executives of banks are also held with the Finance Minister to exchange views on various aspects of working of banks. So far, 7 such meetings had been held—3 in 1970 and 2 each in 1971 and 1973.

As to why no meeting could be held during 1972, the representative of the Department stated during evidence that in that year "the Finance Minister held four Regional Consultative Committee meetings in which most of the banks were represented and there was a broad exchange of views. Besides in 1972, the Finance Minister had an opportunity of meeting each of the Chief Executives while reviewing the performance of the individual banks".

In this context the Committee also noticed that at the Finance Minister's meeting with Award staff held in January, 1973, the representatives of certain banks suggested that besides meetings of Chief Executives, a standing committee should be set up which could meet at more frequent intervals and thrash out specific problems effecting the banks. Asked whether Government had considered this suggestion, the representative of the Department stated that "we have not considered it necessary".

(3) *Regional Consultative Committee Meetings.*

6.58. As stipulated under the Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970, Government have set up six Regional Consultative Committees—each for Western, Eastern, North-Eastern, Central, Northern and Southern regions, presided over by the Union Finance Minister and consisting of representatives of State Governments (generally of the level of Minister), Chief Executives of banks functioning in the region. Their meetings are also attended by the Governor/Dy. Governor of the RBI. These Committees review banking developments in the respective region and make recommendations for the consideration of the Central Government. Since their inception in 1972, the various regional Consultative Committees have met as follows:

Committee	Date of 1st Meeting	Date of 2nd Meeting
Central Region	17-6-1972	..
Southern Region	27-8-1972	5-11-1973
Western Region	5-9-1972	
Northern Region	13-10-1972	2-1-1974
North-Eastern Region	22-5-1973	
Eastern Region	24-5-1973	..

Thus since their inception all the committees have met only once except Southern and Northern region Committees which met twice. Explaining this, the representative of the Department stated during evidence that "when we completed the first round, we had to take some positive action before we could have discussion again—that process has started. The second round will be completed soon". It was also stated in a post evidence note that no periodicity for meetings of these Committees had laid down.

6.59. The Committee note that half-yearly progress reports are obtained by the Department from banks covering various aspects of their working. As these reports are quite voluminous the Committee are not sure whether the Department of Banking finds them useful for informing themselves about problems of the banks or assessing their performance.

The Committee therefore recommend that the Department should revjew the proforma prescribed for these half-yearly reports and the information received in response thereto so as to cut out non-essential information and to concentrate on items which are important for the exercise of check at key points and for providing Government with timely information about the true picture of functioning of a bank.

6.00. The Committee also note that for exchange of views on various matters affecting the banks, meetings of Chief Executives of banks are held with the Finance Minister. Three such meetings were held in 1970, two each in 1971 and 1973 but no meeting was held in 1972 on the plea that most of the banks were represented at the regional consultative committee meetings held in that year, etc. Evidently this is not a valid reason for not convening any meeting during 1972.

The Committee attach great importance to these meetings and hope that they would be convened at regular intrvals for thrashing out specific common problems affecting the banks. The Committee also need hardly emphasise that what is more important is the implementation of the suggestions emerging out of such meetings through efficient follow up action.

6.61. The Committee further note that after 1970, six Regional Consultative Committees were set up by the Government to review banking developments in the respective regions and make suggestions for improvement. The Committee are, however, constrained to observe that since their inception, these Committees have met only once except the Southern and Northern region Committees which met twice. The plea advanced that the Department had to take "some positive action" on the suggestions made at first meetings before calling further meetings is not tenable.

It needs no emphasis that meetings of these Committees held in greater coordination between the banks and State developmental agencieal apart from enabling the Department to know the reactions of the State Governments about the working of banks. The Committee stress that meetings of these Committees should be held at rgular intervals in future and there is close follow-up to ensure timely action.

(iii) *Statistics*

6.62. The Committee noticed that in the RBI Bulletins, supplement on Banking Statistics (April, 1974), data is generally given in a consolidated manner for all scheduled commercial banks, rather than distinctly for public sector banks. In fact the RBI had themselves admitted deficiencies in the compilation of banking statistics and observed as follows in their Supplement on Banking Statistics issued with Bulletin of April, 1973:—

> "A major handicap in compiling banking statistics is the lack of complete response from banks. Even the comparatively simple Q. 1 survey, which required only the reporting of total deposits and advances was not received from all offices. Coverage of the data presented in this Supplement is more than 95 per cent of the total volume of the business of scheduled commercial banks. In respect of certain regions|districts, however, the coverage is lower than the average for the system as a whole. Each of the statements giving the district-wise and centre-wise data includes columns for functioning and reporting offices. The discrepancy between the two should be noted in making analytical use of the data."

The Secretary of the Department admitted during evidence that reliable data should be compiled and said "we are taking that in hand. The RBI has already revised its data collecting statistics. The action has started".

6.63. **The Committee trust that the Department and the R.B.I. would soon take effective measures for improvement in the presentation of banking statistics which is so vital for any analytical study or appraisal of performance. They would also suggest that statistics relating to public sector banks should be brought out separately in the R.B.I. Bulletins and other publications.**

(e) Parliamentary Accountability

6.64. The main instruments of parliamentary supervision over the affairs of nationalised banks are Questions and Debates on various occasions. The annual reports of the working and activities of the nationalised banks together with auditor's reports thereon, are also required to be laid before both the Houses of Parliament, which for the years 1970-1971 and 1972 were presented to the Lok Sabha on 23rd November, 1971, 31st July, 1972 and 27th July, 1973 respectively.

6.65. The Committee discussed the feasibility of the Ministry presenting to Parliament a consolidated report reviewing the working of all the public sector banks, as they did in the case of public sector undertakings. The Secretary of the Department agreed that "we will submit a general review and will also supply Parliament with individual reports for each year. We will do both". Regarding the timing of presentation of annual reports, it was stated that "these will be placed regularly in the Autumn Session of Parliament. That is the earliest period by which we can do it".

6.66. The Committee note that the Annual Reports of the nationalised banks in respect of each of the last two years had been presented by Government to Parliament during the Monsoon Session i.e. during the month of July of the succeeding year and that this would be done in future also.

6.67. The Committee appreciate the rediness of the Ministry to present to Parliament a separate consolidated report reviewing the working of all the public sector banks, as and is done in the case of public sector undertakings. In this connection the Committee would, however, like to invite the attention of the Department to para 14.5 of their 24th Report (1972-73) on Revision of the Form and Contents of Demands for Grants and 46th Report of the Committee on public Undetakings (1973-74) in which suggestions have been made for improving the information given in the consolidated report on public undertakings. The Department may consider those suggestions in preparing a suitable consolidated report on public sector banks the idea being that the report should contain information on all vital aspects affecting the banks in a properly analysed and intelligible manner to enable the Members of Parliament and the public to judge the efficiency of service rendered by the banks and in particular the achievement of socio-economic objectives underlying nationalisation. The Committee would like the Department to present this consolidated report on the banks along with the annual reports of individual banks.

NEW DELHI; R. K. SINHA,

April 23, 1974 *Chairman,*

Vaisakha 3, 1896 (Saka). *Estimates Committee.*

APPENDIX I

(*Vide* Para 3·23)

***Statement** showing State-wise distribution deposits, advances of all Scheduled Commercial Banks (including Public Sector Banks) and credit-deposit ratio during each of the years 1968 to 1972.*

(Amount in Rs. Lakhs)

Name of State/Union Territory	Deposits 1968	1969	1970	1971	1972**	ADVANCES 1968	1969	1970	1971	1972**	CREDIT-DEPOSIT RATIO 1968	1969	1970	1971	1972** (Percent)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
1. Andhra Pradesh	15494	17305	19793	24312	31076	11224	16302	21582	22095	26060	72·44	94·20	109·04	90·88	83·86
2. Assam	3934	4778	4876	5606	6653	1364	2025	2280	2509	3029	34·67	42·38	46·76	44·76	45·53
3. Bihar	16381	18608	23066	31916	36857	4736	5056	7594	9188	10591	28·91	27·17	34·66	28·79	29·82
4. Gujarat	37673	45906	51006	57948	65968	17932	23231	30180	32000	37254	47·60	50·61	59·17	55·22	56·47
5. Haryana	4565	6410	7738	10405	11893	2120	3027	4659	5000	6084	38·79	47·22	60·21	48·05	51·16
6. Himachal Pradesh	1502	1751	2167	3268	4035	400	390	352	473	595	26.63	22.27	16.24	14.47	14.75
7. Jammu & Kashmir	2523	2670	3063	4915	5581	165	245	552	922	1297	6·54	9·18	18·02	18·76	23·4
8. Kerala	13038	15272	18363	21842	24712	8634	10514	10390	15057	17487	66·22	68·84	56·59	68·94	70·76
9. Madhya Pradesh	10735	12638	15185	17985	22140	6527	7052	9543	10300	11543	60·80	55·80	62·84	57·27	52·14
10. Manipur	NA	NA	NA	NA	193	NA	NA	NA	NA	114	NA	NA	NA	NA	59·07
11. Meghalaya	NA	NA	642	1711	1614	NA	NA	313	316	500	NA	NA	48·75	18·47	30·98
12. Mysore	21881	25522	30091	36918	40794	14816	18555	23589	27541	34180	67·71	72·70	78·39	74·60	83·79
13. Maharashtra	110353	122977	145311	168887	193795	98111	113246	132077	143211	161176	88·91	92·09	90·89	84·80	83·17
14. Nagaland	78	124	144	179	236	3	10	47	37	47	3·85	8·06	32·64	20·67	19·92
15. Orissa	2637	3596	4624	5621	6320	1357	1779	2529	2560	2906	51·46	49·47	54·69	45·54	45·98
16. Punjab	19340	32036	27301	34167	38994	5426	7641	9559	10246	12932	28·06	33·17	35·01	29·99	33·16
17. Rajasthan	8072	9355	11006	14248	16502	3709	4664	6992	6934	8040	45·95	49·86	55·35	48·67	48·72
18. Tamil Nadu	28058	31321	35138	44915	54195	31559	41820	46655	48763	58505	112·48	133.52	132·78	108·57	107·95
19. Tripura	435	453	581	694	799	19	27	67	67	84	4·37	5.96	11.53	9·65	10·51
20. West Bengal	60622	71225	84078	98476	116221	66551	71654	78473	80707	88386	109·78	100.60	93.33	81·96	76·05
21. Uttar Pradesh	35543	42560	50208	60814	73726	11361	18957	26408	24840	27490	31·96	44·54	52.60	40·85	37·29
Union Territories :															
1. Chandigarh	3456	4085	4523	5341	5363	2035	2608	5198	6582	7440	58·88	63·84	114·92	123·24	138·73
2. Delhi	42634	49214	57059	66310	70643	24521	20013	32853	51453	37631	57·52	40·58	57·58	77·59	53·27
3. Goa, Daman & Diu	4602	5216	6025	6849	7215	1648	2351	3017	3532	4144	35·81	45·07	50·07	51·57	57·44
4. Pondicherry	501	552	597	660	881	327	480	624	662	719	65·27	86·96	104·52	100·30	81·61
5. Others	118£	163£	208*	232£	248££	13£	23£	117*	141*	43££	11·02	14·11	56·25	34·65	15·14
TOTAL :	445075	514837	602793	724310	836692	314558	371670	457850	505136	558677	70·68	72·19	75·95	69·74	66·77

*Andaman & Nicobar Islands, Arunachal Pradesh, Dadra & Nagar Haveli, Laccadive, Minicoy and Amindevi Islands and Manipur.

£Andaman and Nicobar Islands, Dadra and Nagar Haveli, Manipur.

££ L. M. &. A. Islands, and Andaman & Nicobar Islands, Arunachal Pradesh, Dadra Nagar Haveli & Mizoram.

** Relate to last Friday of December , Deposit

APPENDIX II

(*Vide* Para 3·23)

Statement showing area-wise distribution of Deposits, Advances and credit-deposit ratio of scheduled commercial banks during each of the years 1969 to 1972.

(Amount in Rs. crores)

Population group	1969			1970			1971			1972		
	Deposits	Credit	Credit deposit ratio(%)	Deposits	Credit	Credit deposit ratio(%)	Deposits	Credit	Credit deposit ratio (%)	Deposits	Credit	Credit deposit ratio (%)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Metropolitan (above 10 lakhs)	2183	2143	98·17	2443	2477	101·39	3405	3160	92·80	3864	3381	87·50
Urban (1,00,000 to 10,00,000)	1279	756	59·11	1405	960	68·33	1855	1047	56·44	2087	1193	57·16
Semi-Urban (10,000 to 1,00,000)	1C54	453	42·98	1254	668	53·27	1605	685	42·68	1869	783	41·89
Rural (below 10,000)	306	115	37·58	400	193	48·25	378	159	42·06	540	257	47·59
TOTAL	4822	3467	71·90	55 02	4298	78·12	7243	5051	69·74	8360	5614	67·11

NOTE :

(I) Figures for deposits and credit for 1969, 1970 are based on monthly Survey of deposits and Survey of advances respectively and are at the end of December.

(II) Figures for 1971 are based on data furnished by banks in a special return on form A-I and relate to end of December.

(III) Figures for 1972 are based on 'B.S.R.'—December, 1972.

APPENDIX III

(*Vide* Para 3.39)

List giving Bank-wise Allocation of Districts under the Lead Bank Scheme (Bank-wise)

I. SBI Group—(Total No. of Districts—89)

Andhra Pradesh	*Assam*	*Bihar*
1. Visakhapatnam	1. Garo Hills	1. Santhal Parganas
2. Nizamabad	2. United Mikir & North Cachar Hills	2. Palamau
3. Adilabad	3. Mizo Hills	
4. Hyderabad	4. United Khasi and Jaintia Hills	
5. Karimnagar		
6. Khammam		
7. Mehboobnagar		
8. Medak		
9. Nalgonda		
10. Warangal		

Gujarat	*Jammu & Kashmir*	*Kerala*
1. Amreli	1. Anantnag	1. Alleppey
2. Bhavnagar	2. Baramulla	2. Kottayam
3. Jamnagar	3. Doda	
4. Junagadh	4. Jammu	
5. Rajkot	5. Kathua	
6. Surendranagar	6. Ladakh	
	7. Poonch-Rojouri	
	8. Srinagar	
	9. Udhampur	

Madhya Pradesh	*Maharashtra*	*Mysore*
1. Bastar	1. Bhir	1. Bidar
2. Billaspur	2. Nanded	2. Gulbarga
3. Chhatarpur	3. Osmanabad	3. Mandya
4. Damoh	4. Parbhani	4. Mysore
5. Guna		5. Raichur
6. Panna		6. Tumkur
7. Rajgarh		
8. Shivpuri		
9. Tikamgarh		
10. Vidisha (Bhilsa)		

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Nagaland	*Orissa*	*Punjab*
1. Kohima	1. Bolangir	1. Bhatinda
2. Mokokchung	2. Boudh Kondmals	2. Patiala
3. Tuensang	3. Kalahandi	3. Sangrur
	4. Koraput	
	5. Sambalpur	
	6. Sundergarh	

Rajasthan	*Uttar Pradesh*	*Himachal Pradesh*
1. Barmer	1. Garhwal	1. Chamba
2. Bikaner	2. Tehri Garhwal	2. Lahaul and Spiti
3. Ganganagar	3. Chamoli	
4. Jaisalmer	4. Uttar Kashi	
5. Jalore	5. Basti	
6. Pali	6. Almora	
7. Sirohi	7. Pithoragarh	
8. Udaipur*	8. Gorakhpur	

*Jointly with Bank of Rajsathan Ltd.

NEFA	*Andaman and Nicobar Island*
1. Kameng Division	1. Andaman & Nicobar Islands
2. Lohit Division	
3. Siang Division	
4. Subansin Division	
5. Tirap Division	

2. *Central Bank of India (Total No. of Districts—39)*

Bihar	*Madhya Pradesh*
1. Saharsa	1. Balaghat
2. Purnea	2. Betul
3. Saran	3. Bhind
4. Champaran	4. Chhindwara
5. Darbhanga	5. Gwalior
6. Muzaffarpur	6. Hoshangabad
	7. Jabalpur
	8. Mandla
	9. Mandsaur
	10. Morena
	11. Narsimhapur
	12. Raisen
	13. Ratlam
	14. Sagar
	15. Seoni
	16. Shahadol
	17. Surguja

Maharashtra	*Rajasthan*	*Uttar Pradesh*	*West Bengal*
1. Akola	1. Jhalwar	1. Etawah	1. Cooch-Behar
2. Amravati	2. Kota	2. Deoria	2. Darjeeling
3. Aurangabad*		3. Ballia	3. Jalpaiguri
4. Buldhana			
5. Dhulia			
6. Jalgaon			
7. Yeotmal			
8. Ahmednagar			

*Jointly with Bank of Maharashtra.

3. Bank of India (Total No. of Districts—30)

Bihar	*Madhya Pradesh*
1. Dhanbad	1. Dewas
2. Singhbhum	2. Dhar
3. Ranchi	3. East Nimar
4. Hazaribagh	4. Indore
	5. Rajgarh
	6. Sehore
	7. Shajapur
	8. Ujjain
	9. West Nimar (Khargone)

Maharashtra	*Orissa*	*Uttar Pradesh*
1. Bhandara	1. Keonjhar	1. Hardoi
2. Chanda	2. Mayurbhanj	2. Farrukhabad
3. Kolaba		3. Mainpuri
4. Ratnagiri		4. Unnao
5. Sangli		5. Lucknow
6. Sholapur		6. Barabanki
7. Wardha		
8. Kolhapur		
9. Nagpur		

4. *Punjab National Bank (Total No. of Districts—28)*

Bihar	*Haryana*	*Madhya Pradesh*	*Punjab*
1. Gaya	1. Ambala	1. Datia	1. Amritsar
2. Shahabad	2. Hissar		2. Ferozepur*
3. Patna	3. Jind		3. Gurdaspur
	4. Karnal		4. Hoshiarpur
	5. Mahendragarh		5. Kapurthala
	6. Rohtak		

*Jointly with Punjab and Sind Bank Ltd.

Rajasthan	*Uttar Pradesh*	*Himachal Pradesh*
1. Alwar	1. Jhansi	1. Kangra
2. Bharatpur	2. Budaun	2. Kinnaur
3. Sikar	3. Bulandshahr	3. Mandi
	4. Bijnor	
	5. Saharanpur	
	6. Dehra Dun	
	7. Muzaffarnagar	

5. *Bank of Baroda (Total No. of Districts—237)*

Gujarat	*Madhya Pradesh*
1. Baroda	1. Jhabua
2. Broach	
3. Bulsar	
4. Dangs	
5. Kaira	
6. Panch Mahals	
7. Surat	

Rajasthan	*Uttar Pradesh*
1. Ajmer	1. Shahjahanpur
2. Banswara	2. Kanpur
3. Bhilwara	3. Pratapgarh
4. Bundi	4. Fatehpur
5. Chittorgarh	5. Pilibhit
6. Churu	6. Rae Bareli
7. Dungarpur	7. Sultanpur
8. Jhunjhunu	8. Faizabad
9. Sawai Madhopur	9. Allahabad
10. Tonk	10. Naini Tal
	11. Rampur
	12. Bareilly

6. United Commercial Bank (Total No. of Districts—23)

Assam	*Bihar*	*Orissa*	*Punjab*
1. Goalpara	1. Monghyr	1. Balasore	1. Jullundur
2. Kamrup	2. Bhagalpur	2. Cuttack	2. Ludhiana*
3. Darrang		3. Dhenkanal	3. Rupur
		4. Puri	

*Jointly with Punjab & Sind Bank Ltd.

Rajasthan	*West Bengal*	*Himachal Pradesh*
1. Jaipur	1. Birbhum	1. Bilaspur
2. Jodhpur	2. Burdwan	2. Mahasu
3. Nagaur	3. Hooghly	3. Sirmur
	4. Howrah	4. Simla

7. Canara Bank (Total No. of Districts—18)

Kerala	*Mysore*
1. Koziikode	1. Bangalore
2. Malapuram	2. Chickmagalur
3. Palghat	3. Chitradurga
4. Trichur	4. Coorg
	5. Hassan
	6. Kolar
	7. Shimoga

Tamil Nadu	*Uttar Pradesh*	*Laccadive, Minicoy & Amindivi Islands*
1. Coimbatore	1. Etah	1. Laccadive, Minicoy and Amindivi Islands*
2. Madurai	2. Aligarh	
3. Nilgiris	3. Agra	

*Jointly with Syndicate Bank

8. United Bank of India (Total No. of Districts—14)

Assam	*West Bengal*	*Manipur*	*Tripura*
1. Cachar	1. Bankura	1. Manipur	1. Tripura
2. Nowgong	2. Malda		
3. Sibsagar	3. Midnapore		
4. Lakhimpur	4. Murshidabad		
	5. Nadia		
	6. Purulia		
	7. West Dinajpur		
	8. 24 Parganas		

9. Dena Bank (Total No. of Districts—9)

Gujarat	*Madhya Pradesh*	*Dadra & Nagar Haveli*
1. Ahmedabad	1. Durg	1. Dadra and Nagar Haveli
2. Banaskantha	2. Raipur	
3 Gandhinagar		
4. Kutch		
5. Mehsana		
6. Sabarkantha		

10. Syndicate Bank (Total No. of Districts—16)

Andhra Pradesh	*Haryana*	*Kerala*
1. Nellore	1. Gurgaon	1. Cannanore
2. Anantapur		
3. Cuddapah		
4. Kurnool		

Mysore	*Uttar Pradesh*	*Laccadive, Minicoy & Amindivi Islands*
1. Belgaum	1. Moradabad	1 Laccadive, Minicoy & Amindivi Islands*
2. Bellary	2. Meerut	
3. Bijapur	3. Mathura	
4. Dharwar		
5. North Kanara		
6. South Kanara		

*Jointly with Canara Bank

11. Union Bank of India (Total No. of Districts—5)

Kerala	*Uttar Pradesh*
1. Ernakulam	1. Jaunpur
	2. Varanasi
	3. Ghazipur
	4. Azamgarh

12. Allahabad Bank ((Total No. of Districts—11)

Madhya Pradesh	*Uttar Pradesh*
1. Rewa	1. Jalaun
2. Satna	2. Hamirpur
3. Sidhi	3. Banda
	4. Kheri
	5. Sitapur
	6. Bahriach
	7. Gonda
	8. Mirzapur

13. Indian Bank (Total No. of Districts—11)

Andhra Pradesh	*Kerala*	*Tamil Nadu*	*Pondicherry*
1. Guntur*	1. Quilon**	1. Chingleput	1. Pondicherry
2. Chittoor	2. Trivandrum**	2. Dharmapuri	
3. Krishna*		3. North Arcot	
		4. Salem	
		5. South Arcot	

*Jointly with Andhra Bank Ltd.
**Jointly with Indian Overseas Bank

14. Bank of Maharashtra (Total No. of Districts—5)

Maharshtra

1. Aurangabad*
2. Nasik
3. Poona
4. Thana

*Jointly with Central Bank of India

15. Indian Overseas Bank (Total No. of Districts—7)

Kerala	*Tamil Nadu*
1. Quilon*	1. Kanyakumari
2. Trivandrum*	2. Ramanathapuram
	3. Thanjavur
	4. Tiruchirapalli
	5. Tirunelveli

*Jointly with Indian Bank

16. Andhra Bank Ltd. (Total No. of Districts—6)

Andhra Pradesh	*Orissa*
1. Srikakulam	1. Ganjam
2. East Godavari	
3. West Godavari	
4. Guntur*	
5. Krishna*	

*Jointly with Indian Bank

17. Bank of Rajasthan Ltd. (Total No. of District—1)

Rajasthan

1. Udaipur*

*Jointly with State Bank of India Group

18. Punjab & Sind Bank Ltd. (Total No. of Districts—2)

Punjab

1. Moga Tehsil (Ferozepur Districts)@
2. Jagraon and Ludhiana Tehsils (Ludhiana Districts)*

@Jointly with Punjab National Bank
*Jointy with United Commercial Bank.

NOTE:—Allocations have been made of all the districts in the Indian Union, except Greater Bombay, Calcutta and Madras Corporations, as also the Union Territory of Chandigarh, Delhi and Goa.

APPENDIX IV

(*Vide* Para 3.55)

Note on Schemes of Long Term Financial Institutions

The long term lending institutions are stated to have undertaken the following schemes for development of backward districts|areas:—

(a) *Schemes of All-India term lending Institutions*

(i) *Scheme of concessional finance in backward areas*

The three all India term lending institutions (IFC, IDBI and ICICI) are operating this scheme, under which concessional loans are given both for new projects and expansion|modernisation of existing projects in backward districts specified by the Planning Commission. Upto December, 1972 these institutions have sanctioned loans of Rs. 30 crores to 19 projects in backward areas. The IDBI also extends concessional refinance assistance to eligible financial institution in respect of their loans for projects in backward areas.

(ii) *Surveys of backward States|Districts*

The IDBI undertook surveys of backward States|Districts (in collaboration with RBI, IFC, ICICI and Lead Banks) in 1969-70 to identify specific project potentialitiese in backward States|Districts These surveys have been completed in respect of a number of States (like Assam, Bihar, M.P. U.P., Rajasthan, Himachal Pradesh, etc.).

(iii) *Inter-Institutional Groups*

IDBI is also stated to be playing the role of a co-ordinator in bringing together under its leadership various all-India and State level institutions, including the Lead Banks and Industries Departments of State Governments to form Inter-Institutional groups to take decisions on a wide range of problems. These range from identification of a project to preparation of detailed project reports and provision of technical and financial assistance on a consortium basis. Such inter-institutional groups have been formed in

6 States. In Kerala, the group has sponsored a technical consultancy service called 'Kerala Industrial and Technical Consultancy Organisation (KITCO)'. Such centres are envisaged to be set-up in other backward States also.

(b) *Schemes of State Financial Corporations*

State Financial Corporations are stated to have stepped up their assistance to backward districts, offering credit on soft terms. The loans sanctioned to industrial units in backward areas have increased from Rs. 7.41 crores (22.9 per cent of total) in 1969-70 to Rs. 17.18 crores (28.1 per cent of total) in 1971-72.

All S. F. Cs. (except those of Assam, Delhi, Gujrat, Himachal Pradesh, Kerala, Punjab, Rajasthan and West Bengal) are also stated to have formulated special schemes for financial assistance to technical entrepreneurs, including experienced craftsman. These schemes provide for credit on soft terms—i.e. at reduced margin, concessional rate of interest and liberal terms of repayment.

APPENDIX V

Summary of Recommendations/Conclusions contained in the Report

Sl. No.	Reference to para No. of the report	Summary of Recommendations/Conclusions
1	2	3
1	1.9	The Committee note that for more than a year after nationalisation, no concrete steps were new roles and objectives of the nationalised banks taken by Government in implementation of the on the plea that the matter was before the Supreme Court. The first guidelines on financing of agriculture were issued in December, 1970. In the opinion of the Committee, this crucial period could have been utilised by Government to work out the various schemes and to issue necessary guidelines to the banks so as to enjoin on them the speedy achievement of objectives of nationalisation in an effective manner from the very beginning. In any case, Government could have taken recourse to the Scheme of Social Control over bank for the purpose of issuing necessary instructions earlier.
2	1.10	The Committee also note that while the progress, made by public sector banks after nationalisation in areas like deposit mobilisation and branch expansion, has been somewhat satisfactory, in other important and vital areas-like lending to weaker or priority sectors, particularly agriculture; removal of regional disparities in banking, development of backward areas, provision of improved service to the public—which were the main objectives of nationalisation, the progress has been slow and has rather fallen

1	2	3
		much short or requirements and public expectation.
3	2.4	The Committee appreciate that the deposits of the public sector banks have risen from Rs. 3871 crores in June, 1969 to Rs. 8354 crores in December, 1973, i.e. an increase of Rs. 4483 crores in 4½ years which works out to about Rs. 996 crores per year on an average. The Committee, however, note that the increase in deposits of other scheduled commercial banks has also been somewhat of the same order.
4	2.5	The Committee understand that no overall or bank-wise targets had been laid down for mobilisation of deposits by banks in public sector during the Fourth Plan period. In the Fifth Plan, an overall projection of additional resource mobilisation of Rs. 10,560 crores has been made for the banking system as a whole, out of which the share of banks in the public sector is of the order of Rs. 9000 crores which works out to mobilisation of additional deposits at the rate of Rs. 1800 crores per year. The Committee need hardly stress that if this ambitious target, which practically implies doubling of additional deposit mobilisation achieved during the Fourth Plan period, is to be realised, a far more systematic and intensive drive would have to be made.
5	2.6	The Committee recommend that Government|banks should have an annual plan for additional deposit mobilisation which should in turn be broken into targets for the region and branches as may be practicable and suitably reflected in the performance budgets which are now to be prepared by the banks. The Committee stress that the actual progress made in raising additional resources should be critically examined in the light of achievement so as

1	2	3
		to roll forward the target where possible and to take remedial measures where necessary, to see that the targets laid down are realised.
6	2.12	The Committee are surprised to note that though the banks were nationalised mainly to provide the credit needs of the weaker sections of society and to save them from exploitation by the money-lenders, no study appears to have been made after bank nationalisation to assess broadly the total credit requirements of these sectors, the extent to which the same could be met by the banks and the remaining unfilled gaps. In the opinion of the Committee such an assessment was an essential pre-requisite for planning credit extension to these sectors.
7	2.13	The Committee also note that before nationalisation some estimates of credit requirements| gaps were made by the Gadgil Committee and the All India Rural Credit Survey Committee in regard to two sectors only i.e., agriculture and small scale industries, on the basis of which Fourth Plan projections were made, but these are stated to be "in the nature of rough guess". The same is the case regarding Fifth Plan estimates which in addition are based on the assumption that there would be no price rise during the plan period. As regards the small scale industries, the Department has assumed that the census which is being undertaken by the Ministry of Industrial Development would cover the assessment of credit requirements also. The Committee are surprised that credit extension programmes by banks for priority sectors have been mainly based on assumptions or "rough guess" of requirements.

1	2	3
8	2.14	The Committee recommend that the Department should immediately have the necessary studies undertaken to assess the credit gaps in agriculture and other priority sectors through bank branches or other appropriate agencies and thereafter prepare an integrated plan of action by setting short-term and long term targets related to requirements so as to gradually achieve the objective of meeting substantially the requirements of these sectors, by a time bound programme.
9	2.19	The Committee note that the weaker sections of society have not been defined as such so far and that the main approach for the purpose of bank credit has been that the sectors which had remained neglected by the banking system should receive priority treatment. They also note that the list of these priority sectors has remained the same since the introduction of Social Control over banks in 1968 and there has been no review thereof, except some shift in emphasis as between the sectors in the context of the prevailing economic conditions.
10	2.20	While under the present list of priority sectors an exhaustive coverage of the weaker sections of society has been included, it has not been ensured that the benefit of the schemes reaches the really weaker sections of society for whom it is meant. With this end in view, the Committee recommend that a review of the list of priority sectors and the coverage thereof should immediately be undertaken for identifying the weaker sections of society as also the really weak among them and arrangements made to cover them under these schemes. Thereafter, such a review should be undertaken well before the conclusion of Plan period so that the policy for next Plan period can be modified in the light of experience gathered.

1	2	3
11	2.29	The Committee note that during the four years after nationalisation public sector banks have been able to increase credit to priority sectors by Rs. 854 crores *i.e.*, from Rs. 441 crores in June, 1969 to Rs. 1295 crores in June, 1973 constituting 24.3 per cent of their total credit. The Committee, however, find that in the first year of nationalisation the advances to the priority sectors rose from Rs. 441 crores in June, 1969 to Rs. 769 crores in June, 1970, registering an increase of 74 per cent. But from the second year onwards this growth rate had not been sustained, in fact there had been a decline. The annual growth rate of advances during the following three years ranged between 17 per cent to 22 per cent. Even when reckoned as a percentage of total credit, the increase which was 6.4 per cent in the first year (from 14.9 per cent of total credit in June, 1969 to 21.3 per cent in June, 1970) had been only 3 per cent during the following three years, being 24.3 per cent at end of June, 1973. The same declining trend is discernible in each of the priority sectors in varying degrees. The Committee further note that in December, 1972 *i.e.* after 2½ years of nationalisation, Government themselves realised that the decline in the growth rate of advances to the priority sectors was "a matter of great concern" and they could not go on "taking refuge behind reasons like consolidation and emphasis on recovery". Government, therefore, stressed on banks the need for proper planning of credit for those sectors with feasible action programmes and rationally conceived targets.
12	2.30	The Committee are not convinced that the nationalised banks have been able to meet the genuine requirements of credit of weaker sections of society in whose name nationalisation

1	2	3
		scheme was implemented. They feel that this is mainly due to the lack of systematic follow-up. The Committee hope that atleast now Government would take steps to strengthen the planning machinery at various levels so that the bank credit to these sectors increases at a rate substantially higher than at present. Planning should be done from the grass root level to enable the banks to extent greater credit facilities where required in the larger national interest for productive purposes. The Committee would, therefore, like Government and the banks to study the requirements of weaker sections in detail at the branch, area and regional levels and have a realistic plan with accent on production and without compromising the chances of recovery of moneys to the advanced.
13	2.31	The Committee stress that specific targets and programmes for extending credit assistance to weaker sections should be specifically mentioned in the performance budgets which are now to be prepared by the banks so that it provides complete plan for action as also for review of achievements. The Committee need hardly point out that unless concerted action is taken by all concerned, it would not be possible to achieve the objective of increasing credit to priority sectors from the present level of 24.3 per cent to 33-1|3 per cent in the Fifth Plan. The Committee would like to be informed of concrete measures which are being taken to realise this objective.
14	2.34	The Committee note that though Government instructions of December, 1972 required the banks to introduce performance budgeting from 1973 onwards, later on it had been proposed to make it effective from 1974 in a phased manner region-wise, completing it in all the offices of a bank by 1976. They also find that

1	2	3
		the introduction of this system is still in a nascent stage in the various banks and certain initial difficulties are yet to be overcome. While the Committee recognise that preparation of performance budget involves a special effort, they are not convinced that it should have taken the banks more than one year to translate the idea into reality.
15	2.35	The Committee attach the highest importance to the preparation of performance budgets on the right lines so that it can provide an instrument for realistic planning, management control and appraisal of achievements. The Committee need hardly suggest that the banks should take guidance of the Reserve Bank of India, National Institute of Bank Management and other leading organisations in the field so as to make sure that the performance budget is prepared on sound lines in order to serve truly the objective with which this innovation is being made.
16	2.36	The Committee would like to draw attention in the above context to the detailed recommendations that they had made in the 24th Report (Fifth Lok Sabha) and 48th Action Taken Report on the Revision of Form and Contents of the Demands for Grants. wherein they had *inter-alia* indicated the need for including meaningful data in the performance budgets in the interest of better management by authorities and accountability to public and Parliament. The Committee would like the Department of Banking to ensure that the points of relevance to banking mentioned in the afore-mentioned Reports are got suitably reflected in the performance budgets being prepared by the banks. They would like to reiterate that the performance budget should not be emcumbered with mass of minor details but should contain such information on key factors of a programme or

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		plan of action as would provide data for effective managerial control and throw up norms and standards for proper appraisal of performance.
17	2.39	The Committee note that though it was envisaged to restrict loans to large industries/borrowers for productive use only and refuse credit for unsocial and unproductive purposes, in actual practice the approach since 1970 has been to identify the 'legitimate needs' of such borrowers after a scrutiny of their loan applications, particularly those for his amounts of more than Rs. 1 crore or Rs. 25 lakhs where the borrowing period exceeded three years. The result has been that the credit to large borrowers, which as a percentage of total credit declined by 6.7 per cent in the first year (from 85.4 per cent in June, 1969 to 78.7 per cent in June, 1970) registered a decline of 3 per cent only in the subsequent three years (being 75.7 per cent in June, 1973). The credit to priority sectors had also increased at the same rate of 3 per cent in these last three years.
18	2.40	While the Committee have no objection to the legitimate credit needs of the large industries/borrowers being met by the banking institutions, it is a moot point whether the existing procedures are effective enough to ensure that finances from public institutions are in fact going into productive uses in the larger public interest. The Committee are emphatic that banking institutions in the public sector should so regulate their procedures and scrutiny as to make sure that the moneys taken from them by large industrial houses/borrowers are put to productive use and are not allowed to be diverted for any un-social or unproductive purposes.
19	2.41	The Committee recommend that a review of the policies and procedures followed by the

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		banks for granting loans to large industrial houses and borrowers should be undertaken without delay and effective action taken to plug all loop-holes in this regard. The Committee would like to be informed of concrete action taken in pursuance of this recommendation.
20	2.47	The Committee are greatly perturbed to know that in the name of weaker sections of society certain other sections have taken advantages of the schemes by setting up 'binami' units. The Committee would like the authorities to review the position in detail and take effective measures to prevent this abuse of concessions intended for weaker sections. The Committee would like to be informed of detailed action taken by Government to eliminate this malpractice.
21	2.48	The Committee also notice from the Questions raised on the floor of the two Houses of Parliament that there have been some cases involving fradulent transactions. While it is true that the incidence of such transactions may not be very large, the Committee feel that the evil should be nipped in the bud by taking deterrent action against delinquent officials and tightening up procedures to obviate recurrence of such cases.
22	2.53	The Committee recognise that in a situation of inflation such as the one prevailing at present, it is but natural that there should be a policy of credit squeeze. The Committee have no doubt that in applying this squeeze the banks would ensure that the genuine requirements particularly of weaker sections falling in the priority sectors are not adversely affected and that they continue to get reasonable facilities and financial accommodation in the interest of

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		achieving larger production and social objectives with which the banks were nationalised.
23	2.58	The Committee note that there has been disparity in the disbursal of bank credit among various States under every sector. While some States got larger share of banks credit, others lagged far behind. Of the total advances given to agricultural sector upto September 1972, about 42 per cent had been given in the three States of Tamil Nadu, Andhra Pradesh and Maharashtra. Similarly in small scale industries sector 35 per cent were given in Tamil Nadu and Maharashtra; in professionals and self-employed sector 39 per cent were given in Maharashtra and Karnataka; in education sector 73 per cent were given in the four States of Gujarat, Maharashtra, Karnataka and Tamil Nadu, etc. The Committee realise that to a certain extent this may have been due to inherent difficulties of availability of intra-structure etc. in certain States. But this alone should not have resulted in such wide disparities. Moreover, the nationalised banks were made responsible to disburse credit in such a maner as to bridge these disparties and not to accentuate the same. The plea that in certain States the number of small scale units was larger and hence greater amount of advances were given is also not wholly tenable, as the banks could have attracted small scale industries to under-developed States by offering credit on easy terms and in co-ordination with State Governments helped in the creation of necessary infra-structure.
24	2.59	The Committee need hardly stress that one of the major roles of the nationalised banks is to narrow down the regional imbalances and to ensure an equitable distribution of bank credit among the various States. They would recommend that the Department should make a study

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		in depth of the factor leading to the existing imbalances in the extension of bank credit including publicity aspect and issue suitable instructions to the banks so as to secure a more equitable distribution of credits among the various States.
25	2.60	The Committee also note that for purpose of agricultural advances during the Fourth Plan, Government divided the States in three categories according to the level of development. For the Fifth Plan there will be a shift in the quantum of credit made available and States which are less advanced in agricultural field would get greater share of these advances. The Committee would like the Department to highlight the progress and achievements made in this behalf in the Annual Reports.
26	3.4	The Committee note that during the period from 1970 to September, 1973 a total number of 6748 new branches have been opened by the all commercial banks including the 22 public sector banks. The Committee also note that while a target of opening 1350 new offices was set for 1970, the actual achievement was 1155 offices, resulting in a shortfall of 195 offices in that year. No such targets were, however, land down for 1971 though actual achievement was 1805 offices. For the following three years 1972—74, a cumulative target of opening 5000 new branches was laid down under the perspective plan and in 1972 the number of new branches opened was 1763. In 1973 the concept of planing for a 3-year rolling plan was changed and a tentative target of opening 1500 offices was fixed for 1973. Targets for 1974 are yet to be settled, though three months have already elapsed. The Committee also note that no bank-wise targets for branch expansion were set down during all these years.

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27	3.5	The Committee are constrained to observe that there have been frequent changes in the policy of planning for branch expansion programme of the banks during all these years. They expect the Department and the Reserve Bank of India to take concrete steps at least now for ensuring timely finalisation of the programmes and annual targets under the 3-year rolling plan. The Committee would also like the Department and the Reserve Bank of India to set region, area and bank-wise annual targets for branch expansion under the 3-year rolling plan and keep a watch by a periodic assessment of the performance of the banks in this behalf.
28	3.13	The Committee note that in the first year after nationalisation the number of offices of public sector banks in rural areas increased by 73 per cent but in subsequent years this growth rate had not been sustained, in fact it had declined to 15 per cent in 1973. Similar is the position regarding offices in semi-urban areas. In metropolitan|port towns, the rate of growth of bank offices has gone up from 10 per cent in 1970 to 20 per cent in 1973.
29	3.14	The Committee would like the Department and the Reserve Bank of India to analyse the factors that have retarded the growth rate of opening of bank offices in rural and semi-urban areas and take immediate remedial measures not only to sustain but improve upon the growth rate from year to year.
30	3.15	The Committee also note that the classification of different centres on population basis for branch expansion *viz.* Rural, Semi-urban, Urban and Metropolitan was decided in 1968. It is likely that under this classification, which defines rural centres as those having a population upto 10,000, most of the new bank offices may

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		have been located near the sub-divisional or district towns and not in the interior rural areas. Obviously there have been significant changes in the rural scene with the development of transport, communication, water power and other infra-structural facilities since 1968. The Committee, recommended that the classification of rural, semi-urban, urban areas, etc. may be reviewed with a view to classify centres with population upto 5000 only as rural so as to locate branchs in really rural areas and thereby help in their growth potential.
31	3.20	The Committee note that after nationalisation, Government and the nationalised banks have taken steps to open more offices in the hitherto unbanked|underbanked areas and thereby narrow down inter-State disparities existing in this behalf. Nevertheless, there is still considerable difference in the population coverage per bank office particularly in Eastern, Northern Eastern and Central States as compared with other States.
32	3.21	The Committee need hardly emphasise that one of the major objectives of the nationalised banks is to correct regional imbalance in the provision of banking facilities. They expect the Department, the Reserve Bank of India and the nationalised banks to so devise their branch expansion programmes as to achieve early fulfilment of this objective.
33	3.27	The Committee note that there has not been much improvement in the credit-deposit ratio of several States (like Assam, Bihar, Rajasthan, Orissa, Uttar Pradesh, Madhya Pradesh Haryana, as was expected at the time of bank nationalisation in 1969 and it continues to be less

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		than 50 per cent in most of these States. In fact, in some of these and other States (Orissa, Uttar Pradesh, Madhya Pradesh, Himachal Pradesh, etc.) it has registered a declining trend.
34	3.28	The Committee need hardly emphasise that the nationalised banks were expected to serve as and ensuring that three was greater utilisation instruments for correcting regional imbalances of deposits in the area itself. While the Committee would like that genuine credit demands of the various areas are met, they see no reason why the credit-deposit ratio should continue to be less than 50 per cent in seven States. The Committee would urge the Department and the banks to take concrete measures immediately for bringing about tangible improvement in the credit-deposit ratio of various States like Orissa, Assam, Bihar, Uttar Pradesh, Madhya Pradesh, etc., particularly those where it has registered a declining trend, at the earliest.
35	3.35	The Committee note that the new bank branches have been able to mobilise annual deposits of the order of Rs. 11 lakhs and make advances of Rs. 6 lakhs per branch, on an average. They also note that no review has so far been conducted to find out precisely as to how many of the new branches were making profits and how many were running at a loss or no-profit no-loss basis. Government expect that though initially the rural branches would incur losses, due to a large number of technical and extension staff employed there, in three or four years time they should start making profits. During evidence, the need for conducting a detailed review of the working of the new bank branches and economy in establishment costs by laying down suitable staffing criteria was recognised by the representatives of the Department.

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36	3.36	The Committee recommend that Government should immediately have a comprehensive review, conducted of the functioning of all new bank branches|offices opened after bank nationalisation with a view to finding out the true state of affairs of their working, reducing overheads, economising in their establishment costs by prescribing suitable staffing criteria and work norms and placing on sound footing such of the branches as do not show promising results even after the normal gestation period of three years. The Committee would also like the Department to keep the performance of new branches constantly under review by having a suitable built-in-mechanism in this behalf.
37	3.37	The Committee further note that the main criteria to open new branches has been to provide them "where there have not been any banking facilities" subject to the availability of necessary infrastructure. While the Committee are in favour of opening of new branches particularly in rural and backward areas, they expect the Banks to work out carefully the financial implications of establishing each such branch so that decisions could be taken having regard to all important factors and to facilitate review of the working of the new branch with reference to the assumption made at the time of opening. The Committee suggest that in the light of this review, guidelines should be laid down for opening of new branches in the interest of achieving best results.
38	3.38	They also observe that in the past, under the branch expansion programme, drawn up with the approval of the Reserve Bank of India, there have been some cases where more banks were given licences to open branches in an area than was necessary, with the result that there has

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		been overlapping and unduly large complement of banks' staff deployed to serve a particular area As assured during evidence, the Committee hope that remedial measures would be taken to avoid recurrence of such over-lapping in future.
39	3.45	The Committee note that though the Lead Bank Scheme was introduced as far back as 1969, so far survey reports have been prepared in respect of 318 districts out of 338 districts allotted to various banks and District Level Consultative Committees have been set up in 223 districts only. They also note that the quality of the survey reports has not been up to the mark and that the consultative committees too do not seem to have played their role effectively so far. The Committee further observe that the Lead Banks have yet to grapple with their basic tasks of involving themselves in the process of economic development of the district concerned by evolving suitable credit plans and programmes.
40	3.46	The Committee cannot help expressing their disappointment at the very slow and tardy progress achieved under the Lead Bank Scheme. They would like the banks and the Department to immediately gear up their lead banks machinery so as to complete without delay the pending work of preparation of proper survey reports, setting up appropriate consultative committees in the remaining districts by adhering a time bound programme and formulated suitable credit schemes in conjunction with the State development authorities for the economic advancement of the district concerned. The Committee also expect the Department to watch the progress of the scheme by a periodic stocktaking of the position.

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41	3.47	The Committee need hardly stress that the composition of the District level consultative committees should be broad-based. Besides including persons who are active in industry, commerce, education, social uplifts and representatatives of Zila Parishads, it should be ensured that adequate representation is given to representatives of weaker sections of the society who are actively engaged in the work of improving the economic and social conditions of the weaker sections.
42	3.52	The Committee note that under the Lead Bank Scheme, banks have fared better in the districts in their ethnic areas than in the lead districts allotted to them in distant regions. The Committee also note that no changes in the allotment of districts under the lead bank scheme are contemplated by Government for the present.
43	3.53	The Committee further note that Government have not accepted the recommendation of the Banking Commission on the restructuring of the banking system as they feel that the present 22 banks structure is "not doing badly". and if they are merged "all kinds of complications will arise." The Committee, would like Government to keep under review the question as to what would be the most appropriate structure for the banking system within the existing constraints and bring forward concrete proposals at the appropriate time to ascertain public reaction and parliamentary approval before effecting any major structural change.
44	3.61	The Committee are constrained to observe that though one of the objectives of bank nationalisation was to stimulate growth and development of backward districts/areas. no special measures seem to have been taken by the nationalised banks in this direction. The approach of

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		the Department has been to leave it to the district level consultative Committees, set up in lead districts, to take care of backward areas in the normal course, this being "a matter with which State Governments are concerned."
45	3.62	While the Committee recognise that the development of backward districts/areas is the main responsibility of the State Governments, the nationalised banks have also been entrusted with a specific responsibility in this behalf. The Committee trust that atleast now the Department and the banks would take concrete steps towards the fulfilment of this objective by formulating special bankable schemes for the development of backward districts|areas, bringing about suitable changes in their methods of operations, if necessary, as was agreed to by the Secretary of the Department.
46	3.63	The Committee further find that certain measures have been taken by the long term financial institutions for stimulating greater flow of credit to backward districts/areas under the umbrella of the Industrial Development Bank of India but these too do not seem to have made much of impact as yet and the position remains substantially the same as before. The Committee also note that the Government is seized of the matter as to why there has not been the desired socio-economic transformation of the backward areas. The Committee would like the Government to examine in a comprehensive manner as to why the backward districts/areas have not made any perceptible progress despite planning and developmental efforts during all these years and take effective measures to locate problem areas and plan an integrated developmental approach by all concerned agencies for the improvement of these areas.
47	3.64	The Committee further note that there are different lists of backward districts for purpose

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		of interest subsidy from banks and other Central Government incentives. It is also likely that the State Governments may be having still a different list. They also note that the Government are re-examining the criteria prescribed to identify the backward districts. The Committee hope that the backward districts|areas would soon be more precisely defined by Government for the guidance of all concerned.
48	3.65	The Committee would also like special section to be devoted to the achievements of the nationalised banks in the matter of development of backward districts and areas in the Annual Reports of banks/Department.
49	3.71	The Committee note that though instuctions for implementation of the differential interest rates scheme were issued by Government in June, 1972, it was only from March, 1973 that the scheme "picked up tempo". They also note that upto September, 1973, (*i.e.* in 15 months time) a total amount of Rs. 6.81 crores has been advanced by the banks under the scheme which constitutes about 0.13 per cent of their aggregate lending in a year. The performance of most of the banks has been much below expectation. Even the target of lending 1/2 to 1 per cent of aggregate advances of banks every year under the scheme, which was already low, had not been reached.
50	3.72	The Committee are not happy with the progress made under the scheme which is designed to improve the economic lot of the weakest among the weaker sections of society. The Committee would like to be informed of the concrete measures taken to ensure that the target of extending 1 per cent of aggregate advances to beneficiaries in backward areas and those coming from the lower income groups is achieved in the current year.

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51	4.4	The Committee regret to note that the progress in regard to the implementation of the various guidelines for agricultural finance has been slow and tardy. Under the strategy of area approach, out of a total of about 5.67 lakhs villages in the country, only 6870 villages had been adopted by the banks, that too mainly by the SBI group. Powers to the extent envisaged do not seem to have been delegated to branch managers, with the result that there are delays in sanction and disbursement of loans. Credit norms for various crops have not been worked out precisely by branch managers and the consultancy service to the small farmers is available to a limited extent only.
52	4.5	The Committee cannot help feeling that though the guidelines on financing of agriculture issued by the RBI in 1970 indicated the strategy to be followed by the banks in this regard, there appears to have been no adequate follow-up to ensure their implementation. Had this been done, the progress in agricultural financing would have been much better. The Committee trust that atleast now, the Department would closely follow-up the implementation of the various guidelines by each bank, ascertain the difficulties, if any, in implementation so as to take immediate remedial measures and ensure sustained progress in this regard by periodical stock-taking of the position. The Committee attach particular importance to making credit available at the right time of crop season and linking its repayment to the sale of produce.
53	4.6	The Committee also note that the efforts of the Department to make Branch Managers members of the Block and District Development Committees in all the States have not yet met with uniform success. They feel that the association of the representatives of local Banks with these Committees may be helpful to the

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		Banks in understanding better the development problems of the areas. The Committee recommend that the matter should continue to be vigorously pursued at the highest levels with the State Government authorities so as to secure effective participation of the Banks at the grass root level.
54	4.7	The Committee are concerned to note that recovery of agriculture credit extended is only to the extent of 50.7 per cent. The Committee see no reason why this cannot be improved upon by more efficient linking of recovery with the sale proceeds of products by beneficiaries and a more careful scrutiny of applications at the initial stage and a closer follow up till the money is recovered.
55	4.14	The Committee note that different schemes have been evolved by the various banks for credit assistance to the agriculture sector. The Committee need hardly emphasise the importance of rapid expansion of credit to the agriculture sector on which the whole economy of the country and well-being of the people rests. They recommend that the working of all schemes evolved by banks for meeting credit requirements of this sector should be reviewed by an expert group with a view to enlarging/modifying their scope and initiating new schemes in fields like minor irrigation/tube well, area development, etc., or increasing the credit assistance to this sector.
56	4.15	The Committee also note that no appraisal has so far been made to ascertain the impact of bank credit by way of addition to net value of output, the number of small/marginal farmers and other beneficiaries made viable, etc., which are the ultimate objectives of these credit assistance schemes to weaker sections of society. The Committee recommend that, after a study

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		of the position of data kept in certain eastern bank branches in this behalf, the Department should issue suitable instructions to banks for the collection and maintenance of information about these vital aspects as well as other socio-economic benefits accruing to an area as a result of the bank credits. The data thus collected, should be highlighted in a consolidated manner in the Annual Reports of the Banks and of the Department.
57	4.16	The Committee also note that due to historical reasons, the performance of some of the banks in lending to agriculture and other priority sectors has been better than the other banks. They hope that by a periodic review of bank-wise performance in this regard, the Department would take suitable measures to bring about significant improvement in the achievement of all the banks at an early date.
58	4.18	The Committee note that in certain States like West Bengal 80 per cent of the agricultural advances have been given for tea plantations, etc. They feel that such large scale extension of advances for tea gardens cannot be regarded as a help to weaker sections. While the Committee have no objection to financial assistance being made available to any section in national interest they feel that there should be correct classification in respect of such advances so as to facilitate proper evaluation of the lending activities of the banks. Similarly the advances given in the capital towns of States should also be properly classified in the district-wise classification.
59	4.20	The Committee were also assured that the Boards of Directors of the banks were keeping a constant watch that the agricutlral advances mainly went to the small farmers. They hope that the Boards would ensure this as well as

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		the proper use of funds by the beneficiaries through periodic assessment of position in this behalf.
60	4.28	The Committee are concerned to note that though as far back as 1970, the Talwar Committee made a number of suggestions to facilitate operations of commercial banks in rural areas and avoid any conflict with the Cooperative banks already functioning there, there has been little progress so far towards their implementation. They are unable to understand why the State Governments, particularly those where the Co-operative structure is weak, should not welcome these desirable reforms and implement them. The Committee would recommend that the Department should emphasise the urgency of these reforms on the State Governments through the various forums, including the meetings of Regional Consultative Committees, etc., and ensure their implementation within a set time-limit.
61	4.29	The Committee also note that the Cooperative banks structure is weak in a number of States, particularly in the eastern States and steps are being taken to strengthen it as well as to supplement their efforts by direct financing of primary agricultural credit societies, etc. by the commercial banks. They also note that no significant changes in the existing rural financial infrastructure are envisaged by Government at present. The Committee would however like to stress that commercial banks should profit from the experience of cooperative banks which have been working in agriculture field for a number of years in order to ensure that sound practices which are in the interest of farmers and banks are adopted while those which have led to such a large incidence of bad debits in States in the eastern region are avoided.

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62	4.30	The Committee would also suggest that the Department should ensure that there are cordial relations and full coordination between the various financial agencies operating in the agricultural sector, by a periodic review of the position.
63	4.31	The Committee further recommend that a study of the working of financial institutions in agricultural sector in Japan, particularly their one man service branches should be made by the Department with a view to benefit by their experience and making suitable changes in our own rural financial infra-structure arrangement.
64	4.32(i)	To facilitate giving loans speedily, the idea of issuing pass books to farmers containing full record of the land owned by them, should be vigorously pursued with the State Governments. According to the information available, only Madhya Pradesh Government was stated to have started this experiment. The Secretary of the Department agreed that "the idea is attractive We have everything at one place—all the relevant details regarding the borrower".
65	4.32(ii)	All bank branches in the rural areas should maintain a register giving such particulars/data of agriculturists of the area village-wise as would enable them to have an idea of the total credit needs of that area, the capacity of an agriculturist to take a loan and return it with interest after the harvest. etc. The representative of the Department stated that some such records were being maintained in respect of villages adopted by the banks and the co-operative banks were also maintaining records by way of a "a normal credit statement". The Committee would like the Department to examine this matter in a comprehensive manner in consultation with State Governments. if necesary and isue detailed instructions to the banks in the matter.

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66	4.32(iii)	The scheme of issuing loan account pass books to the borrowers, as is prevalent in the Indian Overseas Banks, should be introduced in all the banks.
67	4.32(iv)	Commercial banks should be allowed to give loans to Adivasi tribal cultivators in States like Madhya Pradesh, Orissa, Andhra Pradesh, Maharashtra, where they constitute a sizeable population and other States on the same "contract" basis as was being done by cooperative banks.
68	4.32(v)	To facilitate grant of loans to sugarcane growers, the direct tie-up arangement between the sugar mills and sugar cane-growers, which exists in certain States (like Andhra Pradesh, Tamil Nadu, Rajasthan) may be extended to other States also (like Bihar, Punjab, U.P.). The possibility of extending this arrangement to khandsari field may also be considered.
69	4.42	The Committee note that unlike other priority sectors, no guidelines have been issued by Government for lending to the small scale industries laying down clearly the principles and the strategy for giving of bank credit to this sector. The Committee regret to note that although the Banking Commission in their report in January, 1972, had pointed out various lacunae in giving bank credit to the small scale industries sector and had made important suggestions like reducing cost of operations; re-orientation of attitudes no instructions have so far been issued in the matter. The delay of over two years in implementing recommendations of a high-powered Commission is a sad reflection on the working of the Government Departments. The Committee would like Government to finalise their decision and issue the necessary instructions to the Banks in this regard.
70	4.43	The Committee also note that unduly long time is being taken by the banks in processing

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		applications of small entrepreneurs and there are delays and difficulties in the clearance of proposals by other concerned agencies even in respect of cases where foreign exchange or help from the banks is assured. Besides, there are deficiencies and draw-backs in the existing methods of security, margins, guarantees, interest rates, service charges, etc. The Committee recommend that the Department should examine all these aspects in a comprehensive manner, in coordination with the Small Scale Industries Board|Department of Industries and thereafter and thereafter issue detailed guidelines to banks and all others concerned.
71	4.44	The Committee are also very much concerned with the availability of finance to the handloom sector which provides extensive employment opportunities to weaker sections of society in rural areas. They note that Sivaraman Committee is examining at present the credit problems of the handloom industries (including traditional handlooms) and desire that this Committee should expedite its recommendations. The Committee would like Government|Banks to examine these recommendations on receipt without loss of time so as to evolve comprehensive guidelines to meet the genuine financial requirements of the artisans working in the handloom sector. The Committee would like to be informed of the concrete action taken in pursuance of these recommendations within six months.
72	4.52	The Committee note that guidelines issued by the R.B.I. in March, 1971 for giving finance to professionals and self-employed sectors "have been taken up for implementation by the banks" with some modification in the guideline for providing technical assistance in an integrated manner. They also note that simplified application forms have been made available in regional languages "in some of the branches" and that no data

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		regarding the generation of employment, accretion output, etc., as a result of the bank assistance, is available.
73	4.53	The Committee are not happy that it should have taken the banks more than three years in implementing the guidelines. They need hardly emphasise that the nationalised banks have a crucial role to play in helping to generate more productive and viable employment. They expect the Banks and the Department to ensure that the guidelines are fully implemented with a sense of urgency and the scope of self-employment schemes is widened. The Committee would also like the Banks to have an adequate follow-up of the schemes and maintain statistics so as to know at any time the number of persons extended assistance (profession-wise) and the accretion to net output and employment.
74	4.54	A careful analysis should also be made of schemes which failed to take off and resulted in bad debts to obviate such mistakes in processing future applications and take effective action against those who failed to safeguard public interest.
75	4.55	The Committee further note that different arrangements are being made by the banks for providing technical consultancy/guidance service to the borowers and the same has not been organised in an integrated manner, as was envisaged in the guidelines. While the Committee see no objection to this, they would like to strike a note of caution that there are already various Government and other agencies in the country providing consultancy services to the small enterpreneurs. It is imperative that there should be no overlapping or duplication in this field. The Committee would like the Department/Banks to be very

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		circumspect in this behalf so as to avoid unnecessary expenditure.
76	4.56	The Committee attach great importance to the extension of assistance to smaller of the Small Scale Units and would like the Department/Banks to take special interest in affording credit facilities in all genuine cases in order to encourage new entrepreneurs with skill but limited finance to enter the field.
77	4.57	The Committee also note that there is no clear distinction between the small scale units assisted under the self-employed sector and those falling within the small scale industries sector. This does not appear to be conducive to the efficient dispensation of credit and proper accounting thereof. The Committee would like the Government to clarify the position.
78	4.60	The Committee note that the banks were first advised by the Department in June, 1973 to involve themselves in the 'Half-a-Million-Jobs-Programme' being implemented by the Planning Commission. Since this did not tantamount to any instructions, certain "areas of action" were spelt out by the Department in September, 1973 but difficulties still continued at the implementation level. The matter was further discussed in a meeting convened by the Planning Commission in November, 1973, as a result of which though "target per branch was not fixed...a specific duty has been cast that each branch should assist the proposals as they come to the branches." The Committee further find that there has also not been any close follow up of the instructions issued by the Department.
79	4.61	The Committee are not impressed at the manner in which the Government's plan for creating half-a-million-jobs opportunities on urgent basis has been dealt with by Banks. They

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		need hardly point out that had there been full involvement right from the inception of the scheme, there would have been more concrete results to show. The Committee would like the Department/Banks to see that while all viable schemes which are resources generating and labour intensive are encouraged, the objective is not got defeated by casual examination and acceptance of schemes which are not viable and would result in waste of funds. The Committee would like the Department/Banks to have a close follow up of the implementation of the schemes in order to achieve the objective of creating atleast 3.75 lakhs schemes in 1974-75 and laying a sound condition for accelerating the pace of implementation in succeeding years. The Committee would also suggest that the achievements under this scheme should be prominently mentioned in the Annual Report and the difficulties encountered and measures taken to overcome them mentioned to some length.
80	4.67	The Committee note that though no distinct guidelines have been issued by Government for road and water transport operators retail traders and small businessmen and education sectors, guidelines issued for professionals and self-employed sector are stated to cover these sectors also. They also note that groupwise break-up of advances in a sector is not available nor any data regarding the impact of assistance in making the beneficiaries viable, increase achieved in sales turnover etc. is maintained. The Committee have already stressed (para 4.15 loc-cit) the need for maintaining such data.
81	4.68	The Committee would also like the Department to monitor the progress made in implementation of various schemes to make sure that assistance is going to sectors for which it was intended and that it resulted in achievement of

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		objectives underlying the schemes. The Department should keep a watch on the difficulties encountered in implementation of schemes so as to resolve them speedily in the interest of speedier implementation. The Committee would also like a special watch to be kept on the percentage of bad debts in order to make sure that the resources are not frittered away.
82	4.69	The Committee further note that though the various schemes devised by the banks are stated to have been advertised, there is likelihood that many people in different parts of the country may not still be aware of schemes and may not therefore take full advantage of these schemes. As agreed to during evidence wider publicity should be given to these schemes.
83	5.5	The Committee note that as at end of June, 1972, the all-India percentage of recovery of agricultural advances made by public sector banks in various States was 50.7 per cent. In some of the States, however, the recovery has been less than 25 per cent. The Committee also note that though no assessment of the extent of defaults or bad debts under various sectors, has yet been made by Government, no difficulties are expected in recovery as the advances are secured by tangible security or covered under the credit guarantee schemes. So far, 59 cases involving an amount of Rs. 2.01 lakhs are stated to have been referred by banks to Credit Guarantee Corporation for compensation.
84	5.6	Nevertheless, the Committee would like to caution the banks and the Department that they are cutodians of public money and should not lightly compromise the chances of recovery. The Committee recommend that the Department should make an immediate assessment of the recovery position under each of the priority sectors with a view to improving the position

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		of Banks lagging behind in this respect, strengthening the vigilance organisations of the banks, streamlining recovery procedures and laying down stricter guidelines to obviate incidence of bad debts.
85	5.7	The Committee would also like Government to critically examine the position in the review meeting with the bank managements also so as to take remedial measures in time in the interest of husbanding resources for productive purposes in the larger interest of the nation.
86	5.8	The Committee would like a detailed analysis of bad debts under various sectors to be mentioned in the Annual Reports of banks/department together with significant details of the experience gathered and the remedial measures taken to reduce the incidence of bad debts.
87	5.15	The Committee note that a Credit Guarantee Corporation of India Ltd. was set up in January, 1971, with participation by banks, to cover credit facilities afforded by various financial institutions to small borrowers. They also note that upto September, 1972 the advances of all institutions covered by the Corporation amounted to Rs. 173.42 crores (i.e. in 1 year 9 months time) as against the annual average advances of Rs. 214 crores of public sector banks alone to priority sectors. The Committee feel that the scope and coverage of the Corporation needs to be considerably enlarged and its methods and procedures further rationalised so as to give a real impetus to lending to weaker sections of society by the banks and for development of backward areas. The Committee, therefore, recommend that Government should immediately have a review of the working of the Corporation undertaken in order to enlarge its scope and coverage, and bringing the credit

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		guarantee scheme administered by Reserve Bank of India for small scales industries under its ambit, as was agreed to during evidence.
88	6.7	The Committee note that during the 3½ years period after nationalisation i.e. from July, 1969 to end of 1972 the nationalised banks have paid dividends to the extent of Rs. 15.11 crores to Government, besides adding Rs. 12.04 crores to their reserves. The net profits as a percentage of working funds have, however, declined from 0.21 per cent in 1968 to 0.13 per cent in 1972 and the return on capital i.e. ratio of dividends to share capital plus reserves came down from 6.52 per cent to 5.29 per cent during the same period. The downward trend in profitability is noticeable in all the banks but in four banks, particularly in one of them, it is very much pronounced.
89	6.8	Hhe Committee also note that due to social obligations after nationalisation, Government expect a return of 5.5 per cent from the nationalised banks. While the Committee recognise that the social obligations enjoined on banks are a constraint on earning maximum possible profits, they feel that there is considerable scope for reducing servicing costs of the banks by better management and rationalisation of staff, as was admitted by the Secretary of the Department during evidence. There is no denying the fact that there is scope to instil a greater degree of cost consciousness among the nationalised banks and to bring about a substantial cost reduction in their establishment, overtime and other expenses. The Committee would like the matter of cost reduction to be gone into in earnestness with a view to see that banks provide a worthy example of efficient and economic functioning in the interest of husbanding resources for national development. The Com-

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		mittee need hardly emphasise that it is necessary for the Banks to keep their overheads and establishment charges to the minimum. For this purpose, a regular cost analysis of each Branch should be conducted by the Banks to ensure that their administrative and staff expenses etc. are commensurate with the work-load and the resources generated.
90	6.9	The Committee are concerned about the "sad state of affairs" of one of the banks for which a fact-finding Committee is stated to have already been appointed. The Committee would like to sound a note of caution and stress that timely measures should be taken not only to rectify the position in the affected bank but to see that such a situation is not allowed to come to a pass in other banks.
91	6.10	The Committee also note that Government do not consider it necessary to spell out the social and economic obligations of the nationalised banks as "the two go together". The Committee, however, feel that for a proper appraisal of the performance of the banks, and avoid any uniformed criticism about their working as also to make the managements well aware of their social and economic responsibilities, it would be desirable if Government make a comprehensive and clear statement on the objectives and obligations of the nationalised banks, laying down *inter-alia* their social obligations, return expected on capital, generation of surpluses etc. The Committee would like Government to lay the statement defining in detail the objectives and obligations of the nationalised banks on the Tables of the two Houses of Parliament so that the parameters for judging the performance of the banks become clear.

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92	6.13	The Committee are concerned to note that there had been arrears in reconciliation of branch accounts in seven banks and in one of them, the position had been "bad" for quite some time past. This is a sad reflection on the efficiency of managements of these banks. The Committee expect the Reserve Bank of India and the Board of Directors of the concerned banks to take concerted measures immediately for clearance of the backlog in accounts reconciliation by a specified period and also to ensure that it does not fall into arrears in future. The Committee would like managements of other nationalised banks to see that reconciliation of branch accounts is done in time and arrears are not allowed to accumulate.
93	6.19	The Committee note that new Boards of Directors of the nationalised banks were constituted by Government in December, 1972, which besides having representatives of Government, Reserve Bank of India, employees, depositors, and artisans, include academicians, journalists, farmers, small scale industrialists and persons from backward and tribal areas. They also note that various sources are consulted by the Department in making the panels of persons suitable for appointment to different boards.
94	6.20	The Committee would, however, like to emphasise that the performance of an organisation depends largely on the quality and effectiveness of its top management. It should be the prime concern of Government to see that in making appointments to Boards, they select the best persons available for these positions who can devote the time and attention that their duties as board members demand and above all, who have at heart weaker sections of society.

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95	6.21	The Committee would therefore like Government to periodically review whether the Board members are able to do justice to their assignments and improve upon the manner of making these appointments as a result thereof. The desirability of laying down minimum qualifications for the board membership may also be considered. The Committee would like to be informed within six months of the specific action taken in implementation of this suggestion.
96	6.22	The Committee also suggest that the Boards of Directors of all the banks should have a look at their reporting systems so as to ensure that it is adequate enough to keep them contemporaneously informed about trends in deposit mobilisation, loans to priority sectors/backward areas, disposal of loan applications, branch expansion, profitability, decentralisation of powers, manpower development and training, establishment and overhead expenses etc., and focus attention on all vital aspects needed for management control. The Committee also expect Government Directors to exercise due vigilance in bringing problems requiring Government intervention to the notice of the Department in time along with their specific suggestions to resolve them.
97	6.27	The Committee note that certain steps had been taken in the past to simplify banks' loan application forms and procedures in respect of advances under all the sectors and to delegate powers to various levels for quick disposal of most of the loan proposals. They also note that no time limit had been laid down for disposal of loan applications except those made under the 'Half-a-million-jobs-programme' for which a limit of 2 months has been prescribed. From the non-official evidence and during their tours,

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		the Committee gathered the impression that banks are even now taking 6 months to one year's time for disposal of a loan application due to cumbersome forms and procedures and that many levels are involved in taking decisions. They also find that there are a number of different application forms in each bank for different loans under every sector. It thus appears that serious efforts have not been made at standardising the proformae or making them available in all the regional languages.
98	6.28	The Committee are very much exercised about the excessive delays in the disposal of loan applications after bank nationalisation, despite some attempts at simplification of the formats and procedures. The Committee recommend that the Department of Banking should make an immediate assessment of the average time taken by banks in disposal of loan applications and thereafter take concrete remedial measures for bringing about speedy improvement of the position, including further simplification of the formats and procedures and their standardisation, decentralisation of powers and prescribing a suitable time limit for disposal of loan proposals. The Committee would like the Department to examine critically the performance in this behalf at the review meetings.
99	6.34	The Committee are very much perturbed to note that work motivation in banks has become less and less and service to the clients is not receiving appropriate attention. The Committee would like to remind in this context the promise of "improved service" to the general public made at the time of bank nationalisation. The lowering of efficiency and work standards in a sensitive organisation like Banking is a matter of deep concern. The Committee would like the matter to be examined in depth and a

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		sustained drive launched to improve the image of banks as a service organisation to the public.
100	6.35	The Committee also note that necessary machinery exists in the banks for redressal of grievances of the employees and with the inclusion of their representatives on Boards of Directors there is some improvement in the employees management relations and other measures are also under way to secure greater involvement of staff in the efficient working of the banks. The Committee expect the bank managements and employees to conduct themselves in a manner that may stand out as an example to others in the country.
101	6.36	The Committee would also suggest that the management should try their best to resolve without delay the genuine difficulties experienced by the employees and not allow the grievances of employees to accumulate in the interest of sustaining efficient service.
102	6.37	The Committee also note that measures are in hand to improve the procedure of recruitment of staff in the banks. They hope that a suitable uniform system for staff recruitment in all the nationalised banks will soon be evolved by the Department and given effect to in the interest of attracting best talent.
103	6.45	The Committee note that each bank is having its own training arrangements rather than promoting training on a common basis as was envisaged at the time of bank nationalisation and there are a total of 16 training colleges and 90 training centres of public sector banks. They also note that a Committee of Direction for Formulation and Implementation of Training programmes has been constituted by the Department to direct the training programmes of public sector banks and its suggestions re-

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		garding full utilisation of training capacity, defining training backlog and clearing it, job rotation, change in contents of courses etc. are under implementation by the banks.
104	6.46	The Committee consider that the utilisation of present training capacity and contents of courses need a thorough reorientation so as to ensure that there is no waste of scarce resources and the training in designed to meet adequately the growing demands of banks for the right type of personnel for manning the new branches. The objectives of bank nationalisation and the sympathetic treatment required to be meted out to the weaker sections of society have to be brought home to trainees through regular/refresher courses. The Committee desire that departmental Committee of Direction for Formulation and Implementation of training programmes should keep this objective prominently in view while finalising training programmes.
105	6.47	The Committee would also suggest that eminent University Professors, who are concerned with the subject of Banking, should be closely associated with the drawing up of syllabus in the Training Colleges/Centres of the Banks and the syllabus should be periodically evaluated and reviewed in consultation with them and other experts in the field so as to incorporate latest developments in Banking.
106	6.48	The Committee further suggest that the Department/Banks should also study the methods of training in Bank Management followed in other countries, particularly Japan, U.K., France, U.S.A., West Germany etc. so as to adapt their significant features and points, applicable to our system of Banking, in the training courses imparted by the Banks.

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107	6.54	The Committee note that so far Government have not found it necessary to issue any directions to public sector banks and the various guidelines on priority sectors finance etc. have been issued to banks through the medium of the R.B.I. They further note that necessary balance has been maintained by Government "between the rights of the owner and the autonomy of the banks". While the Committee do not favour any undue erosion of the autonomy of the banks, they expect the Department of Banking also not to be unmindful of their obligations to safeguard the public interests and to ensure that the banks fulfil the objectives for which they were nationalised.
108	6.55	The Committee further note that the Department is manned by a Secretary, an Additional Secretary, five Joint Secretaries, assisted by Director/Deputy Secretary and a complement of other officers and staff. The total staff strength of the Department increased from 79 in February, 1970 to 205 in February, 1974, with annual expenditure rising from Rs. 2.46 lakhs to Rs. 17.83 lakhs. The Committee hope that with this strengthening of the Department and the active assistance of the Reserve Bank of India it would be possible for the Government to keep effective watch over the working of the banks with particular reference to the effective implementation of the socio-economic goals set before them.
109	6.59	The Committee note that half-yearly progress reports are obtained by the Department from banks covering various aspects of their working. As these reports are quite voluminous the Committee are not sure whether the Department of Banking finds them useful for informing themselves about problems of the banks or

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		assessing their performance. The Committee therefore recommend that the Department should review the proforma prescribed for these half-yearly reports and the information received in response thereto so as to cut out non-essential information and to concentrate on items which are important for the exercise of check at key points and for providing Government with timely information about the true picture of functioning of a bank.
110	6.60	The Committee also note that for exchange of views on various matters affecting the banks, meetings of Chief Executives of banks are held with the Finance Minister. These such meetings were held in 1970, two each in 1971 and 1973 but no meeting was held in 1972 on the plea that most of the banks were represented at the Regional Consultative Committee meetings held in that year, etc. Evidently this is not a valid reason for not convening any meeting during 1972. The Committee attach great importance to these meetings and hope that they would be convened at regular intervals for thrashing out specific common problems affecting the banks. The Committee also need hardly emphasise that what is more important is the implementation of the suggestions emerging out of such meetings through efficient follow up action.
111	6.61	The Committee further note that after 1970, six Regional Consultative Committees were set up by the Government to review banking developments in the respective regions and make suggestions for improvement. The Committee are, however, constrained to observe that since their inception, these Committees have not only once except the Southern and Northern region Committees which met twice. The plea advanced that the Department had to take "some

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		positive action" on the suggestions made at first meetings before calling further meeting is not tenable. It needs no emphasis that meetings of these Committees help in greater coordination between the banks and State developmental agencies, apart from enabling the Department to know the reactions of the State Governments about the working of banks. The Committee stress that meetings of these Committees should be held at regular intervals in future and there is close follow-up to ensure timely action.
112	6.63	The Committee trust that the Department and the R.B.I. would soon take effective measures for improvement in the presentation of banking statistics which is so vital for any analytical study or appraisal of performance. They would also suggest that statistics relating to public sector banks should be brought out separately in the R.B.I. Bulletins and other publications.
113	6.66	The Committee note that the Annual Reports of the nationalised banks in respect of each of the last two years had been presented by Government to Parliament during the Monsoon Session *i.e.* during the month of July of the succeeding year and that this would be done in future also.
114	6.67	The Committee appreciate the readiness of the Ministry to present to Parliament a separate consolidated report reviewing the working of all the public sector banks, as is done in the case of public sector undertakings. In this connection the Committee would, however, like to invite the attention of the Department to para 14.5 of their 24th Report (1972-73) on Revision of the Form and Contents of Demands for Grants and 46th Report of the Committee on Public. Undertakings (1973-74) in which suggestions have been made for improving the information

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		given in the consolidated report on public undertakings. The Department may consider those suggestions in preparing a suitable consolidated report on public sector banks the idea being that the report should contain information on all vital aspects affecting the banks in a properly analysed and intelligible manner to enable the Members of Parliament and the public to judge the efficiency of service rendered by the banks and in particular the achievement of socio-economic objectives underlying nationalisation. The Committee would like the Department to present this consolidated report on the banks along with the annual reports of individual banks.

APPENDIX VI

(*Vide* Introduction)

ANALYSIS OF RECOMMENDATIONS/CONCLUSIONS CONTAINED IN THE REPORT

I. *CLASSIFICATION OF RECOMMENDATIONS*

A. Recommendations for improving the organisation and working:

Serial Nos. 3-34, 39-47, 49-85, 87, 88, 90-111

B. Recommendations for effecting economy:

Serial Nos, 35-38, 89

C. Miscellaneous Recommendations:

Serial Nos. 1, 2, 48, 86, 112—114

II. ANALYSIS OF RECOMMENDATIONS DIRECTED TOWARDS ECONOMY:

Sl. Nos. as per summary of Recommendations (Appendix V)	Particulars
35-38 . .	Need for a Comprehensive review of working of new branches/offices in order to reduce overheads, economise in establishment costs by prescribing staffing criteria work norms, etc, and also to lay down guidelines for opening of new branches,
89 . . .	Need for cost reduction to be gone into in earnestness in various banks and reduce servicing costs by better management and rationalisation of staff.

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