EC No. 885

ESTIMATES COMMITTEE

(SIXTH LOK SABHA)

EIGHTEENTH REPORT

MINISTRY OF FINANCE

DEPARTMENT OF ECONOMIC AFFAIRS (BANKING DIVISION)

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

Presented to Lok Sabha on 20 APR 1978

LOK SABHA SECRETARIAT
NEW DELHI

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CORRIGENDA TO

Eighteenth Report of Estimates Committee (1977-78) on the Ministry off Finance, Department of Economic Affairs (Banking Division) - Extension of Credit Facilities to Weaker Sections of Society and for Development of Backward Areas.

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144		1	coordination	coordinating
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152		10	exten	extend
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(1977-78)

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30. *Shri Roop Nath Singh Yadav.

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*Elected w.e.f. 30-11-1977 *vice* Shri Samar Guha resigned and Shrimati Renuka Devi Barkataki, Sarvashri S. Kundu, Janeshwar Mishra, Fazlur Rehman and Sher Singh ceased to be members on their appointment as Ministers of State.

SECRETARIAT

Shri B. K. Mukherjee—*Joint Secretary.*

Shri K. S. Bhalla—*Chief Financial Committee Officer.*

Shri H. C. Bahl—*Senior Financial Committee Officer.*

SUB-COMMITTEE ON CREDIT FACILITIES TO WEAKER SECTIONS OF SOCIETY AND FOR DEVELOPMENT OF BACKWARD AREAS.

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8. Shri N. K. Shejwalkar
9. Shri Annasaheb P. Shinde
10. Shri Amrit Nahata
11. Shri K. P. Unnikrishnan

INTRODUCTION

I, the Chairman of Estimates Committee, having been authorised by the Committee to submit the report on their behalf present this 18th Report on the Ministry of Finance, Department of Economic Affairs (Banking Division)—Extension of Credit Facilities to Weaker Sections of Society and for Development of Backward Areas.

2. The subject was taken up for examination by the Estimates Committee (1976-77). Necessary information was obtained and evidence of the representatives of the Ministries of Finance, Department of Economic Affairs (Banking Division), Agriculture & Irrigation (Department of Rural Development), Industry and Home Affairs, Planning Commission and Reserve Bank of India was taken by them. The Committee, however, could not finalise their report due to the dissolution of the Lok Sabha on the 18th January, 1977.

3. The Estimates Committee (1977-78) appointed a Sub-Committee to finalise the report on the subject. On the basis of evidence tendered before the previous Committee (1976-77) and on the basis of additional information obtained by the Sub-Committee, the Sub-Committee finalised the report at their sittings held on 25 August, 1977 and 3, 6 and 9 March, 1978. The report of the Sub-Committee was considered and adopted by the Estimates Committee at their sitting held on 21 March, 1978.

4. The Committee place on record their appreciation of commendable work done by the Chairman and members of the Estimates Committee (1976-77) in taking evidence and obtaining information for this report.

5. The Committee wish to express their thanks to the Officers of the Ministry of Finance, Department of Economic Affairs (Banking Division) and other Ministries/Departments of the Government of India and the Reserve Bank of India for placing before them material and information which they desired in connection with the examination of the subject and for giving evidence before the Committee.

6. For facility of reference the observations/recommendations of the Committee have been printed in thick type in the body of the report. A summary of the observations/recommendations is appended to the Report (Appendix IX).

NEW DELHI;
April 20, 1978.
Chaitra **30**, 1900(*S*).

SATYENDRA NARAYAN SINHA,
Chairman,
Estimates Committee.

CHAPTER I

INTRODUCTORY

1.1. The Estimates Committee (1973-74) examined the various aspects and problems relating to the Credit Facilities to Weaker Sections of Society and for Development of Backward Areas and presented their 62nd Report (Fifth Lok Sabha) on the Ministry of Finance (Deparment of Banking) on the 26th April, 1974. This report contained 114 recommendations in all.

1.2. The Government's replies to these recommendations indicating action taken to implement them were examined and commented upon in the Eighty Fourth Report (1975-76) (Fifth Lok Sabha) on the Action Taken by Government on the recommendations contained in the original (62nd) Report which was presented to the Lok Sabha on the 15th January, 1976. According to this report, out of 114 recommendations, 75 recommendations had been accepted by Government, and the Committee did not desire to pursue 25 recommendations. Replies of the Government in respect of 12 recommendations had not been accepted by the Committee and final replies of Government in respect of two recommendations were still awaited at the time of presenting the Action Taken Report.

1.3. The Estimates Committee (1976-77) at their sitting held on the 7th May, 1976 decided to pursue the Government *inter alia* the action taken by Government to implement certain recommendations contained in the 62nd and 84th Reports of the Committee (Fifth Lok Sabha).

1.4. The Committee took the evidence of the representatives of the Department of Revenue and Banking (Banking Wing) on the 14th & 15th January, 1977.

1.5. The various matters taken up by the Committee and the recommendations in this regard are dealt with in the subsequent chapters.

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CHAPTER II

GROWTH OF DEPOSITS AND CREDIT EXTENSION TO WEAKER SECTIONS

A. Growth of Deposits

2.1. In paragraphs 2.5 and 2.6 of their 62nd Report the Estimates Committee had taken note of the fact 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. The deposits of the Public Sector banks had risen from Rs. 3871 crores in June, 1969 to Rs. 8354 crores in December, 1973 *i.e.*, an increase of Rs. 4483 crores which would work out to about Rs. 996 crores per year on an average. In the Fifth Plan, an overall projects of additional resources mobilisation of Rs. 1,560 crores had been made for the banking system as a whole, out of which the share of banks in the public sector was of the order of Rs. 9000 crores which worked out to mobilisation of additional deposits at the rate of Rs. 1800 crores per year. The Committee had stressed that if this ambitious target which practically implied doubling of deposit mobilisation achieved during the Fourth Plan period, was to be realised, a far more systematic and intensive drive would have to be made. The Committee had, therefore recommended 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 were to be prepared by the banks. The Committee further stressed 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 were realised.

2.2. While accepting the recommendations of the Committee, the Minister stated that the need for a properly conceived plan for deposit mobilisation was recognised by all public sector banks. As part of their annual business plans, these banks have been formulating annual targets for deposit mobilisation and also evolving suitable schemes for achieving them. In arriving at the annual targets, the banks take into account the past trends as well as the potential in different regions and areas, as assessed by the regional and branch offices.

2.3. The Committee, in their 84th Report (Action Taken) again stressed that a close watch should be kept in deposit mobilisation and efforts should be intensified to reach the target set in the draft Fifth Plan.

2.4. The Ministry were asked to furnish information about the broad features of the scheme formulated in this regard, the extent to which the annual targets were achieved, and the concrete measures taken to intensify the deposit mobilisation effort. In a written reply the Ministry have stated:

> "With a view to inducing potential savers to effect savings and deposit these savings in the banking system, the public sector banks have evolved large number of specific schemes to suit the varying requirement of the depositors. There are recurring deposit schemes which enable persons with fixed periodical income to save for specific contingencies like childrens' education, daughters' wedding, house construction etc. Banks also have schemes of deposit mobilisation involving collection of deposits everyday in small amount to suit the requirements of small daily wage earners. Annuity|retirements facilities are also made available to suit the requirements of persons who have received a lump-sum and would desire to have regular monthly income. Banks are also offering insurance linked deposits wherein the life of the depositor is insured for specified sum. In some cases, the banks have offered the security to Janata Insurance Policy to the depositors. In order to involve the staff and to motivate them for greater efforts in mobilising deposits, banks have incentives schemes like branch-wise prizes for deposit mobilisation. Improved customer service is an-another important strategy which is now being paid attention to by the banks for deposit mobilisation."

2.5. The Department of Revenue and Banking, in their consolidated Report on the working of public sector banks for the year ended December 31, 1975 have stated that the continued geographical spread in the net work of the branches of public sector banks and the concerted efforts made by them in mobilising public saving has enabled the public sector banks to maintain and accelerate the momentum of growth in deposits in the year 1975 also. The total deposits of these banks increased from Rs. 9768 crores as at the end of December, 1974 to Rs. 11,488 crores as at the end of December, 1975 the percentage increase during the year was 17.6 against 13.8 in 1974. (Bank-wise details given in Appendix-I). In a note furnished by the Ministry in November, 1977, it has been stated that as at the end of June 1977 the total deposits of public sector banks amounted to Rs. 15911 crores as compared to Rs. 12816 crores at the end of June, 1976. Thus, during the 12 months ended June, 1977, the deposits of public sector banks increased by Rs. 3095 crores or by 24.1 per cent compared to an increase of Rs. 2262 crores or by 21.4 per cent during the 12 months ended June, 1976.

2.6. From the bank-wise details regarding increase in deposits, it is noticed that the performance of various nationalised banks during the year 1975 in deposit mobilisation varies widely. The increase in deposits during the year in respect of Union Bank of India was to the extent of 39 per cent, Indian overseas Bank 31.6 per cent, United Commercial Bank 11.5 per cent and Punjab National Bank 13.9 per cent.

2.7. During the course of evidence of the representation of the Department of Revenue and Banking (Banking Wing), the Committee asked whether any overall yearly targets had been fixed for deposit mobilisation in view of various schemes launched by banks. The Secretary of the Department stated:—

> "As far as giving the deposit figures are concerned, there are not so much the targets laid down by the Reserve Bank. As you know, the whole expansion of deposits in a particular year is not only the function of the banks' own ability to mobilise the deposits. There are other monetary factors also, such as, increase in the money supply and so on. On that basis, from year to year, the Reserve Bank does estimate what the deposit growth is likely to be. They estimate what is the total money supply, how much is in currency and how much in deposits and so on. This is done at the aggregate level. Each individual bank on the basis of its own performance budget tries to estimate and have a target as to what the deposit ought to be at the end of a particular year. The yearly targets that are fixed for deposit mobilisation are fixed individually by the banks."

2.8. The Committee asked during evidence whether those targets were by and large achieved or whether ther were any shortfalls. The Secretary of the Department stated:—

> "We have the total figures here for the 14 nationalised banks and the State Bank of India. The targets for the year ending December, 1976 were Rs. 14,214 crores and the achievement was Rs. 14,133 crores. It was very close. In some cases the target has been exceeded, in some it is slightly lower; the individual variations are there. In the case of a bank which has done better, which has exceeded the target, variation was Rs. 80 crores. In the case of a bank which did less than the target, the variation was Rs. 30 crores."

2.9. With regard to deployment of deposit raised from rural areas, the Working Group on Rural Banks in their Report, (July, 1975) stated:

> "Many, if not most, of the rural banks branches are what the banks call deposit centres rather than advance centres. In other words, while commercial banks have been relatively successful in mobilisation of deposits in the rural areas, their credit dispensation in most rural branches is not adequate to earn for them sufficient income to make these branches viable. While, from the narrow accounting point of view, this may well be so, it raises another set of issues, namely, that the rural branches of banks which, by definition, operate in the economically weaker areas of the country, far from being the media of transmission of funds from the central money markets, to the agricultutral economy are providing to be instruments for the reverse transmission of funds from the rural areas to the urban and metropolitan centres. Clearly, this trend needs to be reverted and funds generated in the rural areas deployed in the area itself."

2.10. According to a statement furnished to the Committee, the deposits of Scheduled Commercial Banks, in respect of rural population group, increased from Rs. 654 crores in June, 1973 to Rs. 1029 crores in June, 1975, while the advances to this group increased from Rs. 309 crores to Rs. 536 crores during this period. The credit deposit ratio in the case of the rural population group worked out to 52.1 per cent. It is seen that the increase of deposits in this case has been more than the advances.

2.11. In respect of Urban and Metropolitan groups the deposits during the same period increased from Rs. 2322 crores and Rs. 4052 crores to Rs. 3108 crores and Rs. 5687 crores respectively. Correspondingly, the advances increased from Rs. 1428 crores to Rs. 3108 crores in urban areas and from Rs. 3725 crores to Rs. 5687 crores in metropolitan areas. The credit deposit ratio in these areas being 70.7 per cent and 88.2 per cent respectively. As per figures furnished by the Ministry in November, 1977, the deposits of scheduled commercial Banks in respect of rural population group as at the end of December, 1976 rose to Rs. 1576 crores while the advances increased to Rs. 950 crores, the credit deposit ratio being 57.44 per cent. The comparative figures for urban and metropolitan population groups show that the deposits during the same period increased to Rs. 4337 crores and Rs. 7767 crores respectively while the advances were to the tune of Rs. 2774 crores and Rs. 7960 crores respectively. The Credit deposit ratio in these groups being 63.96 per cent and 102.49 per cent respectively.

2.12. During the evidence, when asked to state the steps taken by the Government to arrest this reverse trend in rural branches the Secretary of the Department stated:—

> "The funds that are generated in the rural areas by way of deposits should be deployed in those areas themselves. That is what the Working Group has also recommended. In order to arrest the reverse trend, we try to get the commercial banks to engage themselves more in lending in the rural areas.
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> ** ** **
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> The working group had also said that if they (the banks) have to satisfy their investment requirement in term of Banking Regulation Act, then those investments should have local orientation."

2.13. The Committee note that during the Fourth Plan, the average increase of deposit of public sector banks was to the extent of Rs. 996 crores per year. For the Fifth Plan the share of the public sector banks for the resource mobilisation is of the order of 9000 crores which works out to an increase in deposits at the rate of Rs. 1800 crores per year. The Committee would like to observe that this rate of increase would be deflated if the price-rise is taken into consideration.

2.14. The Committee note that the total deposits of the Public Sector Banks increased from Rs. 9768 crores at the end of December, 1974 to Rs. 11488 crores at the end of December, 1975, the increase being Rs. 1856 crores. The deposits further increased to Rs. 12816 crores at the end of June, 1976 and Rs. 15911 crores at the end of June, 1977, the percentage increase during these years being 21.4 and 24.1 respectively. a target for each year for deposit mobilisation individually.

2.15. The Committee understand that the Reserve Bank of India does not fix any annual targets for the deposits mobilisation; the Bank only prepares an overall estimate of the deposit growth and money supply. Each individual bank on the basis of its own performance budget tries to estimate and have a target for each years for deposit mobilisation individually.

2.16. The Committee, however, note that the performance of the various nationalised banks in deposit mobilisation during the year 1975 varied widely. The performance of some of the banks had been commendable. These banks included Union Bank of India which recorded an increase of 36 per cent followed by Indian Overseas Bank with an increase of 31.6 per cent. The Committee suggest that the schemes and promotional technique adopted by these banks may be commended for adoption by other nationalised banks also in order to improve their performance. The Committee

also suggest that the reasons for deficiencies in the performance of the banks which have recorded comparatively lower percentage in deposits, may be studied and remedial action taken.

2.17. The Committee note that the increase in deposits during the year 1975 approximated to the annual increase of Rs. 1800 crores envisaged for the Fifth Plan. The percentage increase in deposits during the period of 18 months from January, 1976 to June, 1977 also exceeded their annual target. The Committee hope that the banks would continue to devote special attention to the mobilisation of public savings schemes and giving publicity to them. The Committee also desire that the Reserve Bank should keep a close watch over the fulfilment of the targets by the nationalised banks in order to take remedial measures in cases where the performance of banks has not been satisfactory.

2.18. The Committee note with concern that though the Commercial Banks have been relatively successful in deposit mobilisation in rural areas, their credit dispensation in rural branches has not been adequate as compared with urban and metropolitan areas. The deposits of scheduled Commercial Banks in respect of rural population group increased from Rs. 654 crores in June, 1973 to Rs. 1029 crores in June, 1975 while the advances to this Group increased from Rs. 309 crores to Rs. 536 crores during this period. The comparative figures in respect of urban and metropolitan groups show that the deposits during the same period increased from 2322 crores and Rs. 4052 crores to Rs. 3108 and 5687 crores respectively while the advances increased from Rs. 1428 crores to Rs. 3108 crores in urban areas and from Rs. 3725 crores to Rs. 5687 crores in metropolitan areas. The credit deposit ratio in urban and metropolitan areas being 70.7 per cent and 88.2 per cent respectively as compared to 52.1 per cent in rural areas. Again the figures as at the end of December, Rs. 7960 crores respectively, . the credit deposit ratio in these groups of rural population group rose to Rs. 1576 crores while the advances increased to Rs. 905, the credit deposit ratio being 57.44 per cent. The comparative figures in respect of urban and metropolitan population groups for the same period show that their deposits increased to Rs. 4337 crores and Rs. 7767 crores respectively while the advances rose to Rs. 2774 crores and Rs. 7960 crores respectively, the credit deposit ratio in these groups being 63.96 per cent and 102.49 per cent respectively. It is a matter of concern that rural branches of banks which operate in weaker areas of the country, far from being media of transmission of funds from centres of money markets to agricultural economy, are providing to be instruments for reverse transmission of funds from rural areas to the urban areas and metropolitan centres.

2.19. The Committee are unhappy at this reverse transmission of funds from rural areas to urban areas which goes against the concept behind the

nationalisation of banks and pronounced policy of Government to improve the rural economy and direct fund from the central money markets to agricultural economy and other priority sectors. The Committee, therefore, stress the urgent need to arrest this reverse trends so that the funds generated in the rural areas are deployed largely for the development of these areas. The Committee consider it of the utmost importance that the deposit mobilisation schemes for rural and under-developed areas should go hand in hand with the formulation of development schemes and district plans so that the funds mobilised from the rural areas are utilised for the development and uplift of these areas.

B. Credit Extension of Weaker Sections of Society

(a) *Assessment of Credit requirements/gaps.*

2.20. In paragraph 2.12 to 2.14 of their 62nd Report the Estimates Committee (1973-74) had observed that though the banks were nationalised mainly to provide for the credit needs of the weaker sections of society, no study had 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. The Committee had also noted that before nationalisation, estimates of some of the credit requirements/gaps made by the Gadgil Committee and All India Rural Credit Survey Committee in regard to agriculture and small scale industries, were in the nature of a rough guess. Also the estimates for the Fifth Plan were based on the assumption that there would be no price rise during the Plan period. The Committee had recommended that necessary studies should be immediately undertaken by the Department to assess that credit gaps in agriculture and other priority sectors through bank branches or other appropriate agencies and thereafter an integrated plan of action should be prepared so as to gradually achieve the objective of meeting the requirements of these sectors by a time bound programme.

2.21. In their reply, the Department of Revenue and Banking stated that some work to identify areas in which the availability of bank credit can play a useful catalyst role had already been done. Each of the survey reports, conducted as part of the Lead Bank Scheme, does indicate important areas of credit gaps. The Department had however, admitted that these could not be regarded as adequate in relation to requirements. According to the Department of Revenue and Banking, the performance budgets and the indepth studies which were then being undertaken would enable the banks to determine the credit potential of the command areas of their branches. It was further stated by the Department that the emphasis would be on identifying viable schemes for which banks could extend credit. That would enable the banks to progress in a planned manner towards the specific targets for the agriculture and small scale industries sectors in the Fifth Plan documents. In their 84th Report, the Committee expressed hope that the introduction of the performance budget and indepth studies which were being undertaken in an increasing number of areas, would enable the banks to determine the credit potential of the command areas of their branches. Reiterating their earlier recommendations the Committee stressed that need to undertake necessary studies to assess the credit gap in agriculture and other priority sectors through bank branches and other appropriate agencies expeditiously and thereafter prepare an integrated plan of action so as to achieve the objective of meeting substantially the requirements of these sectors by a time bound programme. The Committee also stressed that credit extension programme for priority sectors should not be based on 'assumptions' or 'rough guess' of requirements but on scientific and realistic assessment.

2.22. The Department of Revenue and Banking were asked to state whether necessary studies to assess the credit gap in agricultural and other priority sectors through bank branches and other agencies had been made and whether an integrated plan to meet the requirements of these sectors, prepared and what steps had been taken to implement it. The Department of Revenue and Banking in a written reply stated that Lead Banks were undertaking the preparation of detailed district credit plans with the active participation of Government agencies and other commercial and cooperative banks and financial agencies. While preparing such plans, they primarily take into consideration the credit requirements of such sectors as agriculture, small scale industry, retail trade and business, transport, professional and self-employed persons. One of the important tasks of the lead banks is to prepare technically feasible and economically viable schemes within the broad area of priority sector and dovetail them into district development plans, wherever possible.

2.23. The Department have further stated that Government have also enjoined on public sector banks the duty to initiate appropriate action for stepping up advances to priority sectors in a planned and systematic manner so that overall target of lending *i.e.*, 33-1/3 per cent aggregate advances, to priority sectors is achieved by the end of the 5th Five Year Plan. Bank's plan for lending to priority sectors forms an integral part of the business plan and performance budget.

2.24. To a question whether a review of the list of priority sectors had been undertaken to see if any change therein was needed in view of the change in circumstances, the Department have replied that they fully share the concern of the Committee for ensuring that benefits of the bank credit reach the weaker sections of the society. It has been the accepted policy of the Government and the banking system to make credit available to the weaker sections of the society on an increasing scale. Loans and advances to weaker sections of the community from an integral part of the priority sector, which covers such sectors as agriculture, small scale industries, road and water transport and self employed persons and education. In order to ensue that adequate credit flows to weaker sections of the community, Government and RBI are reviewing the progress of priority sector lending on continuing basis. The board of directors of public sector banks are also reviewing the progress made by the public sector banks in financing weaker sections of the society and the priority sector. As a result of the determined efforts made by the public sector banks to enlarge the credit flow to the priority sector, the outstanding advances of public banks have risen to Rs. 2321 crores as at the end of December, 1975, against Rs. 441 crores as at the end of June, 1969. As percentage of their aggregate advances, public Sector banks' advances to priority sector have also increased from 14.9 per cent as at the end of June, 1969 to 27.9 per cent as at the end of December, 1975.

2.25. The Department of Revenue and Banking have also issued instructions to public sector banks to enlarge their credit portfolio in respect of priority sector so as to achieve on overall target of 33.3 per cent of their aggregate advances by the end of the 5th Plan.

2.26. Government and Reserve Bank were also reviewing the progress of Half-a-million Jobs Programme/Employment Promotion Programme from time to time for ensuring that self-employed persons are rendered all manner of assistance in setting up small scale industries and self-employment ventures. By the end of September, 1975 public sector banks had advanced Rs. 40.84 crores to 36,624 borrowers.

2.27. The Differential Interest Rate Scheme, under which loans are provided to eligible persons at 4 per cent rate of interest, is exclusively meant for the benefit of the weakest section of the community. Government have enjoined on public sector banks to lend about ½ per cent of their aggregated advances at the end of the preceding year under the scheme. More than Rs. 20.6 crores were advanced to 4,65,000 beneficiaries by December, 1975. The Ministry further informed in November, 1977 that at the end of June, 1976 and March, 1977 the amount advanced under the scheme rose to Rs. 28.78 crores and Rs. 51.37 crores with 6,24,692 and 11,06,182 borrowal accounts respectively.

2.28. The Department of Revenue and Banking have stated that thus it will be observed that the process of indentification of priority sector is not a static one but one which goes on continuously throwing up new sectors with changing developments in the economy.

2.29. The Department of Revenue and Banking were asked to state whether any study had been undertaken to identify sections which were inadequately served by the commercial banks. The Department of Revenue and Banking in a written reply stated that "after nationalisation of 14 major Indian Scheduled Commercial banks, concerted efforts were made to increase the commercial banks lending to agriculture and allied activities and other priority sectors. However, it was noticed that in agriculture, major share of amount of loans were availed of by comparatively bigger farmers and the small farmers and agricultural labourers could not utilise the loan facilities from these banks to the desired extent. In view of this and in the wake of specific measures undertaken to liquidate rural indebtedness it was felt that new institutions may be started on the basis of attitudinal and operational ethos entirely different from those obtaining in the public sector banks. A Working Group headed by Sh. M. Narasimhan was, therefore, appointed to examine the setting up of new institutions particularly to serve small and Marginal farmers, agricultural labourers and to rural artisans small entrepreneurs and persons of small means engaged in trade, commerce or industry or other productive activities. The Group suggested establishment of Regional Rural Banks and 31 such banks have adready been opened. These banks will cater to all kinds of productive credit of small/marginal farmers, rural artisans and landless labourers both directly as well as through farmers service societies within the notified area of the Bank. They will also grant consumption loans to the poorer sections of their clientele within specified limits for specified purposes".

2.30. "Organisation of Regional Rural Banks goes hand in hand with the strengthening of primary societies at the base level and universalisation of the membership of the societies and establishment of Farmers Service Societies."

2.31. When asked to state whether the total assessment of credit requirements of the priority sectors had been made by them or by the Lead Banks through the detailed district credit plans, the Secretary of the Department stated during evidence:—

> "We have already tried to work from the grassroots and the Lead banks have been asked to work out district credit plans. Several district credit plans have already been prepared. This is at the district level. We are getting an idea of what is the requirements of credit for different sectors in terms of viable schemes in those areas. But I would submit a summation of district credit plans is not the same as the national credit plan, because when we talk of the latter, it has also to look at other variables in our system. For instance, we are interested firstly to see what is the level of monetary expansion in our economy that can be tolerated without inducing price inflation. You would have been in this morning's

papers that the Reserve Bank has again clamped down certain credit restrictions. Once this happens, while it may be necessary for purposes of overall credit policy and overall monetary regulations, it will have its imapct all along the line even in terms of lending in various States. Therefore, while district credit plans will give as an idea of the needs of credit in a particular district, a summation of the credit plans there is not the same as national credit plan. For that we have to look at what in economic terms arecalled macro variables, the level of national income in a particular area, various factors which affect monetary expansion, whether it be credit to the Government sector, level of deficit financing, level of deposit expansion, position of foreign exchange etc. Taking all these into account, we have to assess what is the order of credit expansion we can tolerate. Therefore, we will have always to be chopping and changing our total credit to keep it on an even level, while dealing with our larger objective of keeping inflation in control. Hence while district credit plans are useful, they can act as signposts for the types of lending at the district level, we will need at the same time to take constantly a view of the overall level of credit expansion the economy can tolerate."

2.32. The Ministry of Finance was asked to state whether any assessment of the rural indebtedness has been made by the Government. The Ministry, in their reply furnished in November, 1977 stated as follows:—

The Government of India have not assessed the extent of rural indebtedness. However, the quantum of rural debt is assessed deceniaily on a country-wide basis by the All India Debt and Investment Surveys conducted by the Reserve Bank of India. The last such Survey, the All India Debt and Investment Survey, was done in 1971-72, the report of which was published in 1975. This survey has placed the total quantum of liabilities of all rural house-holds at Rs. 3921 crores. Of these, Rs. 1910 crores representing 49.72 per cent of the total liabilities, relate to the landless labourers and households owning less than 2 hectares of land. These households represent 78.01 per cent of the total rural households.

Following the Survey Report, measures for relief from rural indebtedness with special reference to non-institutional debts were considered by the Government of India in 1975. As relief from rural indebtedness is a State subject, guidelines were issued in August, 1975 for taking up legislative measures for relief. The legislative measures contemplated relief in two stages:

(i) imposition of moratorium on recovery of debts as an interim measure; and

(ii) total discharge or scaling down of debts as a permanent measure.

The relief was intended for weaker sections having less than 2 hectares of unirrigated land and the landless poor including rural artisans.

Excepting those States/Union Territories like Nagaland, Mizoram, Arunachal Pradesh where the problem of indebtedness to moneylenders does not exist, all other States (Except Sikkim) and Union Territories have taken legislative measures. 10 State Governments (Andhra Pradesh, Haryana, Himachal Pradesh, Tripura, West Bengal, Tamil Nadu, Gujarat, Uttar Pradesh, Rajasthan and Karnataka) and 6 Union Territories (Delhi, Chandigarh, Pondicherry, Andaman and Nicobar Islands, Lakshadweep and Dadra and Nagar Haveli) have taken action for imposition of moratorium and total discharge of debts of the weaker sections. These States are to take action for scaling down of the debts of the small farmers. The State Government of Bihar have taken action for total discharge debts of farmers owning land upto 4 acres and further action for scaling down of debts of farmers owning land between 4-5 acres is yet to be taken. Three State Governments (Manipur, Meghalaya and Orissa) have taken action for imposition of moratorium. The State Government of Jammu and Kashmir have also enacted J&K Debtors Relief Act, 1976 (without consulting Government of India) which *inter alia* provides for discharge of debts in case the debtor has repaid 1-1/2 times the amount of loan taken. Reply from the State Government as regard the full implications of the Act are still awaited."

2.33. Asked to state whether any attempt has been made to identify and quantify the credit needs of the rural population in the country, particularly, the needs of the agriculturists of different categories, agricultural labourers and rural artisans and whether the present credit availability in the rural sector is adequate as compared to the requirements, the Ministry of Finance stated in their reply (November, 1977) :

"Information relating to the credit needs of the rural population, particularly of different categories of agriculturists, rural artisans is not available. Attempt, however, have been made from time to time to identify and quantify the credit needs of the rural population; beginning with the All India Rural Credit Survey of 1951-52, followed a decade later by the All India Rural Credit And Investment Survey of 1961-62 and then the All India Rural Credit Review Committee of 1968. Apart from these, five year plans have also contemplated such estimates/targets. Lately the All India Debt and Investment Survey 1971-72 put their aggregate debt position as on 30-6-71 as below:—

	(Rs. crores
Cultivators	3373·8
Agricultural Labourers . .	181.5
Artisans . . .	53·6
Others . .	239·1
	3848.0

Recently, the National Commission on Agriculture (1976) assessed the graduated credit requirements for various programmes of agricultural development by 1985 at Rs. 9400 crores as follows:—

(Rs. crores)

	Short term	Medium & long term	Total
Marginal & Small farmers .	1766	2022	3788
Medium & large farmers . .	2242	3003	5245
	4008	5025	9033
or say .	4000	5000	9000
(for machinery and agricultural implements).			+ 400
			9400

It has been envisaged that 45 per cent of short-term and 40 per cent of term loan estimates of 1985 level should be met by the end of 5th Plan which aggregates to Rs. 3800 crores. The allocation of responsibility between the Cooperatives and Commercial Banks for 5th Plan has been worked at Rs. 2100 crores for Cooperatives and 1450 crores for commercial Banks. By 1985, however, while the Commission expects

Cooperatives to double the quantum of credit they will provide in 1979 so as to reach the level of Rs. 4250 crores, the commercial Banks have to increase their level of lending from 1450 crores in 1979 further to Rs. 4050 crores by 1985.

It has been estimated that by 1895, cooperative sector would be able to meet the full needs of the agriculturists having irrigated land and 60 per cent in the case of those owning unirrigated land.

Under the lead bank scheme, lead banks are expected to prepare credit plans for each of the districts allotted to them. While preparing credit plans, they take into account the credit demands emerging from various sectors. Out of 380 districts allotted to different banks under this scheme, Credit plans have been prepared for 201 districts.

Regional Rural Banks have been set up in districts where there is large credit gap and there is predominance of small/marginal farmers and rural artisans.

Priority has been given for provision of credit to agriculture by the various institutions including public sector banks. However, keeping in mind the varied nature and the magnitude of the credit requirements of the agricultural sector, considerable ground has still to be covered to bridge the entire credit gap in this particular sector. Efforts are, however, continuously made to increase the total quantum of credit available for agriculture and allied activities."

2.34. The Committee had in their 62nd and 84th Reports (5th Lok Sabha) presented to Lok Sabha in April, 1974 and August, 1975 respectively emphasised the need to undertake studies to assess the credit gap in agriculture and other priority sectors through bank branches and other appropriate agencies expeditiously and thereafter prepare an integrated plan of action so as to achieve the objectives of meeting substantially the requirements of these sectors within a time bound programme. The Committee have been informed that the Lead Banks have undertaken the preparation of detailed district plans with the active participation of Government agencies and other commercial and cooperative banks and financial agencies. While preparing these plans, the Lead Banks primarily take into account the credit requirements of such sectors as agriculture, small scale industry, retail trade and business, transport, professional and self employed persons. The lead banks also prepare technically feasible and economically viable schemes within broad areas of priority sectors and dovetail them into the district development plans wherever possible. Government

had enjoined on the public sector Banks the duty to initiate appropriate action for stepping up advances to priority sectors in a planned and systematic manner so that overall target of lending to the priority sectors i.e. 33.3. per cent of aggregate advances is achieved by the end of 1978-79. As regards the question of making a total assessment of the credit requirements of the priority sectors the Secretary, Banking Wing, informed the Committee that several district plans had already been prepared. While a district plan gives an idea about the need for credit to a district, the sum total of these district plans would not constitute the national credit plan. The National Credit Plan has to take into account certain macro-variable (i.e. factors that affect monetary expansion) and assess the extent of credit expansion that economy can tolerate without inducing inflation. Government would, therefore, have always to change the total credit in order to keep it on an even level, while dealing with the larger objective of keeping inflation under control. According to Ministry, while the district credit plans are useful they can act only as sign-posts for the types of lending at the district level. While the Committee appreciate that Government have to keep credit expansion under watch with a view to keeping inflation under check, they need hardly stress that credit restraint measures should not adversely affect the flow of credit to the weaker sections of society who have suffered deprivation of these facilities for decades and it should be ensured that the target of lending 33.1/3 per cent of aggregate advances to the priority sectors by the end of 1978-79 is fulfilled.

2.35. The Committee feel that Government should also have a realistic estimate of the credit needs of the priority sectors and formulate an integrated plan of action to meet their credit requirements. Changes in the integrated Plan if considered necessary, could be made as and when an occasion arises. The Committee emphasise that an integrated plan of action for meeting the credit needs of the priority sector should be finalised expeditiously. This plan of action should also aim at reducing imbalances in the credit distribution in the various regions of the country.

2.36. The Committee note with concern that notwithstanding the concerted efforts made by the 14 major Indian Scheduled Banks to increase their lending to agriculture and other priority sectors, the major share of the amount of loans was availed of by comparatively bigger farmers and the small farmers and agricultural labourers could not utilise the loan facilities to the desired extent.

2.37. The Committee are unhappy at this trend. They cannot too strongly stress that nationalisation of banks would have a real meaning and impact if the credit requirements of the weaker sections of society and small/marginal farmers and agricultural labourers are adequately met. The Committee would like Government to ensure that effective and determined measures are taken by the banks to meet the credit needs of the small/marginal farmers as well as the weaker sections of society in the country.

2.38. The Committee note that regional rural banks are being set up to cater to the credit requirements of small/marginal farmers, rural artisans and landless labourers etc. The Committee would like a close watch to be kept on the working of these banks specially the opening of new branches to ensure that the object of meeting the credit needs of the weaker sections and persons of small means in the deep rural areas is being really achieved by these banks. Corrective measures should be taken contemporaneously in the light of experience gained in the working of these banks

2.39. The Committee note with regret that the Government of India have no information relating to the Credit needs of rural population particularly of different categories of agriculturists, rural artisans. Attempts have however been made through decennial All India Rural Credit and Investment Survey since 1951-52 to quantify the credit needs of rural population. The Committee note that lately the All India Debts and Investment Survey put their aggregate debt position as on 30 June, 1971 at Rs. 3848 crores. The Committee are of the view that it is necessary that the quantum of rural indebtedness is known to the Government in precise terms so that concrete measures could be taken to eradicate this ever increasing menace in the life of rural poor. The Committee desire that the surveys conducted in this regard should throw up meaningful data and these should be conducted every five years so that the information could be utilised while drafting the plans. The last survey was undertaken in 1971-72. Government should loose no time to have another survey conducted with a view to taking concrete measures during the next plan towards providing adequate funds to meet the credit needs of the rural sector.

2.40. The Committee have been informed that recently the National Commission on Agriculture (1976) assessed the graduated requirements for various programmes of agriculture developments by 1985 at Rs. 9400 crores, which inter alia include Rs. 4000 crores for short term loans and Rs. 5000 crores for medium and long term loans. By 1985 the Commission expects the Cooperative sector to reach the level of agricultural lending at Rs. 4250 crores and the Commercial banks at Rs. 4050 crores. It has been estimated that by 1985 the cooperative sector would be able to meet the full needs of agriculturists having irrigated land and 60 per cent in case of those owning unirrigated land. The Committee desire that the estimates made by the National Commission on Agriculture regarding the credit requirements for agricultural development by 1985, should be carefully considered while

drawing up roles of the cooperative sector and the commercial banks in meeting the requirements of the agriculturists.

(b) **Progress of Credit to Priority sectors**

(i) *Decline in growth rate of advances to priority sectors*

2.41. The Committee in paragraph 2.29 and 2.30 of their 62nd Report had noted that four years after nationalisation, public sector banks had 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 found that in the first year of nationalisation 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 the end of June, 1973. The Committee had further noted that after 2 years of nationalisation, Government themselves realised that the decline in 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 had stressed on banks the need for proper planning of credit for those sectors with feasible action programmes and rationally conceived targets.

2.42. The Committee were not convinced that the nationalised banks were able to meet the genuine requirements of credit of weaker sections in whose name nationalisation scheme was implemented. The Committee had observed that this was mainly due to lack of systematic follow up. The Committee expressed the hope that Government would take steps to strengthen the planning machinery at various levels so that the banks credit to priority sectors increased at a substantially bigger rate. The Committee desired that the planning should be done from the grass root level to enable the banks to extend greater credit facilities which were required in the larger national interest for productive purposes. The Committee recommended that Government and the banks should study the requirements of weaker sections in detail at the branch, area and regional levels and have a realistic plan with accent on production without compromising with the chances of recovery of moneys to the advanced.

2.43. The Department of Revenue and Banking in their reply stated that there were two important factors which had to be taken note of in any assessment of progress made by public sector banks in extending credit to priority sectors. First, the credit requirements of the small borrowers are not only vast but also increased with the provision of very infrastructure facility, such as, an approach road, extension of power line, a bank office etc. Even with vastly improved net work of branches, banks would not be able to even physically reach out to all the borrowers in these sectors. Secondly, as happens in any organisation, in the case of banks also, organisational financial and manpower constraints limit and determine the pace of expansion of activities.

2.44. The Department further stated that on the eve of nationalisation, the advances of the public sector banks to priority sectors were quite low. There were only 2.60 lakhs borrowal accounts and the advances to the priority sectors accounted for 14.9 per cent of the total bank advances. In the first year of nationalisation, with a view to making a determined thrust towards covering a large number of small borrowers, the banks had stepped up their advances to the priority sectors without waiting to make satisfactory organisational arrangements for giving adequate trained manpower support. It was, therefore, inevitable that in the following years there should have been sustained efforts at consolidation and organisations restructuring in the various banks. The banks also started looking more closely into the qualitative rather than the quantitative, aspects of their lending to priority sectors.

2.45. The Department, however, agreed with the suggestion of the Committee that with the more detailed grass root planning and proper coordination with the concerned State Government departments and other agencies responsible for providing necessary infrastructure facilities the advances to the priority sectors could be increased at a faster rate than had been possible so far. It was towards this end that the banks had started adopting "area approach" and also undertaken indepth studies in the command areas of selected branches for selected activities. Through the mechanism of Lead Bank Scheme, necessary coordination with the State Government Departments and other agencies was also being established so that there was a proper tie-up between the credit advanced on the one hand and the provision of technical guidance, supply of inputs, marketing facilities etc. on the other.

2.46. The Department have stated that in regard to Fifth Five Year Plan 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 in Government securities and cash balances. Roughly about Rs. 5000 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. For priority sectors they would notionally like to reach 33.3 per cent of the total advances as against the present 24.3 per cent.

2.47. The Committee, in paragraph 2.31 of their 62nd Report stressed the need that unless concerted action was taken by all concerned, it would not be possible to achieve the objective of increasing credit to prioirity sectors from present level of 24.3 per cent of 33.1/3 per cent in the Fifth Plan, the Committee desired to be informed of the concrete measures which were being taken to realise the objective. The Department in their reply (October, 1974) stated that the public sector banks were being requested to take necessary steps to ensure that the proportion of advances to priority sectors reached 33.1/3 per cent by the end of the Fifth Plan period. The banks were also advised that plans for lending to priority sectors should form an integral part of their performance budgets, wherever this had not already been done.

2.48. The Department of Revenue and Banking was again asked (September, 1976) to state the concrete measures taken by the banks to achieve the target of 33.3 per cent of credit to priority sector and the progress made in regard to the plans for lending to the priority sectors. They were also asked to state whether the specific targets and programmes for extending credit assistance to weaker sections were being mentioned in the performance budgets prepared by the banks.

2.49. In their reply (November, 1976) the Department have stated that all the public sector banks have been advised to intensify their efforts for enlarging the flow of their credit to hitherto neglected sectors so that by the end of 5th Five Year Plan they account for at least 33.3 per cent of their aggregate outstanding advances—vide their circular dated the 4th September, 1976 (Appendix II).

2.50. The Department further stated that while the measures taken by the public sector banks to enlarge the flow of their credit to the small borrowers in the neglected sectors vary according to their areas of operation and the specific neglected sectors in the financing of which they have built up some expertise, broadly speaking they include implementation of schemes of agricultural development drawn up by Agricultural Finance Corporation and the Agricultural Refinance and Development Corporation; setting up of Farmers' Service Societies and taking over of primary Agricultural Credit Societies; more intensified coverage of areas through setting up of Agricultural Development Branches being done by the State Bank of India and its associated banks; formulation of various schemes to extend credit to small and marginal farmers and landless agricultural labourers, implementation of the scheme of Differential Interest Rate; participation in the employment promotion programme being implemented by the State Government etc. Banks were also devoting attention to the credit needs of the smaller borrowers in the neglected sectors through various schemes drawn up by them in these sectors.

2.51. The performance budgets being formulated by the public sector banks spell out, in addition to the other parameters, the level of outstanding credit to different neglected sectors programmed to be reached at the end of the year.

2.52. When asked to state as to what was the present proportion of advances to the priority sectors as compared to the level of 24.3 per cent in June, 1973, the Secretary of the Department stated during evidence:—

> "If you take the total as a proportion of the credit advances, it accounted for 25.5 per cent at the end of June, 1976 compared to 25.2 per cent at the end of June, 1974. I would like to offer an explanation here.... Between 1974 and 1976 an important development which occurred was that the banking system was called upon to shoulder a very large amount of advances for food procurement and storage. Earlier, most of it was being financed out of the budget."

The figures in this regard for end-March, 1976 and end-March, 1977, furnished by the Ministry in November, 1977 are as follows:—

Advances to Neglected Sectors as percentage of total advances of public sector banks.

(Rs. crores)

		March, 1976	March, 1977
I	Advances to priority Sectors	2402·85	3042·17
II	Total Advances	9353·20	11307·59
	(I) as % (II)	25·7	26·9

2.53. The Committee had, in paragraph 2.31 of their 62nd Report (April, 1974) stressed the need for concerted efforts by all concerned to achieve the objective of increasing the level of aggregate of total advances to priority sectors from 24.3 per cent in June, 1973 to 33.1/3 per cent in the Fifth Plan. The Committee are concerned to note that although the Depart-

ment of Revenue and Banking had stated in October, 1974 that the public sector banks were being requested to take necessary steps in that regard, it was only in September, 1976 that a circular was issued to the public sector banks advising them to intensify their efforts for enlarging the flow of credit to the hitherto neglected sectors so that by the end of the Fifth Plan, they could account for 33.1/3 per cent of their aggregate advances to these sectors. The Committee desire that the reasons for delay of more than two years in issuing instructions to the banks may be enquired into and the Committee apprised of the action taken. The Committee would also like to be informed of the arrangements made to ensure that a lapse of such serious nature in following up an assurance to the Committee by concrete action does not occur again.

2.54. The Committee are distressed over the slow rate of increase in the percentage of advances to the priority sectors as compared to the total advances. The percentage has only increased from 24.3 in June 1973 to 25.5 at the end of June, 1976 though it touched 27.9 per cent mark at the end of December, 1975 the net increased being 1.2 per cent in three years, which is the lowest since nationalisation of banks. Further the figures as at the end of March, 1976 and March, 1977 indicate the advances to this Sector at 25.7 per cent and 26.9 per cent respectively of the total advances made to his sector. This shows a declining trend in the advances to this Sector after December, 1975 when this percentage had reached 27.9 per cent mark. The Committee are doubtful whether the banks will be able to achieve the target of 33.1/3 per cent by the end of 1978-79, if the rate of increase continues to be as low as in the past three years.

2.55. The Committee are not satisfied with the explanation given for the low rate of growth of credit to priority sectors by the Department that banking system was called upon to shoulder large advances for food procurement and storage during the period. In the opinion of the Committees this development should not have been allowed to affect adversely the credit needs of the priority sector. They would like Government to ensure that determined and concerted efforts are made by the Banks to increase the percentage of credit to priority sectors so that the target of 33.1/3 per cent is achieved by the end of the 1978-79. A close watch should be kept on the progress made in this regard so that remedial steps may be taken in time, as necessary. It should be ensured that banks both in rural and metropolitan areas are geared to lendings to priority sectors and remedial action should be taken specially in case of lendings by the banks in the metropolitan sectors.

(ii) *Performance Budgets*

2.56. The Committee in paragraphs 2.34 and 2.35 of their 62nd Report had noted that though the instructions issued by Government on

December, 19/2 required the banks to introduce pertormance 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 banks by 1976. The Committee, however, recognised that though the preparation of performance budgets needed a special efforts yet they were not convinced that it should have taken the banks more than one year to translate the idea into reality. The Committee emphasised the importance of preparation of the performance budgets on the right lines so that they could provide an instrument of realistic planning, management control and appraisal of achievements. The Committee. therefore, suggested that banks should take guidance of the Reserve Bank of India; National Institute of Bank Management and other leading organisations, in this regard.

2.57. The Department of Revenue and Banking in their reply stated that the commercial banks in India have had a long tradition of operating on the basis of *ad hoc* targets which were fixed by the top management without any prior dialogue with operative units at various levels of the banks' hierarchy. Performance budgeting in its proper sense, however, involves a complete overhauling of this traditional system. While the top management has to shoulder the responsibility of issuing broad guidelines within the broad frame of which the performance budgets of individual branches or areas are to be prepared, a well integrated performance budget can emerge only through a participative process in which the operative units at various levels set before themselves specific levels of achievement in each key performance area.

2.58. Thus, for example at the branch level, the branch Manager has in consultation with and with the help and cooperation of the staff, to demarcate the command area for his branch, collect the environmental data relating to the command area and analyse the data, identify the various business possibilities, plan cut proper strategies and quantity the targets in different market sagments. This process has to be built up from the lowest branch levels upwards, through the Regional/Divisional level to the top level. The Committee had also recognised that preparation of performance Budgeting involved special efforts. The burden of various preparatory steps in the system of performance budgeting which could be implemented effectively in a bank as a whole was quite onerous. One of the most important prerequisites for implementation of the system was training and orientation of staff at all levels for proper appreciation of new concepts and methodology of business, planning and execution. The view, therefore, was taken that the proper course would be to implement the system in a phased manner with its initial introduction in one or two Division/Regions of a bank in a year and its extension in stages, in two or three years to the banks as a whole, as the preparation, training, etc. proceed and allow each bank to learn by its experience.

2.59. In reply to Committee's recommendation at paragraph 2.35 of the 62nd Report, the Government stated that the different public sector banks were aware of the importance of Performance Budgeting and were taking requisite steps for its implementation. The National Institute of Bank Management had set up a Review Committee for the purpose of evaluating the work done by the banks for implementation of the system of performance budgeting and draw up plans for future action and give requisite guidance to the banks. The Institute had also conducted from time to time training programme by training of key personnel of banks in the techniques of Performance Budgeting. The Reserve Bank of India was also in touch with the banks in regard to the progress in the introduction of Performance Budgeting and was rendering all possible assistance to the banks in this regard. The recommendations of the Committee was being brought to the notice of the banks for suitable action.

2.60. The Department of Revenue and Banking were asked to furnish a note indicating the recommendations of the Review Committee set up by the National Institute of Bank Management and the action taken thereon, as also specific improvements made by the banks in this regard.

2.61. The Department of Revenue and Banking in their reply stated that the main function conceived for the Review Committee set up by the National Institute of Bank Management (NIBM) was to assist the public sector banks wherever help was sought in the introduction of the Performance Budgeting system by suggestion to them the necessary sequential steps in the light of the prevailing circumstances in each such bank; in addition to providing guidance for bringing about improvements in the system in the light of the experience gained, by making necessary adjustments. NIBM has been organising a number of seminars and programmes to familiarise the senior executives of the banks with the concept of Performance Budgeting system along with the mechanics of its implementation and dissemination to the different levels besides actually assisting various levels. During 1974, the NIBM had organised 8 workshops on a regional basis wherein 200 banks officials of all levels participated. Currently it is engaged in an evaluation study of the system operating in the State Bank of India.

2.62. While it appears to be too early to attempt an assessment of the specific improvements in the Performance Budgeting System as adopted by the banks, greater attention was now being paid to the content, quality and feedback aspects by the extension of the system to all levels and incorporation of such refinements of mid-term review etc. Some banks had also introduced quarter/half yearly break-up of the budgets for better control.

2.63. It had also been reported that though the principle behind the system of Performance Budgeting and the techniques pertaining thereto are now understood practically at all levels, application of these techniques on the part of suitable number of branch managers and others still required considerable degree of refinement.

2.64. During evidence, the Secretary (Banking) stated that in the light of the experience gained on the performance budgeting, NIBM was planning a further review.

2.65. The Ministry furnished the following note in November, 1977:—

Government had assured the Estimates Committee that the public sector banks would complete the requisite preparation, training of staff etc. and implement the system of performance budgeting by 1976. This assurance given by the Government was brought to the notice of the public sector banks. Public Sector Banks have intimated having introduced the system of performance budgeting. It was also brought to the notice of the Committee subsequently that though the broad principles behind the system and the techniques pertaining thereto were understood at different levels in banks, a considerable degree of refinement in the application of these techniques was still required on the part of a large number of branch managers and others.

The main findings are as follows:—

(i) The Banks do not follow the financial year system *i.e.* April to March.

(ii) While the State Bank of India was the first to introduce the system of performance budgeting in 1972, it was not introduced in its subsidiaries from that year. The fourteen nationalised banks have introduced it from 1973 onwards.

(iii) The budgets are generally formulated at the branch level and region-wise targets are set by most of the banks. In the Bank of India the system has yet to extend to the branch level.

(iv) The budgets are normally bifurcated into convenient segments and zone-wise targets for deposit mobilisation, deployment of credit, priority sector advances, branch expansion, manpower, etc. are projected.

(v) The concept of overall activity budgeting, however, has not yet been adopted by any bank. No attempt appears to have been made to budget for marketing for bank services, customer services, salvaging sick accounts etc.

(vi) While some of the banks review the targets set every quarter, others do this on a half-yearly and at the end of the year basis. The mid-term revision of deposit targets exists, in Canara Bank but the bank has yet to introduce the system of securing feed back date after rendering a continuous review.

As regards the Central scrutiny of the performance budgeting of the public sector banks, the process has since been initiated in the Department. Performance budgets of a few banks for the current year were reviewed. It is felt that for an easier and more purposeful scrutiny, it will be desirable to have a common format for performance budgets in the public sector banking system as a whole. The National Institute of Bank Management has, therefore, been requested to undertake devising of a common format to be made available to all public sector banks. The National Institute of Bank Management has informed us that "initially we had planned to hold a seminar in 1976. As background material for the workshop, we thought we could study the performance budgeting system in a few public sector banks. However, we found that the process of budgeting varies considerably from bank to bank and it would be necessary for us to complete the study in respect of the banks before the workshop can be contemplated. This study has since been carried out by a team of Faculty Members and the Report is in the final process of preparation. In view of this unavoidable time-lag in the preparation of the background material, it has since been decided to hold the performance budgeting workshop on 2nd, 3rd and 4th of December this year (1977). It is our intention that the issue of preparation of a common format for performance budgeting in banks would have to be discussed extensively in this workshop."

The Ministry subsequently informed that the workshop was actually held as Scheduled.

2.66. The Committee in paragraph 2.35 of their 62nd Report had suggested that banks should take guidance of the Reserve Bank of India and National Institute of Bank Management and other leading organisations in preparation of performance budgets. The Committee were informed that different public sector banks were aware of the importance of performance budgeting and were taking requisite steps for its implementation. The National Institute of Bank Management set up a Review Committee for the purpose of evaluating the work done by the Banks for implementation of the system of performance budgeting and drawing up plans for future action and giving requisite guidance to banks. The Institute has also conducted

from time to time training programmes by training of key personnel of banks in the techniques of performance budgeting. Currently, the institute is engaged in an evaluation study of the system operating in the State Bank. The Committee were informed that though the principle behind the system of performance budgeting and techniques pertaining thereto are understood at all levels, application of these techniques on the part of large number of branch managers and others still requires considerable degree of refinement.

2.67. The Committee need hardly emphasis the importance of preparation of performance budgets by the banks on right lines as they provide an effective instrument for realistic planning, management control and appraisal of achievements. The Committee would therefore like the Ministry to ensure that performance budgets are prepared by all banks regularly and in time. Any deficiencies in the preparation of the budgets should be brought to the notice of the banks concerned with a view to improving them. The Committee further stress that there is also a need for effecting continuous improvement in the preparation of performance budgets in the interest of correlating monetary and physical targets and for evaluating achievements.

2.68. The Committee note that the National Institute of Bank Management had appointed a Review Committee for evaluating the work done by the banks for implementation of the system of performance budgeting and draw plans for future action and give requisite guidance to the banks. They further note that this Institute is planning further review in the light of the experience gained. A performance budgeting workshop to discuss devising of common format for all public sector banks for preparation of performance budgets in a uniform manner was held by the NIBM in December, 1977. The Committee trust that the National Institute of Bank Management must have by now finalised the common format for the purpose. The Committee desire that the NIBM would lose no time in preparing guidelines for the preparation of performance budgets by the banks so that these budgets contain vital and meaningful information and are prepared on right lines. ....

(iii) *Credit to large Borrowers*

2.69. The Committee in paragraphs 2.40 and 2.41 of their 62nd Report had observed that the legitimate credit needs of the large industries/borrowers may be met by the banking institutions but the moot point was whether the existing procedures were effective enough to ensure that finances from public institutions were in fact going into productive uses in the larger public interest. The Committee had emphasised that banking institutions in the public sector should so regulated their procedures and scrutiny as to make sure that the money is taken from them by large industrial houses/borrowers were put to productive use and were not allowed to be diverted for any unsocial or unproductive purposes. The Committee had recommended 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 the loopholes in this regard.

2.70. The Department of Revenue and Banking in their reply stated that prior to nationalisation, there was no specific mechanism in commercial banks to ensure a close watch over large borrowal accounts. Broadly speaking, banks were allowing credit to large borrowers according to their application so long as ample security was offered. Banks did not concern themselves either with the real purpose of the borrowal or the actual end-use of money. From November, 1965 a credit authorisation procedure had been in operation under which the banks had to obtain the prior authorisation of the Reserve Bank before granting limits of Rs. 1 crore or more to any single party or any credit limit that would take the total limit of a party, from the entire banking system, to Rs. 1 crore or more. The Reserve Bank did not have detailed arrangements for scrutiny of such cases. The scheme was revamped in June, 1970. Subsequently, in May, 1971, the scheme was extended to term loans exceeding Rs. 25 lakhs and repayable over a period of more than three years.

2.71. Apart from rationalising and strengthening the credit authorisation scheme, the following steps were stated to have also been taken to ensure avoidance of excess credit to large parties.

(i) Since March, 1970, banks are required to levy a commitment charge, on the unutilized portion of credit limits of Rs. 10 lakhs and above, at the rate of 1 per cent per annum. This imposes a discipline on the borrowers to estimates their limits with care so that large credit limits are not unnecessarily pre-empted.

(ii) The use of bank finance for speculation in shares is being positively discouraged. A commercial bank which grants or renews credit limit of over Rs. 50,000 against the security of shares is now required to stipulated that the shares will have to be transferred to its name and it should have exclusive voting rights in respect of shares which may be exercised in any manner whatsoever. No bank, however, is allowed to exercise voting rights in respect of shares held by it as pledgee, except with the prior approval and in accordance with such directions as may be given by the Reserve Bank of India.

(iii) The practice of accepting personal guarantee of Managing Directors and managerial personnel, to make up for the weak financial position or lack of viability of the unit without undertaking detailed credit analysis, is being discouraged after nationalisation. In July, 1970. banks were advised to ensu.

that detailed credit analysis is invariably undertaken and personal guarantees are not taken as a matter of course, and that where such guarantees become necessary for protecting their interests, these are not used by the directors or other managerial personnel as a source of remuneration from the borrowing concerns.

(iv) Another measure to introduce financial discipline among the borrowers was the introduction, in November, 1970, of a scheme for rediscounting of Bills of Exchange which are trade Bills evidencing sale and despatch of goods. The traditional practice of banks has been to provide short term finance in the form of cash credit against collateral book debts and this tends to elongate the period or credit more than what is necessary or desirable. The bill rediscounting scheme is designed to encourage the use of genuine bills of exchange, thereby requiring the purchaser to pay his dues within the stipulated period envisaged in the bill and plan his financial commitments in a realistic manner.

2.72. The Reserve Bank has also advised all scheduled commercial banks with deposits exceeding Rs. 25 crores to institute immediate scrutiny on a continuous basis of the largest 50 borrowal accounts in each bank in order to ensure that the amount of credit utilised by these large borrowers is of no more than the minimum required by them and also to ensure that no part of such credit has been diverted to any other purpose.

2.73. Reserve Bank has constituted a Study Group to, *inter alia* formulate guidelines for banks to ensure proper end-use of funds and suggest the types of operational data which may be obtained to serve the objective.

2.74. The Department of Revenue and Banking were asked to intimate whether the reviews undertaken by all Scheduled Commercial Banks to institute scrutiny on a continuous basis, were actually being carried out by them and reports sent to the Reserve Bank. They were also asked to furnish details of the guidelines formulated by the Study Group constituted by the Reserve Bank to ensure proper use of funds by the commercial banks and whether those guidelines had yielded any results in the proper utilisation of credits.

2.75. The Department of Revenue and Banking in their reply stated that in July, 1974 in the context of supervision of end-use of funds, Reserve Bank issued instructions to all scheduled commercial banks with deposits exceeding Rs. 25 crores to obtain data from borrowers and examine these with a view to ensuring that the amounts drawn by the borrowers were the minimum required for their immediate legitimate needs and that such amounts were used for the purposes for which they were drawn. The scheduled commercial banks were also advised to make immediate arrangements to watch the accounts of their fifty biggest borrowers, to begin with.

2.76. From the scrutiny reports and the information submitted by the banks, the Reserve Bank has observed that by and large the amounts drawn by borrowers were required for their legitimate needs. Having regard to the pace of production, levels of inventories, offtake of finished goods, etc., the drawings have been used for the purposes for which they were drawn and there was no significant evidence of misutilisation of funds or hoarding of credit for deployment elsewhere by the larger borrowers.

2.77. With the same end in view, the Reserve Bank had also constituted, in July, 1974, a Study Group under the Chairmanship of Shri P. L. Tandon, then Chairman of Punjab National Bank, to frame guidelines for follow-up of bank credit. As mentioned earlier, the first round of scrutiny conducted by banks in respect of their largest fifty accounts did not reveal any significant misutilisation of funds. In the meantime on the basis of the Tandon Committee Report on the follow-up of bank credit, comprehensive guidelines have been issued to commercial banks to ensure implementation of the various recommendations of the Group. In view of this, it was not considered necessary to call for further scrutiny report on the first fifty borrowal accounts of banks. Further, while considering proposals under the Credit Authorisation Scheme in respect of larger borrowers, having credit limits of Rs. 2 crores and above for borrowers in the private sector and Rs. 3 crores and above for borrowers in the public sector, it is ensured that they do not preempt credit and that their size for bank credit is related to their production requirements.

2.78. The recommendations of the Study Groups set up under the Chairmanship of Shri P. L. Tandon, then Chairman of Punjab National Bank, have been accepted by the Reserve Bank and conveyed to banks for implementation. In main, these relate to norms for inventory and receivables, approach to lending, style of credit, information system, follow-up and supervision of credit, and financial structure of borrowing companies. Some of the salient features are as follows:

(i) The main functions of a banker, as a lender, is to supplement the borrower's resources in carrying a reasonable level of inventory and receivables and other current assets in relation to his production requirements.

(ii) In order to ensure that inventories and receivables are reasonable in relation to production requirements, norms have been suggested in respect of 15 major industries. Even in respect of other industries, the banks have been enjoined to ensure that inventories are reasonable having regard to the borrower's past practice and the practice of other borrowers in the same industry.

(iii) For working out the maximum permissible bank borrowings to meet the working capital gap, based on current assets, as per norms three methods have been suggested. Each successive method increases the borrowers' contribution from his long-term funds, comprising borrowers' own funds and term borrowings in providing the working capital margin.

(iv) In respect of making available the entire credit limit in a cash-credit account for a year, which does not permit any control by the bank on the day-to-day drawings, the Group has suggested that it may be bifurcated into a 12-month loan representing the minimum level of borrowings which the borrower expects to use throughout the year and a demand cash credit limit to take care of his fluctuating requirements. This cash credit limit will be operating on the basis of actual need for credit as reflected in the quarterly data.

(v) As a part of the integrated system, several comprehensive suggestions for follow-up and supervision of credit for ensuring proper end-use have been made by the Group. Annual operating statements and funds flow statements for the current year as also the next year, based on planned production, together with the actual and projected balance sheets, are envisaged to be submitted by the borrowers to their banks to form the basis of fixation of their overall credit limits taking also into account norms for inventory and receivables. Thereafter, borrowers will have to submit quarterly operating data and the banks would ensure the quarterly operating plan is more or less in tune with earlier expectation, plus-minus 10 per cent deviation being permissible. The actual drawings within the sanctioned limits will be determined by the customer's in-flow and out-flow of funds as reflected in the quarterly funds flow statements. A watch will also be kept by banks on the use of funds on the basis of quarterly data. The banks would also stipulate terms and conditions regulating the conduct of the advances and there would be financial follow-up by obtaining half-yearly proforma balance sheets.

Monthly stock statements would continue to be obtained as hitherto with reconciliation of opening and closing stocks and stock inspections will continue to be carried out.

2.79. (c) Most of the borrowers did not have the necessary infrastructure to provide the comprehensive data. The banks also did not have the requisite trained staff to scrutinise the data. Reserve Bank has, therefore, asked the banks to insist on quarterly data, to begin with, in respect of borrowers having credit limits of Rs. 1 crores and above from the entire banking system. The intention is to progressively extend the system to borrowers with limits of Rs. 10 lakhs and above. The inventory norms, methods of lending and style of credit have, however, been already extended to borrowers with limits of Rs. 10 lakhs and above.

2.80. The recommendations of the study group are comprehensive and are of a far-reaching nature. The banks, as also the borrowers, have been getting themselves familiar with the new approach. The banks have embarked upon extensive programmes of training of their staff as also educating the borrowers. In order to ensure that the new decisions are implemented effectively, Reserve Bank has asked each bank to constitute a Committee of Direction to oversee the progress of implementation. Reserve Bank of India has also constituted a Central Committee of Direction on which commercial banks are represented to consider problems arising in the implementation of the recommendations. The Committee has been meeting frequently. The new system has started making on impact on the systems of credit appraisal and ensuring end-use of funds. There is no doubt that there is now much greater awareness, on the part of banks as well as the borrowers of the need for credit discipline so as to ensure optimum utilisation of credit resources for assisting and maximising productive efforts.

2.81. During the course of evidence of the representatives of the Department of Revenue and Banking, when asked to state the progress with regard to constitution of Committees of Direction by the banks, the Secretary of the Department stated:—

> "A Committee of Direction has been set up at the Central level in the Reserve Bank and the banks have reported that they have constituted Committees in the banks and they have been seeking advice from the Reserve Bank from time to time in regard to the problems arising out of implementation of the Tandon Committee's recommendations.
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> The banks were advised in August, 1975 that the Reserve Bank had accepted the recommendations of the Study Group and

were asked to initiate immediate action to implement the Study Group's recommendations. To enable the Committees to keep a close watch on the compliance, the Reserve Bank has asked the banks to send quarterly progress reports in prescribed proforma, and most of the banks have been sending quarterly progress reports regarding implementation. Where the banks have not been sending, the Reserve Bank has been following up. As a result of review of progress reports and suggestions made by banks in respect of application and modification of lending norms in general as well as with reference to particular sectors, some norms have been modified—and some for temporary period—depending on the circumstances prevailing in each case."

2.82. The Committee note that in July, 1974, in the context of verification of end-use of funds, Reserve Bank of India had issued instructions to all scheduled commercial banks with deposits exceeding Rs. 25 crores to obtain data from the largest fifty borrowers and examine these with a view to ensuring that the amount drawn by the borrowers were the minimum required for their immediate legitimate needs and that such amounts were used for the purpose for which they were drawn. Based on the scrutiny of reports submitted by the banks the Committee have been informed that by and large, the amounts drawn by borrowers were required for their legitimate needs.

2.83. The Committee note that the guidelines have been framed by the Tandon Committee on follow-up of bank credit. These Guidelines are of far reaching nature. An important recommendation of that Committee is that while considering proposals under the Credit Authorisation Scheme in respect of larger borrowers having credit limits of Rs. 2 crores and above, for borrowers in the private sector and Rs. 3 crores and above for borrowers in the public sector, it should be ensured that they do not pre-empt credit and that their size for bank credit is related to their production requirements. Other recommendations of the Tandon Committee relate to norms for inventory and supervision of credit and financial structure of borrowing companies. The Committee hope that the implementation of the recommendations would go a long way in ensuring that the funds advanced to the large borrowers are used for the purpose for which they were advanced and not for unsocial and unproductive uses.

2.84. The Committee need hardly emphasise that the Central Committee of Direction set up by the Reserve Bank and similar Committees set by other Banks should function effectively so as to see that the recommendations of the Tandon Committee which have been accepted by the Reserve

Bank are implemented by all banks in letter and spirit in right earnestness. The Committee desire that the Central Committee of Direction of the Reserve Bank should keep a close watch on implementation of the recommendations and scrutinise the progress reports furnished by the banks in an objective manner and resolve the problems faced by banks in implementing the Tandon Committee recommendations. It should also be ensured that the progress reports are furnished by all banks regularly.

2.85. The Committee would like this important aspect to be specifically dealt with in the annual reports of the Banks, including the consolidated Report on the Banks in the public sector which are laid on the Table of the House.

(iv) *Exploitation of Concessions*

2.86. In paragraph 2.47 and 2.48 of the 62nd Report the Committee expressed their distress that in the name of weaker sections of society certain other sections had taken advantages of the schemes by setting up 'benami' units. The Committee desired the authorities to review the position in detail and take effective measures to prevent the abuse of concession intended for weaker sections. The Committee had learnt from the Questions raised on the floor of two Houses of Parliament that there have been certain cases involving fraudulent transactions while incidence of such transactions might not have been very large, Committee desired that the evil should be nipped in the bud by taking deterrent action against delinquent officers and tightening up procedures to obviate recurrence of such cases.

2.87. The Department of Revenue and Banking in their reply stated that the abuse of concessions in the banks' lending schemes applicable to weaker sections and the backward areas, in the initial stages, could be attributed, among other things, to the absence of adequate number of bank offices in the areas concerned, the time required for propagation of details of the schemes to the weaker sections for whom they were intended, and the lack of familiarity on the part of the banks' staff concerned to identify eligible borrowers under these schemes. The banks have however, taken several organisational and other measures to improve the position. The banks were giving adequate publicity to the details of the schemes in their respective areas and have imparted suitable training to their staff to identify eligible borrowers and to handle their loan applications speedily. The banks have also been steadily expanding the number of their offices in the relatively backward areas and have set up special cells in the Head Offices to guide the branch staff in the matter of identifying eligible borrowers and channelling larger flow of credit under the various schemes. Effecting these improvements was a continuous process and the position was constantly kept under review of the banks.

2.88. The Department of Revenue and Banking have further stated that with a view to reducing the incidence of corruption and taking effective deterrent action against delinquent officials involved, all nationalised banks have already set up vigilance cells in their organisations, headed by a senior officer. Cases involving corruption on the part of bank officials are fully enquired into by these Cells and, wherever necessary, cases are also entrusted to the Central Bureau of Investigation. All the nationalised banks have also accepted the jurisdiction of the Central Vigilance Commission.

2.89. In the Department of Banking also, a Vigilance Cell has been functioning which colsely coordinates and oversees the working of vigilance units in different public sector banks and also maintains close liaison with the Central Vigilance Commission and the Central Bureau of Investigation.

2.90. On the basis of the findings of its own inspections and after going through the modus-operandi of the various frauds committed in the banks, the Reserve Bank had also been advising the banks on the steps and precautions to be taken for the prevention of these frauds and suggesting organisational precautions and safeguards, such as, periodical rotation of officers holding important operational jobs, strengthening of internal audit, devising a system of close and systematic control, watch over the day to day operations of the officers by the Regional and Head Offices, timely reconciliation of inter-branch statements, etc.

2.91. The Department of Revenue and Banking were asked to intimate the specific steps taken to prevent the abuse of concessions intended for weaker sections. The Department of Revenue and Banking in their reply stated that with a view to preventing misuse of funds meant for weaker sections of the society, a system of voluntary registration of small scale industrial units has been introduced. The proformae prescribed by the Ministry of Industry for the small scale units require the applicants to furnish, among other things, information as to whether any large or medium scale industry has any interest in the proposed unit and whether proprietor/partner/director has any interest in any trading firms supplying raw material to the unit.

2.92. Before sanctioning loans, banks verify the antecedents of the applicants and have the opportunity to find out whether the entrepreneur himself is the real owner or not.

2.93. The Committee note that the banks have taken several organisational and other measures to see that the concessions meant for weaker sections with regard to bank credit are not misused by ineligible borrowers.

Banks have also been expanding the number of their offices in relatively backward areas and have set up special cells in the Head Offices to guide the branch staff in the matter of identifying eligible borrowers and channelising large flow of credit under the various schemes. With a view to reducing incidence of corruption and taking effective deterrent action against delinquent officials, all the nationalised banks have set up vigilance cells in their organisations. All banks have also accepted the jurisdiction of the Central Vigilance Commission. A Vigilance Cell has been set up in the Department of Banking to coordinate and oversee the working of vigilance units in different public sector banks and maintain liaison with the Central Vigilance Commission and Central Bureau of Investigation. Besides a system of voluntary registration of small scale industrial units has been introduced under which before sanctioning loans, banks verify the antecedents of the applicants to find out bonafide of the entrepreneurs. For this purpose a proforma has been prescribed by the Ministry of Industry. The Committee emphasise that more intensive supervision from the regional level should be effected and all cases of misuse of concessions available to the weaker sections should be dealt with promptly and sternly and loopholes coming to notice should be plugged.

(v) *Credit Squeeze*

2.94. In paragraph 2.53 of the 62nd Report (1973-74) the Committee had observed that in a situation of inflation such as the one prevailing, it was but natural that there should be a policy of credit squeeze. The Committee had, however, expressed hope that while applying the squeeze, the banks would ensure that the genuine requirements particularly of weaker sections falling in the priority sectors were not adversely affected and that they continued to get reasonable facilities and financial accommodation in the interest of achieving larger production and social objectives with which the banks were nationalised.

2.95. The Ministry in their reply stated that in framing the credit policy measures, the Reserve Bank duly take into account the emerging economic trends in the system. In the present phase, when the inflationary pressures had put the economy under strain, the accent of the policy was on exercising the maximum possible restraint incredit creation while ensuring at the same time that both the quantum as also the distribution of credit were such as would be conducive to augmenting production and achieving the social and economic objectives. The point made by the Committee was an accepted tenet of the Government policy.

2.96. The Ministry were asked to state the extent to which the credit squeeze by banks due to inflationary trends had affected the weaker sections falling in the priority sector.

2.97. The Ministry in their reply stated that the policy of credit restraint followed by RBI does not affect the flow of credit to the weaker sections of the community which has shown a rising trend. As at the end of June, 1976, the outstanding advances of Public Sector Banks to priority sectors amounted to Rs. 2489 crores; as compared to Rs. 441 crores in June 1969. During the same period the number of borrowal accounts increased from 2,60,142 accounts to 46,39,878 accounts. Besides this, the Differential Rate of Interest Scheme is also meant primarily for the weaker sections of the community. As at the end of June 1976, outstanding advances of public sector banks under this scheme rose to Rs. 28.78 crores covering 6,24,692 borrowal accounts, and at the end of March, 1977, the amount advanced rose to Rs. 51.37 crores with 11,06,182 borrowal accounts.

2.98. Regarding the extent to which credit policy had been liberalised for weaker sections of society the Ministry stated that the Government had directed public sector banks to reorient their lending schemes Banks had been asked, among other things, to review their organisational machinery, delegation of loan sanctioning powers and streamline procedure for sanction of loans so as to ensure expeditious disbursement of loans.

2.99. Instructions had also been issued to banks to secure disposal of loan applications involving credit limit of Rs. 10,000 or less within a period of 3 to 4 weeks from the date of receipt of such applications.

2.100. During the course of evidence the Secretary, of the Department, however, assured the Committee that they would impress upon the banks that in respect of policy on credit restrictions, the priority sectors would be insulated from the operation of the squeeze.

2.101. The Committee note that in the wake of inflationary pressures the Reserve Bank have to exercise maximum possible restraint on credit creation, while ensuring at the same time that both the quantum and distribution of credit will be conducive to augmenting production and achievement of social and economic objectives. The Committee have been assured that the policy of credit restraint followed by the Reserve Bank of India has not affected the flow of credit to weaker sections of society, which has shown a rising trend. The Secretary, Department of Banking also assured during evidence that it would be impressed on the banks that priority sectors should be insulated from the operations of policy of credit squeeze. The Committee would like Government to issue guidelines in this regard and keep the position under continuous review so that the genuine requirements of the weaker sections of the society are not adversely affected by the credit restraint policy of the Reserve Bank.

2.102. The Committee note that banks have been asked among other things, to review their organisational machinery, delegation of loan sanctioning powers and streamline procedures to ensure expeditious disbursement of loans. Instructions have also been issued to secure disposal of loan applications involving credit limit of Rs. 10,000 or less within a period of 3-4 weeks. While noting these measures which are well intentioned, the Committee would like a watch to be kept so that these are implemented by the banks in letter and spirit.

C. **Disparity in disbursement of Credit among States.**

2.103. The Committee in paragraphs 2.58 and 2.59 of the 62nd Report had noted that there has been disparity in the disbursal of bank credit among the 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 professional 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 realised that to a certain extent this may have been due to inherent difficulties of availability of infrastructure 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 coordination with state Governments helped in the creation of necessary infrastructure.

2.104. The Committee had stressed that one of the major roles of the nationalised bank was to narrow down the regional imbalances and to ensure an equitable distribution of bank credit among the various States. The Committee therefore recommended 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 credit among the various States.

2.105. The Committee in paragraph 3.28 of the 62nd Report emphasised that the nationalised banks were expected to serve as instruments for correcting regional imbalances and ensuring that there was greater utilisation of deopsits in the area itself. The Committee desired that genuine credit demands of the various areas were met and they saw no reason why the credit deposit ratio should continue to be less than 50 per cent in several States. The Committee urged the Department of Banking 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.

2.106. The Department of Revenue & Banking in their reply dated the 23rd October, 1975, stated:

"The regional disparities in the matter of utilisation of bank credit are not the cause but the effect of more basic imbalances which cover much wider and fundamental facets of economic development such as natural endowments, transport, communications, power, entrepreneurial aptitude of the people, availability and size of markets, etc. These are the factors which basically determine the level of economic activity and lower the level of economic activity, the lower would be the absorptive capacity for funds which financial institutions might be willing to provide. In such a setting, mere availability for credit, even if a part of it is to be on favourable terms, cannot by itself push to the demand for credit. Given the preponderance of short term deposits in their deposit mix, the commercial banks also cannot lend substantially for building up the much needed infrastructure facilities. Thus the problem will have to be looked at as part of the annual and Five Year Plans, with the financial institutions playing a supporting role."

This does not, however mean that banks should not or are not taking steps to increase their credit support in under developed areas. The public sector banks in particular have put in considerable efforts to step up advances to the smaller borrowers in the hitherto neglected sectors like agriculture, cottage industries, small transport, retail trade and small business etc., and the under-banked and the under developed areas have received a larger proportion of incremental advances to the priority sectors in the country as a whole than before. For example, the four states of Bihar, Madhya Pradesh, Orissa and Uttar Pradesh accounted for only 12 per cent of the total priority sector advances in the country as at the end of June, 1969 and December, 1973, however, these States accounted for over 18 per cent on a much larger base. The opening of large number of new offices in these States and the efforts for coordination with the district authorities under the Lead Bank Scheme in formulating viable schemes covering various groups of borrowers like small farmers, artisans etc., have helped considerably in stepping up advances to the priority sectors in the underbanked States."

"Another avenue which the banks have been exploring to increase resource deployment in under-developed States is increasing investment in State Government securities and in bonds and debentures of State-associated bodies. For instance, of the net increase in Scheduled Commercial banks investments in securities of State Governments and State associated bodies between March, 1970 and March 1974, the additional investment in the four States of Bihar, Madhya Pradesh, Orissa and Uttar Pradesh was 23 per cent as against a share of only 15 per cent for these States as on 31st March, 1970. As a result, the Credit + Investment to Deposit Ratio has improved in these four States from 55 per cent to about 59 per cent between end-December, 1969 and end-June, 1973."

"The Credit deposit ratio in under-developed regions, can thus, be significantly changed only over a period of time. The pace of change would largely depend on the additional economic activity generated by plan programmes. In the meantime the banks are gearing up their machinery not only to step up their advances to the priority sectors but also to ensure that no bankable development programmes suffer for want of credit in these States".

2.107. The Department of Revenue and Banking was asked to indicate the latest position regarding extent of imbalance in sharing of bank credit by backward regions/districts in the country and also details of measures taken to remove this imbalance. In their written reply (November, 1976) the Department stated:

"The Planning Commission has declared 237 districts as industrially backward districts in the country. As at the end of December 1974 the total deposits of scheduled commercial bank branches in these districts amounted to Rs. 2465.49 crores. Compared to the aggregate deposits of scheduled commercial banks in the country as a whole amounting to Rs. 11611.80 crores, the deposits in the backward districts accounted for 21.2 per cent of the total. On the same date, the aggregate advances of scheduled commercial banks in these backward districts amounted to Rs. 1179 crores accounting for 14.3 per cent of the aggregate advances *i.e.* Rs. 8249 crores.

The pattern of deployment of bank credit is to a significant extent determined by the level of economic activity obtaining in different regions of the country, particularly in the organised sector of trade and industry. Given the industrial backwardness of the identified districts, the level of economic activities in the organised sector of trade and industry is appreciably lower in these districts than anywhere else. Large scale absorption of credit can therefore, be promoted only through development of industry and trade sectors which is expected to come about through the implementation of plan programme specifically directed towards development of backward districts. However, recognising the need to channelise credit into these backward areas, public sector banks have been endeavouring to concentrate more on enlarging the flow of credit to small borrowers in the neglected sectors of agriculture, small industries, road and water transport, retail trade and small business, artisans and craftsmen etc. While district-wise details of the flow of bank credit to the neglected sectors is not available, it would be seen from the enclosed stated (Appendix III) that such credit has registered an appreciably higher growth rate in backward States which comprise comparatively larger number of backward districts. The Differential Interest Rate Scheme under which the weaker sections of the community are being provided production credit at a concessional rate of 4 per cent per annum is being implemented in the industrially backward districts, in addition to a few others where SFDA/MFAL programme are under implementation."

2.108. In November, 1977, the Ministry furnished the data for end-June 1975 and end-June 1976 with regard to total deposits and advances in the industrially backward districts by the scheduled commercial banks as follows:—

(Rs. lakhs)

Particulars	As on the end of June		% increase over the year
	1975	1976	
Deposits			
(1) Total	1263708	1515642	19·94
(2) In Backward districts	68739	321658	19·69
(3) (2) as % (1)	21.26	21.22	..
Advances			
(4) Total	911870	1163916	27·64
(5) In Backward districts	131862	158426	20·14
(6) (5) as % of (4)	14.46	13.61	..

2.109. From the State-wise classification of Public Sector Banks' credit to priority sectors in June, 1969 and December, 1975 (Appendix-III) it is noticed that though the deployment of credit has registered an appreciably higher growth rate, the gap between various regions continues to be large. In the North-eastern regions, the amount outstanding, being credit to the priority sectors, increased from Rs. 197 lakhs in June, 1969 to Rs. 2182 lakhs in December, 1975 whereas in other regions, *viz.*, the Northern Region it increased from Rs. 4043 lakhs to Rs. 3408 lakhs, in Eastern Region from Rs. 3080 lakhs to Rs. 25935 lakhs, in Central Region from Rs. 4589 lakhs to Rs. 30,689 lakhs, in Western Region from Rs. 14021 lakhs to Rs. 64973 lakhs, and in Southern Region from Rs. 18003 lakhs to Rs. 74369 lakhs, during the same period.

2.110. "During the last one year a new institution in the form of Regional Rural Banks has been brought into existence to provide credit to small and marginal farmers and artisans and craftsman in the rural areas in selected areas which are at present inadequately served by the commercial banking system and where the cooperative credit structure either does not exist or is very weak. So far 31* such Regional Rural Banks have been set up in the country, of the industrially backward districts, 45@ districts are included in the operation areas of the Regional Rural Banks. As at the end of August 1976, the aggregate deposits of these advances were around Rs. 3 crores. It is expected that with the gaining of experience and opening of more branches these banks would be able to make perceptible impact in the difficult areas which they have been called upon to serve."

2.111. When asked as to what role the banks were playing in correcting the imbalance between various parts of States, apart from removing imbalance among States, the Secretary of the Department of Banking stated during evidence:

> "Banks have a role, but the primary responsibility for improving the economic conditions in the backwad areas of a State is that of a State Government. Banks can give loan, but the main responsibility is that of State Governments."

2.112. When asked to comment on the view that certain parts or regions of the country suffer very badly due to the absence of proper banking facilities, the Secretary of the Department stated:—

> "I fully accept that point that the presence of a bank itself also helps. I did say that I myself subscribe to the view that banks themselves should be the catalysts of change. Therefore, I have little difficulty in accepting this main point. But I would

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*As per information in Nov, 77 the number is 48.

@As per information fvrnished in Nov, 77 the number is 87.

say that eastern India was very poorly served by the banking system. To give you some figures, in June 1969 when the national average of population per office was 65,000 in the Eastern region, every state had a population average much higher. In Bihar it was over two lakhs of persons per office. In Orissa also it was over two lakhs of persons. In West Bengal it was 87,000 in Andaman and Nicobar Islands it was 82,000. As far as the north-eastern region is concerned, the position was worse. This was in 1969. Now June, 1976) in Bihar from two lakhs per office it has come down to 59,000 per office and even at 59,000 it is twice of what the national average today is. In Orissa it is 57,000."

2.113. The Committee note that although the percentage increase in the amount outstanding on account of public sector banks credit to priority sector, between June, 1969 and December, 1975 has been 1007.6 per cent in the North Eastern regions, 567.7 per cent in the Central region 363.4 per cent in the Western and 313.1 per cent in the Southern region, the amount of outstanding credit varies very widely in these regions which ranges from Rs. 21.82 crores in the North Eastern region to Rs. 743.69 crores in the Southern region.. Moreover, there is also wide disparity in the amount of outstanding credit to the priority sector at the end of December, 1975 between the various States. The outstanding credit in the States with less population is far more than that in the more populous States. For example, the amount of outstanding credit at the end of December, 1975 was Rs. 434.80 crores in Maharashtra, Rs. 295.56 crores in Tamil Nadu, Rs. 208.84 crores in Karnataka, Rs. 219.60 crores in Gujarat, while it was only Rs. 219.57 crores, in Uttar Pradesh, Rs. 86.82 crores in Madhya Pradesh, Rs. 83.98 crores in Bihar and Rs. 56.73 crores in Rajasthan, Rs. 17.44 crores in Assam, and Rs. 149.83 crores in West Bengal. It is thus obvious that the development of these States has suffered adversely in the absence of adequate bank credit.

2.114. The Committee realise that the deployment of bank credit is, to an extent, determined by the level of economic activity obtaining in different regions of the country particularly the organised sector of trade and industry. At the same time, the Committee feel that if these considerations continue to determine the deployment of bank credit, the gap in the quantum of bank credit in these States will not only tend to perpetuate but is likely to grow further.

2.115. The Committee need hardly stress that one of the major roles of nationalised banks is to narrow down the regional imbalance and to ensure and equitable distribution of bank credit among the various States. Evidently the banks have not fulfilled this task to any significant degree. The Committee therefore recommend that the banks should take a lively

and positive interest in the development of industry, trade and economic activity in the backward states and regions and should bring forward attractive schemes of advancing bank credit in these area to generate additional industrial and economic activity. The Committee would also like Government to issue suitable instructions to the public sector banks to take more direct interest in the matter so that not only the gap in advancing credit to the various States is abridged but there is more equitable distribution of credit among the various States and regions.

2.116. The Committee note that the Planning Commission has declared 237 districts as industrially backward districts in the country. As at the end of December, 1974, the total deposits of the scheduled commercial bank branches in these districts amounted to Rs. 2465.49 crores, accounting for 21.2 per cent of the total deposit of Rs. 11611.80 crores. Against this, the aggregate advances of scheduled commercial banks in these districts amounted to Rs. 1189 crores, accounting for 14.3 per cent of the aggregate advances i.e. Rs. 8249 crores. The percentage of total advances in this sector further declined to 13.6 per cent of the total advances as at the end of June, 1976. It is argued that deposit ratio in under-developed regions can significantly be changed only over a period of time, depending on the additional economic activity generated by the plan programmes. The Committee, however, feel that the scheduled commercial banks have a special responsibility for the development of these backward district. They are expected not only to advance credit equal to the deposits of these districts but even to increase the quantum of credit beyond their deposits to bring about a rapid economic transformation in these areas. The Committee would like concrete steps to be taken in this regard. The Committee recommend that the backward districts should be made the focus of development by Government as well as the banks and the pace of development in these districts should be accelerated by channelising more and more credits for productive purposes in these areas.

2.117. The Committee note that 48 Regional Rural Banks have been set up in the country and 86 industrially backward districts have been covered by their activities. The Committee feel that the scheduled commercial banks/public sector banks, regional rural banks and other lending institutions should work in a coordinated manner so as to bring about the economic development in the backward districts and also remove the credit imbalances between the various regions and States. The Committee would like to emphasise that apart from other measures, providing the banking facilities in the unbanked and underbanked areas in the backward districts| States in a planned manner may also go a long way in helping in the development of these areas. It is well known that the regions/States which are poorly served by the banking system, do not develop at the same pace as other regions/States which comparatively have more banking facilities. The

Committee would, therefore stress that in the programme of branch expansion, priority may be accorded to the opening of new bank branches in the comparatively unbanked and under-banked areas as per a well researched plan based on socio-economic survey is to be carried out in that behalf. Specific mention of the progress made in this regard should be made in the Annual Report of the Department of Revenue and Banking.

CHAPTER III

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

A. Branch Expansion

(i) *Planning Programming and State-wise/Area-wise progress*

3.1. The Committee in paragraph 3.4 and 3.5 of their 62nd Report had observed:

"The Committee note that during the period from 1970 to September, 1973 a total number of 6748 new branches have been opened by all the 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, 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."

"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."

3.2. The Department of Banking while accepting the above recommendations stated in their reply (October, 1974):—

> "Till 1973, the branch expansion plans were formulated largely in aggregative terms. Thus, for example, for the three-year period 1972-74 an aggregate of 5,000 new branches was indicated to the banks with suggestion that keeping this broad target in mind they should chalk out their own plans. A coordination between the plans of different banks was brought about by the Reserve Bank of India at the licensing stage so that on the one hand, avoidable overlapping was eliminated and on the other the essential objective of taking banking to unbanked areas duly pursued.

3.3. As a result of the decision taken at a meeting of chief executives of public sector banks, which was presided over by the Union Finance Minister and was held in January, 1973 a more detailed system of planning has now come into use. The banks are now required to work out three-year rolling plans. Within the three-year frame, the plan for the first year is fairly detailed and indicates the names and other particulars of the centres where a given bank proposes to open branches in that year. The plans for the remaining two years are in aggregative terms. As one year is finished, a fresh three-year plan is then prepared.

3.4. On the basis of the detailed information furnished by each bank indicating names and other particulars of the proposed centres to be taken up in the first year, steps are taken to bring about the necessary coordination between the plans of different banks. Thus, a fairly detailed system of planning for branch expansion has now emerged and every possible care is taken to ensure that branch expansion follows a pattern that would be in furtherance of the objective of reducing inter-State and inter-district inequalities in the matter of availability of banking services."

3.5. In the consolidated Report on the working of the Public Sector Banks for the year ended December, 31, 1975, it has been stated that in September, 1975, the Reserve Bank called upon the commercial banks to furnishing rolling plans for branch expansion in the three-year period 1976-78. The banks have been asked to ensure that a large number of offices continue to be opened in States and Union Territories, especially in the Eastern and North Eastern Regions so as to reduce Inter-state and inter-district disparities in banking facilities. The plans are required also to cover centres with high deposit potential, unbanked growth centres identified by lead banks and also those where State Governments required additional bank offices for the purpose of implementing their development plans. The banks have also been advised to lay special emphasis on opening offices at places where they have undertaken or propose to undertake financing of special schemes with refinance assistance from the International Development Association, Agricultural Refinance and Development Corporation, etc. as also in Adivasi and Tribal belts.

3.6. The Committee desired to know whether plans for branch expansion for 1977-79 have been received by the Reserve Bank of India and studied. In a written reply (March, 1977), the Department of Revenue and Banking have stated:—

"According to the latest report from the Reserve Bank of India dated February 17, 1977 perspective plans have been received from 25 banks. 41 banks are yet to submit their plans. They have been asked to expedite the submission of the plans and the matter is being pursued by the Reserve Bank with the defaulting banks individually.

The plans so far received are being scrutinised by the Reserve Bank of India and the data tabulated so that decisions on requests for opening branches at unbanked rural centres could be taken expeditiously."

3.7. In a letter dated 11 October, 1976 from the Reserve Bank of India addressed Banks regarding preparation of Perspective Plan for Branch expansion during the period 1977-79, it was stated:—

"We had set a target of 5,000 branches for the opening of new offices by commercial banks during the three-year period 1975-77 of this, banks have already opened 3,040 offices during the period 1st January, 1975 to 30th June, 1976. As on the 30th June 1976, banks had about 2900 licences/allotments pending with them. A sizeable number of these licences is pending with the banks for quite some time. While we concede that there are difficulties in opening branches in some cases, we expect the banks to put in more efforts to utilise the long outstanding licences. While considering the plans, the licences pending with the banks will be taken into account by us."

3.8. In November, 1977, the Ministry informed that the total number of new branches opened by commercial banks during 1975—77 (upto 30.6.1977) was 6704 as against the overall target of 500 branches for the three year period 1975—77.

(b) Data relating to the total number of licences issued for opening new branches, number of licences utilised and number of licences pending during the period 1975—77 (upto 30.6.1977) are set out below:—

Total number of licences issued during 1975-77 (upto June 30, 1977) .	7221
Of which number of licences utilised	4217
Number of licence pending	3004

3.9. The Ministry further informed that "the Reserve Bank of India have reported that all the public sector banks have submited their perspective plans for the period 1977-79. The plans for the year 1977 have been scrutinised by the RBI. Proposals for opening offices at unbanked rural centres and banked centres (rural, Semi-urban and Urban) have been considered and licences/allotments have been issued by the RBI for opening new offices at these centres as per details given below:—

Unbanked Centres	
Rural .	2173
Banked Centres	
Rural .	9
Semi-urban .	360
Urban	276
Total	645

Proposals for opening offices in Metropolitan/Port Town centres are under consideration of the Reserve Bank of India.

State-wise/Area-wise Progress

3.10. The Committee in pragraphs 3.13 and 3.14 of their 62nd Report (1973-74) observed as follows:

"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 1972."

"The Committee would like the Department and the Reserve Bank of India to analyse the fact that have retarted 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."

The Department in their reply (October, 1974) stated:

"In the wake of nationalisation, in a determined bid to expand branches were opened in rural areas between June, 1969 and the bank launched a massive programme of branch expansion, particularly in rural areas. As a result, as many as 3464 branches were opened in rural areas between June, 1969 and December, 1972. Having achieved this initial thrust, the banks naturally adopted a more selective approach with a view to balancing the limitations set by resources—financial, organisational and manpower—and the requirements of the rural areas.

Another factor to be taken note of in this connection is the fact that with the massive coverage, in the initial years, of the unbanked centres which offered growth potential, the banks were left with somewhat more difficult areas to be covered in the subsequent years. There has been a steady decline in the number of rural centres having requisite infrastructure as also necessary potential for supporting a bank office. For instance in Madhya Pradesh, Uttar Pradesh and Bihar, out of 632 unbanked centres examined for their suitability by the State Government for opening of offices as many as 444 had population levels between 1000 and 3,000 each, 107 had population levels between 3,000 and 5,000 each while only 81 centres had population exceeding 5,000. Besides having low population levels, many of these centres also lacked basic infrastructure facilities, like approach roads, suitable premises etc., without which the bank offices could hardly be expected to function efficiently and economically.

Government are of the view that the available capacity of the banks to undertake development banking should be utilised judiciously and in such a manner as to ensure that no large geographical areas remain devoid of banking facilities for long. Emphasis in this approach is shifted from mere population coverage to a mix of population and area coverage. In pursuance of this objective, the geographical pattern of branch net work in the underbanked states is now being studied with a view to exploring the possibilities of reorienting the branch expansion programme of the banks in such a way as to ensure that as many of the unbanked blocks as possible are covered within the next two to three years. This analysis would also bring to focus the minimum infrastructural arrangement to be provided by the concerned State Governments to facilitate opening of bank offices in those blocks where these are currently absent."

3.11. Asked to intimate the results of the analysis made with a view to utilising judiciously the available capacity of banks to undertake development banking in such a manner that no large geographical areas remain devoid of banking facilities for long, and also the measures taken to correct the regional imbalance in the banking facilities in the country, the Department of Revenue and Banking furnished the following written information in November, 1976:

"To ensure that no large geographical area remain devoid of banking facilities for long, the geographical spread of bank branches in underbanked States of Madhya Pradesh, Uttar Pradesh, Orissa, West Bengal and the States and Union Territories of North-Eastern Region was specifically examined in terms of Community Development Blocks. It was observed that in the States mentioned above, there were about 750 Community Development Blocks without banking facilities when the studies were undertaken. In respect of these unbanked blocks, the public sector banks had agreed to take up 443 centres which had the necessary minimum infrastructure facilities and development potential for branch opening during the period 1975—78. The latest available data show that branches have already been opened at 184 centres. Banks have plans to open branches at 91 more centres during the current year. In respect of remaining centres, they have been advised to expedite the implementation of the programme so that banking facilities at these centres can be made available before the end of March, 1977. "Subsequently the Department informed in July, 1977 that 112 more blocks had been covered during the current year."

"In respect of the State of Bihar also the spread of branch network of commercial banks was recently examined. In February, 1975, 190 of the unbanked blocks were allocated amongst different banks. 38 more unbanked block have been allocated during May, 1976. The follow-up review has reserved that of the identified 228 unbanked blocks, banks have already opened branches in 65 blocks. 44 more unbanked blocks are proposed to be covered during the current year. Subject to provision of minimum infra-structural facilities, it is expected that the remaining 119 blocks will be covered by the banks by the end of 1977."

"To ensure that regional disparities are progressively brought down, the Reserve Bank have advised the Scheduled commercial banks to pay special attention to the needs of districts having population per bank office in excess of 50,000. They have also formulated guidelines for preparing the perspective plan of branch expansion covering period 1977—79.

3.12. In a note furnished to the Committee subsequently in March, 1977, the Department of Revenue and Banking have stated:—

"According to information made available to the Department of Revenue and Banking (Banking Wing) by the Reserve Bank of India or the State Governments concerned, the total number of Community Development blocks in the country which were devoid of banking facilities as at the end of September, 1976 numbered about 900. In November, 1977 the Ministry informed that the number of Community Development blocks which were devoid of banking facilities had come down to 544 as at the end of June, 1977 as detailed below:—

Statement showing Region/Statewise dispersal of unbanked community development blocks as on 20-6-1977.

Region/State/Union Territory	No. of unbanked community Development blocks
1	2
Northern Region	
Himachal Pradesh	9
Jammu & Kashmir	13
Rajasthan	12
Total :	34
North Eastern Region	
Assam	26
Manipur	16
Meghalaya	12
Nagaland	11
Arunachal Pradesh	10
Mizoram	17
Total :	92

1	2
Eastern Region	
Bihar	104
Orissa	62
West Bengal	33
Andaman & Nicobar Islands	2
Total	201
Central Region	
Madhya Pradesh	107
Uttar Pradesh	90
Total	197
Western Region	
Maharashtra	10
Southern Region	
Tamil Nadu	9
Kerala	1
Total	10
ALL INDIA	544

3.13. So far as the programme for opening of branches in these unbanked blocks is concerned, the Ministry have stated that the banks have been advised to ensure that all unbanked Community Development Blocks are provided with at least one bank branch by June, 1978. The State-level Banker's Committees have been asked to draw up agreed and time bound programme of branch expansion in these unbanked blocks and keep a watch on the implementation of the programme. Follow up action taken by these State-level Bankers' Committees is proposed to be kept under watch by the Department of Banking also.

3.14. In paragraph 3.15 of the Report *ibid,* the Committee, had observed:—

> "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 infrastructural 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 5,000 only as rural so as to locate branches in really rural areas and thereby help in their growth potential." The Department in their reply (October, 1974) stated:—

"It has been the endeavour of the public sector banks to select such rural centres for branch opening as are not in close proximity to other banked centres, particularly the urban ones. Banks have achieved this objective to a large extent. For instance 615 of the 667 offices opened by the State Bank in rural areas since July, 1969 are located at a distance of more than 8 Kms. from district towns of semi-urban areas. Likewise, the proportion of rural branches located at centres more than 8 Kms. from the nearest semi-urban areas is more than 85 per cent in the case of United Bank of India and Union Bank of India."

3.15. The idea underlying the recommendation of the Committee that rural branches should be located at such centres as yield an effective coverage or genuinely rural areas is an unexceptionable one. It is with this objective in mind that the Department of Banking have undertaken an examination of the pattern of geographical distribution of bank branches in under-banked regions. It is now proposed that the branch expansion programmes of the banks should be re-oriented towards opening at least one office in each of the unbanked blocks, subject to the availability of a certain minimum development potential and infrastructure facilities.

3.16. A change in population norm for rural centres alone cannot, however, be effected without affecting the classification of other centres. Further the changes should not also be such as to affect comparability with the past data. The whole question of classification of centres on population basis is under examination by the Reserve Bank of India."

3.17. Asked to intimate the outcome of the examination by the Reserve Bank of the question of classification of centres on population basis for the purpose of location bank branches in rural areas, and the decision taken on the findings/recommendations. the Department furnished the following written information (November, 1976):—

"The Reserve Bank have reported that emphasis now is to ask banks to open as many offices as possible in unbanked/underbanked rural and semi-urban areas, and underbanked and backward districts/States/Union Territories so as to minimise inter-district and inter-State disparities in the matter of providing banking facilities. The Reserve Bank have also reported that many of the unbanked blocks headquarters are those with population of less than 5,000. The setting up of Regional Rural Banks, it has been indicated, will also accelerate the process of providing banking facilities at smaller rural centres.

3.18. Thus, while the classification of the branches is being retained unchanged, the present branch expansion policy is directed towards opening more and more branches at Centres with less than 5,000 population."

3.19. During the evidence of the representatives of the Department of Revenue and Banking, when asked to state the reasons for the classification of the bank branches being retained unchanged, the Secretary (Banking) stated:—

"We had consulted the Reserve Bank on this matter, and they felt that because much larger emphasis is being given to unbanked rural centres, perhaps this categorisation of rural centres up to 5,000 population is redundant."

3.20. When his attention was drawn to the retarded growth rate of opening bank offices in rural and semi-urban areas, the Secretary (Banking) stated:—

"We have looked into this problem of slower growth of rural branches over the last two or three years. We have taken up this matter with both the banks and the Reserve Bank.... The Reserve Bank's latest policy, announced in December, 1976, is that out of six branches which banks may open, at least four must be in unbanked rural centres..... We are also separately taking up with the Reserve Bank the question of seeing that unbanked blocks were all banked according to a time bound programme."

(ii) *Credit Deposit Ratio*

3.21. In paragraphs 3.27 and 3.28 of their 62nd Report, the Committee had observed:—

"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.

"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 reason why the credit deposit ratio should continue 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."

3.22. The Department of Banking in their reply stated:—

"The regional disparities in the matter of utilisation of bank credit are not the cause but the effect of more basic imbalance which cover much wider and fundamental facets of economic development such as natural endowments, transport, communications, power, entrepreneural aptitude of the people availability and size of markets, etc. These are the factors which basically determine the level of economic activity and lower the level of economic activity, the lower would be the absorptive capacity for funds which financial institutions might be willing to provide. In such a setting, mere availability of credit, even if a part of it is to be on favourable terms, cannot by itself such up the demand for credit. Given the preponderence of short term deposits in their deposit mix, the commercial banks also cannot lend substantially for building up the much needed infrastructure facilities. Thus the problem will have to be looked at as part of the annual and Five Year Plans, with the financial institutions playing supporting role.

This does not, however, mean that banks should not or are not taking steps to increase their credit support in underdeveloped areas. The public sector banks in particular have put in considerable efforts to step up advances to the smaller borrowers in the hitherto neglected sectors like agriculture, cottage industries, small transport, retail trade and small business etc., and the underbanked and the underdeveloped areas have received a larger proportion of incremental advances to the priority sectors in the country as a whole than before. For example, the four States of Bihar, Madhya Pradesh, Orissa and Uttar Pradesh, accounted for only 12 per cent of the total priority sector advances in the country as at the end of June, 1969. Of the increase between June, 1969 and December, 1973, however, these States accounted for over 18 per cent, on a much larger base. The opening of large number of new offices in these States and the efforts for coordination with the district authorities under the Lead Bank Scheme in formulating viable schemes covering various groups of borrowers like small farmers, artisans etc., have helped considerably in stepping up advances to the priority sectors in the underbanked States.

Another avenue which the banks have been exploring to increase resource deployment in underdeveloped States is increasing investments in State Government securities and in bonds and debentures of State Associated bodies. For instance, of the net increase in Scheduled Commercial Banks investments in securities of State Governments and State associated bodies between March, 1970 and March, 1974, the additional investment in the four States of Bihar, Madhya Pradesh, Orissa and Uttar Pradesh was 23 per cent as against a share of only 15 per cent for these States as on 31st March, 1970. As a result, the *Credit-Investment* to Deposit Ratio has improved in these four States from 55 per cent to about 59 per cent between end-December, 1969 and end-June, 1973.

The credit deposit ratio in under-developed regions can, thus be significantly changed only over a period of time. The pace of change would largely depend on the additional economic activity generated by plan programmes. In the meantime the banks are gearing up their machinery not only to step up their advances to the priority sectors but also to ensure that no bankable development programmes suffer for want of credit in these States."

3.23. The Department of Revenue and Banking have furnished figures relating to distribution of deposits and advances of Scheduled Commercial banks on the basis of population groups *viz.*, Rural, semi-urban, Urban and Metropolitans, showing the credit deposit ratio, for the years ending June, 1973, June, 1974 and June, 1975 (Appendix-IV). The analysis of the information comparing the rural and metropolitan groups of population, reveals that in June, 1975, the advances to the rural population constituted only 5.9 per cent of the total advances as compared to the deposits which constitute 8.1 per cent of the total deposits. In contrast, in metropolitan areas the advances were 55 per cent of the total advances as against 45 per cent of the deposits in those areas. Similarly, the Credit-Deposit ratio in rural areas works out to 52.1 per cent as against 88.2 per cent in metropolitan areas, during the same period. The figures furnished by the Department for the year ending December, 1976 (Appendix-V) indicate the credit deposit ratio to be 57.4 per cent for rural areas as against 102.4 per cent in metropolitan areas.

3.24. During the evidence of the representatives of the Department of Revenue and Banking when their attention was drawn to the above analysis, the Secretary (Banking) stated:—

> "I would submit another way of looking at the same problem is to see how much of advances are given by banks out of the deposits they get in the rural areas. Even here the position until recently was not very satisfactory in the sense that the ratio of credit to deposits in the rural areas of the rural branches in 1969 was 37.5 per cent which meant that instead of even using the deposits which the banks got in the rural areas the banks were transferring the deposits to the urban areas. That was the situation which we have been trying to correct. And if you take that particular type of statistics, the figure had risen from 37 in June 1969 to 52.1 per cent in 1975 in the rural branches.
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> * * * *
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> The idea that the banks should at least reach the level of advances in proportion to the deposits in rural areas is one which I personally fully support. This is a matter, where we need to see how we would achieve it. When considering these things, we are only looking at the deposits and advances. But banks increasingly have been also making money available for various State Government projects by investing in State Government securities and debentures, in State Finance Corporation bonds and in various State Industrial Development Corporation branches as well as in Rural Electrification Corporation. I am only mentioning this to get a correct perspective of what they are doing. We should also take this into account. Sometimes the assistance that is given for rural purposes is not

always made at the rural branch. It is sometimes made in the larger office of the bank. Similarly, for purchase of agricultural implements, very often it is not made at the rural branch, it is made in the nearest town."

(iii) *Performance of new branches*

3.25. The Committee in paragraphs 3.35 and 3.36 of their 62nd Report made the following observations/recommendations:—

"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 representative of the Department.

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 over-heads, 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 suitable built-in-mechanism in this behalf."

3.26. The Department of Revenue and Banking in their reply (October, 1974) stated:—

"Banks undertake a detailed review of the working of the newly opened branches with a view to evaluate their performance and in respect of branches whose performance has not been satisfactory, they consider the adoption of the types of special measures which have been indicated by the Committee to put the working of those branches on a sound footing. Banks have also initiated steps to introduce a system of performance budgeting and a proper system of controls for keeping a watch on the performance of the branches *vis-a-vis* their budgets and, in course of time, this would serve as a suitable built-up-in-mechanism for a continual review of the working of the branches. The Reserve Bank has advised the banks in February, 1974 to review the position of branches working at a loss and devise ways and means to put their working on a profitable basis. In view of the special importance attached by the Committee to the working of newly opened branches, the observations of the Committee are being brought to the notice of all the public sector banks."

3.27. In paragraphs 3.37 and 3.38 of the report *ibid* the Committee observed:—

"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."

"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."

In reply, the Department have stated:—

"Banks do have a system of carefully assessing the business potential of centres where branches are proposed to be opened.

A study of the likely working results that the branches are expected to show is also made by the banks, before taking decisions regarding opening of branches. The point highlighted by the Committee will be borne in mind at the time of formulation of the plans for opening of new branches."

"As observed by the Committee, it is necessary to ensure that more branches than are necessary are not opened in any area. It has been the endeavour of the Reserve Bank of India, and will continue to be so, to avoid such overlapping."

3.28. The Department was asked to state the results of the review conducted by banks on the advise of the Reserve Bank of India to examine the working of the branches working at a loss, and *the concrete measures taken to put their working on profitable basis.

3.29. The Department, in their written reply stated that although profitability *par se* has never been the sole objective of the branch expansion programme of the public sector banking system, consideration of economic viability have not been lost sight of. Working results of the branches may require a relatively longer gestation period. Once the urban/ results have revealed that the branches in urban and metropolitan areas start making profits in about 5 years' time whereas rural and semi-urban branches may require a relatively longer gestation period. Once the urban/ metropolitan branches become profit earning, these would be in a position to counter-balance and offset the losses that would, for some time, be inescapable at several of the rural/semi-urban centres. The objective has always been to optimise the mix for each bank as whole rather than seek profitability for its individual units. Low deposit credit ratio, higher operational costs, relatively poor business, particularly in rural branches, predominantly concessional lending in the rural areas, while there deposits are mostly interest bearing, have been identified as the main causes leading to the losses at the loss-making branches in the gestation period.

3.30. The working of the loss making branches is kept under continuous review. By and large, public sector banks have reported perceptible improvement in the working of these branches as a result of remedial measures, such as, enlarging their advances portfolio so as to optimise their credit deposit ratio, regulation of cash flow at an appropriate level and strict economy in respect of expenditure and establishment costs.

3.31. During the evidence the representative of the Reserve Bank of India stated:—

"In the Reserve Bank, we had taken a sample survey of some branches working at a loss. This was done about two years back. On that basis we issued instructions or guidance to banks as to what are the improvements that could be brought about in functioning of these branches. As and when our officers go and inspect the branches in an area of a centre, they discuss the problems of these branches with them and advise them what could be done to improve their functioning."

3.32. When asked, whether the branches which continuously showed lossed, were not closed down, the representative of the Reserve Bank stated:—

"On that we are very firm. We do not allow the branches to be closed down."

3.33. The Secretary (Banking) on this point added:—

"Apart from the visits of officers of the Reserve Bank, the banks themselves have periodical reviews of their branches, particularly the newly-opened branches which according to them, are not making profits."

3.34. Asked to state whether it was ensured that more branches than were necessary, were not opened in any area and that whether there have been cases of overlapping of bank branches in some areas, the Secretary (Banking) stated during evidence:—

"Before the Reserve Bank gives a sanction for opening branches, they see that they are opened at different centres, in different areas, and that there is no overlapping. But some times it becomes unavoidable for a bank to open a branch where there is already another bank. It is possible that one bank has a branch in a particular area and the business in that area expands to a point when service in this branch also becomes insufficient. Therefore, it could be that there is a need for another bank in that area. Secondly, sometimes the banks which are located in one state want to have link branches in other States where they are permitted to open branches."

3.35. In paragraph 3.5 of their 62nd Report (1973-74) the Committee had recommended that the Department of Banking and the Reserve Bank of India should set region, area and bank-wise annual targets for branch expansion under the three year rolling plan and keep a watch by periodical assessment of the performance of the banks in this regard. The Committee note that the banks are now working out three year rolling plans. While the plan for the first year is fairly detailed and indicates the names and other

particulars of the centres where a bank proposes to open branches, the plan for the remaining two years is in aggregated terms. After the completion of one year, a fresh three year plan is prepared. Moreover, while sanctioning branch expansion, the objective of reducing the inter-State and inter-district inequality in the matter of availability of banking service is also taken care of. The Committee suggest that a periodical review should be carried out to ensure that inter-state, inter-regional and inter-district disparities in branch expansion are reduced at the earliest. They would like the Department of Banking/RBI to oversee and coordinate the follow-up action taken by the various banks in reducing the disparities area-wise/potential-wise.

3.36. The Committee note that all the Public Sector Banks have submitted their perspective plans for branch expansion for the period 1977—79 but there has been considerable delay in submission of the reports by some of the banks. The Committee desire that a time limit for the submission of the perspective plans be laid down and it may be ensured that the plans are received in time so that these can be scrutinised by the authorities concerned and decision taken for opening branches in unbanked rural centres expeditiously.

3.37. The Committee note that banks have been advised to open branches where they have undertaken/propose to undertake financing by special schemes with refinance assistance from the International Development Association, Agricultural Refinance Development Corporation etc. as also in Adivasi and tribal belts. The Committee further note that against the target of opening 5000 branches during the period 1975-77, the banks had opened 6704 offices upto 30 June, 1977. As on 30 June, 1977, banks had about 3004 licences/allotments pending with them. The Committee are concerned over the large number of licences pending with banks. The Committee desire that reasons for these licences being pending may be analysed and if necessary re-allocation of new bank offices/branches in the overall interest of development in a particular area may be considered. They further desire that the opening of new offices, particularly in rural and unbanked areas, underbanked and backward districts and States may be expedited. . . . . .

3.38. In paragraph 3.14 of their 62nd Report, the Committee had desired that the reasons for retarded growth rate of opening bank branches in rural and semi-rural areas after the initial increase of 73 per cent in the first year of bank nationalisation, should be analysed and remedial measures taken to improve the growth rate. In their reply the Government stated that in the wake of nationalisation in a determined bid to expand bank services in hitherto neglected and backward areas, banks had launched a massive programme of branch expansion in these areas. But in subsequent years, the banks adopted a more selective approach, with a view to balancing the financial, organisational and manpower limitations vis-a-vis the requirements of the rural areas. With the massive coverage in the initial years of the unbanked centres which offered growth potential, the banks were left with comparatively difficult areas to be covered in the subsequent years. Besides, having low population many of the unbanked centres lacked basic infrastructure facilities like approach roads, suitable premises etc. The Committee are not convinced by the reasons advanced for slowing down the growth rate of bank branches in rural and semi-rural areas. They feel that with proper initiative and drive and close co-ordination with State Governments, the minimum infrastructure facilities can be provided at most of the unbanked centres, in rural areas. They, therefore, stress that determined efforts may be made with due regard to the economic factors to open branches in rural areas in the interest of their rapid development and consequential availability of employment opportunities.

3.39. The Committee note that as at the end of June, 1977 the total number of Community Development Blocks in the country which had no banking facilities, numbered about 544. The number of unbanked community development blocks is 90 in U.P., 104 in Bihar, 62 in Orissa, 107 in Madhya Pradesh and 33 in West Bengal. It is a moot point whether the lack of banking facilities has not come in the way of equitable development of these States. The Committee desire that more serious attention should be paid to providing banking facilities in these States.

3.40. The Committee note that banks have been advised to ensure that all unbanked community blocks are provided with at least one bank branch by June, 1978. The State level Bankers Committees have been asked to draw up an agreed and time bound programme of branch expansion in these unbanked blocks and keep a watch over the implementation of the programme. The Committee also note that according to the latest policy announced by the Reserve Bank of India in December, 1976, out of every 6 branches opened by banks, at least 4 must be in unbanked areas. The Committee welcome this change in emphasis in opening new branches. The Committee consider that provision of banking facilities is one of the important infrastructure for development. It is therefore imperative that suitable institutional arrangements for banking may be made in rural areas. The Committee desire that the banking facilities in the unbanked Community Development Blocks in the States should be provided on priority basis.

3.41. The Committee desire that the Department of Banking and the Reserve Bank of India may keep a close watch over the progress of preparation and implementation of a time bound programme for opening bank branches in unbanked blocks and ensure that all unbanked community blocks are provided with at least one or more bank branches by June, 1978.

3.42. The Committee suggest that in the establishment of bank branches, the availability of only the barest minimum infrastructure may be insisted upon.

In cases where such infrastructure may not be available, concerted efforts may be made to arrange for such facilities being provided at the earliest through the State/district authorities.

3.43. In paragraph 3.15 of their 62nd Report the Committee had recommended that the classification of rural areas might be revised with a view to classifying centres with population upto 5000 as rural instead of the present limit of 10,000. The Committee have been informed that while the existing classification is being retained unchanged, the present branch expansion is directed towards opening more and more branches at centres with less than 5000 population. The Committee feel that if more bank branches are to be opened in rural centres with less than 5000 population, there should be no difficulty in changing the classification of rural areas as desired by them. They, therefore, reiterate that in order to put the position beyond any doubt, necessary amendment may be made in the existing classification of rural areas.

3.44. In paragraph 3.28 of their 62nd Report, the Committee had recommended that the Department of Banking and the Banks should take concrete measures for bringing about tangible improvement in the Credit-Deposit ratio of various States particularly those where it had registered a declining trend. In their reply, the Department stated that the regional disparities in the matter of utilisation of bank credit are not the cause but the effect of more basic imbalance which cover much wider and fundamental facts of economic development, such as natural endowments, transport, communications, power, entrepreneural aptitude of the people, availability and size of markets etc. These were the factors which basically determined the economic activity as also the absorptive capacity of bank credit. While the Committee agree that the credit deposit ratio in underdeveloped regions/States is related to the economic activity generated in those areas, they feel that the banks have a significant role to play in this behalf. The Committee desire that banks should intensify efforts to introduce suitable bankable schemes in these regions/States to suit the special needs and make available requisite finance for such bankable development scheme.

3.45. From the figures furnished by the Department of Revenue and Banking, the Committee find that during the year ending December, 1976 the advances to the rural sector constituted only 6.7 per cent of the total advances as against their deposits amounting to 8.9 per cent. In contrast, the advances to the metropolitan areas during the same period worked out to 58.9 per cent of the total advances as against their deposits amounting to 44.15 per cent only. The credit-deposit ratio in rural areas worked out to

57.4 per cent as against 102.49 per cent in metropolitan areas, during the year ending December, 1976. It is thus evident that the advances made by the banks to rural areas continue to be very low as compared to metropolitan areas. The Committee would like to sound a note of caution that the Government should guard against the deposits from rural areas being diverted to meet the credit needs of metropolitan and other urban areas at the cost of rural areas. It is distressing that the rural areas where there is a crying need for development, should remain neglected and should lack even the absorptive capacity of the deposits generated there, with the result that even the deposits mobilised in backward and rural areas find way to urban areas thereby accentuating the disparities further. The Committee cannot too strongly stress that the banks should identify the economic and industrial potentialities of the backward and rural areas in conjuction with the State authorities concerned and assist them in availing of the credit facilities in larger measure to implement suitable developmental schemes. The Committee desire that not only the deposits generated in the rural and backward areas may be utilised there but necessary additional funds may be made available for development of these areas in the interest of narrowing the marked disparities in the level of development obtaining at present.

3.46. During evidence, the Secretary (Banking) agreed that banks should at least reach the level of advances in proportion to the deposits in the rural areas. While the Committee appreciate that banks assistance is also given for rural purposes by investing in State Government Securities and debentures, State Finance Corporation Bonds, rural electrification etc., this should not slacken the efforts of rural branches of banks to step up the level of direct advances to rural sector.

3.47. In paragraph 3.36 of their 62nd Report, the Committee had recommended that Government should have a comprehensive review conducted of the functioning of new bank/branches/offices opened after bank nationalisation with a view to finding out the true state of affairs of their working, reducing over-heads, economising in their establishment costs by prescribed suitable staffing criteria and work norms and placing on a sound footing such of the branches as have not shown promising results even after the normal gestation period of 3 years. In their reply, the Department of Revenue and Banking stated that banks undertake a detailed review of the working of the newly opened branches with a view to evaluate their performance and in respect of branches whose performance has not been satisfactory, special measures were adopted to put the working of these branches on a sound footing. Further the introduction of the system of performance budgeting serves as a suitable built-in mechanism for a continual review of the working of the branches. The Committee have been informed that the branches in urban and metropolitan areas started making profit in about

5 years' time whereas rural and semi-urban branches required a relatively longer gestation period. Low deposit credit ratio, higher operational cost, relatively poor business, particularly in rural branches have inter alia **been identified to be the main causes leading to loss. The Committee cannot too strongly emphasise that concerted measures should be taken by the banks to observe utmost economy and effect necessary improvements in the branches which are running at a loss so as to put them on a sound footing.**

3.48. The Committee note that on the basis of a survey of some branches working at a loss conducted by the Reserve Bank of India, instructions were issued to banks to effect improvement in the functioning of these branches. The Committee desire that the Reserve Bank, the Department of Banking make suitable arrangements for continuous monitoring of getting feed-back information with a view to ensuring that the guidelines issued by them for improving the working of the loss making branches are actually followed by the banks and perceptible improvement is brought about in their working.

3.49. The Committee desire that no new branch opened in the rural areas should be allowed to be closed down. Periodical review of the working of loss making branches should be carried out with a view to analysing the reasons for losses and taking remedial measures.

3.50. The Committee also emphasise that with a view to ensuring development of rural sector proper coordination should be established by commercial banks with Regional Rural Banks and State Government authorities at regional and district levels in promoting banking facilities in rural areas.

3.51. The Committee suggest that the Department of Banking may consider the question of introducing suitable built-in incentives in the wages of employees in order to encourage them to play a more dynamic role in improving the working and business of the banks and serving the people. The performance of the employees in this regard may also be suitably reflected in their service records. The Committee hope that this question would be subject to a careful study.

B. Lead Bank Scheme

3.52. The Committee in paragraphs 3.45 and 3.46 of their 62nd Report (1973-74) had observed:

"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 upto 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."

"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 to 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."

3.53. The Department of Revenue and Banking in their reply (October, 1974) stated that the first task for each lead bank was that of familiarising itself with the economic and social profile of the area under its charge and to identify action points for harnessing the development potential. This meant undertaking surveys. The first round of this job is over and the banks have completed surveys for all the 338 districts covered under the Lead Bank Scheme. The survey reports have yielded useful bench-mark data relating to growth centres, credit gaps, occupational structure, main crops and several other economic and social aspects. The collection of economic and social intelligence of this type is, however, not a once-for-all job. Banks have all the time to keep themselves abreast of the developments that keep on taking place in their lead areas. Steps have been taken by the banks to discharge this part of the job on a continuing basis.

3.54. The second task that had to be tackled by each lead bank was that of intensifying the banking network in the area under its responsibility. Each lead bank has played a significant role in identifying centres for branch opening which are then taken up either by the
1970 and end-June 1974, 6847 new branches were opened in the country,
lead bank concerned itself or by some other banks. Between January
of which as many as 2660 were opened by the banks in their lead districts. Thus, by and large, the banks have by now built up a good net work of branches in their lead areas.

3.55. The third task that each lead bank had to undertake was that of making the local community banking-minded, so that it utilises the banking services in the form of making over to the banking system its savings as also tapping the system for getting funds from it for productive endeavours. This is a challenging task requiring action on several fronts. One of the steps taken to handle this task on a systematic basis was to create the machinery of District Level Consultative Committees. In all districts, except Kinnaur (where the first bank office was opened very recently) this machinery has come into existance. Subsequently in November, 1977, the Ministry informed that as reported by the Reserve Bank of India, District Consultative Committees have been set up in all the districts under the Lead Bank Scheme except in the undernoted districts which have been recently constituted for administrative convenience. The question of formation of separate committees for these districts has been taken up by the Reserve Bank of India with the State Bank of India, the Lead Bank for the districts:—

Name of State Union Territory	Name of District
Meghalaya	. East Khasi Hills.
	West Khasi Hills.
	East Garo Hills.
	West Garo Hills.
Andaman & Nicobar Islands	. Andaman
	Nicobar.

The main objective of Consultative Committees is to provide a forum under which banks, other financial institutions and State development agencies could discuss developmental problems and the type of contribution that the banks could possibly make towards them.

3.56. It should be recognised that the task of promoting development of a given area or district is one which has to be tackled by a number of development agencies, including banks, which have all to act in unison. It would be unrealistic to imagine that this task can be performed adequately by any one single set of institutions, say the banking and financial institutions. They do have an important role in promoting development but cannot possibly handle such a gigantic task entirely on their own. Development agencies in charge of planning, agricultural development, promotion of industries and social services etc. have to play a major role in identifying schemes of investment and developmen

3.57. With a view to making an effective contribution to the task of developmentfi lead banks keep themselves in continuous touch with the different development authorities operating in a given area. Several banks have prepared in-depth studies relating to credit requirements ot certain selected areas. Detailed credit plans have also been prepared for five districts. These attempts have reveald that, with the constraints on the physical and financial resources of the banks, it will not be possible for them to simultaneously take up the work of carrying out in-depth studies and preparing credit plans for a large number of distircts: nor will it be possible for them to meet on their own the entire credit demands in the lead districts as assessed in these studies. For example, the State Bank of India, which has recently prepared a detailed credit Plan for Gorakhpur district, has come to the conclusion that even after opening of branches as proposed in the credit plan, the commercial banks would be able to directly meet only about 15 per cent to 20 per cent of the credit expansion envisaged in the agricultural sector unless the cooperatives at the primary level are strengthened and made suitable. Comprehensive and detailed plans consume a lot of time in their formulation and can at best serve as models. On the other hand, the in-depth studies confined to command areas of selected branches and relating to specific activities are somewhat easier to undertake and are also more useful from the operational point of view and the banks are preparing such studies in an increasing numbers.

3.58. The progress in the matter of the implementation of the lead bank responsibility in different areas comes in for detailed and critical examination not merely at the meetings of the District Level Consultative Committees but also in other forums too, such as State Level Consultative Committees, meetings of the Finance Minister and officials of the Department of Banking with Chairman and other executives of banks etc. It will be thus observed that the importance stressed by the Committee in regard to periodical stock taking has been recognised by the Government.

3.59. The Department were asked to furnish details of the programme, if any, to carry out in-depth studies relating to the credit requirements of areas/districts in respect of which such studies have not been made so far and also to prepare credit plans in respect of those areas/districts.

3.60. The Department in their written reply (November, 1976) stated:

> "No time bound programmes have been prescribed for carrying out in-depth studies for preparation of credit plans by the Lead Banks in respect of their lead districts. According to the reports received by us, credit plans have been prepared for 51 districts, which are in various stages of implementation. Besides, the Lead Banks have undertaken in-depth studies in certain block/districts. The Study groups on the

working of the Lead Bank Scheme in Gujarat and Maharashtra have in their report made recommendations on the general line of action to be followed in regard to preparation of credit plans. They have suggested that banks should set about the task of formulating individual, viable and bankable schemes which can be immediately implemented and completed over a reasonable time span of 3 to 5 years. These schemes should be in the broad area of the priority sectors and to the extent possible should be capable of being fitted in the major schemes such as MFAL, SFDA, DPAP etc. It has also been indicated in the report that the schemes should be based as far as possible, on the existing infrastructural facilities available so that the scheme would be ready for immediate implementation. Certain other ground rules have also been laid down for the preparation of schemes and implementation thereof."

3.61. Regarding the progress made on formulating and implementing District Credit Plans, the Department has stated in a subsequent reply furnished in March, 1977:

"Banks have now been advised to take up the task of formulating District Credit Plans on a priority basis and endeavour to have such plans ready for implementation in all the lead districts by the end of the Fifth Five Year Plan. A watch is being kept on the performance of the banks in this regard. It has, however, to be appreciated that given the magnitude of the work involved and with the obtaining financial and technical man-power constraints of the banks it will be unrealistic to expect them to take up the task simultaneously in all the districts. However, banks have now been advised to take up the work in their lead districts in accordance with a programmed schedule.

In view of the fact that more important than the formulating of District Credit Plan is its implementation, the lead banks have been advised to ensure that the District Credit Plans formulated by them have the necessary support and approval of the participating institutions and are dovetailed into the development plans for the Districts wherever such plans have been drawn up. It has also been emphasised that the Lead Banks should consult and involve the other participating financial institutions and District Planning Agency in the process of plan formulation so as to secure better all round cooperation in its implementation. The lead banks have been advised to keep the implementation of the programmes under constant review and to have the progress in that regard reviewed at the meetings of the District Consultative Committees. The lead banks, as also the banks not having lead responsibility in a particular district are expected to ensure a proper feedback to the Head Offices in regard to the implementation of credit plan programmes. Government have also recently asked the lead banks to furnish a six-monthly report regarding the implementation of the credit plans wherever they have been formulated and are under implementation.

The process of formulation and implementing District Credit Plans has, however, been already started by the lead banks in many districts, as part of their leadership responsibility under the scheme. Available information shows that the banks have so far formulated 123 credit plans for as many districts."

3.62. The Department of Revenue and Banking were asked to state whether any reviews had been made to assess the Lead Bank Schemes which were framed to serve the purpose of providing easy credit facilities to the weaker sections and removing credit imbalance in regional and sectoral banking development.

3.63. The Department in their reply (November, 1976) stated:

"Pursuant to the decision taken at the Western Regional Consultative Committee held on the 2nd August, 1975, Reserve Bank constituted two Study Groups to examine the working of the Lead Bank Scheme in the States of Gujarat and Maharashtra. The Group submitted a combined report in view of the similarity of the problems relating to the operation of the Lead Bank Scheme in both the States. Although the study covered only two States, the conclusions drawn and the recommendations made in their report have relevance for the operation of the Scheme in the country as a whole. As a follow-up measure, copies of the report have been forwarded to the Lead Banks, other banks without lead status and all State Governments with a request to initiate action on the recommendations of the Study Groups. Further, based on the suggestion made in the report, a High Power Committee has been constituted in the Reserve Bank with one of the Deputy Governors as the Chairman. Pursuant to the suggestion made by the above Committee at its meeting held in March, 1976 Reserve Bank has suggested to all the State Governments that there should be a focal point at the State Government level in the form of a cell attached either to the Secretariat of the Chief Minister or to the Planning and Development Department and similar cells at the District level so as to maintain effective liaison between the Lead

Banks and the State Government at the State and district levels. The matter is being pursued by the Reserve Bank with the State Governments.

Pursuant to the decision taken at the first meeting of the High Power Committee, all Lead Banks have been called upon to submit half-yearly progress reports as at the end of June and December every year in respect of each district allotted to them under the Lead Bank Scheme indicating the progress made and the difficulties encountered in the implementation of the Scheme. The first progress report relating to the period ended June 1976 is expected shortly. These reports will be studied for the purpose of keeping the overall progress of the Lead Bank Scheme under critical review and for issuing suitable guidelines for its effective implemenation."

3.64. Asked during evidence whether the progress reports of the Lead Banks for the period ending 30th June, 1976 have been received by the Reserve Bank, the Secretary (Banking) stated:

"The progress reports were to be submitted to the Reserve Bank by the Lead Banks for the period ending 30th June by 30th September, 1976. We are informed that 19 Lead Banks have submitted complete reports in respect of all the districts.

* * * *

Three lead banks have submitted reports in respect of some of the districts and three lead banks are yet to submit their reports we have asked them to submit the reports.

* * * *

The reports that have been received, are under study and examination. It is, however, observed that this being the first type of reports that have been submitted, the reports are not complete in some cases in all respects. Therefore, the matter is under correspondence. It is somewhat early to draw any conclusions from the Reports that have been submitted.

3.65. Subsequently in November 1977, the Ministry in a note stated as follows:

"The Reserve Bank of India have reported that the first progress report for the period ended June 1976 as well as the subsequent one for the half year ended 31st December, 1976 have been received by them from the lead banks in respect of all the districts allotted to them except in respect of 25 lead districts for the latter half year. As regards the progress reports for the half-year ended 30 June 1977, the Reserve Bank of India have so far received reports in respect of 126 districts only. While 8 banks have submitted reports in respect of all the 56 lead districts allotted to them, 3 banks have submitted reports in respect of 70 lead districts out of 95 districts allotted to them. The remaining 13 banks have not so far submitted reports in respect of any of their lead districts. The matter regarding non-submission of the reports is being actively pursued by the Reserve Bank of India with the defaulting banks.

3.66. The reports for the period half-year ended June/December. 1976 have been scrutinised by the Reserve Bank of India and it is observed by them that the particulars furnished therein relate mostly to bankable schemes prepared by the lead banks for their lead districts and launched before formulation of the relative district credit plans. As such most of these schemes are outside the credit plans and have been framed from the banks' own point of view. Where the bankable schemes covered by the credit plans have been launched in consortium with other banks, information regarding the lending level achieved by other banks have not been furnished in most cases and the main difficulty expressed by the lead banks in this regard is that the relative information has not been forthcoming from other financial institutions. The matter is being taken up by the Reserve Bank of India suitable with the concerned authorities. The scheme as indicated in the progress reports cover the entire district or one or more blocks in the districts and are intended to be implemented over periods generally ranging between two and five years. In several cases, banks have only mentioned in general terms, the nature of the schemes introduced without indicating the actual lendings in respect thereof. In cases where the actual lendings have been given, it has not been possible to assess the progress in the implementation of the schemes in the absence of information about phasement of the credit deployment. In certain cases, information has also not been given about the total outlay involved in individual schemes and its allocation amongst the financial institutions operating in the district. The deficiencies observed in the progress reports are being taken up individually by the Reserve Bank of India with the banks.

3.67. According to the information given in the progress reports for the period ended 31st December, 1976 credit plans have been prepared in respect of 179 districts and they have been launched for implementation in 68 districts, for the remaining districts, the plans are at various stages of preparation and are expected to be completed by March, 1978."

3.68. With regard to the composition of the District level Consultative Committees, the Estimates Committee in paragraph 3.47 of the Report *ibid* had observed:—

"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 uplift 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."

3.69. The Department in their reply (October, 1974) stated:

"The District-level Consultative Committees, as compact bodies serve primarily as a forum for seeking coordination between the financial institutions and the district authorities in charge, of development programmes. Though not as a matter of course, representatives of associations representing various interests like small scale industries, plantations etc. have been occasionally associated with the deliberations of these committees, in some districts. In the interest of efficient functioning of these committees, it is considered necessary that their membership should not be allowed to become too unwieldly. However, to start with, it is proposed to associate non-officials with District Consultative Committee of one district in each State on an experimental basis. On the basis of the experience gained, the performance of these Committees will be reviewed before the scheme is extended to other districts."

3.70. The Study Group on the working of lead bank schemes in the States of Gujarat and Maharashtra identified various deficiencies and drawbacks in the functioning of the District Consultative Committees which were indicative of the fact that effective report between the Lead Banks and the Government at the district level which is an important prerequisite for the operation of the scheme had not been fully established. They have also suggested that the rapport between the banks and Government and the involvement of official with the banks' financial programme should not be restricted to the district headquarters, but should percolate to the branch level.

3.71. The Department were asked to state whether the question of revitalisation of District Consultative Committee had been considered with a view to cover rural and backward areas and hitherto neglected sectors. The Department in a written reply (November, 1976) stated that the Study Groups on the working of the Lead Bank Scheme in Gujarat and Maharashtra have in their report laid down certain guidelines for the operation of the Lead Bank Scheme. These guidelines contain certain specific suggestions for revitalisation of the District Consultative Committees. The Suggestions cover aspects such as constitution, composition and functions of these committees. Copies of the relative report have been forwarded to the Chairman of the Lead as well as non-lead banks with specific instructions to arrange for circulation of the guidelines drawn up by the Groups among their branches. In addition, officers of the Reserve Bank of India attend the meetings of the District Consultative Committees so as to provide necessary guidance for the effective functioning of these committees.

3.72. When asked to intimate the progress made with regard to representation on the district level Consultative Committees of the weaker sections of society and the experience gained by associating non-officials with these Consultative Committees, the Department informed the Committee that the Reserve Bank has advised the lead banks to associate non-officials in the districts indicated in their circular letter March 19, 1976 and report their assessment about the contribution made by the non-officials in the deliberations of the committees, by the middle of 1977. On receipt of the reports from the banks, the question of extending/continuing the experiment to other districts will be considered.

3.73. The Department in a subsequent note further stated that they have asked the designated banks to constitute State-level Bankers' Committees so that State level problems requiring consideration from the banking system at least at the middle management levels and problems remaining unresolved at the district levels could be sorted out by the Zonal/Regional Managers of the banks at the meetings and necessary guidelines/instructions issued to the bank branches. The convener banks have been specifically advised to invariably invite the representatives of the State Cooperative Banks and Land Development Banks to the meetings of these committees. Committee meetings are also attended by officers of the RBI. Such Committees have been organised in all the States. The Planning and Development Departments of the convener banks provide the secretarial assistance to these committees and also keep a watch on the follow-up action taken on the decision arrived at. On specific issues having an all-India bearing such as opening of branches in unbanked blocks, the Department of Banking also keeps a direct watch on the follow-up action.

3.74. The Department of Revenue and Banking informed in a written note that the High Powered Committee of the Reserve Bank, at their 2nd meeting, considered the matter of bringing about a better appreciation and understanding of the objectives and implementation of the Lead Bank Schemes by the State Government officials and the concerned personnel from commercial banks. In order to bring these two sets of functionaries together for a better appreciation of each other's problems, it was decided to have a programme of training in consultation with National Institute of Bank Management at the National level, State level and the District level. Initially it was proposed to arrange for such training programme in the States of Uttar Pradesh and West Bengal.

3.75. On the question of training of State Government officers and personnel of commercial banks, the Secretary (Banking) stated during evidence:

> "The Reserve Bank has reported to us that in respect of the training of State Government officials and personnel of commercial Banks, a three-tier programme is being envisaged. One is at the national level for development planners from the States and very senior executives of the banks. This national level conference, as they call it, will look into the basic policies in regard to the operation of lead banks' schemes with a view to arriving at a consensus for future action and strategy. Then at the State level, there will be a two-day work shop at which the participants will be at the level of district administration, the people in the Development Commissioner's office and the regional bank managers. The third one is a longer duration course for three days for district officials and for the branch managers of the lead banks in the district concerned. In this conference at the district level the specific local issues will be discussed. We are trying to have three-tier system. As regards the question as to when the programme is to be started, the National Institute of Bank Management has been entrusted with the task of trying to organise this Conference. It is going to be initiated in the States of Uttar Pradesh and West Bengal. After seeing the experience, they will try to extend it to other areas. The organisation of this course will naturally take some time. It is expected that in the first half of 1977, this course will be started in U.P. and West Bengal."

3.76. The Ministry informed in November, 1977 that the NIBM which was entrusted with the finalisation of the training programme is expected to start it in Uttar Pradesh soon. After the planning of the Uttar Pradesh programme is over, NIBM would take up similar steps in West Bengal.

3.77. In paragraph 3.26 of their 62nd Report the Committee had expressed their disappointment at the very slow and tardy progress made under the Lead Bank Scheme introduced as far back as 1969 and had stressed immediate gearing up of the lead bank machinery at all levels. The Committee have been informed that the lead banks have since completed surveys of all the 338 districts covered under the scheme and that these survey reports have yielded useful benchmark data, relating to growth centres, credit gaps, occupational structure, main crops and several other economic and social aspects. The District Consultative Committees have been set up in all districts excepting 4 districts of Meghalaya nad 2 districts of Andaman and Nicobar islands. But the credit plans have so far been prepared in respect of 179 districts as per progress reports for the period ended 31 December, 1976 and these plans have been launched for implementation in 68 districts. For the remaining districts the plans are at various stages of preparation and were expected to be completed by March, 1978.

3.78. The Committee are concerned at the slow progress made in the preparation of credit plans by the banks. The Committee urge that determined efforts should be made by the Department and the Reserve Bank to ensure that remaining credit plans are finalised as scheduled and are launched for implementation without any loss of time. A close watch should be kept over the progress made in the formulation of these plans so that remedial measures are taken wherever necessary at the earliest. The Committee hope that the district credit plans are being formulated by the barks with the necessary co-operative support and approval of all the participating institutions and developmental agencies so that viable schemes of investments and development are identified and there is no problem in their implementation within a time bound programme.

3.79. The Committee need hardly stress that the schemes included in the credit plans should be implemented within a time bound programme and a periodical review be made to watch the implementation of the schemes.

3.80. The Committee note that based on the suggestions of the study groups on the lead bank scheme in the States of Gujarat and Maharashtra, a High Powered Committee had been constituted in the Reserve Bank with one of the Deputy Governors as the Chairman. Pursuant to the recommendation made by the High Powered Committee, the Reserve Bank has suggested to the State Governments to set up focal points in the form of cells at the State Government level and district levels to maintain effective liaison between the lead banks and the State Government at the State and District levels. The Committee desire that the setting up of the cells should be vigorously pursued with the State Governments for the effective implementation of the lead bank scheme.

3.81. Pursuant to the decision of the High Powered Committee, all lead banks have been asked to submit half-yearly progress reports at the end of June and December every year in respect of each district allotted to them under the lead bank scheme indicating the progress made and the difficulties experienced in the implementation of the schemes. The Committee have been informed that the progress reports for the period ended June, 1976 as well as subsequent ones for the half-year ended 31 December, 1976 have been received by the Reserve Bank from the lead banks in respect of all the districts allotted to them except 25 lead districts for the latter half year. For the half year ended 30 June, 1977 the Reserve Bank have so far received reports in respect of 126 districts only. Only 8 banks have submitted reports in respect of the 56 districts allotted to them 3 banks have submitted reports in respect of 70 districts out of 95 districts, allotted to them and the remaining 13 banks have not so far submitted reports in respect of any of their lead districts. The Committee take a serious view of the delay in submission of progress report by banks. They desire that the need for timely submission of progress reports should be impressed upon defaulters.

3.82. The Committee note that scrutiny of the progress reports for half year ended June/December 1976 has revealed many deficiencies. The Committee would emphasise that the R.B.I. should prepare a format for these reports indicating the various aspects on which information is desired and insist on timely submission of the progress reports which should be complete in all respects. These reports should be critically examined by the Reserve Bank with a view to arriving at definite conclusions and issuing suitable guidelines for the effective implementation of the scheme.

3.83. The Committee note that two study Groups appointed by the Reserve Bank on the working of the Lead Banks Scheme in Gujarat and Maharashtra have in their report (December, 1975) identified various deficiencies and drawbacks in the functioning of the District Consultative Committees. According to the Study Groups effective rapport between the lead banks and the Government authorities at the district level which is an important pre-requisite for operation of the scheme, had not been fully established. The Working Group have laid down guidelines for revitalisation of the District Consultative Committees. The Committee desire that a close watch should be kept to ensure that the guidelines are followed by all lead banks for the strengthening of these Consultative Committees, and that necessary rapport between the banks and other development authorities is established at the district level.

3.84. In paragraph 3.47 of the 62nd Report the Committee had recommended that non-officials particularly the representative of the weaker sections should also be associated with the District Consultative Committees which provide a forum for discussion of developmental problems of the district and contribution to be made by the banks towards their solution. The Committee have been informed that the Reserve Bank have advised the lead banks in March, 1976 to associate non-officials at least in one district and report the assessment about their contribution to the deliberations of the Committee by the middle of May, 1977. The Committee feel that the association of members of weaker section in these committees would help in highlighting their problems at this forum. They would therefore like their representatives to be associated with these committees.

3.85. The Committee note that the designated banks have been asked to constitute State level Bankers' Committee so that State level problems requiring consideration from the banking system at least at the middle management levels and problems remaining unresolved at the district levels, could be sorted out by the Zonal/Regional Managers of the banks at the meetings and necessary guidelines/instructions issued to the bank branches. Such Committees have been organised in all the States. The Committee hope that these State level Bankers' Committee will be effective in resolving the various problems which remain unresolved at the district levels.

3.86. The Committee note that High Powered Committee at its second meeting decided to have a 3-tier programme of training of bank officials in consultation with the National Institute of Banking Management (NIBM) at the national level, State level and district level in order to bring about better appreciation and understanding of the objectives of implementation of the lead bank scheme by the State Government officials and those from the commercial banks. Initially it is proposed to arrange for such training programme in the State of Uttar Pradesh and West Bengal in the first half of 1977. Subsequently, the Ministry informed in November, 1977 that the NIBM was expected to start the training programme in the State of Uttar Pradesh soon and after the planning of the Uttar Pradesh Programme was over, NIBM would take up similar steps in West Bengal. The Committee trust that the training programme has been organised in the States of Uttar Pradesh and West Bengal. They desire that based on the experience gained from the training programme in the States of Uttar Pradesh and West Bengal, the same would be extended to other States, with suitable modifications wherever necessary.

C. Regional Rural Banks

3.87. In a note furnished to the Committee, Department of Banking has stated that after nationalisation of 14 major Indian Scheduled banks, concerted efforts were made to increase the commercial banks' lending to agriculture and allied activities and other priority sectors. However, it was noticed that in agriculture, major share of amount of loans were availed of by comparatively bigger farmers and the small farmers and agricultural labourers could not utilise the loan facilities from these banks to the desired extent. In view of this it was felt that new institutions may be started on the basis of attitudinal and operational ethos entirely different from those obtaining in the public sector banks. A Working Group headed by Sh. M. Narasimhan was, therefore, appointed to examine the setting up of new institution, particularly to serve small and marginal farmers, agricultural labourers and to rural artisans, small entrepreneurs and persons of small means engaged in trade commerce or indusrty or other productive activities. The Group suggested establishment of Regional Rural Banks, to cater to all kinds of productive credit of small/marginal farmers, rural artisans and landless labourers both directly as well as though farmers service societies within the notified area of the Bank. They will also grant consumption loans to the poorer sections of their clienele within specified limits for specified purposes.

3.88. The Organisation of Regional Rural Banks was expected to go hand in hand with the strengthening of primary societies at the base level and universalisation of membership of the societies and establishment of Farmers' Service Societies.

3.89. On the basis of the recommendations of the Study Group, the Government promulgated an Ordinance in 1973 and thereafter the Ordinance was replaced by the Regional Rural Banks Act, 1976.

3.90. The Regional Rural Banks are being set up under the Regional Rural Banks Act, 1976. The first batch of 5 Regional Rural Banks were established on the 2nd October, 1975. These banks have formulated various schemes for financing small/marginal farmers, rural artisans and agricultural labourers. While farmers are provided production and investment credit, the agricultural labourers are given loans mainly for undertaking allied activities like dairy, poultry, piggery etc. to augment their income. These banks have also formulated schemes for financing non-agricultural activities like basket-making, potteries, doll-making and other small trades of local nature.

3.91. Loans are provided on easy terms, keeping in view their requirements and repaying capacity, without insisting on tangible security or margin money. Loans are extended on personnel or group guarantee basis. It has been the policy to charge interest at rates on par with those charged by the cooperatives in the area.

3.92. In another note (November, 1977) furnished to the Comittee, the Department have stated that the Government have so far established 48 Regional Rural Banks in 16 States covering 87 districts. A complete list of these banks is given at Appendix VI.

3.93. The following criteria have been adopted for selecting locations for Regional Rural Banks:

(i) Presence of adequate developmental potentiality.

(ii) Weak co-operative credit structure and

(iii) inadequate coverage by commercial banks.

Constitution of Board of Directors of Regional Rural Banks

3.94. The Committee asked whether officers of the Central Governments/State Governments|Lead Banks are represented on the Board of Directors of Regional Rural Banks. In a note (November, 1977) the Ministry stated that the section 9(1) of the Regional Rural Banks Act, 1976 which lays down the constitution of Board of Directors of a Regional Rural Bank provides:—

The Board of directors shall consist of the Chairman appointed under sub-section (1) of Section 11 and the following other members, namely:

(a) not more than three directors, to be nominated by the Central Government.

(b) not more than two directors, to be nominated by the concerned State Government and

(c) not more than three directors, to be nominated by the Sponsor Bank."

2. In pursuance of the above provisions, Central Government, the concerned State Government and Sponsor Bank have nominated 3.2 and 3 directors respectively on the Board of each Regional Rural Bank.

3. The Directors nominated by central Government have been drawn from the following sources:

(i) one from the Department of Economic Affairs (Banking Division).

(ii) one from Reserve Bank of India.

(iii) One from the Department of Agriculture or Department of Rural Development in the Ministry of Agriculture and Irrigation or from Department of Co-operation in the Ministry of Civil Supplies and Co-operation.

4. In a few cases persons of eminence belonging to the concerned State have been nominated as Central Government Diretcors in lieu of officers mentioned at (iii) above.

5. Nomineees of the State Governments and Sponesor Banks have generally been their own officers; some State Governments and Sponsor Banks have however nominated their own officers as well as non-officials."

3.95. So far no specific study of the working of the Regional Rural Banks has been made by Government. However, the performance of these banks is being watched by Government continually. Every Regional Rural Bank is required to furnish its monthly progress report in a prescribed proforma to Government immediately after the close of the month. The progress of these banks is also monitored by the Steering Committee on Regional Rural Banks under the Chairmanship of Shri B. Sivaraman, Member, Planning Commission.

3.96. The former Minister of Revenue and Banking also held two meetings, one in July 1976 and the other in January, 1977—with the Chairman of Regional Rural Banks and reviewed the progress made by them.

3.97. Regional Rural Banks generally charge interest at rates which are being charged by the cooperatives in their areas of operation. The rates charged by cooperative vary from area to area. These rates generally range between 13-1/2 per cent and 14-1|2 per cent.

3.98. The rates of interst charged by the public sector banks on agricultural advances range between 8-1/2 per cent 161|2 per cent. Keeping in view the socio-economic objective of promoting small endeavours and helping weaker sections, the public sector banks as a rule give small borrowers a preferential treatment in advancing credit as also in the rate of interest. For this purpose, graded rates of interest are charged by the public sector banks on agricultural advances according to the size of land holdings wherein farmer with smaller holdings are charged lower rate of interest than that from bigger cultivators. Besides, under the scheme of DIR the weaker among the weak in various sectors including agriculture are given bank finance at a nominal rate of interest of 4 per cent.

3.99. While the rates of interest charged by Regional Rural Banks are on par with those charged by the cooperative, in certain cases these rates are higher than those charged by the commercial banks. While the rates charged by the Regional Rural Banks in certain cases, in certain other cases, these are higher. This is because there is an element of differentiation in the rates of interest charged by the Commercial Banks from different categories of agricultural borrowers. Since the entire clientele of the Regional Rural Banks belongs to the weaker sections there is no scope for discrimination in the matter of rate of interest charged by a Regional Rural Bank. Moreover, care has to be taken to see that the introduction of Regional Rural Banks in the rural sector does not jeopardise the growth of the cooperative system. Taking this aspect in view, it has been deliberately decided that Regional Rural Banks would charged interest at rates charged by the cooperative in their areas of operation.

3.100. Asked as to how it was ensured that the branches of Regional Rural Banks were set up in the most bank starved area first, the Secretary (Banking) stated during evidence:

> "There is a steering Committee set up for monitoring the programme of rural banks. It is headed by Shri Sivaraman, Member of the Planning Commision for the location of rural banks on the basis of that criterion, taking into consideration the requirements and supply of credit and the credit gap and the prerdominance of small and marginal farmers and rural artisans who are expected to the served by this institution. Once this Steering Committee recommends the list of locations, they have to be approved by the Prime Minister. After that the banks are established."

3.101. Asked whether there was any time-bound programme for the establishment of these banks, the Secretary (Banking) stated:

> "As far as the time-bound programme is concerned, we had originally anticipated that we will set up 50 rural banks by the end of March, 1977. In addition to these 50, we have cleared ten more rural banks and only the locations are to be decided by the Steering Committee. Only the head office the bank has to be in a town because it has to have contact with the State Government agencies."

3.102. Asked to state the measures taken by these banks for their effective coordination with the primary societies and other lending institutions like Land Development Banks and Cooperative Banks, the representative of the Department stated:

> "So far as the regonal rural banks are concerned, there is a very effective way of doing it because their board of directors meets very often, once in very two months or even oftener. They consist of the representatives of the State Government generally a person from the cooperative department, is nominated—plus the sponsoring banks's representatives and the representatives of the department of banking and the Ministry of Agriculture."

3.103. The attention of the representatives of the Department was drawn to the observation of the working group on Rural Banks that there was a large unfilled gap in the share of cooperatives as source of clutivators' borrowings and deposits made by them. Their progress in this regard to areas covered being uneven, it had shown widened regional disparities in cooperative functioning. The Secretary (Banking) stated:

"The basis for the recommendation for setting up rural banks was that in certain areas of the country the cooperative movement, for various reasons, had not progressed very far, and as a result of the failure of the cooperative movement to develop in certain areas, agricultural credit was inadequate and the rural bank could step into such areas where cooperative system had not struck deep enough roots. It was not the aim so much to remove the disparities among the co-opetrative societies between one state and another, but to go in their places where they were not functioning well. Howver, it is also an accepted policy that the rural banks, as far as possible, would operate in the closest cooperation with cooperatives and the farmers' service societies. In fact, the idea was that where there were farmers' service societies, the rural bank should lend through them or help organise such societies, and only where there was no such society they could engage in direct lending. so, it was a measure meant to supplement the existing facilities."

3.104. Asked whether any schemes had been formulated by these banks for the rehabilitation of freed bonded labourers, a representative of the Department stated:

"The rural banks are for small farmers, agricultural labourers and weaker sections, So, 100 per cent of their activities is confined to the weaker sections. We have not yet got figures of the actual number of freed bonded labourers who have been financed, but is meant for them also so far as rural banks are concerned, direct lending has been only to agricultural labourers, small and marginal farmers, freed bonded labour."

3.105. On the question of deployment of deposits generated in rural areas in those areas themselves, the Secretary (Banking) stated:

"The funds that are generated in the rural areas by way of deposits should be deployed in those areas themselves. This is what the working group had also recommended. In order to arrest the reverse trend, we try to get the commercial banks to engage themselves more in lending in the rural areas. As far as the rural banks are concerned, they are fairly new institution, but when they get deposits. they will put them back in the rural areas.

* * * *

The working group had also said that if they have to satisfy their Investment requirements in terms of the Banking Regulation Act, then those investments should have local orientation."

3.106. Asked whether any review has been conducted with regard to the functioning of Regional Rural Banks, the Ministry informed in November, 1977 that the Reserve Bank of India have set up, in June 1977, a Committee under the Chairmanship of Prof. M. L. Dantwala to review the working of the Regional Rural Banks. The terms of reference of the Committe are as follows:

1. To evaluate the performance of the Regional Rural Banks in the light of the objectives for which they were set up.
2. To indicate their precise role in the Rural Credit Structure.
3. To make recommendations with regard to the Scope methods and Procedures of their functioning and other matters germane to the enquiry.

The report of the Committee is expected shortly.

3.107. The Committee note that according to information received in November, 1977, 49 regional rural banks have been established in 16 States covering 87 districts. The Committee have been informed that the criteria adopted for locating these banks in the various areas are, presence of adequate developmental potentialities, weak cooperative credit structure and inadequate coverage by commercial banks. The Committee desire that based on the experience of working of the regional rural banks, some of which were set up in 1975, the Steering Committee which is responsible for monitoring the programme of rural banks, may undertake a survey to identify the areas for the setting up of these rural banks and prepare a time bound detailed programme for their setting up so as to cover the eligible areas as early as possible.

3.108. The Committee note that the regional rural banks have been established to provide production and consumption credit to small and marginal farmers, rural artisans and landless labourers within their areas, while the farmers are provided production credit, the agricultural labourers are given loans for undertaking allied activities like dairy, poultry, piggery etc. Moreover, schemes have also been formulated by these banks for

financing non-agricultural activities like basket making, doll making etc., by the rural community. The Committee have been informed that the Reserve Bank set up in June 1977, a Committee under the Chairmanship of Prof. M. L. Dantwala to review the working of the Regional Rural Banks. The Committee hope that the review committee would complete their work expeditiously. The Committee would like to be apprised of the recommendations of this Committee and action taken thereon. Considering that the major share of commercial banks lending to agricultural sector was availed of by comparatively bigger farmers, the Committee would like the review Committee to critically consider this aspect and suggest necessary measures whereby the benefit of loans granted by the regional rural banks actually should reach the small and marginal farmers as well as the landless labourers for which these were set up.

3.109. The Committee note that the regional rural banks generally charge interest at rates between 13½% and 14½% which are at par with the cooperative credit societies in their areas of operation. The Committee note that these rates of interest are in certain cases higher than those charged by commercial banks/public sector banks on agricultural advances whih range between 8½% to 16%½, depending on the size of the agricultural holdings. The Committee consider that keeping in view the clientele of the rural banks viz., the small and marginal farmers and the agricultural labourers etc., the rates of interest charged by them appear to be on the higher side. The Committee suggest that the feasibility of introducing schemes like DIR and graded rates of interest by the regional rural banks, may be examined particularly when the clientele served by them, are the weaker sections and the rural poor.

3.110. The Committee note that the rural banks will operate in close cooperation with the cooperatives and Farmers Service Societies. They will provide loans throuh the Service Societies where they are functioning and will help to organise the Farmers Service Societies into viable multipurpose societies which may provide inputs of production, storage, marketing etc., to their members. The Committee have no doubt that these Banks would coordinate their activities and planning with the development plans of their areas which would cover not only agriculture but the entire economic activity of the people of these areas. The Committee need hardly stress the importance of formulating integrated and viable schemes by these banks for the overall improvement in the economic condition of the areas of their operation.

3.111. The Committee would like to point out that these rural banks are set up to impart a new direction and reorientation to banking operations in rural areas. The suceess of these banks would be judged by the impact that they make in bringing about prosperity and economic well-being in the rural areas of their operation. With the drying up of traditional sources of funds i.e., the money lenders in rural areas a great responsibility has fallen on these banks. The Committee would like these banks to fill up the gap and meet the financial needs of the rural poor. They further desire that the Regional Rural Banks should accord priority to formulating schemes for the rehabilitation of freed bonded labourers and provide them with necessary loan facilities.

3.112. The Committee need hardly emphasise that as these banks would be operating in rural areas, they should be staffed very economically and in consonance with rural environment. It is also necessary that the staff of these banks is imparted training at the field level so that the staff have a deep in-sight and clear appreciation of the requirements of rural people and the conditions of the rural areas. The success of these banks would depend on the dedicated personnel appointed to run them, and the innovative practices which they employ in dealing with the credit needs of their illiterate and semi-illiterate clientele. It would be desirable if these banks not only provide adequate credit to their clients in time but also assist in educating them on the end-use of such loans and thereby create conducive climate for repayment of loan instalments.

3.113. The Committee are anxious that the Regional Rural Banks should provide rural environment to the credit structure and simplify their rules and procedures. They should ensure that the administrative and overhead charges are kept to the minimum. It should also be ensured that the deposits mobilised by the Regional Rural Banks are deployed in giving advances and loans in the respective rural areas so that there is no flow of funds from the rural areas to urban areas. The Committee consider that in view of the important role assigned to the Regional Rural Banks in meeting the credit needs of rural areas, it is of utmost importance that their working is continually monitored by the Reserve Bank of India to ensure that the objectives for which they were set up are achieved in actual practice.

D. Re-structuring of the Booking System

3.114. The Committee in paragraph 3.53 of their 62nd Report observed:—

> "The Committee 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 kind 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."

3.115. In reply, the Department of Banking informed that they had taken note of the recommendations of the Committee.

3.116. The Department was (in September, 1976) asked whether they had reviewed the question of restructuring the banking system within the existing constraints, and whether any concrete proposals in this regard had been framed.

3.117. The Department in their reply (November, 1976) stated:—

"Government of India have on 28-7-1976 set up a Commission to review comprehensively the existing organisational structure of the twenty-two public sector banks (viz. State Bank of India, its seven subsidiaries and the fourteen nationalised banks) keeping in view their existing and prospective geographical and functional coverage, the present stage of management development obtaining in them and also the need for preserving and promoting factors motivating the employees and recommend such changes in the structure of these public sector banks, including their regrouping and re-organisation, into optimum number of units and other measures as it may deem necessary to secure:—

(a) a deeper and more direct involvement of public sector banks in the process of rural development;

(b) an accelerated progress towards a more balanced regional devlopment, both in terms of availability of banking services and deployment of funds; and

(c) closer links between the public sector banks and other credit and development agencies at different levels to facilitate joint and coordinated action in formulating and implementing banking plans within the framework of national planning.

3.118. The Commission has been asked to submit its report to Government within a period of not exceeding 12 months."

3.119. When asked to indicate the progress made by the Commission in the work assigned to them, the Secretary (Banking) stated during evidence:—

"We are informed that the Commission has been taking evidence from Chief Ministers, officials of different State Governments, Members of Parliament, different chambers of commerce and industry etc. regarding credit gaps in banking needs in different parts of the country and in different sectors of the economy. They have made considerable progress in their work. They have been asked to submit the report within 12 months. We cannot remind them. They are making good progress. We expect that they will submit the report within 12 months. It is a high-powered Commission."

3.120. In a subsequent note dated 1-6-1977 furnished to the Committee, the Department of Revenue and Banking informed that the Chairman of the Commission, resigned from the Chairmanship of the Commission with effect from 10th February, 1977. When the question of appointing a new Chairman of the Commission came up for consideration, the Government also took the opportunity to review the question relating to the continuance of the Commission and its terms of reference. After careful consideration of all the related issues, it was decided, with the approval of the Cabinet, to wind up the Commission and accordingly it was wound up with effect from 22-4-1977.

3.121. The Commission had commenced its deliberations in August, 1976. It had sent out a questionnaire and collected written and oral evidence. All the data thus collected by the Commission, till the date it was wound up, will be processed in the Banking Wing in consultation with the Reserve Bank of India, wherever necessary. The Commission had not sumbitted any interim report.

3.122. The Committee in paragraph 3.53 of their 62nd Report (1973-74) had desired the Government to keep under review the question of the most appropriate structure for the banking system in the country. They note that Government have wound up the Banking Commission which was set up in July, 1976 to review, inter alia **the existing organisational structure of the 22 public sector banks and to recommend suitable changes in the structure of these public sector banks including their regrouping and re-organisation etc. The Committee consider that as the nationalised banks are working for about 8 years now, it is high time that a comprehensive review be made to evolve the most appropriate structure for the banking system in the country and concrete proposals in this regard are brought forward by Government to ascertain public reaction and parliamentary approval.** .. ..

E. Credit extension to backward districts/areas

3.123. In paragraphs 3.61 & 3.62 of their 62nd Report, the Committee had noted with concern that though one of the objectives of bank nationalisation was to stimulate growth and development of backward districts/areas, no special measures had yet been taken by the nationalised banks in this direction. While recognising the development of backward districts/areas to be the main responsibility of the State Governments, the Committee had expressed the view that the nationalised banks had also been entrusted with a specific responsibility in this behalf. They had expressed the hope that the Department and the banks would take concrete steps towards the fulfilment of this objective by formulating special bankable schemes for development of backward districts/areas and bringing about suitable changes in their method of operation.

3.124. The Department of Revenue and Banking in their reply (October, 1974) stated that any effort aimed at forcing the pace of economic development in backward regions presupposed a capacity and willingness of that regions to undertake heavy long-term often non-recoverable, investment in creating basic pre-requisite for development. The magnitude and complexity of the task and the degree of expertise needed to draw up and implement different projects is such that only sustained Government implemented plan programmes can make any discernible impact on the problem. It has also been stated that State Governments will have to offer incentives sufficient enough to compensate entrepreneurs for the disadvantage of location and encourage them to set up industrial ventures in the backward areas. The Department expressed the view that the banks, given the short term nature of their resource base and the cost of mobilising these resources, will not be able to constitute substantially to such long term investments. The Department further stated that "though expanding their branch net work and actively associating themselves with the district authorities in formulating special schemes the banks have been able to step up their advances to the small borrowers in the different priority sectors in these areas. They have also geared up their machinery to ensure that no viable development scheme suffers for want of credit."

3.125. Commenting on the reply, in paragraph 11 of their 84th Report, the Committee made the following observations:

> "While the Committee realise the magnitude and complexity of the task of stimulating the growth and development of a backward areas, they would like to stress the need for making sustained efforts in this direction by the banks in coordination with the State Governments and local authorities. At the same time they would also like to emphasise that the matter should not be wholly left to the State Governments. The Committee would suggest that precise progress made in formulating schemes, the extent of coordination with District/Government authorities as also the progress and achievement made should invariably be mentioned in the Annual Reports in specific terms."

3.126. The Department of Banking were asked to indicate (i) the steps taken by banks to formulate schemes for stimulating the growth and development of backward areas in coordination with State Governments and local authorities (ii) and whether the progress made in this direction had been mentioned in their Annual Reports in specific terms.

3.127. The Department of Banking in their reply (November, 1976) stated that government had accepted the recommendations of the Committee and issued suitable instructions to banks on 17th September, 1976. According to their instructions, Banks were asked to formulate bankable schemes in the backward districts declared by the Planning Commission and to mention the progress made in the formulation of schemes, achievements thereof and the extent of cooperation with the district/Government authorities in their Annual Reports.

3.128. Asked why the Department issued the instructions to Banks as late as in September, 1976, the Secretary (Banking) admitted during the evidence that there was available delay on their part and that the instructions should have been issued earlier.

3.129. The Committee in paragraph 3.63 of their 62nd Report observed:

"The Committee 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 deposits 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."

3.136. The Deaprtment in their reply (October, 1974) stated:

"While considerable progress has undoubtedly been made during the Fourth Plan period for laying down the groundwork for a systematic acceleration of the process of development of backward areas, it would be premature to expect any sizeable impact on the problem over a short period, especially since many of the relevant measures were initiated in the mid-plan period. Moreover, special programmes for backward areas inevitably run into a lot of teething troubles. These also require the sustained allocation of adequate funds by the State Governments to support the activities initiated through Central projects and programmes. It has also to be realised that the provision of concessional finance by the financial institutions and subsidies by the Central Government and concessions in tax etc. might not, by themselves, bring about the desired results.

The main constraints in the industrial development of backward regions are that the strategy for the development of these areas has not been completely mapped out in terms of the inherent problems which have accounted for industrial backwardness and the organisational arrangements necessary to spearhead and support the industrial development programme in backward areas both at Centre and in the States are inadequate. The problem of backwardness is a long term problem which can be tackled only over a long period of time. The allocation of adequate financial resources is only one of the many steps necessary for the accelerated development of these areas. In the Fifth Plan, therefore, the Planning Commission propose to create appropriate machinery capable of identifying industries suited to the needs and potentialities of the backward areas. The exact nature of the machinery, both at the Central and the State levels, to be used/set up for the purpose is under their consideration.

In view of the indivisibility of the plan and non-plan activities and the basic administrative structure the States would have to continue to bear the main responsibility for the development of their backward areas; though the Central Government would also actively participate in this task by making special allocations for hilly and tribal areas and also by (i) providing technical support in respect of planning as well as programme development (ii) channelising institutional resources on a priority basis, (iii) continuing and further extending the liberal patterns of Central assistance; and (iv) providing special incentives for the flow of private investment to identified backward areas.

3.131. The Department of Banking was asked to state whether the decision had been taken by the Planning Commission for setting up the machinery capable of identifying industries suited to the needs and potentialities of the backward areas both at the Central and State level.

3.132. The Department of Banking in their reply (November, 1976) stated:

"The question of setting up an appropriate machinery for the development of industries in the backward areas is still under consideration.

While the plan in Planning Commission has not separately identified the industries to be set up exclusively in the backward areas teams sponsored by the industrial Development Bank of India have carried out industrially potential surveys of most of the industrially backward States and Union Territories with a view to identify industrial project ideas. Besides, the Small Industries Service Institutes and a number of State Governments have also carried out such surveys of most of the selected backward districts in order to identify small scale and other industries suitable for development in these districts taking into account the local resources etc."

3.133. Asked about decision taken by the Planning Commission on the question of setting up of appropriate machinery for the development of industries in the backward areas, the representative of the Planning Commission stated during evidence:

"You will appreciate that it is essential to make a careful assessment of the outcome of various attempts made so far to develop the backward areas in order to have a clear view about the strategy to be followed for achieving the objectives. Certain issues connected with this strategy are now under consideration, in consultation with the Ministries concerned. After a view has been taken on these issues, it would be possible to take a decision about the appropriate machinery to be set up for the development of backward areas. It is rather difficult at this stage to indicate the specific time when a final decision would be reached in this regard. The matter is under consideration for a year and a half."

3.134. Asked whether the final decision had been taken by the Planning Commission on the question of setting up of appropriate machinery for the development of industries in the backward areas, the Ministry stated in a written reply (November, 1977) that the approach to the economic development of backward areas is being reviewed by Planning Commission in the context of the sixth plan. A decision on whether any new Agencies are required for the purpose will be taken within the next 12 months.

3.135. In paragraph 2.4 of their 69th Report (1974-75) on the Development of Backward areas the Committee had expressed their dismay over the delay in finalisation of the report of the Committee constituted by the

Planning Commission in 1972 to examine details of the strategy and other matters relating to the evolution of objective national criteria for demarcating backward areas, fiscal and monetary incentives to support development programmes in such areas and institutional arrangements for the formulation and implementation of the integrated development programmes. The Committee had urged that the report of the Committee should be finalised without further delay and in the light of the report Government should define their strategy for development on backward areas during the Fifth Plan. In Paragraph 3 of their 95th Action Taken Report (1975-76) the Committee again expressed their unhappiness at the inordinate delay in finalising the report and urged Government to take effective measures to ensure its finalisation without delay. The Committee also desired to be informed about the action taken by Government on the report within a period of three months.

3.136. Asked about the progress made by the said Committee of the Planning Commission in the task assigned to them, the representative of the Planning Commission stated during evidence:

> "The Committee was set up on 14-10-72 as an internal committee of the Planning Commission under the orders of the Planning Minister to go into the question of evolving strategy for development of backward areas in the context of preparing an Approach paper to the Fifth Plan. Based on the deliberations of the Commitee, Chapter 10 on Regional Imbalances in Approach to the Fifth Plan, was drafted. The Committee was reconstituted in April, 1974. No time limit has been specified for the Committee to give its report.

3.137. In a subsequent note (March, 1977), the Department of Revenue and Banking have stated:

> "The Committee of the Planning Commission is examining *inter alia* details of the strategy and other matters relating to the evolution of objective national criteria for demarcating backward areas, fiscal and monetary incentives to support development programme in such areas and the institutional arrangements for implementation of the integrated development programmes. In pursuance of the observations made by the Estimates Committee in the 69th Report, the work of the Committee on Backward Areas was expedited. In view of the tasks before the Committee; considerable effort has been involved in collecting and analysing the relevant information and in considering the alternative strategies and experience with backward areas development. The Committee's draft report is now ready and every effort is being made to finalise the same at the earliest."

3.138. In paragraph 3.62 of the 62nd Report (1973-74) the Committee had suggested that the Government and Banks should take concrete steps towards development of backward districts areas by formulating special bankable schemes for development of backward districts|areas. In paragraph 11 of the 84th Report (1975-76), the Committee had suggested that the precise progress made in formulating the schemes, the extent of coordination with the District/Government authorities as also the progress and achievements made should invariably be mentioned in the Annual Reports of the banks in specific terms. The Committee note that necessary instructions in this regard were issued by the Department of Banking in September, 1976 only. Thus there has been delay of more than one year on the part of the department in issuing instructions to the banks in this regard. The Committee hope that at least now it will be ensured that bankable schemes in the backward districts are prepared by the banks in consultation with the district|State Government authorities and implemented expeditiously. The progress made in this regard should be mentioned in the Annual Report of the Banks concerned.

3.139. The Committee note that the main constraints in the industrial development of the backward areas are that the strategy for the development of these areas has not been completely mapped out in terms of the inherent problems which have accounted for industrial backwardness and that the organisational arrangement necessary to spear-head and support the industrial development programme in backward areas both at the Centre and States are inadequate. The Committee were informed in October, 1974 that the Planning Commission proposed to create in the Fifth Plan appropriate machinery capable of identifying industries suitable to the needs and potentialities of backward areas. The Committee were informed in November, 1976 that the Planning Commission have not separately identified industries to be set up exclusively in backward areas. However, the Industrial Development Bank of India, the Small Industries Service Institute and a number of State Governments have carried out surveys of industrially backward States/districts with a view to identifying industries suited to their needs and potentialities. In November, 1977, the Committee were informed that the approach to the economic development of backward areas is being reviewed by Planning Commission in the context of the Sixth Plan and a decision on whether any new agencies are required for the purpose will be taken within the next twelve months. The Committee hope that the exact nature of machinery to be set up for the development of industries in backward areas will now be decided by the Planning Commission before long and set up at the earliest to ensure development of industries in backward areas.

3.140. The Committee expect that the results of the surveys of backward areas already made will be carefully studied and analysed. The Com-

mittee need hardly emphasize that the backward areas which have been ignored for a long time should be developed on priority basis.

3.141. In paragraph 2.4 of their 69th Report (1974-75) and paragraph 3 of their 95th Report (1975-76) the Committee had expressed their dismay and unhappiness over the inordinate delay in the finalisation of the Report of the Committee constituted by the Planning Commission in October, 1972 to examine the details of strategy and other matters relating to evolution of objective national criteria for demarcating backward areas, fiscal and monetary incentives to support development programmes in such areas, and the institutional arrangements for the formulation and implementation of the integrated development programmes. The Committee are perturbed that this report has not yet been finalised even after lapse of more than 5 years. The Committee desire that this report may be finalised without further loss of time and necessary follow up action taken on this recommendations. The Committee would like to be informed about the progress made in this regard within 3 months.

F. Differential Rate of Interest Scheme

3.142. The Committee in paragraphs 3.71 and 3.72 of their 62nd Report noted that though the 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'. Upto September, 1973 (i.e. in 15 months time) a total amount of Rs. 6.81 crores had 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 ½ to 1 per cent of aggregate advances of banks every year under the scheme, which was already low, had not been reached.

3.143. The Committee expressed their unhappiness with the progress made under the scheme which was designed to improve the economic lot of weakest among the weaker sections of society. The Committee desired to be informed of the concrete measures taken to ensure that the target of extending 1 per cent of aggregate advances of beneficiaries in backward areas and those coming from the lower income groups was achieved in the current year (1974).

3.144. The Department of Revenue and Banking stated in their reply (October, 1974):—

"The Finance Minister, while announcing the Differential Interest Rates Scheme on the floor of the House on 25th March, 1972, had indicated that the banks were expected to lend about

½ per cent of their aggregate advances in the various years under the scheme. While communicating the details of the scheme to the public sector banks, Reserve Banks of India, in its instructions dated 3rd June, 1972, *inter alia*, pointed out that while no specific targets for districts were being indicated, it was expected that the quantum of lending by each bank would broadly correspond to about ½ per cent of its aggregate lending at the end of the previous year. Thus ½ per cent of the lending at the end of the previous year is the target against which the performance of the banks is being reviewed from time to time.

The latest quarterly progress reports received from the public sector banks reveal that as at the end of June, 1974 the total outstanding amount of advances extended under the scheme has reached Rs. 11.20 crores, spread over 2,71,389 accounts. Though these figures compare well with progress achieved as at the end of June, 1973, the aggregate level of advances is still very much below the target set. The attention of the public sector banks to the poor progress has again been drawn and the need for making every possible effort towards achieving the target as early as possible has been impressed upon the Chief Executives."

3.145. Commenting on the reply of the Department, the Committee in their 84th Report (1975-76) observed as follows:—

"The Committee would like to stress that efforts should be made to ensure that the target of extending ½ per cent of aggregate advances to beneficiaries in backward areas and those coming from lower income groups is achieved."

3.146. The Department was asked to intimate the concrete measure taken to achieve the target of extending ½ per cent of aggregate advances to beneficiaries in backward areas and those coming from the lower income groups, and results thereof.

3.147. In their reply (November, 1976) the Department stated:—

"The progress made by public sector banks in achieving the target of advancing ½ per cent of their aggregate advances under the D.R.I. Scheme is kept under constant review. As a result of concerted efforts the outstanding advances of the Public Sector Banks under the D.R.I. Scheme rose from the Rs. 13.44 crores as at the end of December, 1974 to Rs. 20.7 crores as at the end of December, 1975 covering 4,65,000 borrowal accounts as against 3,14,600 accounts a year ago."

3.148. In the Consolidated Report of Public Sector Banks for the year ending December, 1975, it has been stated that the scheme is at present being implemented by 7052 branches of public sector banks in 275 backward and SFDA/MFAL districts in various States and Union Territories.

3.149. When asked to as to when the target of ½% of the aggregate advances is likely to be achieved, the Secretary(Banking) stated during evidence:

"In June 1976 the amount that had been lent was nearly Rs. 29 crores and the number of accounts 6.24 lakhs. Actual percentage was 0.38. In the beginning, when the scheme was launched, progress was rather slow. In fact, upto June, 1975, the proportion had reached 0.22. We have been taking up with the banks the necessity to step up this percentage. From June, 1975 to June 1976, this percentage has gone up from 0.22 to 0.38. In fact, the amount has nearly doubled. But to the specific question when the target will be reached ... we are trying to reach it. If we maintain the progress achieved, it should be reached."

3.150. Subsequently in a written note furnished in July 1977 the Department have informed that at the end of December, 1976 the number of borrowal accounts in Public Sector Banks under this scheme reached 9,99,582 with outstanding advances amounting to Rs. 46.21 crores which were 0.55% of the aggregate advances made by these banks.

3.151. Again in November, 1977, the Ministry furnished the following figures in this regard:—

Year	No. of Borrowal Accounts	Amount out-standing (Rs. lakhs)	As a% aggregate advances of the public sector banks
June, 1976	6,24,692	2878·3	0·38
March, 1977	11,06,182	5137·3	0·46

3.152. Asked to state whether the authorities granting loans under this scheme ensure that such loans are strictly given to eligible persons, the Secretary (Banking) stated during evidence:—

> "Before sanctioning the loan, the banks try to satisfy themselves through local enquiries as to whether the borrowers fulfil the conditions. Besides, when the Reserve Bank inspects the banks accounts, they try to see whether these loans have been given to persons who are eligible to get them. That is how the banks check."

3.153. Asked whether the conditions of eligibility for loan under the scheme have been reviewed to suit the changing economic conditions in the country, the Secretary (Banking) stated:—

> "The eligibility criteria have been reviewed from time to time and have been liberalised. For instance first, the number of districts that are covered have been raised to 317 because all districts have also been brought into SWDA (Small Farmers' Development Agency) irrespective of the classification of industrial backwardness etc. Secondly, the original income criterion is fixed at Rs. 3000 in urban areas and Rs. 2500 in rural areas. Thirdly, irrespective of their land holdings, all members of the Scheduled Castes and Scheduled Tribes have been brought under the scheme. Fourthly, the maximum amount that can be given has also been raised. The benefits of the schemes have been extended to refugees and women's homes etc. throughout the country."

3.54. In accordance with a decision taken by the Government revising the Differential Rate of Interest (DRI) Scheme, the Department of Revenue and Banking *vide* their letter No. 8(17)/77-CPT dated the 24 May, 1977 have issued fresh guidelines. The scheme now extends to the entire country. To ensure flow of adequate benefits of the scheme to the rural areas and to the persons belonging to the Scheduled Castes and Scheduled Tribes it has been stipulated that the banks will ensure that at least 2/3rd of their total advances under the scheme are made through the rural/semi-urban branches. It has also been stipulated that at least 1/3rd of the total D.R.I. advances will be given to the members of scheduled castes and scheduled tribes. It is expected that the regional imbalances in the existing pattern of the dispersal of banks' lending under the scheme, if any, will be corrected by the individual banks in accordance with these norms latest by March 1979 and that the flow of credit will be biased in favour of underdeveloped States. The revised guidelines provide that for the purpose of eligibility for grant of loan under this scheme the family income of the borrower from all sources should not exceed Rs. 3000/- per annum in urban or semi-urban areas or Rs. 2000/- per annum in rural areas.

3.155. The Committee note that advances of the public sector banks under the Differential Rate of Interest Scheme rose from Rs. 6.81 crores i.e. 0.13 per cent of aggregate lending) in September, 1973 to Rs. 46.21 crores at the end of December, 1976, the percentage having risen to 0.55% of aggregate lending as against the target of 1/2 per cent of aggregate lending as fixed under this scheme. While the Committee wished that the percentage of funds to be made available under this scheme would gradually rise, they were dismayed to find that, as at the end of March, 1977, the quantum of advances made under this scheme declined to 0.46% of the aggregate lending. In view of the fact that the scheme has now been extended to cover a much larger section of population in the entire country, the Committee would like the Government to raise substantially the present target of 1/2 per cent lending under this scheme, so as to achieve the underlying object of providing adequate funds to improve the economic lot of the weakest among the weaker sections of society at an accelerated pace.

3.156. The Committee note that the Differential Rate of Interest Scheme has been recently revised by the Government. The Scheme now extends to the entire country. To ensure flow of adequate benefits of the scheme to the rural areas and to the persons belonging to the scheduled castes/scheduled tribes it has been stipulated that the banks will ensure that at least 2/3rd of their total advances under the scheme are made through the rural/semi-urban branches. It has also been stipulated that at least 1/3rd of the total D.R.I. advances will be given to the members of scheduled castes and scheduled tribes. It is expected that the regional imbalances in the existing pattern of the dispersal of banks' lending under the scheme, if any, will be corrected by the individual banks in accordance with these norms latest by March 1979 and that the flow of credit will be biased in favour of under developed States.

3.157. The Committee desire that the progress of the revised schemes should be closely monitored by the Department of Banking so as to ensure implementation of revised guidelines by all banks. They also suggest that adequate publicity should be given to the scheme and that a periodical review should be carried out of the working of the scheme with a view to ensuring that the existing regional imbalances in the pattern of dispersal of bank lending under this scheme are corrected, as planned, by the Scheduled date (March, 1979) and the flow of credit is biased in favour of under-developed States. The Committee would also like that procedure for release of loans under this scheme should be kept under review so as to minimise delays in the release of funds.

3. 158. The Committee would like the Government to make sure that benefits of the scheme reach the small/marginal farmers, members of the scheduled castes/tribes and rural artisans in full measures. The Committee also suggest that efficiency of the scheme should be kept under scrutiny.

CHAPTER IV

SECTOR WISE OPERATIONS, SCHEME AND PROGRAMMES

A. Agriculture Sector

4.1. The Committee in paragraph 4.4 of their 62nd Report observed:—

> "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 groups have not been worked out precisely by branch managers and the consultancy service to the small farmers is available to a limited extent only."

4.2. In their reply (October, 1974) the Department of Revenue and Banking stated:—

> "The banks are taking steps to adopt more and more villages under the strategy of area approach. Upto the end of June, 1973 about 19000 villages are reported to have been adopted by the different public sector banks. (including the villages adopted by the State Bank of India Group).
>
> According to the information furnished by the public sector banks, the banks have so delegated powers to their branch managers that they could dispose of about 80 per cent of the loan applications at their level. Only loan proposals involving larger amounts are required to be referred to the higher authorities. The loan applications are normally disposed of within a period of 2—6 weeks depending upon the type and quantum of loan applied for and the extent to which the required information is furnished by the applicants. For schemes which have special features, more time is taken.
>
> By and large, the public sector banks adopt the credit norms for different crops as are advised by Field Workers Conference/

Technical Group constituted at the district level for the Central Cooperative Banks, with reference to the use of fertilizers and other inputs and adoption of improved agricultural practice in that area. But Field Officers of the banks often improve upon these norms in special cases, where the circumstances so justify, provided the borrowing farmer expects to improve his repaying capacity by the increased investment.

As regards consultancy service to small farmers, the banks' field staff are more active in the adopted villages".

4.3. With regard to the progress achieved by the public sector banks in the field of agricultural finance, in the Consolidated Report of the Public Sector Banks for the year ending December, 1975, it has been stated that during 1975, the number of accounts covering agricultural advances by public sector banks rose by 37 per cent, to 30.33 lakhs the relative outstanding advance having gone up by 32.8 per cent, to Rs. 936.91 crores. The total number of borrowal accounts which stood at 1.65 lakhs at the end of June, 1969 and outstandings at Rs. 162.33 crores, have registered an increase of nearly 18 times and 6 times respectively up to the end of 1975.

4.4. Public sector banks are providing finance to all facets of agricultural operations, as also for allied activities like dairying, poultry farming, piggery, bee-keeping, fisheries, etc. Term loans are also being provided by them for development purposes on an increasing scale. Banks are also evolving special schemes, after identifying important economic activities in compact areas, with particular reference to small farmers e.g. schemes to finance sheep rearing, purchase of pump sets, coconut garden development, lift irrigation, setting up of agricultural machinery centres etc. Various schemes have been drawn up to provide credit and technical support, particularly to the weaker sections of the society. For instance, schemes for extending financial assistance to landless agricultural labourers who are being allotted land, for providing homesteads for landless agricultural labourers, for fulfilling the credit needs of the poorer sections in the rural areas following the legislation regarding liquidation of rural indebtedness and for extending financial assistance for development of irrigation facilities are only a few of the schemes formulated by public sector banks.

4.5. An important feature of credit deployment of public sector banks has been the increasing coverage of relatively small borrowers. As at the end of September, 1974. small borrowers having upto 5 acres of land holdings accounted for 70.5 per cent of the total number of borrowal accounts and 41.7 per cent of the amount outstanding as short term agricultural loans. In respect of medium and long term agricultural advances, this category of farmers accounted for 37.6 per cent of the total number of accounts and 17.6 per cent of the total amount outstanding as on that date.

4.6. As per figures furnished by the Ministry in November, 1977, small farmers having upto 5 acres of land holdings accounts for 74.12 per cent of the number of the agricultural borrowal accounts and 50.80 per cent of the amount outstanding as short term agricultural loans, as at the end of September, 1976. As regards the term loans, the category accounted for 45.8 per cent of the agricultural loan accounts and 23.64 per cent of the amount outstanding at the end of September, 1976.

4.7. Besides advances given directly to farmers, public sector banks are also assisting farmers indirectly by extending loans through primary agricultural credit societies under a scheme formulated by the Reserve Bank for the purpose. As at the end of December, 1975 the scheme was in operation in all States. As on that date, 400 branches of 18 public sector banks were participating in the scheme. The total outstanding advances to 1948 societies amounted to Rs. 25.40 crores. Since the inception of the scheme. 2,46,721 new members have been admitted to the societies taken over by the public sector banks. In a statement furnished to the Committee (November, 1977), the Minister of Finance stated that the figures of total outstanding advances made by the commercial banks (including public sector banks) through primary agricultural credit societies as at the end of June, 1976 and December, 1976 (latest available) are as follows:—

(Rs, in Lakhs)

Short term				Medium Term			
As on 30-6-1976		As on 31-12-1976		As on 30-6-1976		As on 31-12-1976	
No. of societies involved	Amount outstanding	No. of societies involved	Amount outstanding	No. of societies involved	Amount outstanding	No. of societies involved	Amount outstanding
2634	2242·72	2548	3057·76	98	406·66	1055	494·92

The decline in the number of societies financed (short term) is a sequel to their reorganisation/amalgamation in States.

4.8. An important development in the recent past is the setting of farmers' service societies which are registered as cooprative institutions and function as multi-purpose agencies at the base level, taking care of all the needs of the farmers of the area. These societies not only meet the credit needs (short, medium and long term) of their members but also undertake supply of inputs, custom and repair services, marketing of produce, sale of consumer goods etc. In short, the farmers can now look to a single agency for all their requirements. Farmers Service Societies are financed either by a district central cooperative bank or by a commercial bank. Public sector banks are playing an important role in organising and financing such societies. By the end of December, 1975, 14 public sector banks had organised 47 farmers service societies in 12 States, *viz.*, Andhra Pradesh, Bihar, Haryana, Jammu & Kashmir, Karnataka, Madhya Pradesh, Maharashtra, Manipur, Rajasthan, Tripura, Uttar Pradesh and West Bengal.

4.9. Public sector banks are moving away from scattered lending and concentrating in compact areas, for meeting the total credit requirements of all types of farmers, while ensuring effective supervision over the end-use of funds. Under the Village Adoption Scheme, the nationalised banks (excluding State Bank of India Group) have adopted 18146 villages upto the end of June, 1975. The State Bank of India Group adopted 10974 villages as at the end of September, 1975. As part of the strategy of area approach, the State Bank of India Group had opened 216 Agricultural Development Branches up to the end of 1975; these branches had financed 3,67,626 borrowers, the amount outstanding being Rs. 82.96 crores. The number of villages adopted by the State Bank of India Group and other nationalised banks as on 30-6-1976 is 14193 and 25206 respectively (totalling 39399 villages) as intimated by the Department in July, 1977. The number of agricultural development branches opened by State Bank of India Group rose to 234 as on 30-6-1976 and 290 as on 30-6-1977.

4.10. Public sector banks continued to assist the identified participants in SFDA/MFAL areas. As at the end of November, 1975 loans disbursed by commercial banks to the identified farmers in these areas amounted to Rs. 26.94 crores against Rs. 16.48 crores at the end of November, 1974.

4.11. The Ministry informed the Committee in November, 1977 that the loans disbursed by the commercial banks (including public sector banks) to the identified participants in the SFDA/MFAL agencies areas during the years 1975-76 and 1976-77 (April—March) are as follows:—

(Rupees in lakhs)

Term Loans

1975-76 (April—March)	1976-77 (April—March)	1975-76 (April—March)	1976-77 (April—March)
409·57	839·80	1196·85	2170·87

The cumulative figures for term loans by commercial banks (including public sector banks) since inception of the Schemes and upto the end of March, 1976 and March, 1977 were Rs. 2875.06 lakhs and Rs. 5045.93 lakhs, respectively. Similar figures for short term loans were, however, not available.

4.12. Asked to state whether any study of the experience of the banks in the field of agriculture has been made to ensure adoption of sound practices by them and whether improvements were effected so that the credit reached the small and marginal farmers, the Secretary (Banking) stated during evidence:

"Several banks have made their own studies on agricultural finance especially about small and marginal farmers, on the basis of their experience they have formulated many schemes which are put up before the Banks' Management Boards for approval and review of their performance. Policy guidelines are issued not only by these banks but by the Reserve Bank also Reserve Bank's guidelines deal with this matter specifically, not only to help small and marginal farmers, but also how they should been a position to have effective supervision of the credit so that the credit goes to them at the right time and utilised by them in a proper manner."

4.13. Asked to state whethre loans were disbursed to the borrowers in time and it is ensured that no undue delays occur the Secretary (Banking) stated during evidence:—

"It is to be seen by somebody, I would also go to the extent of saying, that the loans are given in proper time. It is the intention that the loans should be given in right time and at the correct rate. I am aware of the ground in several areas why that is not being done in right time. Many banks have agricu'tural finance specialists who advise on how the loans should be given and by what time and so on. In fact if the loans are not given at proper time, it can become a problem. There is no adequate fund for the crop. It is our intention to bring the idea of supervising the credits so as to see that they are put to right use and at the same time we are enabled to recover that in the interest of the banks, they should see that they make available to them the credits at the right time."

4.14. Asked about the present position with regard to the setting up and functioning of the Farmers' Service Societies and progress made is this regard, the Secretary, Department of Banking stated:—

"In response to the recommendations of the National Commission on Agriculture, 250 farmers' service societies have been set up all over the country and there is a programme of organising such societies in areas with special development schemes so that farmers would have facilities of credit as well as other services at one local contact point."

4.15. Elaborating the postion further, the representative of the Department stated:—

"The main recommendation has been that farmers should get integrated service from these societies including technical advice on their problems. They can get working capital, short term credit and also long term credit and inputs through the same society. The society will be having a full time secretary or 'sanchalak'; the society will also be given some extension staff by the state government in which case they will be able to tell him about agronomic practices, crop varieties which he could select. Once it gets more business, it will become more viable and will also get more profit, and it can also employ a professional secretary or manager. In the initial stages the adopting bank, will meet the expenditure on the secretary on a sliding basis. Integration will be done like this. Some societies will be farmers' societies and taken over by the central cooperative banks and also supplemented by the lead bank or commercial banks or the regional rural bank by a dialogue with the state government authorities."

4.16. Asked whether there were schemes for providing credit in the drought/flood-prone areas also, the representative of the Department stated:—

"This is a very vital question connected with the bankability of schemes in the drought prone area itself. A lot of science and technology has to go into the schemes themselves. Under the Ministry of Agriculture there is an organisation both for research and development, the Dryland Research Institute in Hyderabad, making recommendations about various methods to be used in drought-prone areas, including selection of the particular varities of crop which can stand drought conditions, harvesting methods, special schemes of irrigation etc. If the proper schemes is selected and really made bankable, there is less chance of risk in recovery. At the same time, these drought-prone areas being very susceptible to natural calamities, the question does come from time to time. It is rather difficult to avoid this situation altogether, but when it comes to our notice, a it has happened in a recent case due to flood/drought, we take the initiative to advise banks to reschedule repayment of loans. Here is a question of finding proper technology for areas which have got very difficult problems."

4.17. Subsequently, in a note (November, 1977) furnished in this regard the Ministry stated that the drought prone areas programme aims at improving the economy of the drought prone areas selected for the purpose in various States. Under this programme, the commerical and cooperative banks provide finance under various schemes such as dry farming operations, soil conservation, minor irrigation, cultivation of drought resistent varieties of crops, dairy, poultry, piggery, horticulture, etc. The emphasis is on the integrated development of the dry regions to attain economic stability of farm output.

4.18. The Reserve Bank of India is extending the necessary financial assistance to cooperative banks in these selected areas for financing the special programmes under implementation.

4.19. Government have urged public sector banks to accord priority in providing required credit for implementation of the programme, and also to evolve schemes for rehabilitation of victims of flood and other natural calamities. Similar instructions have been issued by the Reserve Bank of India to the private sector banks.

4.20. As regards recovery of loans granted under the programme, both commercial and cooperative banks adopt a flexible approach wherever necessary. If the borrower is unable to repay the loans owing to crop failures, short-term loans are converted into medium term loans. To facilitate these conversions the RBI grants loans to cooperative Banks from out of its stabilisation fund.

4.21. Asked whether any credit schemes has been formulated by public sector banks/Regional Rural Banks for the agriculturists in North-Eastern Region where the system of 'community ownership is prevalent, the Ministry stated in their written reply (November, 1977) that in the North Eastern Region the ownership of land is vested in Village Councils/ Anchal Samities. This stands in the way of commercial banks' financing agricultural development. A working Group was appointed by the RBI to study the problems of bank credit in the North Eastern region. The Group recommended that the commercial banks may use different agencies/ intermediaries and/or lend directly so as to reach the remote places and disburse credit in the region. The Group also recommended that in case of term loans to agriculturists where they do not have mortgageable rights on land but who are in continuous possession of such land, a certificate of possession signed by a Village and Anchal chief and counter-signed by a Revenue Official should suffice. Further, they suggested that till such time as land records are updated or where tenurial sysem/Transfer of Property Act is not in vogue, banks should lend on a group guarantee basis amounts upto Rs. 3000/- for crop loan/working capital and Rs. 7000/- for term loans. The SBI is following this procedure and the banks operating in the region have been instructed by the RBI to implement the recommendation in question.

4.22. Two Regional Rural Banks have also been set up in the North-Eastern Region—one covering the whole State of Tripura and the other covering the Districts of Darrang, Kamrup and Goalpara in Assam. These banks are granting advances to small and margional farmers in the area of their operation and to rural artisans and others. The system of community ownership does not exist in the area of operation of these banks.

Co-relation of cost of agricultural inputs with the amount of loans.

4.23. Asked whether the amount the amount of loans given to the agriculturists for specified operations are co-related with the cost of agricultural inputs or agricultural operations, the Ministry informed in a written reply (November, 1977) that the scales of finance for various crops grown are worked out by commercial banks on the basis of relevant data pertaining to the area and after taking into consideration all the inputs required as well as the off-farm income or resources available to the cultivators.

4.24. As regards cooperatives banks, scales of finance for crop loan are so designed as to cover both the cost of agricultural inputs and operations. The scale of finance, as per the crop loan system recommended by the RBI, is 33-1/3 per cent of the total estimated value of the gross produce to cover cash expenses. In addition to this, the cost of agricultural inputs which are generally fixed wi h reference to the recommended doses and general usage and price of inputs prevailing in the market also forms part of the loan.

4.25. In regard to long term loans by land development banks for agricultural investment or development, the quantum of loan is related to the cost of development or machinery and the period of loan will depend on the repaying capacity of the borrower and the useful life of the asset; the period normally ranging from 5 to 15 years. Repaying capacity is assessed with regard to the proposed cropping pattern and the incremental income therefrom.

4.26. As with regard to the procedure of giving agricultural loans in kind, the Ministry have stated in their written reply (November, 1977) that wherever the loan is linked with the acquisition of a particular asset in the shape of agricultural implement, machinery, tube-wel's, pumping sets, fertilisers, seeds, pesticides etc., the banks grant loans to the farmer but release the money only to the supplier of such goods after verifying the actual installation/purchase of the machinery and equipment. This is done in order to prevent misutilisation of agricultural advances given by banks for purchase of inputs/equipments.

4.27. A list of approved dealers common to all banks is required to be maintained by banks and the borrowers thus have the opportunity to choose inputs/implements which they wish to buy. The final choice of the dealer is also entirely that of the farmer. Banks on their part also verify that the cost is competitive and there are arrangements for after-sale-service.

4.28. There have been some complaints about disbursements of loans in kind but the existing system is preferred because it prevents any scope for diversion misutilisation of the loan money and the investment goes to promote a productive function and generate additional income for the borrower.

Joint Land holdings

4.29. Asked whether banks advance loans to the small and marginal farmers, who have joint land holdings, in proportion to their share of land in the joint holdings, the Ministry stated in their written reply (Nov., 77):

> "Loans are granted by commercial banks to any one of the joint holder as credit eligibility of the cultivator is worked out on respect of his share in the holding. In the former case, the banks obtain consent letters from other joint holders. In case loans are required for the entire land cultivated it is customary for banks to insist on their joint holders executing documents as co-borrowers or guarantors. In either case the quantum of loan is determined on the basis of the actual requirements of credit.
>
> Coop. banks also grant loans to farmers who have joint land holdings so long as the loan applied for by such persons are in respect of land actually cultivated by them. The quantum of loan is fixed on the basis of operational holdings of such joint holder as credit eligibility of the cultivator is worked out on the basis of "operational holdings" and not on the "ownership holdings".
>
> As regards land development banks, according to the loan policy and procedure followed by most of them, loan to a joint holder is required to be limited to the extent of his share."

Rate of Interest

4.30. Asked about the rates of interest charged on agricultural advances and method of its calculation and recovery the Ministry in their written reply (November, 1977) stated that the minimum and maximum rates of interest charged by public sector banks on their agricultural advances vary between 8½ per cent and 16½ per cent. Banks charge relatively lower rates in respect of advances to small borrowers and those who are covered by the SFDA/MFAL schemes. Under the scheme of Differential Rate of Interest, the weakest among the weak are given bank finance at the rate of 4 per cent per annum. In addition public sector banks charge graded rates of interest on agricultural advances from farmers according to the size of their land holdings, i.e. farmers with smaller holdings are charged lower rate of interest, than those with bigger holdings.

4.31. In the case of loans refinanced under the Agricultural Refinance and Development Corporation schemes the rate of interest stipulated by the Corporation is invariably adopted. This is 10½ per cent per annum for minor irrigation and land development schemes and 11 per cent for other purposes.

4.32. According to the guidelines issued by the Government, the lending rates of interest charged by Regional Rural Banks should not be higher than the rates charged by the Cooperative Societies operating in the area. The rates are in line with those charged by the Cooperative Societies. The rates of interest charged by primary agricultural credit societies to the ultimate borrowers range from 11.25 per cent to 14.50 per cent per annum for short-term agricultural loans and from 11.75 per cent to 14.50 per cent per annum for medium-term agricultural loans in a State where three-tier credit structure is obtaining. In other States and Union Territories, the range is between 11 and 15 per cent for short-term loans and 12 to 15 per cent for medium term. In exceptional cases where the societies provide finance largely from their own resources, they charge interest upto 16 per cent.

4.33. The RBI have left it to the discretion of the State Cooperative Banks to grant concession in the rate of interest to be charged by the primary cooperative societies from the marginal and small farmers. In some States concessions in the interest rate range between 2 to 4 per cent depending on the size of the holding of the small and marginal farmers.

4.34. The rates of interest charged by land development banks in various States vary from 10½ per cent to 11 per cent.

4.35. Recovery of interest on agricultural advances is being made by commercial banks including Regional Rural Banks alongwith the payment of principal/instalments of principle which are so fixed so as to coincide with the harvesting and marketing of his crops. For term loans interest is generally calculated at a half-yearly basis.

4.36. The State and Central Cooperative Banks recover the interest on quarterly and half-yearly basis. Interest on current dues is not compounded.

4.37. In accordance with the guidelines issued by the Reserve Bank of India to the commercial banks, all small loans up to Rs. 5000/- (including direct agricultural advances but excluding plantations) are exempted from the levy of penal rate. In the case of direct agricultural advances of over Rs. 5000/- (excluding plantations) banks are required to give a time of at least three months to the borrower for making payment before charging penal rate of interest, which should not exceed 2.5 per cent over and above the normal rate and the overall rate of interest inclusive of penal rate, should not exceed the ceiling rates of interest prescribed by the RBI in respect of interest rates for various classes of banks *i.e.* 16.5 per cent or 17.5 per cent as the case may be.

4.38. As regards cooperative banks, penal rates are usually charged at 2 to 5 per cent above the normal rate at the borrower level. In pursuance of the recommendations of the Study Team on Overdues of Cooperative Credit Institutions, the Reserve Bank of India has advised the cooperative banks to charge penal rate at 3 per cent at the society level and that it may be charged from the date of default."

4.39. The Committee desired to be furnished with a note stating (a) the agencies which are provided financial assistance for agricultural development by the I.D.A. (b) The rate of interest charged by I.D.A. for such agencies (c) the rate of interest charged by those agencies from the agriculturists against loan advanced to them. The Ministry in their reply (Nov. 1977) stated:

> "The IDA loans are given to individual national Governments to be passed on to the appropriate institutions within their jurisdiction under projects approved by them. These are interest free loans for 50 years with a moratorium of 10 years repayable thereafter in ½ yearly instalments. Only a service charge of 3/4 per cent is levied.
>
> The principal borrower is the Government of India. A project which is financed by IDA may consist of two distinct elements:
>
> (1) Items of expenditure which are normally a charge on the

Budget of the State or Central Government, and (2) Items of expenditure usually incurred by the beneficiary and for which the banking system provides resources. In respect of the expenditure on the items mentioned at (2), the ARDC has taken the position of principal borrower from the Government of India and in turn provides refinance to the member-banks for financing the farmers. The Government of India passes the rupee equivalent of the credit to the ARDC at the rates of interest applicable to public financial institutions from time to time. The present rates of interest charged by Government of India to ARDC are 6-3/4 per cent per annum in respect of loans for periods upto 9 years and 7¼ per cent per annum for periods in excess of 9 years, but less than 15 years. A rebate of ¼ per cent per annum is allowed for prompt repayment.

The ARDC has adopted one interest rate structure whether the resources come from IDA or otherwise. It charges 7½ per cent p.a. on its refinance for minor irrigation and land development schemes and 8 per cent p.a. for other diversified purposes to the member banks. The member banks in turn are allowed a margin of 3 per cent over the ARDC rate. Thus the banks charge the ultimate borrowers a rate of interest not exceeding 10½ per cent per annum for minor irrigation and land development scheme and 11 per cent p.a. for other purposes. Where, however, the State Land Development Bank in a State for operational reasons decides to charge a rate of 11 per cent instead of 10½ percent, the commercial banks in the area are also permitted to charge the same rate for these purposes."

4.40. The Committee note that under the strategy of the Area Approach adopted by the public sector banks, out of about 5.67 lakhs villages in the country only 6870 villages had been adopted by the banks up to March, 1973. The Committee were later informed that up to the end of June, 1973 about 19000 villages were adopted by the different public sector banks under the Area Approach. As per the consolidated report of the Public Sector banks for the year ending December, 1975, the nationalised banks have adopted 18146 villages up to the end of June, 1975. the State Bank of India group have adopted 10974 villages as at the end of September, 1975. The figures as at the end of June, 1976 indicate that the nationalised Banks and the State Bank of India Group had adopted 25206 and 14193 villages respectively (totalling 39399 villages). As a part of the strategy of the Area Approach, the State Bank of India Group have also opened 290 agricultural development branches upto 30 June, 1977. The Committee find that

there was a spectacular increase in the number of villages adopted by the Banks during the period March, 1973 and June, 1973 i.e., from 6870 to 19000. The progress during the next two years was not upto the mark. The Committee desire reasons for this slow progress should be looked into by the Department. The Committee need hardly emphasise that the public sector banks and the commercial banks should intensify their efforts to adopt more and more villages. The Committee would like the Department to lay down a target in this regard for the 5th Five Year Plan.

4.41. The Committee note that the banks have so delegated powers to their branch managers that they could dispose of about 80 per cent of loan applications at their level and only proposals involving larger amounts are required to be referred to the higher authorities. The Committee desire that it should be ensured that the delegated powers are used by the Branch Managers in a judicious manner and delays do not occur in sanction of loans especially in case of small borrowers. The Committee need hardly emphasize that bank credit should be made available to the farmers at the right time of crop season.

4.42. The Committee understand that the public sector banks have adopted the credit norms for different crops as advised by Field Workers Conference/Technical Group constituted at the district level for the Central Cooperative banks, with reference to the use of fertilisers and other inputs and adoption of improved agricultural practices in the area of their operation. The Committee recommend that efforts should be made by banks to review the credit norms for different crops on a continual basis. The consultancy services made available to small farmers by the banks, field staff should also be improved.

4.43. The Comittee note that in response to the recommendations of the National Commission on Agriculture, an innovation has been made in setting up the Farmers' Service Societies which are registered as cooperative institution and function as multi-purpose agencies at the base level, taking care of the needs of the farmers in the area of their operation. With the setting up of these societies, the farmers can look to a single agency for all their requirements. 250 such societies have been set up all over the country and there is a programme of organising such societies in other areas having special development schemes. The Committee welcome this step and hope that the Farmers' Service Societies would go a long way in serving the needs of small farmers at one contact point by providing an integrated service including technical advice. The Committee, however, feel that the number of societies set up so far is inadequate. They suggest that a time bound programme should be evolved to set up a large number of such Farmers' Services Societies all over the country and a watch kept regarding the implementation of the programme.

4.44. The Committee attach much imoprtance to coverage of relatively small borrowers by the credit deployment of public sector banks. According to the information furnished to the Committee, small farmers having land holdings upto 5 acres accounted for 74.12 per cent of the agricultural short term borrowal accounts and 50.8 per cent of the amount outstanding at the end of September, 1976. As regards the term loans, this category accounted for 45.8 per cent of the loan accounts and 23.64 per cent of the amount outstanding at the end of September, 1976. Although the small farmers account for a substantial percentage of the short-term loan accounts, the outstanding amounts advanced to them does not proportionately constitute the same percentage of the total amount. The percentage of outstanding amount is significantly low under term loans. The Committee therefore desire that concerted efforts should be made by the public sector banks to increase coverage and quantum of bank credit to small borrowers having land holdings upto 5 acres.

4.45. Besides the advances given directly to farmers, the public sector banks are indirectly assisting them through agricultural primary credit societies. At the end of December, 1976, the total outstanding short term advances made by commercial banks (including public sector banks) amounted to Rs. 30 crores involving 2548 societies and medium term advances amounted to Rs. 5 crores involving 1055 societies. The Committee consider that the amount of loans and the number of societies involved in the whole country is very low. It should be examined what measures are necessary to increase credit through primary credit societies.

4.46. The Committee note that the Public sector banks also assist the identified participants in Small Farmers Development Agencies/Marginal Farmers & Agricultural Labourers areas. During the year 1976-77, the loans disbursed by the Commercial banks (including public sector banks) to the identified participants in SFDA/MFAL agencies increased to Rs. 30 crores from Rs. 16 crores during 1975-76. The Committee desire that the progress made in disbursement of loans to identified participants in SFDA/MFAL areas should be kept under close watch.

4.47. The Committee note that in the case of the North Eastern Region where the ownership of land is vested in Village Councils/Anchal Samities, a Study Group appointed by the Reserve Bank of India has inter-alia suggested that banks should lend on a group guarantee basis. The State Bank of India is following the procedure and the other banks operating in the region have been instructed by the Reserve Bank of India to implement the recommendations. The Committee desire that the matter should be pursued with the banks and it should be ensured that the credit needs of the farmers in the North Eastern Region are adequately met.

4.48. The Committee note that there have been complaints about disbursement of loans in kind, but the existing system is preferred because it prevents any scope for diversion or misutilisation of the loan money and the investment goes to promote a productive function and generate additional income for the borrower. The Committee desire that in all cases where serious complaints are made about the disbursement of loans in kind, it should be ensured that proper investigations are made and necessary remedial measures are taken.

4.49. The Committee further note that the Government have urged the public sector banks and private sector banks to accord priority in providing required credit for implementation of the drought prone areas programme and also to evolve schemes for rehabilitation of victims of flood and other natural calamities. As regards the recovery of loans under the programme, both commercial and cooperative banks adopt flexible approach wherever necessary. The Committee are anxious that credit schemes evolved for drought prone and flood prone areas which are susceptible to natural calamities should be kept under review with a view to improving the economy of the areas and relieving the hardship of the affected people. It should be ensured that in case of crop failure, the recovery of interest on loan is suitably postponed.

4.50. The Committee note that rates of interest charged by public sector banks on the agricultural advances vary between 8½ per cent and 16½ per cent. Banks charge lower rates in respect of advances to small borrowers and those are covered by SFDA/MFAL Schemes. The Primary Agricultural Credit Societies charge between 11 per cent and 15 per cent and land development banks from 10½ per cent to 11 per cent.

4.51. The Committee note further that the recovery of interest on agricultural advances is being made by commercial banks alongwith the payment of principal/instalments of principal which are so fixed so as to coincide with the harvesting and marketing of his crops. For term loans interest is generally calculated at a half-yearly basis. The State and Central Cooperative Banks recover the interest on quarterly and half-yearly basis. Interest on current dues is not compounded. In accordance with the guidelines issued by the Reserve Bank all small loans upto Rs. 5000 (including direct agricultural advances but excluding plantations) are exempted from the levy of penal rate. In case of direct agricultural advances of over Rs. 5000 (excluding plantations) banks are required to give a time of at least three months to the borrower for making payment before charging penal rate of interest which should not exceed 2.5 per cent. Over and above the normal rate and over all rate of interest inclusive of penal rate of interest prescribed by R.B.I. in respect of interest rates for various classes of banks i.e. 16.5 per cent or 17.5 per cent as the case may be. The

Reserve Bank has advised the Cooperative Banks to charge penal rate at 3 per cent at the society level and that it may be charged from the date of default.

4.52. The International Development loans which are received free of interest by Government of India are passed on to the ARDC at the rates of interest applicable to public financial institutions from time to time, the present rates being 6-3/4 per cent per annum in respect of loans for periods upto 9 years and 7-1/4 per cent in respect of loans for periods exceeding 9 years but less than 15 years. The Agricultural Refinance Development Corporation charges 7½ per cent on its refinancing for minor irrigation and land development schemes and 8 per cent for other diversified purposes to the member banks. The member banks charge the ultimate borrowers at the rate of interest of 10½ and 11 per cent.

4.53. The Committee feel that with a view to keeping prices of agricultural produce under check, it is necessary to make agricultural credit cheaper. The Committee therefore suggest that it should be carefully examined how the agriculture credit given by the various lending agencies could be made cheaper and the penal rates for delay in repayment less harsher particularly when such delays are caused by failure of crops drought, flood and other natural calamities etc.

unctioning of Cooperative Banks

4.54. The Committee asked (a) whether any study had been conducted by the Reserve Bank of India on the functioning of the Cooperative Banks and whether any shortcomings in the functioning of these Banks have come to their notice, the Ministry in their reply (November, 1977) stated that the Reserve Bank, through specially appointed Study Teams, have so far undertaken special studies of the following States to examine the financial and organisational position of cooperative credit institutions and to suggest remedial measures to overcome problems obstructing free flow of credit for agriculture:—

1. Kerala (1972)
2. Maharashtra (1972)
3. West Bengal (1972)
4. Bihar (1974)
5. Rajasthan (1974)
6. Madhya Pradesh (1975)
7. Uttar Pradesh (1975)

Such special teams have now been set up for Jammu and Kashmir and Himachal Pradesh.

Besides, in 1972, the Reserve Bank set up a Study Team to suggest measures to tackle the problem of overdues of cooperative institutions.

Some of the general defects noticed during the course of the studies are listed below:

(i) Existence of high level of overdues largely due to wilful defaults aggravated by ineffective supervision, defective lending policies, apathy of the managements and the absence of a favourable climate for repayment for which the State Governments themselves could be held responsible.

(ii) Absence of reasonably well-managed and viable institutions specially at the primary level and the need for the reorganisation of primary agricultural credit societies and rehabilitation of central cooperative banks.

(iii) Lack of trained and competent personnel at almost all levels of cooperative credit institutions.

(iv) Inadequacy of institutional credit to cater to the needs of the tribal population, needs of the hilly, arid and semi-arid regions etc. and other weaker sections of the farming community.

4.55. The recommendations made by the Study Teams have been conveyed by the Reserve Bank to the State Governments concrned for speedy implementation. Follow up action is being pursued by the RBI.

4.56. In addition, the Reserve Bank has been inspecting the State and Central cooperative banks since 1966 on statutory basis. Inspection of land developments banks are being done on a voluntary basis. The shortcomings observed during the inspections are brought to the notice of the banks|Registrars of Cooperative Societies concerned for early rectification.

4.57. Important outstanding issues and problems in different States are also discussed by the Executive Director of the Reserve Bank during his annual round of discussions with the State officials and Registrars of Cooperative Societies.

4.58. Asked to indicate the latest position regarding action taken on the recommendations of the Hazari Committee regarding Integration of Co-operative Credit Institutions, the Ministry in a written reply (November, '77) have informed that the Government of India have not yet taken a final view on the recommendations of the Hazari Committee on Integration of Cooperative Credit Institutions as views from some of the State Governments are still awaited.

4.59. However, the Government of India have accepted the recommendation of the Hazari Committee with regard to grant of loan by Land Development Banks on the basis of a charge on land instead of insisting on a mortgage as at present, and have commended this to the State Governments for implementation which is an endorsement of the recommendations of the Madhava Das Committee. The Governments of Karnataka, Orissa and West Bengal have accepted this recommendation. The Government of Karnataka have already amended its Cooperative Act. The other two State Governments propose to amend their co-operative laws in due course The Government of Uttar Pradesh has adopted this recommendation by issue of an Ordinance in the Command Area Development Authority Area in the State.

4.60. The Committee note that the Reserve Bank of India through its Study Teams has so far undertaken special studies of the financial and organisational position of the Cooperative Credit Institutions in the State of Kerala, Maharashtra, West Bengal, Bihar, Rajasthan, Madhya Pradesh and Uttar Pradesh. Such special teams have been set up for Jammu and Kashmir and Himachal Pradesh. The recommendations made by the Study Teams have been conveyed to the State Governments for speedy implementation. The Committee hope that such special studies will be taken up by th Reserve Bank in the remaining States according to time-bound programmes. The Committee also desire that it should be ensured that recommendations of the Study Teams are implemented by the State Governments expeditiously.

4.61. The Committee note that Government of India have not yet taken a final view of the recommendations of the Hazari Committee or the Integration of Cooperative Credit Institutions as views from some of the State Governments are still awaited. The Committee desire that the matter should be vigorously pursued with the State Governments concerned.

4.62. The Committee also desire that implementation of the recommendations of the Hazari Committee with regard to grant of loan by Land Development Banks on the basis of a charge on land instead of insisting on a mortgage as at present may be pursued with the State Governments who have not yet amended their Cooperative legislation.

Review of Schemes

4.63. The Committee, in paragraph 4.14 of their 62nd Report, while emphasising the importance of rapid expansion on credit to the agriculture sector on which the whole economy of the country and well-being of the people rested, had recommended that the working of all schemes evolved by banks for meeting credit requirements of this sector, should be reviewed by an expert group.

4.64. The Department of Banking in their reply (October, 1974) stated that as the commercial banks have entered this sector in a big way only after nationalisation, it may be desirable to watch for some time more before an expert body is set up to go into the working of different schemes. However, the Reserve Bank has started collecting and compiling information in some detail.

4.65. Observing that while the efforts made by the Reserve Bank for collecting and compiling information would not serve the purpose. The Committee in their 84th Report reiterated their earlier recommendation that the working of all schemes evolved by Banks for meeting credit requirements of the agricultural sector should be reviewed by an expert group at an early date in view of the importance of agricultural sector in the national economy.

4.66. The Department was asked to state the present position with regard to the setting up of an Expert Group to review the working schemes evolved by the banks for meeting the credit requirements of the agricultural sector.

4.67. The Department in their reply (November, 1976) stated:

> "The Government agree to set up an Expert Group to review the working of schemes evolved by public sector banks for meeting credit requirements of the agricultural sector. The RBI are being requested for the constitution of such a Group."

4.68. Asked to state as to when the Reserve Bank of India was requested to constitute the group and progress made in this regard, the Secretary (Banking) during evidence stated that the Reserve Bank was requested in September, 1976 and the latter was in the process of selecting experts for the purposes. The group was, however, expected to be constituted shortly.

4.69. The Ministry, however, informed in November, 1977 that the Reserve Bank of India has set up an Expert Group under the Chairmanship of Shri G. Desai of the Indian Institute of Management, Ahmedabad to review the schemes of agriculture finance of commercial banks and suggest the general pattern of new schemes which banks could frame and implement so as to meet the credit requirements of farmers and agriculturists. Representatives of the Central Government, commercial banks, Agricultural Refinance and Development Corporation, Agricultural Finance Corporation, Reserve Bank of India and experts in certain disciplines in agriculture and allied activities are represented on this Group. The Group has already held three meetings and is likely to submit its report in another two months or so.

4.70. The Committee in paragraph 4.14 of their 62nd Report (1973-74) had recommended that the working of all schemes for agricultural finance, evolved by the banks, should be reviewed by an Expert Group. The Committee reiterated this recommendation in their 84th Report which was presented in August, 1975. The Committee note that the Department of Banking approached the Reserve Bank to constitute the Expert Group only in September, 1976. The Committee trust that the Expert Group under the Chairmanship of Shri G. Desai have completed their work as scheduled. The Committee would like to be informed of improvements made in the schemes for agricultural finance and new pattern of schemes framed to meet the credit requirements of farmers and agriculturists.

Pass Books for Farmers

4.71. The Committee in paragraph 4.32(i) of their 62nd Report observed that 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 borrowers."

4.72. The Department of Revenue and Banking in their reply (October, 1974) stated:

> "This recommendation is one of the administrative measures recommended by the Talwar Committee. Government have been pressing upon the State Governments for issue of pass books to the farmers. According to the latest information received from different State Governments, Madhya Pradesh, Uttar Pradesh, Haryana, Punjab, Rasjasthan, Gujarat, Himachal Pradesh and Karnataka State are reported to have already issued pass books to the farmers in some areas. The matter is being pursued with the State Governments."

4.73. The Department was asked to indicate the latest position regarding issue of pass-books by the State Governments to farmers containing full records of land owned by them, to facilitate expeditious grants of loans to them by banks.

4.74. In their reply (November, 1976) the Department stated:—

> "At the time of furnishing Government's reply to the recommendation of the Committee (No. 4.32 (1) of the 62nd Report), 8 State Governments were reported to have issued pass books to farmers in some areas.

8 more State Governments, namely Assam, Bihar, Jammu & Kashmir, Kerala, Maharasthra, Orissa, Tamil Nadu and West Bengal and the Union Territory of Delhi have since reported the fact of having issued or proposing to issue the pass books in some areas.

In Nagaland and the Union Territories of Dadra and Nagar Haveli, Arunachal Pradesh and Mizoram, agriculturists have no right of ownership in regard to the land. There is therefore no question of issuing pass books in these States/Union Territories."

4.75. In paragraph 4.32 (iii) of the 62nd Report ibid the Committee observed that the Scheme of issuing pass books to the borrowers, as is prevalent in the Indian Overseas Bank, should be introduced in all the banks.

4.76. The Department in their reply (October, 1974) stated:

"According to the information furnished by the public sector banks, the State Bank of India, Punjab National Bank, Canara Bank, United Bank of India, Allahabad Bank and the Indian Overseas Bank, have already issued loan account pass books. Bank of Baroda has issued this in Gujarat State so far as an experimental measure. Dena Bank has issued pass books in areas where large scale development schemes have been undertaken. Central Bank of India has issued these in some States Bank of India is still considering this issue. The matter is being pursued with the public sector banks."

4.77. The Department was asked whether all the public Sector banks were following the practice of issuing loan account pass books to the borrowers. In their reply (November, 1976) the Department have stated that according to the information furnished by the Reserve Bank of India, the position is follows:

"(1) State Bank of India, Central Bank of India, Punjab National Bank, Bank of Baroda, Dena Bank, Allahabad Bank, Bank of Maharashtra and Indian Overseas Bank have issued loan Pass Books to farmer borrowers.

(2) Bank of India has issued Pass Books on pilot basis in the states of Uttar Pradesh, Madhya Pradesh and Bihar. On gaining experience, it would extend the scheme to other regions.

(3) Canara Bank and United Bank of India have issued Pass Cards and Identity Cards respectively, which contain basic Particulars of the borrowers and the loans.

(4) Union Bank of India is still considering the issue of Pass Books to borrowers.

(5) Indian Bank and Syndicate Bank have decided to introduce Pass Books shortly."

4.78. The Committee note that in pursuance of their recommendation made in paragraph 4.32(i) of the 62nd Report, 16 States have issued pass-books to farmers in some areas, containing record of the land owned by them to facilitate grant of loans speedily. The Committee recommend that the State Governments concerned may be impressed upon to cover all the areas in issuing such pass books so that farmers, particularly small and marginal farmers, have not to face any difficulties in getting loans.

4.79. The Committee further desire that the question of issuing land pass books to farmers may also be vigorously pursued with the remaining States.

4.80. The Committee note that 10 Public Sector Banks have issued loan-account pass books/cards to farmer borrowers and 2 more banks decided to introduce such pass books shortly. One bank has issued pass books on pilot basis in 3 States and it would extend the scheme to other regions after gaining experience. The Committee desire that the remaining banks should also be impressed upon to introduce this procedure of issuing pass-books to borrowers. The Committee need hardly stress that these pass-books will be useful as they would serve as a ready-reckoner for banks to give loans and effect recoveries. ...

Loans to Cane-Growers on the Guarantee of Sugar Factories

4.81. The Committee, in paragraph 4.32(v) of the Report ibid observed that to facilitate grant of loans to sugarcane growers, the direct tie-up arrangement between the sugar mills and sugarcane 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.

4.82. In their reply (October, 1974), the Department stated:—

"The Commercial banks have indeed tied up their loaning arrangements to the cane growers with the sugar factories in selected areas in some States. Such an arrangement could be worked out where there is tie-up between the supply of cane by the growers to the Khandsari producing units also. This recommendation has been communicated to the commercial banks."

4.83. The Department was asked to state whether commercial banks have reviewed the possibility of extending the tie-up arrangement between the sugarcane growers and sugar mills, in areas where such an arrangement did not exist.

4.84. The Department in their reply (November, 1976) stated:—

"There is, generally, a tripartite arrangement among the financing banks, sugar mills and registered sugarcane growers whereby the growers undertake to deliver cane to the mills and the mills agree to deduct payments due to banks from the cane price payable to growers and remit the same to banks which have financed the growers.

Public Sector Banks have already stated financing sugarcane growers under tie-up arrangement with sugar mills in different states and areas, where such arrangements did not exist."

4.85. With regard to the tie-up between the cane growers and khandsari producing units the Department stated:

"Banks have explored the possibilities of extending credit to sugarcane growers under tie-up arrangements with khandsari units. But the scope for financing sugarcane growers under tie-up arrangements with khandsari units is limited owing to inherent organisational weakness of these units which are mostly run by individuals and partnership firms. However, a few banks have also financed sugarcane growers in tie-up arrangements with khandsari units. Wherever possible such tie-up arrangements are being tried with khandsari units."

4.86. During the evidence, when asked about the working of the Scheme of tie-up arrangements between sugarcane growers and sugar mills, the Secretary (Banking) stated:

"These schemes have been in operation for a fairly long period But our experience so far is quite satisfactory and banks as a matter of policy are encouraging such financial arrangements. Banks have not reported any case of non-cooperation because the payments are tied up. The system that operates is that banks give credit to the sugarcane grower and at the time of delivery of sugarcane the bank is paid by mill. While the bank gets the payment from the mill, it is ensured that the cane grower gets his dues. For that purpose, all sugar mills accounts would have two segments: the cane dues account and the general account. The bank does not give the sugar mill money for the purchase of cane unless the cane dues are paid. This has been in vogue in terms of a Reserve Bank Circular on the subject."

4.87. The Committee note that under a tripartite arrangement between the banks, Sugar Mills and Registered Sugar Cane growers banks advance credit to the sugarcane growers who undertake to deliver cane to the Mills which deduct payments due to the banks from the cane price payable to the growers and remit the same to the banks. This arrangement which ensures that the cane growers get their credit requirements in time, is stated to be in operation for a long time in some States. The credit needs of sugarcane growers are met by the banks in time under this arrangement. The Committee desire that the Public Sector Banks should make efforts to extend the scheme to other States where such arrangement does not exist.

Consumption Credit

4.88. The Committee desired to be furnished with a detailed note containing recommendations of the Expert Committee on Consumption Credit and action taken by all the concerned departments including the Department of Rural Development for implementation of the recommendations.

4.89. In their note, the Department of Revenue and Banking stated:—

"The broad conclusions and main recommendations of the Expert Committee on Consumption Credit are as follows:—

The Committee concluded that the lowest stratum of the village community having 'nil' holdings or with holdings measuring 0.01 to 0.50 acre would need pure consumption credit as distinct from production credit. The next higher class of rural population *viz.*, those possessing land above 0.50 acre but not more than 5 acre will also need consumption credit but they would be able to meet their consumption credit needs from the general production credit availed of by them from the cooperative structure and the commercial banking sector including the Regional Rural Banks.

The Committee felt that by strengthening the cooperative credit structure and by determined attempts by the commercial banks including Regional Rural Banks, the bulk of consumption credit requirement of the latter class should be looked after by the production credit system in operation at present. In order to fulfil this role, the Committee stressed that the measures already prescribed by the Reserve Bank of India to strengthen the cooperative credit structure, including universalisation of membership should be implemented without any delay.

On the basis of the general experience, as to the level of borrowings of the groups of people having land 'nil' holdings and holdings upto 0.50 acre, the Committee recommended the following purpose for which pure consumption credit apart from production loan should be given and also the ceilings of such loans:—

Type of Loan	Ceiling of loan fixed at
	Rs.
(a) Medical expenses relating to borrowers and members of their families.	250
(b) Education expenses for school	100
(c) Marriage expenses	250
(d) Expenses on funeral cermonies as well as birth ceremonies	75
(e) Expenses on religious ceremonies which are deeply rooted and considered inescapable by certain sections of society	75

The Committee computed the total requirements of pure consumption credit for the first year of the rural folk having 'nil' holdings or holdings measuring 0.01 to 0.50 acre and placed at Rs. 170 crores.

The Committee expressed the definite view that the primary agricultural credit societies organised into viable units, farmers service societies, large sized multi-purpose societies in the tribal areas, will be the best suited agencies to handle the business of providing consumption credit to the various categories of the rural community.

Out of Rs. 170 crores, the cooperative societies would take care of consumption credit requirements to the extent of Rs. 70 crores only. This had been recommended on the basis that only those primary agricultural credit societies as have full-time paid Secretaries should alone be entrusted with the responsibility of extending consumption credit.

Though no specific amount had been assessed to be provided through commercial and Regional Rural Banks, the Committee recommended that these banks should provide consumption credit to their clientels on the lines recommended for cooperatives. The Banks should also go ahead with their programme of organising Farmers' Service Societies or viable multi-purpose societies in order to supplement the efforts of the cooperatives.

The remaining 'grey' areas in the country which would account for the remaining Rs. 100 crores has been recommended to be met out of the budgetary resources of the State Governments. But since the State Governments may find it difficult to mobilise this amount, the Committee has recommended that the State Governments and the Central Government should enter into immediate dialogue for the purposes.

For the Tribal areas the Committee recommended that State Governments should strightaway open fair price shops through their Forest and other concerned Departments in the areas where tribals conglomerate and where the large Multi-purpose Societies cannot be formed immediately.

As there is a high degree of risk involved in extending pure consumption credit to the classes of people envisaged, a risk margin assistance limited to 10 per cent of the total quantum of loans advanced for consumption purposes should be given to the lending institutions. The liabilities of the risk fund should be borne equally by the Central Government and the State Governments.

To solve the twin problem of employment and collection of consumption loans, the Committee recommended that on the model of the Scheme introduced by the Maharashtra Government, the other State Governments should also work out for recovery of consumption loans from the wages of the loanees working on such programmes.

Action taken by Government on the recommendations of the Committee.

4.90. Government generally accepted the recommendations of the Committee as modified by the decisions taken at the Bangalore Conference held on 16th June, 1976 and specifically accepted the following:—

(1) Out of the sum of Rs. 170 crores required for meeting the consumption requirements for year 1976-77 Rs. 115 crores

were to be met through cooperative credit structure duly strengthened and the remaining Rs. 55 crores meant for the 'grey areas' out of budgetary resources of the State Governments. Since the State Governments' budgets had already been framed, the Central Governmnt extended a loan equal to two-thirds of Rs. 55 crores to the State Governments repayable in two annual instalments, the State Governments providing the remaining one-third share.

(2) The imposition of a limit of 10 per cent of the crop loan advanced to a member of cooperative society even though the quantum of loan in a particular case may be well below the ceiling of Rs. 250 etc., as mentioned in the Reserve Bank guidelines to State Governments, might be suitably modified by the Reserve Bank of India.

(3) The cooperative credit structure in the country was to be immediately strengthened by adopting the following measures:—

(a) Strengthning of the weak central cooperative banks by making an immediate investment of Rs. 10 crores under the Centrally sponsored sector scheme in the Central Plan for 1976-77;

(b) State Governments to be requested to make increasing equity participation in primary cooperative societies including the Farmers' Service Societies and for this an extra provision of Rs. 5 crores in the State Plan from the long-term Operations Funds of the Reserve Bank of India is to be made; and

(c) Management subsidy to the extent of Rs. 5 crores for appointing full time paid Secretaries in the large number of primary societies will have to be provided for in the Plan funds for the year 1976-77.

(4) The liabilities of the Risk Fund should be borne equally by the Central Government and the State Governments.

(5) The State Governments might be requested to formulate suitable employment schemes on the model of the scheme formulated by the Maharashtra Government after taking into account the final report on the evaluation of the Maharashtra Scheme which was under preparation by the Programme Evaluation Organisation of the Planning Commission.

(6) State Governments should be asked to straightaway open fair price shops through their Forest of other concerned depart-

ments in all the areas where tribal conglomerate and where large multi-purpose societies cannot be formed immediately.

It has also been decided by Goernment that the institutions to be utilised for the grant of loans in order of priority should be cooperatives, Rural Banks and taccavi. Local conditions should be taken into account in selecting the agencies for provision of credit.

It has further been decided that in determining the amount of consumption loan, the minimum need and the capacity to repay have necessarily to be taken into account. A ceiling has also been set on the amount of loan which an individual family can draw for two or more purposes.

Necessary budget provision was made with regard to (1) above and the amounts have been sanctioned to the concerned State Governments/ Union Territories.

The Reserve Bank of India has since issued the guidelines to the commercial & cooperative banks for implementing the decisions of Government.

The Reserve Bank of India has also been requested to suitably modify the imposition of the limit of 10 per cent of the crop loan advanced to a member of cooperative society even though the quantum of loan in a particular case may be well below the ceiling of Rs. 250.

The Department of Rural Development in the Ministry of Agriculture and Irrigation has also taken up the follow-up action in respect of the recommendations in so far as they concern that Department. The rules for the establishment and utilisation of Risk Fund for consumption Credit have since been finalised and the Department of Rural Development have made necessary budget provision in this connection.

The Ministry of Home Affairs has also been requested to take necessary follow-up action in respect of the decision taken by Government at (4) above.

The State Governments have also been addressed both by the Department of Revenue and Banking (Banking Wing) and the Department of Rural Development to take urgent action for implementing the decisions of Government in so far as they concern them.

4.91. Asked to state the type of agencies recommended by the Expert Committee for routing the consumption credit, the representative of the Department of Revenue and Banking stated during evidence:

"The Sivaraman Committee discussed this matter in great detail and we came to the conclusion that apart from consumption loans which are given as part of production loan, banking institutions and the government do not have any arrangement at present to meet the consumption needs of the weaker sections of society. We also came to the conclusion that commercial banks did not have infrastructure necessary to reach the masses of people, both for providing loans and for recovering it. The reasons was that the class of persons were such that they would also require credit facilities in a lump sum but repayment would be spread over many months, sometimes daily or weekly instalments. If it should serve that class of people effectively, it should be as close to the people as possible. From that point of view primary agricultural credit society or the agricultural multi purpose society in the tribal areas should be properly reorganised with a manager or a full time secretary, that should be the best suited agency. While it may take sometime to organise those things, there will be large areas in the country where the needs will be there but the organisation may not be asbsent. Our committee termed it as grey areas. For these areas, the state governments were asked to organise any type of suitable agency which could do it temporarily for one or two years. When the Committee made the recommendation they were under the impression that hardly one third of the country's area could be taken care of by well organised cooperative societies but at the conference held at Bangalore the conclusion was reached that nearly two-thirds of the country's area could be taken care of by such reorganised cooperative societies. The cooperative societies have got roots in the villages and will be the best agency for doing this."

4.92. Asked whether the State Governments had been advised to take steps in this direction, the representative of the Department stated:—

"Three days or four days after the Bangalore conference, in June, 1976, we communicated the decisions to the State Governments and we told them that in case where they require special assistance from the central government for the grey areas we will send central teams for assessment. For the 7 states the requirements for the grey areas had been assessed at about Rs. 27 crores, Rs. 18 crores from the centre and about Rs. 9 crores by the states, that comes to Rs. 27 crores. So far as the other areas covered by cooperatives are concerned the Reserve Bank had given guidelines for getting consumption credit from financial institutions."

4.93. Asked as to what steps had been taken by the state governments with regard to opening of fair price shops in the tribal areas where the multi-purpose societies could not be formed immediately, to meet the consumption credit requirement of tribals, the representative of the Ministry of Home Affairs stated during evidence:

> "After the Sivaraman Committee recommendations were received, we had a quick review about the programme of large size multipurpose societies. When the Sivaraman Committee was considering the problem, some States said, they would be covering the tribal areas by the end of the fifth plan. In that context, the Sivaraman Committee took the decision that for the time being, they should be advised to start their own fair price shops. But in the Chief Ministers' conference held in November last, it was felt that credit and marketing was an extremely important part of the new strategy and we cannot wait till the end of the fifth plan. So, a decision was taken that large size multi-purpose societies should be organised to cover the entire tribal areas by the end of this year itself. In the beginning of the next cooperative year, we are proposing to have the entire infrastructure of the large size multipurpose societies in all the tribal areas. In fact, a committee has been constituted with the Secretary, Rural Development, as Chairman. We have addressed the State Governments who are examining the proposals. So far about 587 large size multi-purpose societies are in various stages of formation and we are quite hopeful that all the societies will be on the ground by the beginning of May, 1977. There are a number of corporation like the Orissa Tribal Development Corporation, regional cooperative societies in Madhya Pradesh, etc. These organisations have been asked to take up this work immediately."

4.94. In November, 1977 the Ministry, however, informed that the questions of the cooperative structure in the tribal areas and the pace of setting up large sized M.P. Societies were reviewed in a meeting of Chief Ministers of seven States (Andhra Pradesh, Bihar, Madhya Pradesh, Orissa, Gujarat, Maharashtra and Rajasthan) held in September, 1976. It was agreed that instead of covering the entire tribal area by the large sized multi-purpose soceties by the end of the Fifth Plan, it should be covered latest by the end of April, 1977. The information relating to the number of large sized multi-purpose societies in the sub-plan areas is available only as on 1st April, 1977 which is indicated below:—

Andhra Pradesh	29*
Assam	10
Bihar	62
Gujarat	43

*Primary Societies of the Girijan Cooperative Corporation.

Karnataka	6
Kerala	6
Madhya Pradesh	689
Maharashtra	125
Orissa	220
Rasjathan	44
	1414

4.95. With regard to the practice of advancing of loans against the security of gold and silver, the Department in their reply (November, 1976) stated:

"According to the Report of the Expert Committee on Consumption Credit, the practice of advancing loans on the security of gold and silver, is largely prevalent in the Southern States, particularly in Tamil Nadu and Kerala. The Expert Committee, while examining the schemes pertaining the consumption credits formulated by the different public sector banks, also examined the schemes for giving consumption credit against the security of gold and silver. The Committee recommended that the commercial banks should step up their advances against gold and silver ornaments. The recommendations of the Committee have generally been accepted by the Government.

However, these schemes could only be introduced on a limited scale in branches where proper arrangements for appraisal of gold and silver ornaments safe custody, insurance cover for the ornaments, etc. could be ensured."

4.96. It has come to the notice of the Committee that the Bombay Unit of the State Bank of India have issued instructions to all the Branch Managers to introduce in 59 selected rural centres the schemes of 'Loans against brass/copper vessels|wares and 'Maintenance of Imprest Account', *i.e.*, the Branch Managers would keep an imprest amount of Rs. 250/- with them to grant clean demand loans in order to meet the seasonal consumption needs of the small and marginal farmers and villages artisans in replacement of traditional money-lenders. Under the schemes small sums of loans would be available to the eligible persons on low interest and easy repayment conditions for purposes like seasonal consumption needs, sickness in the family, sundry educational needs, natural calamities or last rites etc.

4.97. The Committee note that the Government generally accepted the recommendations of the Sivaraman Committee on Consumption Credit, as modified by the decision taken at Bangalore Conference held on the 16th June, 1976. The Committee further note that out of a sum of Rs. 170 crores required for meeting the consumption credit requirements for the year 1976-77, Rs. 115 crores were to be met through cooperative credit structure duly strengthened and the remaining Rs. 55 crores meant for the 'grey areas' out of budgetary resources of the State Governments. Since the State Governments' budgets had already been framed, the Central Government extended a loan equal to two-thirds of Rs. 55 crores to the State Governments repayable in two annual instalments, the State Governments providing the remaining one third share.

4.98. The Committee find that in order to meet the immediate consumption credit requirements of the tribal areas, large size multi-purpose societies were to be organised and as a result of decision taken in this regard in a meeting of Chief Ministers of seven States about 1414 such multi-purpose societies have been formed as on 1-4-1977. The Committee emphasize that in view of the unenviable predicament of the unorganised class of agricultural and other labourers, small farmers, etc. particularly in tribal areas, all out efforts should be made to meet their consumption credit requirements in order to relieve them from their age old sufferings at the hands of traditional money-lenders. The Committee would further like to be informed about the proposals made in setting up the multi-purpose societies in tribal areas and also the further programme for coverage of more areas by such societies.

4.99. The Committee note that on the recommendation of the Sivaraman Committee, certain commercial banks have introduced schemes of advancing money for consumption purposes against the security of gold and silver. Similarly the Bombay unit of State Bank of India have issued instructions to 59 Branch Managers to introduce in 59 selected rural centres, schemes like loans for consumption purposes against brass and copper wares and loans from 'imprest amount' of Rs. 250/- kept by the Branch Managers for the purpose. The Committee desire that the working of all these schemes should be closely watched and it should be seen how far these have become popular. As a result of the experience gained, these schemes should be extended to the rural banks branches of the commercial/public sector banks and Regional Rural Banks all over the country.

Inter-Institutional relationship and co-ordination

4.100. In paragraph 4.29 of the 62nd Report the Committee observed:—

> "The Committee 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 debts in States in the eastern region are avoided."

4.101. In their replies (October, 1974 and November, 1977) the Department of Revenue and Banking stated that the Commercial banks have started financing primary agricultural cooperative credit societies in a number of States where the concerned Central Co-operative Banks, for various reasons, are unable to meet the credit needs of these societies. This experiment was first started in 1970 in the States of Madhya Pradesh, Andhra Pradesh, Uttar Pradesh, Mysore and Haryana and has since been extended to Orissa, West Bengal, Bihar, Jammu and Kashmir, Maharashtra, Assam and Tripura. It is proposed to be extended to Rajasthan and Tamil Nadu. The recommendation of the Committee is being communicated to the public sector banks for their guidance.

The State Governments of Gujarat, Punjab and Kerala and Union Territory of Delhi and Chandigarh have indicated that there is need to introduce the scheme in their respective areas as the cooperative banks are strong enough to meet the credit needs of the agricultural credit societies.

The policies and procedures regarding agricultural financing are also reviewed by the Agricultural Credit Board in the Reserve Bank whose members, *inter alia*, include representatives from commercial banks and cooperative banks. The banks also share their experience in the periodical District and State level Co-ordination Committee meetings."

4.102. The Department was asked to state whether any specific improvement have been made by the commercial and public sector banks in financing agricultural sector as a result of the study of experiences of the cooperative banks.

The Department in their reply (November, 1976) stated:—

"The Commercial Banks have made concerted efforts to increase their lending to agriculture and other allied activities, with positive bias in favour of small and marginal farmers and agricultural labourers. The banks meet their credit requirements on the basis of the technical feasibility and economic viability of the proposal and meet their full credit requirements. These banks are financing small and marginal farmers upto specified amounts under various schemes without insisting on mortgage of land. The emphasis is on banks moving away from security-oriented lending to purposive, productive and incremental income-oriented lending. In order to induce the banks to provide more and more credit to this category of farmers, the provisions of Credit Guarantee Scheme have been liberalised so as to cover a larger number of smaller people. Banks have also started taking group guarantee in respect of loans granted to very small farmers/share croppers. In addition, public sector banks have graded interest rates according to the size of land holdings and the quantum of loan amount whereby small farmers get some concession in the interest charged from them *vis-a-vis* bigger farmers. In the districts where the scheme of differential interest rates is in vogue, borrowers eligible under the scheme are extended credit @ 4 per cent only.

With a view to cover a larger number of small and marginal farmers, public sector banks have been associating themselves in the organisation and financing of Farmers' Service Societies.

For the purpose of better supervision and proper follow-up to ensure end use of credit and effective coverage, the public sector banks have adopted selected area approach and have augmented their technical field staff."

4.103. In paragraph 4.30 of the 62nd Report *ibid* the Committee suggested that the Department should ensure that there were cordial relations and full co-ordination between the various financial agencies operating in the agricultural sector, by a periodic review of the position.

In reply (October, 1974) the Department stated:

"Apart from the co-ordination effected at the ground level in the District Level Consultative Committee meetings, in order to resolve policy issues at the National level, the Finance Minister convened two meetings in 1970 and 1973 which were attended by the representatives from Cooperatives/Commercial Banks and other allied institutions. A National Level Coordination Committee has also been set up in the Reserve Bank of India. The issues are thus being periodically reviewed."

4.104. Subsequently, in November, 1977, the Ministry of Finance informed that the R.B.I. has set up the Working Group in October, 1976, under the Chairmanship of Shri C. E. Kamath, Chairman, Canara Bank. The Group is to consider (i) if two or more institutional agencies may function in an area. If so, the measures to be taken to avoid difficulties and over-lapping; (ii) whether demarcation of areas to different agencies is desirable. If so, to lay down the basis for such demarcation and make appropriate recommendations; (iii) principles for grant of licences to Regional Rural Banks, commercial banks and cooperative banks in rural areas, to avoid overlapping and (iv) questions relating to rates of interest and security in respect of agricultural advances.

The Working Group has not yet submitted its Report.

4.105. In paragraph 4.29 of their 62nd Report the Committee pointed out that Cooperative Bank structure is weak in a number of States particularly in the Eastern States. The Committee were informed that the banks have started financing primary agricultural cooperative credit societies in a number of States where the concerned central cooperative banks are unable to meet the credit needs of these societies. The Committee further note that experiment in this regard was started in 1970, in the States of Madhya Pradesh, Andhra Pradesh, Uttar Pradesh, Mysore and Haryana and has since been extended to Orissa, West Bengal, Bihar, Jammu and Kashmir, Maharashtra, Assam and Tripura. It is proposed to extend it to Rajasthan and Tamil Nadu. The Committee suggest that on the basis of the experience gained the experiment may be extended to all other States where the cooperative structure is weak.

4.106. The Committee note that the Commercial banks have made efforts to increase their lending for agricultural and other allied activities. The banks are financing small and marginal farmers up to specified amounts under various schemes without insisting on mortgage of land. The emphasis is on moving away from security oriented lending to purposive, productive and incremental income oriented lending.

The Committee further note that the banks have started taking group guarantee in respect of loans granted to very small farmers. Banks have introduced schemes of graded interest rates according to the size of land

holdings whereby small farmers get some concession in the interest charged as compared to the bigger farmers. Public Sector Banks have also started associating themselves with and financing the newly formed farmers' Service Societies in order to provide loans to small farmers. A working group has been set up by the Reserve Bank in October, 1976 to study the problems arising out of adoption of multi-agency approach in agricultural financing. The Committee hope that the working group will complete its work expeditiously and necessary follow up action will be taken on its report.

B. Small Scale Industries Sector

4.107. The Committee in paragraph 4.42 of their 62nd Report observed that unlike other priority sectors, no guidelines had been issued by Government for lending to the small scale inaustries laying down clearly the principles and the strategy for giving of bank credit to this sector. The Committee regretted 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 or operations, reorientation of attitudes, no instructions had been issued in the matter. The delay of over two years in implementing recommendations of a high-powered Commission was sad reflection on the working of the Government Departments. The Committee desired Government to finalise their decision and issue necessary instructions to the Banks in this regard.

4.108. In their reply (October, 1974), the Department of Revenue and Banking stated:

"The Committee have observed that "unlike other priority sectors, no guidelines have been issued by Government for lending to small scale industries laying down clearly the principles and the strategy for giving of bank credit to this sector." In this connection, it may be stated, that on the basis of the report of the Committee to review the Special Credit Schemes of Banks with particular reference to their Employment Potential, commonly known as Thakkar Committee, Reserve Bank had issued guidelines to commercial banks in March, 1971, which are equally applicable to the small scale industries also. The guidelines refer, among others, to the imperative need for simplification of credit procedures, delegation of powers to the branch managers, reduction of delays in the processing of loan application to the minimum, reasonableness of interest rates, shift of emphasis from security of assets to viability of productive enterprise and counselling to small entrepreneurs. Various recommendations made in the Thakkar Committee Report have also been implemented by the public sector Banks.

As regards delay in the implementation of the recommendations of the Banking Commission, it may be stated that although the Commission submitted its report in February, 1972, the processing of the Report in consultation with the Reserve Bank of India, public sector banks and the concerned Ministries, could be started only in September, 1972 after the main report of the Commission and the reports of the five Study Groups became available in print.

The recommendations of the Banking Commission, accepted by the Government have since been brought to the notice of the commercial banks by the Reserve Bank of India."

4.109. The Committee in paragraph 4.43 of their Report *ibid* further observed that unduly long time was being taken by the banks in processing applications of small entrepreneurs and there were 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 was assured. Besides, there were deficiencies and drawbacks in the existing methods of security, margins, guarantees, interest rates, service charges etc. The Committee recommended 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.

4.110. The Department of Revenue and Banking in their reply (October, 1974), stated:

"A scrutiny carried out by the Reserve Bank of India in 63 selected branches in Delhi area in 1972 revealed that 97 per cent of the applications from small scale units were sanctioned within a period of one month of the receipt thereof. The cases of delay were mostly due to incomplete information furnished by the intending borrowers. As regards divergence in the matter of obtaining security, guarantee, margins banks do not generally reject any viable proposal merely for want of security/guarantee or inability of borrower to provide margins. In deserving cases margins are reduced or waived and even clean advances are granted. Banks also do not insist on guarantees as a matter of course. It will neither be desirable nor appropriate to standardise the terms and conditions of advances, particularly when they are flexible and relaxations are allowed in individual cases. As regards rate of interest, the public sector banks generally charge lower rates of interest from the smaller borrowers in the sector. In so far as the delays in the processing of applications and in the clearance of proposals by other agencies are concerned, the matter has been referred to the Ministry of Industrial Development for issue of suitable guidelines to such agencies, if considered necessary."

4.111. The Department of Revenue and Banking was asked to state the final action taken by them in consultation with the Ministry of Industrial Development with regard to issue of suitable guidelines to the agencies which cause undue delays in clearing the proposals of small entrepreneurs.

4.112. The Department in their reply (November, 1976), stated:

"Government from time to time, have been impressing upon the public sector banks the need for expeditious disposal of loan applications from small entrepreneurs. Instructions have been issued to public sector banks to streamline the procedure for sanction of loans and review the delegation of loan sanctioning power, so as to expedite sanction of loans to small borrowers. Government have enjoined on public sector banks to ensure that loan applications involving credit limits of Rs. 10,000 or less are finally disposed of by banks branches within a period of three to four weeks from date of receipt of such applications. In respect of scheduled commercial banks in the private sector, Reserve Bank of India have issued similar instructions (Copy of Department's letter No. 8(9)-76-Dev., dated 1st September, 1976 at Appendix VII).

In the guidelines issued to public sector banks for dispensation of credit under Half-a-Million jobs programme, it has been stipulated that such applications are disposed of as expeditiously as possible, and in any case within a period of two months from date of the receipt.

The Ministry of Industrial Development have already requested Governments of States/Union Territories to issue suitable instructions to State Finance Corporations and other State financing agencies responsible for disbursement of loans to small scale industries to ensure that the delays do not occur in clearing proposals for the grant of financial assistance to entrepreneurs."

4.113. In the Consolidated Report of the Public Sector Banks for the year ended December, 1975 it has been stated that the Small Scale Industries continued to receive liberal financial assistance from commercial banks: As on the last Friday of December, 1975, the total outstanding was Rs. 1,147.43 crores covering 2.69 lakhs units. The share of the State Bank of India Group in the total outstanding credit of Rs. 1,147.43 crores was Rs. 410.19 crores (35.7 per cent) and that of 14 nationalised banks Rs. 624.45 crores (54.4 per cent). Thus, the Public Sector Banks accounted for 90.1 per cent of the total outstanding credit to small scale industries as at the end of December, 1975 as against 89.5 per cent in December, 1974. The net increase in outstanding credit to small scale industries during the year ended December, 1975 was Rs. 130 crores. The outstanding credit of Rs. 1,147.43 crores at the end of December, 1975 formed 11.7 per cent of the total bank credit. The net increase in the number of units financed during the period under review (45,036) was higher than in the preceding year (23,702). The average amount sanctioned per unit as at the end of December, 1975 has gone down to Rs. 0.64 lakhs as against Rs. 0.68 lakh in December. 1974 indicating a continued trend towards financing smaller units by the banks.

4.114. In November, 1977 the Ministry furnished the following statement showing total outstanding advances and number of units covered in small scale industries sector by scheduled commercial bank—Bank Group-wise for the periods ending March, 1976 and March, 1977:

(Amount in Rs. Cores)

	Advances to Small Scale Industries					
	March 1976			March 1977		
Bank Group	No. of units	Amount out-standing.	Amount outstanding as % of total advances	No. of units	Amount outstanding	Amount outstanding as % of total advances
1. State Bank of India Group . .	126604	391·86	12·7	206658	479·82	12·6
2. Nationalised Banks	139623	648·52	10·4	204100	779·81	10·4
3. Other Scheduled Commercial Banks	11956	112·83	7·4	14945	143·72	7·8
All scheduled Commercial Banks .	278188	1155·21	10·6	425703	1403·35	10·7

4.115. When asked to state the progress in sanctioning and disbursement of loans to the entrepreneurs of the small scale industries by the State Finance Corporations and other State financing agencies, on the basis of instructions issued by the Ministry of Industrial Development, the representative of the Ministry of Industrial Development stated during evidence:

> "In respect of State Finance Corporations in 1975-76 there is an increase of 9.7 per cent in sanctions and 24.1 per cent in disbursements. Instructions have been issued by the Ministry to the various State Governments and also the State Finance Corporation and other agencies of the State Governments. The figures that we have received show a very good response. As far as small-scale industries are concerned, in 1974-75 5,721 units were given about Rs. 80 crores; in 1975-76 7,234 units were given Rs. 92 crores. In these matters the Development Commissioner, Small Scale Industries is in close touch with the State Director of Industries and State Finance Corporations, and the State Finance Corporation people have been in touch with the training of officers in the Corporation. Recently, there has been delegation of powers within the S.F.Cs. to their own officers. In some States where there are regional officers, they have delegated power to the regional offices and this has shown very good results."

4.116. Asked to state as to how is the coordination between the office of the Development Commissioner of small scale industries and the State Finance Corporation effected for speedy disposal of loan applications, the representative of the Ministry of Industrial Development stated:

> "The Office of the Development Commissioner is in very close touch with the State Director of Industries. Secondly, there are small industries services institute all over the country and in some States there are more than one. They are also in very close touch with the entrepreneurs as well as the State Finance Corporations. Many a time when a proposal is made to the State Finance Corporation, they would like to have some assistance to examine the technical viability of the scheme. This is done by technical personnel of the State Directorate of Industries and the Small Industries Service Institute which are set up by the Development Commissioner, Small Scale Industries Corporation.
>
> Secondly, when these applications are made, many a time there is also difficulty in assessing or findings out the credit-worthiness of the party or the reliability of the security which he

has offered. For this purpose, field staff of the State Directorate of Industries as well as the revenue staff are utilized for valuation of Property."

* * * *

"In some States there is a close liaison between the banks and the Director of Industries organisation. There were State-level coordination committee meetings every three months where the State Ministers of Industries meet the Chief executives or at least the regional managers of the banks. The staff of the Directorate of Industries was clearly told that it was their job to find out the entrepreneurs, help them fill in the forms and go to the bank manager with the form, and even the branch of the bank was mentioned.

* * * *

These bank managers as well as industries officers were given joint training by the Small Industries Extension Training Institute at Hyderabad, which is a very good institution of its type."

4.117. Asked as to how long the bank takes in giving the loan after it has been sanctioned by the Directorate of Industries, the representative of the Ministry of Industrial Development stated:

"The banks had said that they would clear the applications within three months. Where they accepted the applications and gave sanctioned loans, there was no more problem, but where applications were rejected, the cases were given back to the Directorate of Industries and a Joint Director of Industries of the region and the regional bank manager then directed to visit the spot and see if the case could be included."

4.118. The representative of the Ministry of Industrial Development furtther stated:

"The Western Maharashtra Development Corporation, Poona, and the Bank of Maharashtra, for instance, have even a joint form for disbursement of money. There is a planning commission scheme that 10 per cent has to be given by the State Government, 10 per cent to be put up by the entrepreneur and 80 per cent to be given by the bank. Here there is common documentation done by the bank, so that even the recovery of the State Government's money was done by the bank as part of the Scheme. This has also been recommended to other similar organisations.

It is a question really of coordination the operations of the Director of Industries and the banks, and where it has been done, it has not been difficult to achieve results."

4.119. When asked to state as to what steps had been taken to simplify the procedure so that the prospective entrepreneures do not have to wait for long for the grant/disbursement of loans, the representative of the Ministry of Industrial Development stated:

"As far as the simplification of procedure is concerned, forms an simplified instead of each bank having different form, a common form has been accepted in some states I agree it is not possible for each and every person to go and ask somebody to chase his case. But it must be a well-organised programme to deal with such cases. The Minister of Industries, the Director of Industries, the representative of the regional bank should meet every three months or even every month at the regional level and at the district level also. There should be a well-organised programme where the responsibilities should be fixed among the authorities concerned. The banks should say, yes or no, within a time-limit fixed. The rejected cases should be examined again by the Director of Industries. All this will give an indication of how responsive and how efficient the Directorate of Industries is in dealing with these cases."

4.120. Asked whether any decision had been taken by the Government, that the Small Scale Industries going to the backward areas, would get 15 per cent subsidy on their investment in advance, the representative of the Ministry of Industrial Development stated:

"This decision was taken by the Ministry of Industry in August and detailed instructions were issued to all State Governments. Where a State Corporation such as an Industrial Development Corporation or a Small Scale Industries Corporation or a State Finance Corporation is giving financial assistance for a developed plot or building or machinery, when they calculate the cost of the plot or calculate the hire purchase terms, 15 per cent is deducted in the beginning itself, so in effect the entrepreneur gets a 15 per cent subsidy on his investment in advance.

4.121. The Committee desired the Government/banks to examine pressed concern over the availability of finance to the handloom sector which provides extensive employment opportunities to weaker sections of society in rural areas. They noted that Sivaraman Committee was examining the credit problems of the handloom industries (including traditional handlooms) and desired that this Committee should expedite its recommendations.

4.122. The Committee desired the 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 also desired to be informed of the concrete action taken in pursuance of these recommendations within six months.

4.123. In their reply (October, 1974), the Department of Revenue and Banking stated:

"As far as the handloom industry is concerned, more important than availability of credit are factors such as regular supply of yarn, adequate marketing facilities, organisational support, etc. The High Powered Study Team for Handloom Industry (Sivaraman Committee), in its report submitted recently to the Ministry of Commerce, has examined the various problems of the handloom industry including their credit requirements. The report is still under examination of the Ministry of Commerce and final decisions on these recommendations pertaining to the banks will be communicated to them as and when these are taken."

4.124. The Department of Revenue and Banking was asked to indicate the decision taken on the recommendations of the Sivaraman Committee pertaining to the bank credit to handloom sector and its implementation. In their reply (November, 1976) the Department stated:

"The Ministry of Commerce have accepted the main recommendations of the Sivaraman Committee. The decisions arrived at the respect of each of the recommendations have been indicated in the annexure to the Commerce Ministry Resolution No. 4/59/76-T. IV, dated the 24th October, 1975. (Published in the Gazette of India, Part I, Section I, of 24th October, 1975).

In pursuance of Committee's recommendations Reserve Bank of India has already agreed that where the weakness of the Central Cooperative Bank is impeding the flow of credit to primary weavers' cooperative societies, the Apex Bank may finance such societies directly and the Reserve Bank of India will consider sanctioning suitable Limits to the banks.

Reserve Bank of India has also revised the per-loom scale of finance for working capital purposes in accordance with the recommendation of the Committee. This is likely to go a long way in meeting the credit needs of the societies.

Public sector banks have formulated special schemes for handloom weavers outside the cooperative fold and are financing them on liberal terms.

The Commerce Ministry, being the administartive Ministry, are responsible for the follow up action on the Sivaraman Committee Report."

4.125. The Committee have dealt with in some details the problems of Handloom Industry including Credit Facilities for the handloom weavers in their Report.

4.126. The Committee note that on the basis of the recommendations of Thakkar Committee, which reviewed the special Credit Schemes of Banks with particular reference to their employment potential, the Reserve Bank had issued guidelines to commercial banks in March 1971 which were also applicable to the small scale industries. These guidelines inter alia have emphasised the imperative need of simplification of credit procedures, delegation of powers to branch Managers and reduction of delays in processing of loan applications etc. The Committee also note that the recommendations of the Banking Commission (1972) as accepted by Government have also since been brought to the notice of the Commercial Banks by the Reserve Bank of India. The Committee would like the Reserve Bank and the Department to keep a close watch over the implementation of the recommendations of the Banking Commission with particular reference to those relating to the Small Scale Industries.

4.127. The Committee note that Government have been impressing upon the public sector banks the need for expeditious disposal of loan applications from small entrepreneurs. Government have in September, 1976 enjoined on public sector banks to ensure that loan application involving credit limits of Rs. 10,000 or less are disposed of by the banks within a period of 3-4 weeks from the date of their receipt. In the guidelines issued to Public Sector Banks for dispensation of credit under Half-a-million jobs programme, it had been stipulated that loan applications are disposed of as expeditiously as possible and in any case within a period of two months from the date of receipt. The Ministry of Industrial Development have also requested Government of States/Union Territories to issue suitable instructions to State Finance Corporations and other State financing agencies responsible for disbursement of loans to small scale industries and ensure that delays do not occur in clearing proposals for grant of financial assistance. The Committee emphasize that the Department should ensure that loan applications of small entrepreneurs are disposed of as expeditiously as possible, at least within the time-limit, stipulated for the purpose. . . . . . .

4.128. The Committee feel that for the purpose of speedy disposal of loan applications of small entrepreneurs, suitable measures should be evolved to establish effective coordination between the Development Commis-

sioner of Small Scale Industries, Director of Industries, State Finance Corporations, Banks and various other agencies concerned with the grant of loans. The Committee suggest that periodical meetings of the representatives of the various agencies at regional and district levels should be held to review the time taken in the disposal of loan applications from small entreperneurs with a view to ensuring expeditious disposal.

4.129. The Committee also emphasise that simplification of procedures for grant/disbursement of loans to the prospective entrepreneurs should receive continual attention so that the small borrowers have not to experience difficulties. The Department should keep under watch how far Public Sector Banks have streamlined the procedures to expedite sanction of loans to small borrowers.

4.130. The Committee note that the Western Maharashtra Development Corporation (Pune) have adopted a scheme of the Planning Commission for small entrepreneurs, whereunder 10 per cent of the cost is met by the State Government, 10 per cent by entrepreneurs and 80 per cent is given by the bank. Under the scheme the recovery of the money given by the State Government is made by the bank. The Committee desire that adoption of this scheme by other State Governments should be pursued.

4.131. The Committee note that at the end of December, 1975, the total outstanding credits given to the Small Scale Industries was Rs. 1,147 crores which formed 11.7 per cent of the total bank credit. The position as at the end of March, 1977 was that the amount outstanding increased to Rs. 1,403 crores forming 10.7 per cent of the total bank advances. The public sector banks accounted for 89 per cent of the total outstanding credit to small scale industries as at the end of March, 1977. The net increase in outstanding credit to this sector during the year ended 1975 was Rs. 130 crores and during the period January, 76 to March, 77 it was Rs. 256 crores. The number of units financed increased from 273188 at the end of March, 1976 to 425703 at the end of March, 1977. This trend indicates more financing of smaller units by the banks. The Committee desire that sincere efforts should continue to be made by the Commercial Banks to provide loan assistance to the Small Scale Industries at a larger scale so as to cover the maximum number of units.

4.132. The Committee note that the Ministry of Industry have recently taken a decision to give subsidy to the extent of 15 per cent on the investments made by the entrepreneurs on small scale industries established in backward areas. Necessary instructions in this regard have been issued to the State Governments. The Committee hope that the implementation of this measure will give fillip for establishment of industries in backward areas, and help their development. The Committee, however, desire that

progress made in this regard may be kept under watch with a view to taking further necessary steps.

C. Professionals and Self-employed Sector and Other Priority Sectors

4.133. The Committee in paragraphs 4.52 and 4.53 of their 62nd Report observed that guidelines issued by the R.B.I. in March, 1971 for giving finance to professionals and self-employed sector 'have been taken up for implementation by the banks' with some modification in the guideline for providing technical assistance in an integrated manner.

4.134. The Committee expressed their unhappiness that the banks had taken more than three years in implementating the guidelines. They emphasised that the nationalised banks had a crucial role to play in helping to generate more productive and viable employment. They expected the Banks and the Department to ensure that the guidelines were fully implemented with a sense of urgency and the scope of self-employment schemes was widened. The Committee desired 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.

4.135. In their reply (October, 1974) the Department of Revenue and Banking stated:—

> "The guidelines were issued to indicate broadly the areas/aspects which should receive the attention of the banks. The action to implement the guidelines is a continuous process. Although banks initially evolved certain basic schemes for financing different categories of borrowers, new/modified schemes are evolved by them to meet the requirements of specific groups of borrowers from time to time. With the in-depth studies of compact areas now being carried out by the banks, additional schemes may emerge. The Regional/Head Offices of the banks make a periodical review of the progress made in extending credit under the various schemes. Apart from the fact that the conceptual problems in such estimation are difficult to solve, it will also put an enormous workload on the branches and the Regional/Head Offices to maintain data of the type suggested by the Committee. Sample studies of the contribution made by banks for development of specific areas could be made instead in due course."

4.136. The Department was asked to state whether any sample studies of the contribution made by the banks for development of specific areas has been undertaken.

4.137. In their reply (November, 1976) the Department of Revenue and Banking stated that most of the public sector banks had undertaken sample studies to assess the impact of bank credit on specific schemes formulated by them. While undertaking assessment of the impact of bank credit on agricultural borrowers, banks reviewed, among other things, the progress achieved under the Scheme, the effectiveness of the adopted strategy for the implementation of the Scheme, and whether implementation of the scheme led to improvement in production and productivity, intensity of cropping, better agricultural practices and additional income.

4.138. The sample studies invariably revealed that higher incremental income had accrued to the borrowers. The sample study conducted by Central Bank of India to assess the impact of bank finance on small and marginal farmers in East Champaran and Vaishali district of Bihar revealed that the beneficiaries in East Champaran and Vaishali brought as much as 74 per cent and 37 per cent respectively of their land under irrigation through schemes financed by the bank. The resultant higher incremental income enabled the beneficiaries to acquire additional farm assets. Some of the studies have highlighted the income of marginal farmers from farming by taking up other subsidiary occupation like dairy, piggery etc.

4.139. Another important conclusion emerging from these studies is that in order to discourage the borrowers to spend the additional income on avoidable consumption purpose, the borrowers farmers should be prevailed upon to open savings bank accounts with the bank as an integral part of the scheme.

4.140. Banks take suitable remedial measures to overcome the difficulties highlighted in the findings and suitably modify their schemes in the light of experience gained.

4.141. Asked about the details of employment oriented schemes by the banks Secretary (Banking) stated during evidence:—

"All the banks have formulated employment-oriented schemes for the benefit of the educated unemployed. Salient features of the scheme are:—

(i) Schemes for engineers and highly qualified technologists whose names have continued on live register of the employment exchange on first priority basis.

(ii) Training of scheduled castes/tribes etc. for government jobs, where reserved quotas are unfilled.

(iii) Training for guaranteed employment opportunities in non-government sector.

(iv) Training for self-employment.

(v) Promotion of individual/cooperative self-employment ventures with seed capital/margin money/share capital assistance.

(vi) Establishment of industrial/commercial estates.

Some of the salient features of the Employment Oriented Credit Scheme as formulated by the banks are:—

(a) Need-based finance.

(b) Concessional rate of interest.

(c) Guarantees and margin waived in the deserving cases.

(d) Reduced margins which are also waived in deserving cases.

(e) Liberalised repayment schedules.

(f) Linking of credit facilities with special emphasis on employment of educated unemployed.

Some of the examples of these schemes are:—

(i) Scheme for entrepreneurial training and financing unskilled unemployed youths.

(ii) Scheme for financing professionals, such as doctors etc. in setting up their establishments.

(iii) Financing controlled cloth establishments to be run by educated youths.

(iv) Financing road transport.

(v) Financing industrial estates for setting up industries by technicians entrepreneurs/educated youths.

(iv) Financing ancillary industries to be set up by engineers/other technical entrepreneurs.

(vii) Scheme for setting up of Agro Service Centres by educated youths.

(viii) Manufacture of leather goods including chappals, fancy goods, etc.

(ix) Financing power looms, hosiery units, electronics items, manufacture of dry cells, paints etc.

This list is an illustrative and not exhaustive one. The banks continuously monitor the progress of these schemes in terms of the borrowal accounts and the amounts outstanding. Quarterly returns are asked for from the various banks by the Banking Department. We have observed that the number of applications received and the amounts outstanding are constantly increasing over the years."

Half-a-million Jobs Programme

4.142. In paragraphs 4.60 and 4.61 of their 62nd Report the Committee observed:—

"The Committee note that the banks were first advised by the Department in June, 1973 to involve themselves in 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."

"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 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 at least 3.75 lakhs schemes in 1974-75 and laying a sound condition for accelerating the pace of implementation in succeeding years."

4.143. In their reply (October, 1974) the Department of Revenue and Banking stated:

"The public sector banks have been extending credit support in an increasing measure for professional and self-employed ventures ever since nationalisation. Towards this end, the banks have formulated special schemes, e.g., the BINEDS Programme of Bank of India, NAYE Programme of Punjab National Bank, the MSA Scheme of Bank of Baroda, the self-employment Clinics of the Syndicate Bank and so on. The credit extended for such ventures generally figures under the appropriate priority sector categories including the category entitled "professional and self-employed."

The objective of these schemes for which the banks have already been extending credit and the Half-a-Million Jobs Programme for which the banks are now required to extent support are the same, *viz.*, increasing employment opportunities through promotion of self-employment ventures. The only difference is that under the Half-a-Million Jobs Programme, the State Governments take the initiative for locating the entrepreneurs, given them training where necessary and also provide seed money

The banks were first brought into the picture in regard to this scheme in June, 1973 and detailed guidelines were issued to them in September, 1973 regarding speedy disposal of loan applications, charging of reasonable rates of interest, providing for liberal margins etc. Necessary arrangements have also been made to review the performance of the banks every quarter. Though the performance of the banks in extending credit support for self-employed ventures as a whole can be considered to be quite encouraging, it is true that the progress achieved in lending support so far for Half-a-Million Jobs Programme specifically has not been quite satisfactory.

While evaluating the performance of the banks in extending support for the Half-a-Million Jobs Programme, however, it has to be noted that the banks come into the picture only after the State Governments have identified the entrepreneurs, given them training wherever necessary, satisfied themselves about the feasibility of the proposal and also regarding the arrangement for the supply of inputs, marketing of products, availability of infrastructure, etc. and referred the applications to the banks. The year 1973-74 was utilised by the State Governments largely in initiating these schemes, selecting trainees and so on and thus there was not much that the banks could have possibly done at that stage. The question of their contribution towards financing the projects would arise only after the preliminary stage of equipping the entrepreneur with the necessary training etc. is over. Thus the demand for bank funds under the scheme would arise with a certain amount of time lag.

In their quarterly progress reports received so far, the banks have highlighted some typical difficulties that they have come across in extending assistance for this programme. These difficulties refer to such aspects as incomeplete information being furnished in the applications, inadequate arrangements for the supply of raw materials, marketing of products, etc. and in some cases lack of interest and enthusiasm on the part of entrepreneurs themselves. A study recently conducted by one of the field officers of the RBI also revealed that a large number of proposals received suffered from one or more of the following short-comings:—

(i) Projects conceived were not found to be quite feasible.

(ii) Application forms were filled up in a perfunctory manner and did not contain even the minimum information.

(iii) Applicants were ineligible for assistance under the scheme.

(iv) Some of the applicants had submitted schemes for manufacturing sophisticated items without having the basic technical knowledge.

(v) Many of the applicants did not turn up at the bank despite reminders and some were not even traceable at their given address. Some of the applicants were ignorant about their own schemes.

(vi) Projects are not viable.

Most of these lacunae can be removed with proper coordination between the concerned State Government Departments and the banks. Towards this end, the banks have been recently advised to set up special cells in their Head Offices and also in those States where the banks have a good net work of branches, to review and guide the implementation of the programme and also for maintaining close liaison with the concerned State Government Departments."

4.144. With regard to advances granted under the Half-a-Million jobs programme and other Self employment Schemes, in the Consolidated Report of the Public Sector Banks for the year-ended December, 1975, it has been stated that the public sector banks continued to assist the educated unemployed to set up their own ventures during the year under review, in accordance with the guidelines issued by the Central Government in 1973-74. Besides, they have been extending credit facilities under their own schemes, for professional and self-employed persons. The progress in both cases has been encouraging. Upto the end of December, 1975, public sector banks received 81695 applications under the above programme, of which 37810 were sanctioned and 11048 were pending consideration. The amount of advances outstanding as on the above date was Rs. 48.81 crores. According to a note furnished by the Department of Revenue and Banking, the position at the end of June, 1976 was that 99887 applications were received, 50578 (50.6 per cent) were sanctioned, 39596 applications (39.7 per cent) were rejected and 9713 (9.7 per cent) were pending. The amount of advance out-standing was Rs. 61.26 crores. The position as at the end of March, 1977 was that 129105 applications were received, 72730 (56.3 per cent) were sanctioned, 47690 (37.0 per cent) were rejected and 8685 (6.7 per cent) were pending. The amount of advance out-standing was Rs. 84.06 crores.

4.145. With a view to mitigating the burden of interest payments on loans availed of by engineering entrepreneurs, who after receiving training at institutions approved by the Central Government set up their own small scale industrial units, Government formulated the Engineering Entrepreneurs Training Programme (interest Subsidy) Scheme. Under this scheme, the entrepreneurs will be entitled, on their fulfilling certain conditions, to a subsidy from Government in respect of the difference between the normal interest charged by banks and 7 per cent. The subsidy which is limited in any one case to Rs. 20,000 per annum will be available for a period of three years (five years in the case of units set up in specified backward areas).

4.146. The Committee in paragraph 4.69 of their 62nd Report *ibid* observed that though the various schemes devised by the banks were stated to have been advertised, there was likelihood that many people in different parts of the country may not still be aware of the schemes and may not be taking full advantage of these Schemes. The Committee desired that wider publicity should be given to these Schemes. The Department informed (October, 1974) that the observations of the Committee were being communicated to the banks for their guidance.

4.147. During the evidence of the representatives of the Department of Revenue and Banking when asked to state what steps had been taken by the banks with regard to wide publicity of schemes so that the eligible people in remote rural areas take full advantage thereof, the Secretary (Banking) stated:

> "Almost every bank has brought out a brochure. Many of these brochures are very well written and illustrated and are printed in English and other regional languages. I would say that banks are not shy of publicity. Apart from advertising, they distribute leaflets and brocheures, they display posters, quite often they exhibit slides and films which are in English and other regional languages; they organize and participate in exhibitions and melas. Some banks have been active in

organizing puppet shown in the rural areas. Apart from these, branch managers and field staff go round the villages and propagate their various schemes. A concerted effort is being made through various audio-visual media to educate the people on, and apprise them of, the various schemes which the banks have."

4.148. The Committee note that for giving loans to "professionals and self-employed" sectors, banks have formulated various employment oriented schemes. Besides, the banks were involved in the "Half-a-Million Job Programme" being implemented by the Planning Commission since 1973. Under the two programmes up to the end of June 1976 the public sector banks received 99887 applications out of which 50578 applications (50.6 per cent) were sanctioned, 39596 applications (39.7 per cent) were rejected and 9713 applications (9.7 per cent) were pending. The amount of advances oustanding as on that date was Rs. 61.26 crores. The relative figures as at the end of March, 1977 show that the banks received 129105 applications out of which 72730 (56.3 per cent) were sanctioned, 47690 (37 per cent) were rejected and 8685 (6.7 per cent) were pending. The amount of advance outstanding increased to Rs. 84.06 crores. The Committee are disappointed over the results of the implementation of the schemes. Considering the magnitude of unemployment amongst educated, professionals etc., the Committee feel that sanction of 72730 applications during the past several years is not enough and would not make a significant dent on the problem. In view of the increasing numbers of unemployed persons, engineers, doctors and other professionals, banks should play a catalytic role in promoting self-employment and meeting the loan requirements of this sector. More positive and determined measures by the banks are necessary to increase the contribution to this sector.

4.149. The Committee understood that the public sector banks have undertaken sample studies to assess the impact of bank credit on specific schemes formulated by them. But such studies have been made to assess the impact of bank credit on agricultural borrowers. The Committee desire that the public sector banks should undertake sample studies to assess the impact of bank credit in respect of various schemes formulated under the "professional and self-employment" sector and "Half-a-million job Programme". The sample studies should particularly look into the reasons for high rate (39.7 per cent) of rejections of applications with a view to evolving remedial measures. It should also be examined how far difficulties experienced in the past in extending credit assistance under half-a-million jobs programme are continuing and what further steps are necessary to resolve them and establish proper coordination with the State Governments who sponsor the applications under the scheme. The Committee

suggest that these studies should be initiated immediately. The Committee also desire that the banks should review the arrangements made for giving publicity to the various employment oriented schemes with a view to ensuring that the information reaches even the remote areas of the country.

CHAPTER V

RECOVERY OF ADVANCES AND CREDIT GUARANTEE SCHEME

A. Recovery of advances

5.1 In paragraphs 5.5 and 5.6 of their 62nd Report, the Committee observed that as at the 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. Though no assessment of the extent of defaults or bad debts under various sectors, had been made by Government, no difficulties were expected in recovery as the advances were secured by tangible security or covered under the credit guarantee schemes. So far 59 cases involving an amount of Rs. 2.01 lakhs were stated to have been referred by banks to Credit Guarantee Corporation for compensation.

5.2. The Committee however, cautioned the banks and the Department that they were custodians of public money and should not lightly compromise the chances of recovery. The Committee recommended 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.

5.3. In their reply (October, 1974) the Department of Revenue and Banking stated:—

> "The present arrangements provide for periodical assessment of individual advances at branch level itself. Reports of irregular or overdue advances are furnished by the branches to the regional/head offices of the banks. The position of irregular/overdue advances is also periodically placed by the respective banks before their Board of Directors. Action is initiated to regularise/recover these advances and progress made in this regard is kept under constant watch by the regional/head offices of the banks. Side by side, an assessment of the quality of the advances is also made by the Iuternal Inspectors/Statutory Auditors of the banks. The banks take follow up action on the basis of the findings of such assessments. In

addition, the Reserve Bank also makes an assessment on the basis of its inspections, and on the basis of reports of Statutory Auditors and other information available to it periodically.

The machinery for processing of proposals and for supervision/review of advances is also constantly reviewed and steps are taken to plug loopholes wherever necessary. Due attention is paid by the banks to the suggestions made by the Reserve Bank/Auditors in this regard."

5.4. In paragraphs 5.7 of their Report *ibid* the Committee desired Government to critically examine the position in the review meetings with the banks 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.

5.5 In their reply, the Department of Revenue and Banking stated:—

"The findings of the Reserve Bank's inspections mentioned in reply to Recommendation No. 84, Para 5.6, are discussed by the Reserve Bank with the management of the Bank concerned with a view to taking such remedial measures as may be necessary. As suggested by the Committee, the recovery position will be critically examined at the review meetings with the bank management."

5.6. In paragraph 4.7 of their 62nd Report also, while expressing concern over the fact that the recovery of agricultural credit was only to the extent of 50.7 per cent, the Committee sought to know the reasons why this could not be improved upon by more efficient linking of recovery with the sale proceeds of products and a more careful scrutiny of applications at the initial stage and a closer follow up till the money was recovered.

5.7. The Department in their reply (October, 1974) stated:—

"By and large, recoveries have been poor in respect of loans disbursed in 1969-70 on account of scattered, unplanned and unsupervised lending. The commercial banks have since adopted an 'area approach' taken to more careful scrutiny of applications, and ensuring the end-use of credit and follow up of recoveries at the time of harvesting of the crops. The commercial banks have increasingly become aware of the need for supervising credit. With the implementation of the Talwar Committee recommendations by the State Governments and introduction of simplified recovery procedures in different States, the position of recoveries could be expected to show improvement in future. Government are also now bringing the recommendations of the Estimates Committee to the notice of the public sector banks and emphasising the need for better performance in this field."

5.8. The Department was asked to intimate the present position with regard to the implementation of the Talwar Committee Report by the State Governments and the improvements effected in the recovery of agricultural credit. The Department in their reply (November, 1976) stated:—

"So far eleven State Governments, namely, Haryana, Himachal Pradesh, Madhya Pradesh, Maharashtra, Meghalaya, Orissa, Karnataka, Rajasthan, Tripura, Uttar Pradesh and West Bengal have enacted legislation on the lines of the Model Bill. Government of Bihar have issued Ordinance in this regard.

Government of Manipur have passed the Bill. President's assent has been communicated to the State Government. Government of Assam proposed to issue Ordinance in this regard.

Government of Andhra Pradesh, Gujarat and Punjab furnished their views on the Model Bill. The matter was clarified and the position suitably explained. Similarly Government of Kerala have expressed their views on the Model Bill. The matter is being examined by this Department in consultation with the RBI.

Other State Governments are examining the Model Bill. The matter is being pursued with them."

5.9. Asked whether any noticeable improvements have been made in the recovery of agricultural credit as a result of the enactment of legislations in this regard by the State Governments and introduction of simplified recovery procedures, the Secretary (Banking) stated during evidence:—

"Most of the States which have enacted the legislation have done so very recently. As such, I do not think it will be possible to notice any improvement immediately as a result of this legislation. By and large where the loan is given for productive purpose and its use is supervised, the recovery is being effected. The fact that the States have enacted the legislation will give further ability on the part of the banks to use the facility of this legislation to effect recoveries."

5.10. Asked whether any measures were taken to improve the recovery position of overdue advances, the Secretary (Banking) stated during evidence:—

"The present arrangements provide for periodical assessment of individual advances at the branch level itself and reports of any irregularity/overdue advance are furnished to the head office. To avoid this there are two or three checks. First is the internal audit of the banks itself. They themselves look into the overdue position. Secondly, all the banks are subjected to statutory audit and the statutory audit comments upon the figure. Finally, the Reserve Bank's inspection reports also pay specific attention to this position. We have certain data specifically which we have collected about the quantum of overdues with regard to the Differential Interest Rate scheme and I would say considering the type of loan—it is a new activity—the recovery position is fairly satisfactory."

5.11. Asked as to what was the percentage of overdue recoveries, the Secretary (Banking) stated that under the D.R.I. Scheme as on June 1976 the overdue amount as against outstanding amount was 15.2 per cent.

5.12. Asked to state the procedure adopted by the nationalised banks/co-operative banks to verify the bonafides of the loanees, the Ministry stated in a note furnished in November, 1977 as follows:—

"Commercial banks verify the bonafides of the loanees by making informal enquiries through their field staff and calling for original documents/records such as title deeds, extracts from land records etc.

As regards Co-op. Banks, the societies prepare credit limit statements which are treated as the loan applications of the borrowing members and obtain their signatures/thumb impressions and forward them to Central Co-op. Banks. These statements provide details of all lands proposed to be cultivated by each member for determining his credit eligibility. Afterwards the societies prepare drawal applications and obtain signatures/thumb impressions of the members and forward the same to the concerned central co-operative banks which satisfies itself that the amount indicated for drawal against each member is not more than what is given in the credit statement approved by it and also verifies the signatures with those obtained in credit limit/drawal applications.

As regards land development banks, the loanees is required to become its member and produce a khasra extract along with loan application as evidence of his title to the land proposed to be mortgaged as security for the loan. Other particulars e.g. title deed, "No Dues" Certificate from the branches of Commercial banks operating in the area, details of income and expenditure, etc. are also obtained from the applicant. The bank obtains a technical/public enquiry report based on the spot verification and gets the applicant's title to the land examined by its legal adviser.

B. Credit Guarantee Scheme

5.13. In paragraph 5.15 of their 62nd Report, the Committee observed that the 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. 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 felt that the scope and coverage of the Corporation needed 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, recommended 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.

5.14. The Department of Revenue and Banking first informed (in October, 1974) that the recommendation of the Committee was under consideration in consultation with the Ministry of Industrial Development and the Reserve Bank of India and the action taken would be reported in due course.

5.15. The Department later (in April, 1975) informed:—

"The working of the Credit Guarantee Corporation of India is reviewed by Reserve Bank of India periodically with a view to extending the scope and coverage of the Corporation consistent with the policy of encouraging bank assistance to weaker sections and suitable modifications are made in the policy from time to time. Thus, substantial liberalisation of the ceiling limits for the coverage of the loans by the Corporation was introduced with effect from 1st January, 1972. For example, in the case of farmers and agriculturists, ceiling limits earlier prescribed for loans to be covered under the Corporation scheme, have been removed. The scope of the scheme has also been extended to cover all loans granted after 1st March, 1973 under the Differential Interest Rate Scheme as well as all loans granted by non-scheduled commercial banks with effect from 1st April, 1974. In addition to these liberalisations, some incentives have also been provided for the grant of loans to weaker sections of the community. Hypothecation charges are waived where the loan does not exceed Rs. 2,000/- and stock statements, insurance of stocks and periodical inspections are not insisted upon where the loan does not exceed Rs. 10,000/-. Since October, 1972, unsecured loans covered by the Corporation are not reckoned as unsecured loans for the purposes of norms in regard to the grant of unsecured loans. Advances to the level of Rs. 20,000/- covered by the Credit Guarantee Corporation have been exempted from directives in regard to selective credit controls. All advances and other credit facilities covered by the Corporation are also exempt from the RBI directive regarding minimum lending rates. In case any advance to an industrial unit guaranteed by the Corporation is to be refinance to the lending institution by drawing funds from the Industrial Development Bank of India, a concessional rate of interest at 7 per cent as compared to the IDBI's normal rate of 8.50 per cent for other advances, is made applicable. These changes in the scope and coverage of the programme, over the last few years, have resulted in substantial increase in the volume of loans and advances granted by the commercial banks and covered by the Credit Guarantee Corporation.

In so far as the Committee's recommendation to bring the credit guarantee scheme for small scale industries administered by the RBI within the ambit of the Credit Guarantee Corporation is concerned, the matter is under consideration in consultation with the Ministry of Industry and Civil Supplies and the Reserve Bank of India."

5.16. The Department of Revenue and Banking was asked to intimate the final decision taken by the Government for bringing the credit guarantee scheme for small scale industries, administered by the Reserve Bank of India, within the ambit of the Credit Guarantee Corporation. The Department in their reply stated:—

"The recommendation of the Committee has been considered in consultation with the Ministry of Industrial Development and the Reserve Bank of India. There are certain practical difficulties in implementing this recommendation which are listed below:—

The guarantee fee charged under the credit guarantee scheme for small scale industry administered by the Reserve Bank of India is 1/10th of 1 per cent whereas it is ½ per cent for other schemes in the priority sectors covered by the Credit Guarantee Corporation. There is apprehension that the merger of the scheme would lead to enhancement of the guarantee fee charged for small scale industries which would adversely effect the interest of such industries.

The amounts guaranteed under the Credit Guarantee Scheme for small scale industries are subject to a limit of Rs. 10 lakhs (Rs. 7.5 lakhs for working capital loan and Rs. 2.5 lakhs for term-loan). In the case of the schemes for small borrowers in the other priority sector categories, which are covered by Credit Guarantee Corporation, this limit is very much lower, and varies from borrower to borrower depending upon the nature of the scheme. While guarantee under the Credit Guarantee Scheme for Small Scale Industries at present is automatic, it is not so in the case of guarantees under Credit Guarantee Corporation. It would be rather difficult to prescribe a uniform procedure for extending guarantee cover in the case of merger because the scope and coverage of the two guarantee schemes vary considerably.

In view of the above difficulties, it is not considered necessary to pursue, at this stage, the proposal for merging the Credit Guarantee Scheme with Credit Guarantee Corporation."

5.17. During the evidence, ruling out the apprehension that the merger of the schemes would lead to enhancement of the guarantee fee charged from small scale industries, the Secretary (Banking) stated:—

"This question of merging of credit guarantee scheme operated by the RBI on behalf of the Ministry of Industrial Development and the Credit Guarantee Corporation has been considered in consultation with the RBI and the Ministry of Industrial Development. Today, the Credit Guarantee Corp. charges a guarantee fee of ½% whereas the guarantee fee in respect of the Credit Guarantee schemes is 1/10%. There is no reason, why if there was a merger, you cannot have two rates, because any insurance company can have two different rates taking into account the risk factor. In both the cases $\frac{1}{2}\%$ and $\frac{1}{10}\%$ fee is supposed to be paid by the bank and not by the borrower. The viability of the Credit Guarantee Corp. has to be kept in mind. I would see no harm in there being two rates and there is no need for this apprehension that the merger would lead to enhancement of guarantee fee. It also depends on the claim experience of the two and claim experience of th Credit Guarantee Corp. would seem to indicate that the rate of $\frac{1}{2}\%$ is reasonable."

5.18. The Committee note that for the purpose of recovery position in the agricultural sector the commercial banks have adopted 'area approach' with more careful scrutiny of applications at the initial stage, ensuring end-use of credit and follow up of recoveries at the time of harvesting of the crop. The Committee have been informed that with the implementation of the Talwar Committee recommendations by the State Governments and introduction of simplified recovery procedures in different States, the position of recoveries is expected to show improvements in future. In pursuance of the recommendations of the Talwar Committee, most of the States have already enacted legislation on the lines of the Model Bill. The Committee desire that the State Governments which are in the process of reviewing the Model Bill based on the Talwar Committee recommendations, may also be persuaded to initiate legislation at the earliest.

5.19. With the enactment of legislation by the State Governments, the Committee hope that the banks will spare no efforts to recover the outstanding dues. The Committee desire that the improvements effected in recovery should be kept under constant watch.

5.20. The Committee in paragraph 5.15 of their 62nd Report had recommended that the Government should immediately have a review of the working of the Credit Guarantee Corporation in order to enlarge its scope and coverage and bringing the credit guarantee scheme for small scale industries administered by Reserve Bank of India within its ambit. The matter was considered in consultation with the Ministry of Industrial Development and Reserve Bank of India and it was not considered necessary to pursue the proposal in view of two difficulties. Firstly, if the Credit Guarantee Scheme administered by the Reserve Bank of India is brought within the ambit of the Credit Guarantee Corporation, the lower rate of guarantee fee at present charged by the Reserve Bank of India at 1/10th of 1% might have to be enhanced to $\frac{1}{2}\%$ charged by the Credit Guarantee Corporation, which would adversely affect the interest of small scale industries. Secondly the procedure followed in the two schemes was not uniform. While the guarantee under Credit Guarantee Scheme for small scale industries is automatic, it is not so under Credit Guarantee Corporation. The

Secretary (Banking) during the evidence expressed the view that even after the merger of the two Schemes, both the rates of guarantee fee could co-exist and that there was no need for apprehension that merger would lead to enhancement of guarantee fee. The Committee, therefore, reiterate their earlier recommendation and desire that the whole matter should be re-examined with a view to bringing about the credit guarantee scheme administered by the Reserve Bank of India for small scale industries, within the ambit of the Credit Guarantee Corporation. The Committee would like to be informed about the outcome within six months.

CHAPTER VI

MANAGEMENT AND CONTROL

A. Working results of Banks

6.1. In paragraphs 6.7 and 6.8 of their 62nd Report the Committee observed that during the 3½ years period after nationalisation i.e. from July, 1969 to end of 1972 the nationalised banks had 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.

6.2. The Committee further observed that due to social obligations after nationalisation, Government expected a return of 5.5 per cent from the nationalised banks. While the Committee recognised that the social obligations enjoined on banks were a constraint on earning possible profits, they feel that there was considerable scope of reducing servicing costs of the banks by better management and rationalisation of staff. There was also scope to instil a greater degree of cost consciousness among the nationalised banks and to bring about substantial cost reduction in their establishment, overtime and other expenses. The Committee desired the matter of cost reduction to be gone into in earnestness with a view to seeing that the banks provide a worthy example of efficient and economic functioning in the interest of husbanding resources for national development. The Committee emphasised that it was necessary for the banks to keep the 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. were commensurate with the workload and the resources generated.

6.3. In their reply (October, 1974) the Department of Revenue and Banking stated that the Government accepted the need for a continual review of the costing of various activities of the banks. On the basis of the findings of a cost sutdy on the structure of costs and pricing of banks' services, the Banking Commission had also recommended that such studies should be undertaken on a regular basis so as to help the authorities to evlove standards for various jobs, facilitate cost control and rationalise service charges. These recommendations had also been accepted by the

Government and the Reserve Bank of India was asked to initiate steps to continue such studies and undertake research in the areas suggested by the Commission.

6.4. The Consolidated Report of the Public Sector Banks for the year ended December, 1975 shows the working results of the nationalised banks as follows:

"The summary position of the paid-up capital, reserves, deposits advances, income, expenditure and published profits of the nationalised banks for the years 1973, 1974 and 1975 as per published accounts is given in the following table:

14 NATIONALISED BANKS

(Rs. in Crores)

	1973	1974	1975
1. Paid up Capital	31·00	31·00	31·00
2. Reserves	51·98	58·14	70·27
3. Deposits	6270·43	7238·10	8827·27
4. Advances	4123·06	4792·09	6026·08
5. Income	488·67	681·94	852·28
6. Expenditure	470·18	658·96	829·04
7. Published Profits	18·49	22·98	23·24
	(0·27)	(0·28)	(0·24)

Appropriation of Profits

6.5. For an overall appreciation of the working results of the Nationalised banks, the appropriation made from profits for the years 1971 to 1975 are indicated below:

Fourteen Nationalised Banks : (Rs. in crores)

	1971	1972	1973	1974	1975
1. Balance of profits transferred to Govt. (in terms of Section 10(7) of the Banking Companies (Acquisition & Transfer of Undertakings Act) 1970	4·43	4·18	3·53	3·96	4·35

6.6. It has been stated in the Consolidated Report that the profits of the nationalised banks, as a percentage of working funds, have declined in 1975 mainly due to the rate of increase in expenditure being higher than the rate of rise in income. The profits position of these banks has to be viewed in the context of the overall expansion in their activities and coverage over the last five years. The new offices opned by the public sector banks in rural, semi-urban and hitherto unbanked centres will take some more time to break-even. Further the banks have made available credit facilities to weaker sections of the society at low rates of interest. Banks have also taken up several development activities which involve sizeable addition to staff, cost of training, expenses over a much larger number of advances and lower returns.

6.7. The representative of the Reserve Bank stated during evidence:

"In the Reserve Bank, we had taken a sample survey of some of the branches working at a loss. This was done about two years back. On that basis we issued instructions or guidance to banks as to what are the improvements that could be brought about in the functioning of these branches. As and when our officers go and inspect the branches in an area or a centre, they discuss the problems of these branches with them and advise them what could be done to improve their functioning.

6.8. Elaborating the point further, the Secretary (Banking) stated during evidence:

"Apart from the visits of Officers of the Reserve Bank, the banks themselves periodically get reports from their branches about their functioning. No body wishes to have a large number of branches making losses. Therefore, in their own interest, the banks get the periodical reports as to how the new branches opened by them are operating and take corrective measures."

6.9. The Committee note that the profit of nationalised banks as percentage of working funds which was 0.27 per cent in 1973 and 0.28 per cent in 1974 declined to 0.24 per cent in 1975. The decline has been attributed due to the rate of expenditure being higher than the rate of rise in income. The higher rate of expenditure is stated to be due to opening of new banks offices in rural, semi-urban and hitherto unbanked centres which would take sometime to break even and other development activity undertaken by banks which involved expenditure on additional staff and their training as also expenses over a large number of advances with lower returns. The Committee feel that with better management techniques and rationalisation of staff, the servicing costs could be considerably reduced by the banks. It is imperative that cost consciousness should be continuously instilled in the bank staff at all levels. The Committee cannot over em-

phasise that it is of utmost importance that the banks exercise maximum economy in their operations so as to keep overheads and establishment charges to the minimum. They would like the banks to undertake continual review of the costs of various activities so that effective measures could be taken to bring down the costs wherever possible.

6.10. The Committee note that the Banking Commission has recommended regular studies to evolve standards for various jobs, facilities control and rationalise service charges etc. The Committee have been informed that the Reserve Bank of India has taken up a sample survey of some of the branches working at a loss. The Committee desire that effective steps should be taken to evolve the standards and norms suggested by the Banking Commission at the earliest. They would further like that the standards and norms should be reviewed periodically in the light of experience gained.

Borrowing and lending rates of interest

6.11. The Committee desired to be furnished with a note on the difference between rates of interest applicable for borrowing and lending by the public sector banks and the reasons therefor, and also the international norms in this regard. The Department in their reply (May, 1977) stated as follows:

> "The maximum rates of interest payable by all scheduled commercial banks, including the public sector banks, on deposits of different types and of varying maturities are stipulated, by the Reserve Bank of India. All banks pay the maximum rates stipulated by the Reserve Bank. Currently the interest rates on deposits payable by the public sector banks range from 3 per cent annum for deposits of 15 days to 45 days to 10 per cent per annum for deposits of over 5 years. The savings deposits carry a rate of interest of 5.00 per cent per annum. Current accounts carry no interest. The current interest rate schedule applicable to the deposits of varying maturities is at Appendix—VIII.

6.12. The overall lending interest rate structure of the banks takes into account such factors as the cost of mobilising resources, which in turn depends on the types of deposits and their share in the aggregate resources, the quantum of borrowers funds and interest payments thereon, the operational costs of the banks which covers a host of items such as salary structure in the bank, the size of borrowal accounts, the number of branches opened in discharge of socio-economic responsibility which may be uneconomic respaonsibility for longer than the average gestation period and so on. So far as the actual lending rates are concerned, these vary not only from bank to bank but also from account to account depending on considerations such as the purpose of the advance, the capacity of the borrowers, security offered, expectation of ancillary business etc.

6.13. The Reserve Bank of India have, however, prescribed a minimum lending rate (with certain exemptions) which is currently at 12.5 per cent per annum and a maximum lending rates which is currently at 16.5 per cent per annum except on advances to exporters and those covered under the Selective Credit Control mechanism. (The maximum ceiling rate is not applicable to banks having Demand And Time Liabilities of less than Rs. 25 crores, while for those having Demand and Time Liabilities between Rs. 25 crores and Rs. 50 crores the maximum rate is 17.5 per cent.)

6.14. Categories of advances exempt from the minimum lending rate stipulations are advances to banks own employees, inter-bank advances, advances under DRI scheme, advances against approved securities, advances against deposits with the banks, advances for exports, advances for food procurement operations, loans and advances covered by the schemes of Credit Guarantee Corporation (subject to the condition that in the field of agriculture and allied activities the total borrowing limits of one party from one bank should not exceed Rs. 50,000), advances to small-scale industries (subject to one unit having a limit of not more than Rs. 2 lakhs from one bank), loans and advances refinanced by the IDBI which are subject to a ceiling and loans and advances given by the banks on refinance from the ARDC.

6.15. Available date relating to the average cost of funds and average interest charged on loans and advances by the public sector banks available for the year 1975 show that while cost of funds collected in the form of deposits and borrowing ranged from 5.6 per cent to 6.6 per cent, the average interest earned by these banks on their loans and advances ranged from 13 per cent to 14.3 per cent per annum.

6.16. The range set out above only indicates the spread between cost of deposits and borrowings and return of loans and advances which constitute only 61 per cent of their deposits and borrowings. The spread does not, therefore, represent the differential available to the banks on their total resources for the following reasons:—

1. Banks are statutorily required to keep a certain proportion of their total Demand and Time Liabilities in Liquid assets *viz.* cash, gold and unencumbered approved securities. Currently this proportion is 33 per cent. Banks have to hold cash in hand to meet their day to day requirements which on an average constitute 2-3 per cent of their Demand and Time Liabilities. About 30-31 per cent of these Liabilities are invested by the banks in the Central and State Governments and other approved securities on which the average interest yields are less than 7 per cent per annum.

"2. Over and above the liquidity requirements mentioned above, the banks have to keep with the Reserve Bank a certain proportion of their Demand and Time Liabilities as Cash Reserve. Currently this proportion is at 6 per cent. The Statutory minimum is 3 per cent on which no interest is paid by the RBI. On the balance also the RBI pays interests at the rate of only 5.5 per cent per annum.

6.17. Thus out of every Rs. 100 of Deposits and Borrowings, the banks are statutorily required to deploy Rs. 39 in such a manner as to have no or very low return thereon even though the banks have to pay their depositors full interest on these funds. It is only the balance of Rs. 61 which can be deployed by the banks at commercial rates of interest.

6.18. After all the deployments are taken into account the spread is narrower than what it appears to be. Again this spread has to cover the cost of not only commercial banking operations but also of the development oriented banking which the public sector banks have been undertaking during the past seven and half years or so. For example, in a bid to make available the banking services to a larger number of people, the branch net work of the banking system has been enlarged. As compared to 8321 branches as on July, 19, 1969, there were 23630 branches as at the end of December, 1976. In 1969 there were only 1832 branches at rural centres. Their number, by 1976, had increased to 8830 accounting for 37 per cent of the total branch network. The scale and also the content of this branch expansion programme has not been guided solely by commercial considerations as is normally observed elsewhere. Public sector banks have also shouldered new responsibilities under the Lead Bank Scheme and surveyed the districts and have drawn up or are drawing up District Credit Plans. Advances to the small borrowers in the neglected sectors which amounted to Rs. 441 crores in 1969, accounting for 14.9 per cent of the aggregate advances of the public sector banks, and increased to Rs. 2528 crores by June, 1976 accounting for 25.5 per cent of their aggregate credit. It has to be appreciated that the cost of servicing a large number of small accounts is always more than that of servicing a few large accounts. The accepted policy of providing bank assistance to weaker sections of the society has inevitably meant adoption of innovative banking practices by the banks with higher than average cost on every Rupee so deployed.

6.19. So far as international norms are concerned, we have requested the Reserve Bank to ascertain the position Data in that regard would be submitted when received. In the context of what has been outlined in the preceeding paragraphs, however, it is doubtful if such norms would be of much relevance to conditions in our country."

6.20. The Committee notice from a letter No. CPC. No. B.O. 18/C. 279A-77 dated the 27th May, 1977, addressed to all the Scheduled Commercial Banks by the Governor, Reserve Bank that at a meeting held on the 27th May, 1977 with the Chief Executives of the major Scheduled Commercial Banks, the Governor of Reserve Bank reviewed the monetary and credit trends against the background of the current and prospective economic situation. In this letter the Governor has *inter alia* stated:

> "The growth rate of the economy in 1976-77 has been somewhat modest but this was coincided with a large expansion of almost 19 per cent in money supply. Though there has been qualitative difference in the source of changes in money supply between 1976-77 and earlier years in that foreign exchange assets and credit for foodgrain stocking have contributed significantly to this monetary expansion, all the same, the excess liquidity so generated is bound to have its effect on monetary demand in the coming months,
>
> Reflecting the imbalance between aggregate demand and aggregate supply, pressures have developed on the price situation. The downward trend in prices during 1975-76 was reversed, with an increase of almost 12 per cent over the financial year 1976-77. During the current financial year so far prices have shown an increase of about 2 per cent. In this cotnext it is, therefore, necessary that monetary and credit policy continues to be directed towards restraining monetary expansion to the maximum extent possible but at the same time oriented towards promoting investment, aiding production and exports and augmenting supplies of essential consumer goods and industrial raw materials through imports."

6.21. With a view to realising the objectives outlined above, and to continue a degree of restraint on credit, the Reserve Bank *inter alia* proposed to revise the deposit rate structure *w.e.f.* June 1, 1977. An important element in the change is the distinction drawn between savings deposit accounts which are functionally transactions—oriented and others which more truly partake of savings. The revised deposit rate structure as compared to the existing structure is as follows:

*Rates of Interest on Deposits payable by Scheduled Commercial Banks effective from June 1, 1977**

	Existing %	Proposed %
I. *Saving Deposits*		
Scheduled Commercial Banks		
(1) with demand and time liabilities upto Rs. 10 crores.	5.5	3% on Savings Deposits with cheque facilities and 5% on Savings Deposits Accounts without cheque facilities.
(2) with demand and time liabilities between Rs. 10 crores and Rs. 25 crores.	5.25	
(3) with demand and time liabilities above Rs. 25 crores.	5.0	

* Except on Savings Deposits which will take effect from July 1, 1977.

	Existing %	Proposed %
II. *Fixed Deposits*		
(1) 15 days to 45 days	3·0	3·0
(2) 46 days to 90 days	3·5	3·5
(3) 91 days to less than 6 months.	5·5	4·0
(4) 6 months to less than 9 months	6·0	4·5
(5) 9 months to less than 1 year	7·0	5·0
(6) 1 year to 3 years	8·0	6·0
(7) Over 3 years upto 5 years	9·0	8·0
(8) Above 5 years	10·0	10·0

NOTE.— 1. Scheduled commercial banks with demand and time liabilities less than Rs. 25 crores are allowed to pay at their discretion additional interest of 1/4 per cent per annum on all savings deposits and on term deposits upto and inclusive of 5 years. The rate of interest for deposits above 5 years will be only 10 per cent.

2. No Co-operative Bank is allowed to pay interest on deposits in excess of the rates specified below, over and above the rates prescribed above.

	Excess rate permissible over the above rates
State Co-operative Bank	1/4 per cent.
Central Co-operative Bank	1/2 per cent.
Primarily Co-operative Bank	1 per cent.

3. Regional Rural Banks can pay 0·5 per cent more on savings and fixed deposits except in the case of deposits above 5 years where they are individually advised.

6.22. With effect from 1st March, 1978, the Reserve Bank of India has introduced the following further changes, both in the lending and deposit rates of the Scheduled Commercial Banks:—

Lending Rates:

1. *Maximum Lending Rate on Advances*: The maximum rate of interest chargeable by banks on short period advances (without prejuidice to penal charges) will be as follows:

Banks with Demand and Time Liabilities of	Current rates per cent	New rates per cent
(a) Over Rs. 50 crores and banks incorporated outside India	16 1/2	15
(b) Between Rs. 25 crores and Rs. 50 crores	17 1/2	15
(c) Below Rs. 25 crores	No ceiling	16

2. *Food Credit*: The rate of interest charged by banks on credit extended for food procurement by Government and Government authorised agencies will be reduced from 12 per cent to 11 per cent.

3. *Term Loans*: Rates on term loans for priority purposes have been reduced in the recent past. No significant change in these is, therefore, proposed. However, as a measure of rationalisation, the scheme of term loans has been slightly adjusted as follows:

	Current rates	New rates
	Per cent	Per cent
(a) Term loans of not less than 3 years for capital investment in priority areas	12·50	12·50
(b) Term loans of not less than 3 years for all other purposes		
(i) Between 3 and 7 years	15·00	14·00
(ii) Above 7 years	14·00	

Deposit Rates Per cent per annum

	Rates prior to June 1, 1977	Current rates	New Rates
Current Deposits	Nil	Nil	Nil
Savings Deposits			
For banks with demand and time liabilities			
(a) Upto Rs. 10 crores	5 1/2	3% on savings deposits with cheque facility and 5% on savings deposits without cheque facility.	4 1/2
(b) Between Rs. 10 crores and Rs. 25 crores	5 1/2		
(c) Above Rs. 25 crores	5		
Fixed Deposits (including recurring deposits, cumulative deposits etc.)			
(a) 15 days to 45 days	3	3	2 1/2
(b) 46 days to 90 days	3 1/2	3 1/2	3
(c) 91 days to less than 6 months	5 1/2	4	4
(d) 6 months to less than 9 months	6	4 1/2	4 1/2
(e) 9 months to less than 1 year	7	5	5
(f) 1 year to 3 years	8	6	6
(g) Over 3 years upto 5 years	9	8	7 1/2
(h) Above 5 years	10	10	9

Scheduled commercial banks with deposit liabilities below Rs. 25 crores and scheduled cooperative banks will be allowed to pay 1/4 per cent more on savings deposits and on fixed deposits upto 5 years. Regional Rural Banks and Central Cooperative Banks will be allowed to pay ½ per cent more, and primary cooperative banks 3/4 per cent more, on savings deposits and on fixed deposits upto 5 years.

6.23. With regard to reduction of lending rates the Reserve Bank of India in their instructions to the Scheduled Commercial banks, has observed that the underlying approach has been that sizeable reduction should take place in the upper ranges of interest rates. It has been further stated that reduction in lending rates should not be construed to mean a move towards the so-called cheap-money policy. All that the downward revision implies is the redirection of focus of the interest rate policy towards what might be called the price of interest rate. It is hoped that low lending rates would have thorough reduction in the cost of production, a salutary impact on the price level.

6.24. In justification of reduction in deposit interest rates it has been stated by the Governor, Reserve Bank, in his letter dated 2nd March, 1978 to the Scheduled Commercial Banks:—

> "While bringing about the reduction in lending rates mentioned above, I have not overlooked the basic objective of protecting the viability of banks. The real question here is one of balancing the two rather conflicting considerations of reducing the cost to banks of mobilisation of resources and, at the same time, not adversely affecting the savings of the public. Our attempt to reduce deposit rates marginally has to be seen against this background."

6.25. An important decision taken is the merger of the two types of saving accounts introduced in May, 1977. It has been decided to merge the types of accounts into single savings deposit account with limited cheque facilities which would attract interest of 4½ per cent per annum.

6.26. The Committee note that the lending and deposit interest rates have been revised by the Reserve Bank w.e.f. 1 March, 78. The major change affected is to bring about a downward revision of lending rates of various categories. There is sizeable reduction in the upper ranges of interest rates. For banks with deposit liabilities in excess of Rs. 25 crores, current rates of interest chargeable by them at 16½ per cent and 17½ per cent have been brought down to 15 per cent. For banks with deposit liabilities less than Rs. 25 crores, the new rate of interest has been fixed at 16 per cent. The rate of interest on food credit has been reduced from 12 per cent to 11 per cent. As regards the interest rates on deposits, the reduction is particularly

noticeable in the case of longer maturity deposits. An important decision taken is to merge the two types of saving accounts into one single saving deposit account with limited cheque facilities which will attract interest of 4½ per cent per annum. According to the Reserve Bank of India the attempt to reduce the deposit rates marginally has been aimed at balancing the two rather conflicting considerations of reducing the cost of mobilisation of resources and at the same time not adversely affecting the savings of the public. The general frame in which the monitory and credit policies will operate would continue to be one of over all restraint. The Committee have no doubt that the policy would be kept under constant review by the Reserve Bank of India. The Committee would however like that international norms in regard to the deposit and credit rates may also be studied and appropriate lessons drawn for applications to the conditions in our country, wherever feasible.

Objectives and Obligations of nationalised Banks.

6.27. In paragraph 6.10 of their 62nd Report (1973-74) the Committee had recommended that for a proper appraisal of the performance of the banks, and to 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 made 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 had also desired the Government to lay the statement defining in detail the objectives and obligations of the Nationalised Banks on the Table of the two Houses of Parliament so that the parameters for judging the performance of the banks became clear.

6.28. In their reply, (October, 1974) the Department of Revenue and Banking stated that the objectives for which the major banks were nationalised were indicated by the then Prime Minister in her broadcast to the nation on 19th July, 1969 and in the statement made by her in both the Houses of Parliament on 21st July, 1969. The policies and priorities needed to follow to conform to the broad objectives of nationalisation were spelt out by the Prime Minister and the Finance Minister in September, 1969 and July, 1970 respectively. Government feel that the guidelines contained in these statements are adequate for the purpose of judging the performance of public sector banks.

6.29. The Committee in their Action Taken Report *viz.* 84th Report (1975-76) again stressed the necessity of defining in detail the objectives and obligations of the nationalised banks which should cover *inter alia* their social obligations, return expected on capital, generation of surpluses;

etc. and laying them on the Tables of the two Houses of Parliament so that the parameters for judging the performance of banks become clear.

6.30. The Department was asked to intimate the progress made in defining the objectives and obligations of the nationalised banks, as desired by the Committee. In their reply (November, 1976) the Department of Revenue and Banking stated:

> "The Government have carefully considered the recommendation of the Estimates Committee regarding the necessity of defining in detail the objectives and obligations of the nationalised banks, which should cover *inter alia* their social obligations, return expected on capital, generation of surpluses etc. and laying them on the Tables of the Houses of Parliament so that the parameters for judging the performance of banks become clear.
>
> It is again submitted for the consideration of the Committee that the broad objectives to be pursued by the nationalised banks were succinctly set out by the then Prime Minister in her statements to the Houses of Parliament on July 21, 1969 briefly these objectives included:
>
> (a) Mobilisation of savings of the people to the largest possible extent and to utilise them for production purposes in accordance with our plans and priorities;
>
> (b) The operations of the banking system should be informed by a larger purpose and should be subject to close public regulation;
>
> (c) Legitimate credit needs of private sector industry and trade, big or small should be met;
>
> (d) It would be the endeavour of the banks to ensure that the needs of productive sectors of the economy, and in particular those of farmers, small-scale industrialists and self-employed professional groups are met in an increasing manner;
>
> (e) Nationalised Banks will actively foster the growth of new and progressive entrepreneurs, and create fresh opportunities for hitherto neglected and backward areas in different parts of the country;
>
> (f) Use of bank credit for speculative and other unproductive purposes will be curbed;
>
> (g) There should be development of adequate professional management in the banking field and modern managerial techniques and practices would develop;

(h) Bank staff should be provided adequate training as well as reasonable terms of services; and

(i) The emphasis on priorities sectors, new entrepreneurs and relatively backward areas will not be at the cost of economic viability.

Thus the then Prime Minister's statements of July 21, 1969 cover all the facets of the operations of the nationalised banks and the nationalised banks formation with the policy framework. Within the broad framework of the objectives and obligations specific directives/guidelines are issued by the Government/ Reserve Bank of India from time to time in response to the emergent needs of changing situation. These, however, constitute measures to be taken by the banks towards the attainment of the policy objectives enumerated above and cannot by themselves be considered as long-term objectives.

Being sensitive instruments of economic administration, the banking and the monetary systems have to constantly keep themselves aligned to the changnig economic realities and have to respond quickly to the needs of emerging situations. In the circumstances, it is felt that it would neither be feasible nor practicable to lay down very detailed parameters within which they should function within the short time.

Since the objectives set out by the Prime Minister in her statement to the Houses of Parliament on July 21, 1969, which both the houses had approved while enacting the Banking Companies (Acquisition and transfer of Undertakings) Act, 1970, contin ue to be valid even today, Government consider that there appears to be no need to define in detail the objectives and obligations of the nationalised banks as suggested by the Committee."

6.31. In paragraph 6.10 of their 62nd Report, the Committee had recommended that for a proper appraisal of the performance of Banks and to make the management well aware of their social and economic responsibilities, it would be desirable for the Government to make a comprehensive and clear statement of the objectives and obligations of the nationalised banks which should inter-alia **define in detail their social obligations, return expected on Capital, generation of surpluses etc., and lay the statement on the Table of the two Houses of Parliament so that the parameters for judging the performance of the banks become clear. The Committee reiterated this recommendation in their 84th Action Taken Report. It has been stated by Government that the broad objectives to be pursued by the nationalised banks were succinctly set out by the then Prime Minister in her statement**

in the Houses of Parliament on 21 July, 1969. Within the broad framework of the objectives and obligations specific directives/guidelines are issued by Government/Reserve Bank of India from time to time in response to the emergent needs of the changing situation but these cannot be considered as long term objectives. Government feel that it would neither be feasible nor practicable to lay down very detailed parameters within which nationalised banks should function within the short time. There appears to be no need to define in detail the objectives and obligations of the nationalised banks. The Committee are, however, not convinced with the arguments of the Ministry. They feel that with a view to ensuring accountability of the nationalised banks and avoid uniformed criticism about their working, it would be desirable to define in detail their objectives and obligations. The Committee, therefore, reiterate their earlier recommendation made in April, 1974 that Government should make a comprehensive and clear statement of the objectives and obligations of the nationalised banks and lay it on the Table of the two Houses of Parliament. Any change in the detailed parameters necessitated by the changing economic situation can be incorporated as and when necessary and the Parliament informed about this.

Reconciliation of inter-branch accounts

6.32. The Committee in paragraph 6.13 of their 62nd Report had expressed their concern 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 was a sad reflection on the efficiency of managements of these banks. The Committee expected the Reserve Bank of India and the Board of Directors of the concerned banks to take concerted measures immediately for clearance of the back log in accounts reconciliation by a specified period and also to ensure that these did not fall into arrears in future. The Committee desired that managements of other nationalised banks should also see that reconciliation of branch accounts was done in time and arrears were not allowed to accumulate.

6.33. The Department of Revenue and Banking in their reply (October, 1974) stated:—

> "The importance of reconciliation of the inter-branch accounts and balancing of books of accounts is recognised by banks. The Boards of Directors of the banks keep a continual watch so as to ensure progressive improvement in this regard. The observation of the Committee is being brought to the notice of all public sector banks."

6.34. The Department of Revenue and Banking was asked to state the present position with regard to the clearance of the arrears in reconciliation of inter-branch accounts in the seven banks referred to above and the concrete measures taken by the RBI/Board of Directors of the concerned banks to ensure that the reconciliation of inter-branch accounts is done in time to avoid accumulation of arrears in future.

6.35. In their reply (November, 1976) the Department of Revenue and Banking stated:—

"Subsequent to the observations made by the Estimates Committee in its 62nd Report, various measures have been adopted to speed up the work of reconciliation of inter-branch accounts in all the banks and especially in the seven banks referred to by the Estimates Committee.

The Reserve Bank of India have been examining the position as regards the arrears in such reconciliation during their periodic inspections of the banks and suggesting from time to time suitable measures to speed up this work. In this connection, meetings of the banks have also been convened by RBI to discuss the problems relating to inter-branch accounts and evolve modifications in existing systems and procedures. RBI has also issued guidelines to the nationalised banks on the subject. Further the Chairmen and senior executive of all the banks, who have been advised to periodically review the practices and processes followed by their respective banks have been conducting such reviews. Other measures adopted by the banks, for speeding up the work of reconciliation of inter-branch accounts are the use of machines and/or engaging the services of consultants having such machines or computers, and strengthening of the concerned departments of the banks by augmenting the staff with specialised and experienced personnel.

As a result of the above measures, it is reported by the RBI on the basis of information collected from the seven banks under reference that considerable progress has been made in the work of clearing old unreconciled entries in the inter-branch accounts of these banks. In four of the seven banks the work of reconciliation is by and large uptodate. In one bank reconciliation has been completed up to the middle of 1975, and another bank is in the process of completing the work of reconciliation of entries as at the end of 1974. In one bank, however, although reconciliation has been generally made uptodate, there are a few old outstanding entries relating to certain periods during the year 1967 to 1970 and certain types of transactions which have been reconciled only up to November, 1973."

6.36. Asked to state the present position with regard to the reconciliation of accounts and what precise measures had been taken by the Board of Directors/RBI to improve the position, the Secretary (Banking) stated during evidence:—

"I would say, since the earlier review by the Committee there has been a considerable improvement in the position. In the 62nd Report of the Estimates Committee, there was a reference to one bank and the phrase used was that the position was quite bad in the bank. You will be interested to know that that bank is now at the stage of most uptodate reconciliation of accounts.

They are most uptodate in the reconciliation of their accounts. They had a crash programme of reconciling their accounts. The Committee would like to know the measures taken by the various authorities, the Reserve Bank and the banks themselves. As far as the Reserve Bank is concerned, it has an inspection system and, periodically, it convenes meetings of the representatives of the public sector banks to check up on the progress made with regard to reconciliation of branch accounts. They have also called upon the Chairman of the Bank concerned to adjust the existing systems and procedures relating to inter-branch accounts, to have the reconciliation of accounts. Also, in July, 1976 the Reserve Bank has issued guidelines in respect of various issues with regard to reconciliation of branch accounts. The banks themselves have taken several steps. The boards of the banks have asked for and have been getting reports and reviews regarding the progress made with regard to reconciliation of accounts. A number of banks have installed machines to expedite the process of reconciliation of inter-branch accounts. Some banks have set up special cells to have crash programme of reconciliation of accounts. Having achieved a certain amount of improvement, we do not want to relapse again into having a large number of un-reconciled accounts. The regular reviews are being undertaken by the banks and put up regularly to the boards of the banks. As a result of these concerted efforts, I would say that the position with regard to the system as a whole has shown considerable improvement."

6.37. In a note furnished in November, 1977 the Ministry of Finance have stated that the "reconciliation of Inter-Branch Accounts is a continuous process. Reserve Bank of India has been examining the position as regards the arrears in such reconciliation during the periodical inspections of the banks and suggesting from time to time suitable measures to speed up this work. Occasionally, meetings of the banks have also been convened by Reserve Bank of India to discuss the problems relating to Inter-Branch Accounts and evolve modifications in the existing systems and procedures. The banks themselves periodically review the practices and procedures followed in the matter of reconciliation of Inter-Branch Accounts. For speeding up the work of reconciliation some of the banks have already computerised part of the work. In addition, some of the banks have engaged consultants for speeding up the work relating to the reconciliation. Government also proposes to undertake a review of the existing position with a view to identify areas of arrears and suggest ways and means of speeding up the reconciliation work.

Reserve Bank of India has reported that there has been some further progress in the matter of reconciliation of Inter-Branch Accounts in the 3 banks under reference. One of the banks has entrusted the reconciliation of arrears to a consultancy firm. Chairmen of all the 3 banks are being instructed to draw up a time bound programme for reconciliation of all arrears relating to Inter-Branch transactions.

6.38. The Committee note that pursuant to their observations various measures have been taken to speed up the work of reconciliation of inter-branch accounts in all the banks. These measures include convening the meetings of the banks by the Reserve Bank of India to discuss problems of reconciliation of inter-branch accounts, examining the position of reconciliation of accounts during periodical inspection by the Reserve Bank, modification of the existing systems and procedures, issue of guidelines, periodical reviews conducted by the banks themselves. Other measures adopted for speeding up the work of reconciliation are use of machines or computers and augmentation of staff. As a result of these measures considerable progress is stated to have been made in the work of clearing old unreconciled entries in the inter-branch accounts. In the case of seven banks referred to in the Committee's report, the reconciliation work is stated to be by and large uptodate in 4 banks while in the remaining 3 banks the work is still in progress. The Committee are concerned to note that reconciliation of accounts still remains to be completed in respect of three banks. The Ministry is, however, now instructing the Chairmen of three banks to draw up a time bound programme for the reconciliation of inter-branch accounts. The Committee stress that the work should be completed expeditiously and the Committee informed of the position after three months.

6.39. The Committee also desire that during the inspection of banks, the officers of Reserve Bank of India should ensure that the guidelines issued by

Reserve Bank of India are strictly followed by all the banks and that arrears of reconciliation of inter-branch accounts are not allowed to recur.

B. Procedures, Selection and Training

(i) *Procedures*

6.40. The Committee in paragraph 6.28 of their 62nd Report expressed concern 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 recommended 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 desired the Department to examine critically the performance in this behalf at the review meetings.

6.41. In their reply (October, 1974) the Department of Revenue and Banking stated:

> "Most banks have reported that necessary arrangements have been made to ensure disposal of applications without delay. Towards this end, matters such as delegation of powers, simplification of forms and procedures are being reviewed on a continuing basis and action taken wherever necessary. Reserve Bank has also pointed out that a survey of 63 branches conducted by it in Delhi region in 1972 has revealed that 97 per cent of the applications were disposed of within one month, while in the remaining cases furnishing of incomplete information in the first instance was found to be a major cause for the delay."

6.42. The Department of Revenue and Banking was asked to state what precise arrangements have been made by banks to reduce the time taken in the disposal of loan applications and the specific steps taken to further simplify the formats and procedures for their standardisation.

6.43. The Department in their reply (November, 1976), stated:

> "To ensure speedy disposal of loan applications from small borrowers, matters such as delegation of powers, simplification of forms and procedures are reviewed on a continuing basis.

In July, 1975, in the context of emergency the need for accelerating the pace of disposal of loan applications was emphasised in a letter written in this regard to the Chairman of all public sector banks. Subsequently, they were specifically advised to endeavour to secure final disposal of small loan applications, involving amounts of less than Rs. 10000/ within a period of two months. Recently, all the banks have been advised to further curtail the time for disposal of small loan applications to 3 to 4 weeks.

As regards forms and procedures, on the advice of the Reserve Bank of India to simplify and rationalise the lending procedures, particularly in respect of financial assistance to priority sectors, banks have introduced simplified application forms in respect of advances to agriculture and small scale industries etc. in regional languages. Assistances is also provided by them to small borrowers for filling up application forms and submission of the required data, wherever necessary."

6.44. The Department of Revenue and Banking was also asked to state whether Reserve Bank had undertaken any further survey of banks in this regard like the one undertaken in 1972. In their reply (November, 1976), the Department stated:

"Reserve Bank have reported that they have not made any further survey of the disposal of applications for loans by the banks after the one conducted in 1972. While, in the absence of such a survey it is difficult to specifically quantify the time taken for small loans, many banks have reported that the applications from small borrowers are being finally disposed of by the branches within 2 to 4 weeks."

6.45. Asked whether any survey has been contemplated by the Reserve Bank in near future, the Secretary (Banking) stated during evidence that without waiting for another survey, the Department had taken decisive measures that all small loans should be sanctioned. The Secretary (Banking) further stated that the Banks had been advised to simplify the procedures and print the forms for loan applications in regional languages. The loans were sanctioned within three to four weeks from the date of submission of the application.

6.46. The Committee note that to ensure speedy disposal of loan applications from small borrowers, the banks have taken certain measures like delegation of powers and simplification of forms and procedures. The banks have also introduced simplified loan application forms in respect of

agriculture and small scale industries in regional languages. The Department of Revenue and Banking has also taken decisive measures that all small loans should be sanctioned and the loan applications disposed of within 3 to 4 weeks from the date of their submission. While the Committee consider that these measures are a step in the right direction, they would like to stress that the efficacy of these measures would be judged by the manner in which these are actually implemented by the banks and the impact they create on the borrowers. The Committee would like that a periodical review should be made to ascertain the real utility of these measures and the time within which the loan applications particularly of the small borrowers, are disposed of.

6.47. The Committee note that the Reserve Bank of India had conducted a survey as far back as 1972 in Delhi region when it was found that about 97 per cent of loan applications were disposed of within one month. The Committee feel that it is high time that another survey is undertaken by the Reserve Bank of India. The survey should inter-alia **include backward areas to assess the time taken in the disposal of loan applications in the priority sector particularly from the weaker sections of society. The difficulties experienced by the intending borrowers owing to their illiteracy and ignorance of rules/regulations governing grant of loans may also be studied in the survey so that suitable remedial measures may be taken in this regard.**

(ii) *Recruitment and Selection*

6.48. In paragraph 6.37 of their 62nd Report the Committee noted that the measures were in hand to improve the procedures of recruitment of staff in the Banks. The Committee expressed hope that a suitable uniform system for staff recruitment in all the nationalised banks will soon be evolved and given effect to in the interest of attracting best talent.

In their reply (October, 1974) the Department of Revenue and Banking informed that the Government had since accepted the recommendation of the Banking Commission to constitute statutorily a common recruitment agency both at clerical and junior officers' level on the lines of the Union Public Service Commission. Necessary legislation for the purpose had been approved by the Cabinet. Subsequently, the Department informed that the necessary legislation had been enacted by the Parliament in 1975. In a written reply (November, 1976) the Department further informed that the Banking Service Commission Act, received the assent of the President on the 7th August, 1975, and steps were being taken to establish the Commission shortly.

6.49. Asked to state the present position with regard to the setting up of the Banking Service Commission, the Secretary (Banking) stated during the evidence that the Department was engaged in setting up the Commission. Necessary procedural processes such as the choice of the personnel and their approval by the highest authority etc., had to be undergone. The Department had, however, put up the proposals in this regard.

6.50. Subsequently, the Department of Revenue and Banking informed that the Banking Service Commission has been established with effect from 21st February, 1977 and in due course it will start conducting examinations for selection to the junior officer and clerical posts in the Public Sector Banks.

6.51. The Act provides that the Commission should conduct examinations for appointments in each public sector bank to—

(a) posts in the clerical and allied cadres and the junior officers cadre, and

(b) such other posts of, or posts in the cadres of, officers as the Central Government may, by notification specify.

Public Sector Banks will communicate to the Commission all the vacancies in the clerical and allied cadres and twenty five per cent of the estimated total number of vacancies in the junior officers cadre. It has also been provided that reservations in favour of SC|ST and other categories of persons shall be made in such manner and to such extent as the Government may specify.

6.52. In November, 1977, the Ministry, however informed that "the Banking Service Commission Act, 1975 has been repealed and the Banking Service Commission has been dissolved with effect from 19th September, 1977, through an Ordinance promulgated on 19th September, 1977. "

6.53. Asked to state whether it was permissible under the rules to transfer officers from one nationalised bank to another bank, the Ministry informed:—

The Government appointed a Committee in July, 1973 under the Chairmanship of Shri V. R. Pillai commonly known as Pillai Committee for standardisation of pay scales, allowances and perquisites to officers of nationalised banks. The Committee was also asked to recommend the principles that should govern transferability of senior officers among the various nationalised banks. The Committee submitted its report on 30th May, 1974.

After considering the question of transferability of officers, from one nationalised bank to another, the Committee has come to the conclusion that transferability of officers between banks at the senior management level, *i.e.*, officers drawing pay upto 3000/ - p.m., may not be practicable. They have, however, suggested transfers at the top managements level *i.e.*, officers drawing pay of Rs. 3000|- p.m. and above, among the various nationalised banks, for purposes of strengthening staff structure in weaker banks, filling succession gaps and removing vested interest. The Government have accepted the recommendations of the Pillai Committee. The extent to which transfers can be effected will depend on the circumstances of individual cases, after the banks have implemented the other recommendations of the Pillai Committee regarding standardisation of pay scales, etc.

6.54. With regard to the present procedure of selection of officers of Regional Rural Banks, the Ministry stated in a note (November 1977) as follows:—

"(a) The present Chairman of all the Regional Rural Banks are Officers taken on deputation from the concerned Sponsor Banks. It was earlier decided that selection of permanent incumbents to these posts should be made by *ad hoc*. Selection Committee consisting of one representative of each of the following and the selection may be made from among candidates belonging to the concerned State:

1. Central Government.
2. State Government concerned.
3. Sponsor Bank concerned.
4. Reserve Bank of India.

2. The *ad hoc* Selection Committee have interviewed candidates only for 6 Regional Rural Banks so far. It has since been decided that further action regarding selection of Chairman would be taken in the light of the recommendations to be made by the Committee set up by the Reserve Bank of India to review the working of the Regional Rural Banks.

3. Selection of Branch Managers and other officers/staff of the Regional Rural Bank is made either by the Board of Directors or by the Selection Committee of the Bank. The selection is generally made on the basis of results of a written test and personal interview. Candidates for Branch Managers are drawn from among those residing within the State.

preferably from within the area of operation of the Regional Rural Bank. Candidates for other posts are drawn from within the area of operation of the Bank. Government of India have suggested uniform recruitment qualifications for adoption by the Regional Rural Banks.

6.55. On the question of appointment of non-officials on the Board of Directors the nationalised banks and their perquisites, the Ministry informed (November 1977) as follows:—

"The composition and procedure followed for appointments of non-officials Directors are explained below:—

Central Board of the State Bank of India:

The Central Board of the State Bank of India shall include:—

(i) The Presidents of the Local Board of the State Banks (ex-officio).

(ii) 2 to 4 Directors to be elected from share-holders depending upon the private share holding of the State Bank.

(iii) Not less than 2 and not more than 6 Directors to be nominated by the Central Government in consultation with the Reserve Bank from among persons having special knowledge of the working of co-operative institutions and rural economy or experience in industry, banking or finance.

State Bank Local Board:

(i) one member to be elected from amongst the share holders.

(ii) 6 Members to be nominated by the Central Government in consultation with the R.B.I.

Nationalised Banks:

6.56. The Board of Directors of a nationalised bank shall include:—

(i) Representative of the depositors of the banks	—1
(ii) Representatives of the interests of workers	—1
(iii) Representative of the interests of farmers.	—1
(iv) Representatives of the interests of artisans.	—1
(v) Persons having special knowledge or practical experience in respect of one or more matters which are likely to be useful for the working of the nationalised banks	Not more than 5

These are nominated by the Central Government in consultation with the Reserve Bank of India.

These non-official Directors in category (v) above are drawn from different walks of life having special knowledge or practical experience of matters likely to be useful for the working of these banks. The fields of knowledge and experience considered useful in this connection are Economics, Management, Accountancy, Administration, Engineering, Co-operation, Industry, Commerce, etc. All these non-official Directors may be appointed for a term not exceeding 5 years.

The names of the suitable persons for appointment as Directors for public sector banks are obtained from various sources like the State Governments, Chief Executive of Public Sector Banks, the Secretaries to the Union Government in the Department of Agriculture, Industrial Development, Commerce, Foreign Trade and the Bureau of Public Enterprises, the Director General of Backward Classes (for Scheduled Castes and Scheduled Tribes candidates), specialised bodies like the Development Commissioner, Small Industries, Handloom and Handicraft Boards, H.H.E.C., Indian Council of Agricultural Research, Agriculture Universities, and from non-official bodies like the Institutes of Chartered Accounts, Institute of Cost Works Accountancy, Chambers of Commerce and Industries, Social Organisations, etc., etc., Members of Parliament and important persons in various walks of life also send their recommendations.

A panel of all eligible names received is prepared and suitable names are selected with the consultation of the R.B.I. and the approval of Finance Minister. While selecting the directorate consideration is given to the characteristics of the bank, its geographical spread, representation of special interest and backward areas etc. The names selected by the Department are submitted for the approval of the Appointments Committee of the Cabinet and on receipt of such approval, the names are notified.

(b) There is no bar to the selection of social workers of repute as Directors of Nationalised Banks.

6.57. The Committee note that the Banking Service Commission Act, 1975, has been repealed and the Banking Service Commission has been dissolved with effect from 19th September, 1977. The Committee, however, hope that the Government would consider the desirability of evolving a uniform system for staff recruitment in all the nationalised banks in the interest of attracting the best talent for banking service on merit, keeping in view the policy of Government regarding reservations.

(iii) *Training*

6.58. The Committee in paragraphs 6.45 and 6.46 of their 62nd Report noted that each bank was having its own training arrangements rather than promotnig training on a comon basis as was envisaged at the time of bank nationalisation and there were a total of 16 training colleges and 90 training centres of public sector banks. They also noted that a Committee on Direction for Formulation and Implementation of Training Programme had 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.

6.59. The Committee felt that the utilisation of present training capacity and contents of courses needed a thorough reorientation so as to ensure that there was no waste of scares resources and the training was designed to meet adequately the growing demands of banks for the right type of personnel for manning the new branches. The objectives of banks nationalisation and the sympathetic treatment required to be meted out to the weaker sections of society had to be brought home to trainees through regular/referesher courses. The Committee desired that departmental Committee of Direction for formulation and implementation of training programmes should keep this objective prominently in view while finalising training programmes.

6.60. In their reply (October, 1974) the Department of Revenue and Banking stated:

"Government agree with the views expressed by the Estimates Committee regarding fuller utilisation of the existing training capacity and reorientation of the contents of the courses with a view to motivating trainees to sympathetically view the needs of the weaker sections of the society and for achieving the broad objectives of the bank nationalisation. These objectives are being constantly pursued by the Committee of Direction and the Committee has taken the following steps in this connection:

1. It has devised a system of statistical reporting with regard to training in public sector banks so as to monitor training plans, training performance and utilisation of infrastructure facilities.
2. It has designed a system of feed-back to ensure the efficiency of training methods and training courses.
3. It has defined the core training programmes as:
   (i) Courses for newly appointed rural branch managers;
   (ii) Courses on priority sector lending.

4. It has recently appointed a Sub-Group to design a common training programmes for all public sector banks for directly recruited officers."

6.61. The Department of Revenue and Banking was asked to state the progress made by the sub-group appointed by the Committee of Direction to design a common training programme for all public sector banks for directly recruited officers. The Department in their reply (November, 1976) stated:

"The report of the sub-group on training of probationary officers was considered by the Committee of Direction for Formulation and Implementation of Training Programme of Public Sector Banks in the Sixth and Seventh meetings held on 18th November, 1974 and 14th February, 1975. The report of the sub-group was broadly approved by the Committee of Direction and the banks have been asked to take further action."

6.62. Asked to state the specific steps were taken by the banks with regard to training of the probationary officers directly recruited by the banks, the representative of the Department of Revenue and Banking stated during evidence:—

"This probationary officers' training course was recommended at a time when common recruitment was thought of. The recommendations of the training Group were accepted and the course is being implemented in all the public sector banks where there is direct recruitment. In 1975, 1926 probationers were trained by the public sector banks. In 1976, upto June, 484 have received the training."

6.63. Asked, what were the Schemes for refresher courses and training for other officers, the representative of the Department stated during evidence:

"For clerks and other, there are different schemes for training. About 56,000 people are trained every year. In 1975 alone, 33,000 clerks were trained for the public sector banks."

6.64. The Committee note that the Committee of Direction for formulating and implementing the training programmes, has devised various training programmes as also a system of feed back to ensure the efficiency of training methods and training courses. The Committee further note that a sub-group of the Committee of Direction which was appointed to design a common training programme for probationary officers of all public sector banks, has submitted its report which has been broadly approved by the Committee of Direction. Under the training course designed by the sub-group,

1926 probationers were trained in 1975 and upto June, 1976, 484 more probationers have received training. Under other schemes of training for difference categories of staff, about 56,000 people are stated to be trained every year. The Committee desire that a detailed programme should be evolved for imparting training through regular/refresher courses to all categories of the existing staff in all the public sector banks on a uniform basis. The Committee suggest that as in the case of probationary officers the training of the staff and their recruitment should be so linked that the incumbents undergo necessary training immediately after their recruitment and are put on the job only after successful completion of the training course. The Committee have no doubt that the training courses have been designed keeping in view the objectives before the nationalised banks and to inculcate a spirit of dedication in the officers/staff in order to achieve those objectives so that there is a spectacular change in their outlook and also service rendered to the people.

C. Customer Service

6.65. In paragraph 6.34 of their 62nd Report, the Committee observed that they were very much perturbed to note that work motivation in banks had become less and service to the clients was not receiving appropriate attention. The Committee desired 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 was a matter of deep concern. The Committee further desired that the matter be examined in depth and a sustained drive launched to improve the image of banks as a service organisation to the public.

6.68. In their reply (October, 1974) the Department of Revenue and Banking stated:—

> "It has been the constant endeavour of public sector banks to take appropriate measures to improve their efficiency and the quality of service to their customers, such as changing suitably the scope and content of the training programmes, recruitment of technically qualified staff, simplification of forms and procedures, decentralisation of administrative structure, delegation of powers at regional and branch levels and promotion of better relations between the employees and the management with a view to improving customer service. Recently, Government have accepted several of the recommendations contained in Chapter 11 of the Banking Commission's Report entitled "Bank Operating Methods and Procedures", covering various areas in the functioning of banks,

including customer service. The banks have been advised that expeditious steps should be taken to give effect to these recommendations which are primarily designed for improving the functional and operational efficiency of banks."

6.67. The Department of Revenue and Banking was asked to indicate the details of measures taken to improve the customer service in commercial banks, particularly in rural areas and areas inhabited by weaker sections of the society.

6.68. In their reply (November, 1976) the Department stated:

"Special steps have been taken by Government in this sensitive area during the last one year. These are detailed in the succeeding paragraphs.

As a sequel to the Prime Minister's address to the Secretaries and her broadcast to the nation, public sector banks have endeavoured to bring about definite improvements in the content and quality of customer service through administrative efficiency by focussing attention on punctuality, cleanliness, discipline, activisation of vigilance procedures, better staff relations, reduction of over-time, elimination of all restrictive practices, accelerated disposal of work through improved structure of delegation of powers and improved loan appraising machinery. Special arrear clearance drives were also undertaken. The two weeks commencing 21st July, 1975, and 1st March, 1976, were observed as "arrears clearance weeks". Encouraged by the results achieved during these two special drives, the month commencing July, 1976 was observed as the "arrears clearance month".

In order to identify the problems affecting Customer Service and to find out solutions, a Working Group under the Chairmanship of Shri R. K. Talwar, former Chairman, State Bank of India, was constituted (in March, 1975) to report on the customer service in banks. The Group submitted its interim report in August, 1975. The Working Group has indentified the critical service areas needing urgent attention as:—

(i) Deposit accounts, remittances and collections, areas needing immediate attention, encashment of cheques, issuance of receipts, statements of accounts, collection of cheques and bills, and remittances including issue and encashment of drafts;

(ii) Loans;

(iii) Staff attitudes.

Chairman of public sector banks were advised on 25.9.75 to set up internal committee to implement 86 out of 97 ,recommendations, excluding 11 recommendations involving further detailed examination in consultation with Reserve Bank of India and to monitor the progress of implementation. It was also suggested to them that these committees should include representatives of employees. Banks were also instructed that they should send to this Department a fortnightly report indicating the progress achieved in the implementation of these recommendations during the following three months, the first report covering the fortnight ending 15th September, 1975.

The progress of implementation of the recommendations as reflected in the fortnightly reports has been quite satisfactory. While the impact, as pointed out by the Group, is likely to be felt only after some time the salient features of the process are broadly as follows:—

(a) All public sector banks have set up Implementation Committees in the Central/Head Offices and these committees have been periodically meeting to oversee the progress of implementation.

(b) With the exception that a few banks have some reservations about the ceiling of Rs. 2500/- for the purpose of teller system (because of an existing ceiling of Rs. 1000/- which is prescribed in the Bipartite Settlement), they are all agreed about the imperative need and the usefulness of this system and have plans/have locally introduced this system in the branches where the work-load justifies it.

(c) All suggestions/recommendations regarding maintenance of discipline, punctuality etc., have been implemented on banks have reported perceptible improvement in various facets of their working.

(d) With the exception of a few recommendations like those relating to receipt of cash upto Rs. 2500/- by the tellers, reimbursement of loss of interest for delays in collection of cheques, credit of outstation cheques upto Rs. 2500 and payment of cheques/traveller cheques etc. upto Rs. 2500 without reference to advices, which some banks feel require some more examination and even settlements at the industry level, the balance of recommendations (leaving those 11 which are being considered by the Government in consultation with the Reserve Bank of (India) are in the process of being implemented.

(e) Recommendations relating to re-orientation of training and self-supervision which by their very nature are likely to take a longer time have not been implemented so far, but steps to see that these are put in practice have been initiated by almost all public sector banks.

(f) Government propose to introduce suitable legislation in the forthcoming session of the Parliament to amend the relevant provisions of banking Regulation Act for providing nomination facilities in respect of individual deposit accounts.

(g) Action has been taken to entrust Government business to public sector banks in phases.

6.69. As regards rural areas, the measures prescribed in the foregoing paragraphs to improve customer service equally apply to branches situated in such areas. Public sector banks have also taken a number of steps designed to render financial and other assistance to the different categories of persons belonging to weaker sections in rural areas. Schemes have been formulated for providing financial assistance to new allottees of land including freed bonded labour; (2) landless labourers and (3) poor agriculturists and artisans requiring consumption credit. Area-wise programmes are being drawn up for the development of handlooms and other traditional arts. Reserve Bank of India have also advised the banks to provide finance in rural areas for the rural poor and for the low income groups in urban and metropolitan areas. The newly set-up regional rural banks are also quite active in the field of providing credit to the rural poor and village artisans etc."

6.70. Asked to state the progress made with regard to implementation of the Talwar Committee recommendations, the Secretary (Banking) stated during evidence:—

"They have identified 97 critical areas of customer dissatisfaction, and they made a large number of recommendations in their interim report. Some of these, 11 recommendations, for instance, refer to legislative measures which have to be taken. Some of them refer to the operation of clearing house, some of them refer to government policy. I would classify these recommendations into two broad categories; one which were within the purview and ability of the banks themselves to correct by taking suitable action, and two, those areas where banks by themselves could not do anything unless certain other steps were taken. For example, there was a recommendation about nominee accounts and deposits. This was a legislative disability in terms of our present law. The Government have taken a decision and a legislation is going to be introduced in the coming session of Parliament. There is another thing. As a part of the administrative reforms that we are now making, it has been decided that the public sector banks would be increasingly involved both in receiving payments for Government and making payments on behalf of the Government, for example pension transactions. Certain public sector banks have been designated as banks for certain departments of the Government to receive and make payments on their account. After the interim report, Government have taken certain decisions on some recommendations. There was another recommendation regarding conversion of Saturday into a non-business working day. The Government did not accept this recommendation, because it felt that on Saturday, also people would like to avail themselves of these facilities.

With regard to the recommendations where the banks themselves could take corrective action, we have obtained action taken report from the banks with respect to each one of these recommendations."

6.71. The Department of Revenue and Banking subsequently informed (May, 1977) that the Final Report of the Working Group on Customer Service in Banks has been received by them in the first week of April, 1977. Various recommendations made therein are under examination.

6.72. The Working Group on Customer Service, in Chapter I of their Final Report (Part I) identified areas of customer dissatisfaction. The group have in their report *inter alia* stated that the totality of customer dissatisfaction can be attributed to—

(a) delay and inaccuracy in putting through transactions,

(b) delay and inadequacies in correspondence,

(c) delayed, faulty and unhelpful decision-making,

(d) absence of elementary discipline,

(e) undue emphasis of staff on observance of rules and procedures and generally, lack of organisational support for reasonable and bonafide departures,

(f) in regard to credit applications, particularly—

(i) scheme-designs lacking the essential adaptability or flexibility to cater to individual customer needs,

(ii) questions asked and data required, not always relevant and/or available and, perhaps, expensive to obtain,

(iii) all queries not raised at one time,

(iv) complicated documents and cumbersome procedures regarding documentation.

(v) lack of counselling and,

(vi) malafides of bank staff,

(g) lack of uniformity in bank charges—some of these are also perceived by customers to be high,

(h) customer being viewed as 'faceless' unit of business—and, the resultant absence of any meaningful banker-customer communication, and

(i) general attitude of unconcern and apathy for client.

6.73. The final Report of the group is an integrated report containing also the recommendations made in their Interim Report submitted to the Government in August, 1975. The Final Report, however, contains 176 recommendations.

6.74. In their letter dated the 31st March, 1977, addressed to the Secretary, Department of Revenue and Banking (Banking Wing), appended to the Report, the group have *inter alia* stated:

"At the stage of implementation of such of our recommendations as are accepted by the Government, we propse to appoint a team of 3/4 officials, who have done useful work for our Report and whose services will be available to various banks for the purpose of better understanding the spirit of our recommendations. This exercise is, in our view, necessary in the light of the implementation of our Interim Report."

6.75. The Committee note that a Working Group was constituted in March, 1975 to identify the problems effecting customer service in banks and to find out solutions. The Working Group submitted its interim report in August, 1975 in which it identified the critical service areas needing urgent attention. The Committee also note that the Chairman of public sector banks were advised to set up internal committees to implement the recommendations, and there has been satisfactory progress in implementation of the 86 out of 97 recommendations. The Government were still examining the remaining 11 recommendations in consultation with the Reserve Bank of India and were taking steps/decisions to formulate legislation for implementing recommendations which required legislation.

6.76. The Committee further note that the Working Group on Customer Service have submitted their final report to the Government in April, 1977. The final report which contains 176 recommendations is an integrated report

containing recommendations made in the interim report also. The recommendations are under examination of the Department of Revenue and Banking.

6.77. The Committee need hardly stress that the prime function of banks is the creation and delivery of customer-satisfying service. To accomplish this aim, banks have to be conscious of the aspirations and the needs of the community that they are expected to serve and endeavour to rise to the occasion by providing efficient and dedicated service to their clients. The banks have to realise that their task is to anticipate the needs of their customers and provide positive responses. The Committee desire that the Department of Revenue and Banking/Reserve Bank of India, on their part, should expedite examination of the recommendations of the Working Group on Customer Service and take immediate steps for implementation of the operative recommendations which have been accepted by them. The progress in implementation of recommendations should be watched by the Department/Reserve Bank in a purposeful manner so as to ensure that a spectacular change in the customer service in banks could be noticed by the clientele served by the banks, at the earliest.

NEW DELHI; SATYENDRA NARAYAN SINHA,

April 20, 1978. *Chairman,*

Chaitra 30, 1900 (*Saka*) *Estimates Committee.*

APPENDIX I

Aggregate Deposits (excluding inter banks deposits) of scheduled commercial banks in India

Name of Bank	Outstanding as on 18-7-69	27-12-74	26-12-75	Percentage Dec. '75 over Dec. '74	Increase Dec. '75 over Dec. '69
	(Rupees in crores)				
I. *State Bank of India (SBI) Group*	1259	3332	3821	14·7	203·5
1. State Bank of India.	969	2706	3102	14·6	220·1
2. Subsidiaries of SBI	290	626	719	14·9	147·9
II. *Nationalised Banks*	2626	6436	7667	19·1	191·9
1. Central Bank of India	442	952	1068	12·2	141·6
2. Bank of India	358	767	899	17·2	151·1
3. Punjab National Bank	358	777	885	13·9	147·2
4. Bank of Baroda	283	658	782	18·8	176·3
5. United Commercial Bank	203	443	494	11·5	143·3
6. Canara Bank	148	497	628	26·4	324·3
7. United Bank of India.	146	410	495	20·7	239·0
8. Dena Bank	125	294	336	14·3	168·8
9. Syndicate Bank	110	375	461	22·9	319·1
10. Union Bank of India	115	359	489	36·2	325·2
11. Allahabad Bank	114	228	269	18·0	136·0
12. Indian Bank	79	261	328	25·7	315·2
13. Bank of Maharashtra	78	202	250	23·8	220·5
14. Indian Overseas Bank	67	215	283	31·6	322·4
15. Total (Public Sector Banks)	3885	9768	11488	17·6	195·6
III. Other Indian Scheduled Commercial Banks.	301	1031	1303	26·4	332·9
IV. Foreign Banks	484	788	839	6·5	73·3
TOTAL (All Scheduled Commercial Banks)	4670	11587	13630	17·6	191·8

APPENDIX II

F. No. 9(7)/76-ESA

GOVERNMENT OF INDIA

DEPARTMENT OF REVENUE & BANKING

(Banking Wing)

To,

New Delhi, dated the 4th Sept., 1976

SUBJECT:—*Advances to neglected sectors of agriculture etc.*

Sir,

The question of enlarging share of neglected sectors in the aggregate bank credit extended by public sector banks has been raised at various forums, including the meetings of the Committees of Parliament. The Government have indicated to the Parliament that public sector banks would continue to make efforts to enlarge the flow of credit to the neglected sectors, so as to constitute at least 33 1/3 per cent of their aggregate outstanding credit as at the end of 5th Five Year Plan.

Statements containing bankwise data on the advances of public sector banks to the neglected sectors at the end of December, 1975 are enclosed. It would be appreciated if measures are initiated urgently to raise the proportion of advances to neglected sectors to the level indicated above as early as possible and in any case before the end of the 5th Five Year Plan period. The Government may be apprised of the steps being taken to secure the objective in view.

Kindly acknowledge the receipt of this letter.

Yours faithfully,

Sd/-

(KM. KUSUM LATA MITAL),

Joint Secretary to the Govt. of India.

APPENDIX III

State-wise classification of Public Sector Banks' credit to priority sectors—June, 1969 and December, 1975.

(Amount in lakhs of rupees).

Region/State	Total Priority Sectors				
	June, 1969		December, 1975*		Percentage increase in amount outstanding between June, 1969 and Dec. 1975
	No. of Accounts Units	Amount outstanding	No. of Accounts Units	Amount outstanding	
(1)	(2)	(3)	(4)	(5)	(6)
I. *Northern*					
Haryana . .	2523	707	85620	6460	813·7
Himachal Pradesh .	33	10	15733	491	4810·0
Jammu & Kashmir .	72	30	23233	798	2560·0
Punjab .	5524	1423	81769	12389	767·6
Rajasthan .	4548	625	95321	5673	807·7
Chandigarh .	86	344	3253	1205	250·3
Delhi . .	1988	899	21236	7027	681·6
TOTAL .	14774	4043	326205	34043	742·0
II. *North-Eastern*					
Assam .	428	187	33658	1744	832·6
Meghalaya .	46	7	4674	143	1942·9
Manipur	3		4074	103	..
Nagaland . .	4	2	333	35	1650·0
Tripura .	1	1	11084	146	14500·0
Mizoram . .			10	5	..
Arunachal Pradesh. . .	..	..	22	6	..
TOTAL	482	197	53855	2182	1007·6

* Provisional.

1	2	3	4	5	6
III. *Eastern*					
Bihar . .	1692	482	152060	8398	1642·3
Orissa . .	405	170	88711	2519	1381·8
West Bengal . . .	5224	2428	231873	14983	517·1
Andaman & Nicobar Islands.	4	..	1048	35	..
TOTAL .	7325	3080	473692	25935	742·0
IV. *Central*					
Madhya Pradesh	4991	1362	157639	8682	537·4
Uttar Pradesh .	8481	3227	305428	21957	580·4
TOTAL .	134722	4589	463067	30639	567·7
V. *Western*					
Gujarat . .	24309	3394	195725	20260	496·9
Maharashtra. . .	33426	10463	358428	43480	315·6
Goa, Daman & Diu	900	164	14995	1202	..
Dadra & Nagar Haveli. .	..	..	505	31	..
TOTAL . .	58635	14021	569653	64973	363·4
VI. *Southern*					
Andhra Pradesh . .	28132	3410	519510	17634	417·1
Kerala . .	16942	2754	420014	106460	286·6
Karnataka . .	58653	3572	526538	20884	484·7
Tamil Nadu . . .	60437	8220	720705	24556	198·7
Lakshadweep . .	—	—	175	2	..
Pondicherry . .	663	47	24306	647	1276·6
TOTAL . . .	164827	18003	2211328	74369	313·1
Union Territories. (not specified)	627	164	..	..	..
TOTAL (All India) . .	260142	44097	4097800	232141	426·4

*Provisional.

APPENDIX IV

Distribution of deposits and advances of Scheduled Commercial Banks according to population groups

(Rs. Lakhs)

Population Group	June, 1973			June, 1974			June, 1975		
	Deposits	Advances	C-D Ration (%)	Depoits	Advances	C-D Ration (%)	Depoits	Advances	C-D Ration (%)
1	2	3	4	5	6	7	8	9	10
1 Rural	65384 (7·1)	30857 (4·8)	47·2	83585 (7·7)	42740 (5·3)	51·0	102838 (8·1)	53624 (5·9	52·1
2 Semi Urban	213020 (23·8)	91355 (14·3)	42·9	243677 (22·7)	118307 (14·7)	48·6	281708 (23·3)	137165 (15·0)	48·7
3 Urban	232228 (25·4)	142818 (22·4)	61·5	266479 (24·8)	184697 (22·9)	69·3	310881 (24·6)	219788 (24·1)	70·7
4 Metropolitan . . .	405274 (44·2)	372555 (58·4)	91·1	81785 (44·8)	460783 (57·1)	95·6	568793 (45·0)	501834 (55·0)	88·2
TOTAL . . .	915906 (100·0)	637585 (100·0)	69·6	1075526 (100·0)	806527 (100·0)	75·0	1264220 (100·0)	912411 (100·0)	72·2

NOTE: Figures in brackets are per cent to total.

APPENDIX V

Distribution of Deposits and Advances of Scheduled Commercial Banks (Population Group-wise as on the last Friday of December, 1976.

(Amounts in Lakhs of rupees.)

Population Group.	Deposits.		Advances.		Credit/ Deposit Ratio
	Amount	% to total	Amount.	% to total	
(1)	(2)	(3)	(4)	(5)	(6)
Rural	1576,71	(8·96)	905,62	(6·71)	57·44
Semi-Urban . . .	3913,17	(22·24)	1862,06	(13·79)	47·58
Urban	4337,67	(24·65)	2774,46	(20·54)	63·96
Metropolitan . . .	7767,36	(44·15)	7960,71	(58·96)	102·49
TOTAL	17594,91	(100·00)	13502,85	(100·00)	76·74

APPENDIX VI

List of Regional Rural Banks

Sl. No.	Name of the Bank	District covered	Name of Sponsor Bank	Date of establishment
1	Prathama Bank, Moradabad (U. P.)	Moradabad	Syndicate Bank	2-10-1975
2	Gorakhpur Kshetriya Gramin Bank, Gorakhpur (U. P.)	Gorakhpur & Deoria	State Bank of India	2-10-1975
3	Haryana Kshetriya Gramin Bank, Bhiwani (Haryana)	Bhiwani	Punjab National Bank	2-10-1975
4	Jaipur Nagpur Aanchalid Gramin Bank, Jaipur (Rajathan)	Jaipur & Nagpur	United Commercial Bank	2-10-1975
5	Gaur Gramin Bank, Malda (West Bengal)	West Dinazpur, Malda and Murshidabad	United Bank of India	2-10-1975
6	Bhojpur Rohtas Gramin Bank, Arrah (Bihar)	Bhojpur & Rohtas	Punjab National Bank	26-12-1975
7	Samyut Kshetriya Gramin Bank, Azamgarh (U. P.)	Azamgarh & Ghazipur	Union Bank of India	6-1-1976
8	Kshetriya Gramin Bank, Hoshangabad (M. P.)	Hoshangabad & Raisen	Central Bank of India	20-1-1976
9	Tungabhadra Gramin Bank, Bellary (Karnataka)	Raichur & Bellary	Canara Bank	25-1-1976
10	Puri Gramya Bank, Pipli (Orissa)	Puri	Indian Overseas Bank	25-2-1976
11	Jammu Rural Bank, Jammu (J&K)	Jammu	The Jammu & Kashmir Bank Limited.	12-3-1976
12	Champaran Kshetriya Gramin Bank, Motihari (Bihar)	East Champaran & West Champaran	Central Bank of India	21-3-1976
13	Barabanki Gramin Bank Barabanki (U.P.)	Barabanki	Bank of India	27-3-1976
14	Gurgaon Gramin Bank, Gurgaon (Haryana)	Gurgaon	Syndicate Bank	28-3-1976

Sl. No.	Name of the Bank	District Covered	Name of the Sponsor Bank	Date of establishment
15	Rae Bareli Kshetriya Gramin Bank, Rae Bareli (U.P.).	Rae Bareli	Bank of Baroda	29-3-1976
16	Farrukhabad Gramin Bank, Farrukhabad (U.P.)	Farrukhabad	Bank of India	29-3-1976
17	Mallabhum Gramin Bank, Bankura (West Bengal)	Bankura, Purulia & Midnapur	United Bank of India	9-4-1976
18	Bolangir Anchalik Gramya Bank, Bolangir (Orissa)	Bolangir & Sambalpur	State Bank of India	10-4-1976
19	Nagarjunga Grameena Bank, Khammam (A.P.)	Khammam & Nalgonda	State Bank of India	30-4-1976
20	Pragjyotish Gaonlia Bank, Nalbari (Assam)	Darrang, Kamrup & Goalpara	United Bank of India	6-7-1976
21	Rayalaseema Grameena Bank, Cuddapah (A.P.)	Cuddapah & Kurnool	Syndicate Bank	6-8-1976
22	Malaprabha Grameena Bank, Dharwar (Karnataka)	Belgaum & Dharwar	Syndicate Bank	16-8-1976
23	Mayurakshi Gramin Bank, Suri, District Birbhum, (West Bengal)	Birbhum	United Commercial Bank	16-8-1976
24	Marathwada Gramin Bank, Nanded (Maharashtra)	Nanded, Parbhani, Bhir, Osmanabad.	Bank of Maharashtra	26-8-1976
25	Marwar Gramin Bank, Pali (Rajasthan)	Pali, Sirohi & Jalore	State Bank of India	6-9-1976
26	Bhagirath Gramin Bank, Sitapur (U.P.)	Sitapur	Allahabad Bank	19-9-1976
27	Sri Visakha Grameena Bank, Srikakulam (A.P.)	Srikakulam & Visakhapatnam	State Bank of India	30-9-1976
28	Cauvery Grameena Bank, Mysor (Karnataka)	Mysore	State Bank of India Mysor	2-10-1976
29	Shekhawati Gramin Bank, Sikar (Rajasthan)	Sikar & Jhunjhunu	Punjab National Bank	7-10-1976
30	Cuttack Gramya Bank, Cuttack (Orissa)	Cuttack	United Commercial Bank	11-10-1976
31	Bilaspur-Raipur Kshetriya Gramin Bank, Bilaspur (Madhya Pradesh)	Bilaspur & Raipur	State Bank of India	20-10-1976

32	Magadh Grmin Bank, Gaya (Bihar)	Aurangabad, Gaya & Nawada	Punjab National Bank	16-11-1976
33	Koraput-Panchabati Gramya Bank, Jaypor (Orissa)	Koraput	State Bank of India	13-11-1976
34	South Malabar Gramin Bank, Malappuram (Kerala)	Malapuram & Koshikod	Canara Bank	11-12-1976
35	North Malabar Gramin Bank, Cannanor (Kerala)	Cannanore	Syndicate Bank	12-12-1976
36	Rewa-Sidhi Gramin Bank, Rewa (M.P.)	Rewa & Sidhi	Union Bank of India	20-12-1976
37	Tripura Gramin Bank, Agartala (Tripura)	Tripura North, Tripura South, Tripura West, (Whole of the Tripura State)	United Bank of India	21-12-1976
38	Kosi Kshetriya Gramin Bank, Purnea (Bihar)	Purnea & Saharsa	Central Bank of India	23-12-1976
39	Himachal Gramin Bank, Mandi (Himachal Pradesh)	Mandi	Punjab National Bank	23-12-1976
40	Ballia Kshetriya Gramin Bank, Ballia (Uttar Pradesh)	Ballia	Cental Bank of India	25-12-1976
41	Sultanpur Kshetriya Gramin Bnak, Sultanpur (Uttar Pradesh)	Sultanpur	Bank of Baroda	8-2-1977
42	Uttar Banga Kshetriya Gramin Bank, Cooch-Bihar (West Bengal)	Jalpeiguri, Cooch Behar & Darjeeling	Central Bank of India	7-3-1977
43	Pandyan Grama Bank, Sattur (Tamil Nadu)	Rramanathapuram & Tirunelveli	Indian Overseas Bank	9-3-1977
44	Vaishali Kshetriya Gramin Bank, Muzaffarpur (Bihar)	Muzaffarpur, Vaishali & Sitamarhi.	Central Bank of India	10-3-1977
45	Monghyr Kshetriya Gramin Bank, Monghyr (Bihar)	Monghyr	United Commercial Bank	12-3-1977
46	Bundelkhand Kshetriya Gramin Bank, Tikamgarh (Madhya Pradesh)	Chatarpur & Tikamgarh	State Bank of India	26-3-1977
47	Santhal Parganas Gramin Bank, Dumka (Bihar)	Santhal Parganas	State Bank of India	30-3-1977
48	Hardoi-Unnao Gramin Bank, Hardoi (U. P.)	Hardoi & Unnao	Bank of India	7-6-197.

APPENDIX VII

F. No. 8(9)/76-Dev.

Government of India

Department of Revenue & Banking

(Banking Wing)

New Delhi, dated the 4th Sept. 1976.

To,

All the Public Sector Banks.

SUBJECT:—*Expeditious disposal of small loan applications.*

Sir,

At the third meeting of the Regional Consultative Committee—Central Area, held at Bhopal on June 19, 1976, the question of expediting the processing of loan applications received by the bank branches came up for consideration. It was decided that loan applications involving credit limits of Rs. 10,000 or less should be finally disposed of by bank branches within a period of 3-4 weeks from the date of the receipt of such applications.

It would be appreciated if suitable instructions in this regard are issued to all the branches and the measures followed up.

Kindly acknowledge the receipt of this letter.

Yours faithfully,

Sd/-

(J. C. ROY),

Director.

APPENDIX VIII

Rates of interest on deposits payable by Scheduled Commercial Banks (effective from 23-7-1974)*

Deposit Category	(Per cent per annum)
A. *Current Deposits*	*Nil*
B. Savings Deposits	5·04
C. *Term Deposits*	
1. Up to 14 days.	Nil.
2. For deposits for 15 days to 45 days.	0·3
3. For deposits for 46 to 90 days.	3·5
4. For deposits for 91 days and above but less than 6 months.	5·5
5. For deposits for 6 months and above but less than 9 months.	6·0
6. For deposits for 9 months and above but less than 1 year.	7·0
7. For deposits for 1 year and above but less than 3 years.	8·0
8. For deposits for 3 years and above but up to and inclusive of 5 years.	9·0
9. For deposits above 5 years	10·0

*Scheduled Commercial Banks with demand and time liabilities of less than Rs. 25 crores are allowed to pay, at their discretion, a rate higher by 0·25 per cent per annum on term deposits up to and inclusive of 5 years. The per annum rate of interest for deposits above 5 years will be only 10 per cent.

Scheduled Commercial Banks incorporated in India and having aggregate demand and time liabilities of Rs. 10 crores and above but less than Rs. 25 crores shall pay interest at 5·25 per cent per annum on their savings deposits. Scheduled Commercial Banks incorporated in India and having aggregate demand and time liabilities of less than Rs. 10 crores will pay interest at the rate of 5·50 per cent per annum on deposits maintained in savings accounts.

NOTE: The Regional Rural Banks shall pay interest at rates higher by 0·50 per cent per annum over the prescribed rates on their term deposits for periods up to and inclusive of 5 years.

APPENDIX IX

Summary of Recommendations/Conclusions contained in the Report

Sl. No.	Reference to Para No. of the Report	Recommendations Conclusions
1	2	3
1	2.13 2.16	The Committee note that during the Fourth Plan, the average increase of deposits of public sector banks was to the extent of Rs. 996 crores per year. For the Fifth Plan the share of the public sector banks for the resource mobilisation is of the order of 9000 crores which works out to an increase in deposits at the rate of Rs. 1800 crores per year. The Committee would like to observe that this rate of increase would be deflated if the price-rise is taken into consideration. The Committee, however, note that the performance of the various nationalised banks in deposit mobilisation during the year 1975 varied widely. The performance of some of the banks has been commendable. These banks included Union Bank of India which recorded an increase of 36 per cent followed by Indian Overseas Bank with an increase of 31.6 per cent. The Committee suggest that the schemes and promotional technique adopted by these banks may be commended for adoption by other nationalised banks also in order to improve their performance. The Committee also suggest that the reasons for deficiencies in the performance of the banks which have recorded comparatively lower percentage in deposits, may be studied and remedial action taken.
2	2.17	The Committee note that the increase in deposits during the year 1975 approximated to the annual increase of Rs. 1800 crores envisaged for the Fifth Plan. The percentage increase in deposits during the period of 18 months from January, 1976 to June,

1	2	3
		1977 also exceeded their annual target. The Committee hope that the banks would continue to devote special attention to the mobilisation of public savings schemes and giving publicity to them. The Committee also desire that the Reserve Bank should keep a close watch over the fulfilment of the targets by the nationalised banks in order to take remedial measures in cases where the performance of banks has not been satisfactory.
3	2.18 2.19	The Committee note with concern that though the Commercial Banks have been relatively successful in deposit mobilisation in rural areas, their credit dispensation in rural branches has not been adequate as compared with urban and metropolitan areas. The figures as at the end of December, 1976 show that the deposits of the scheduled commercial banks in respect of rural population group rose to Rs. 1576 crores while the advances increased to Rs. 905, the credit deposit ratio being 57.44 per cent. The comparative figures in respect of urban and metropolitan population groups for the same period show that their deposits increased to Rs. 4337 crores and Rs. 7767 crores respectively while the advances rose to Rs. 2774 crores and Rs. 7960 crores respectively, the credit deposit ratio in these groups being 63.96 per cent and 102.49 per cent respectively. It is a matter of concern that rural branches of banks which operate in weaker areas of the country, far from being media of transmission of funds from centres of money markets to agricultural economy, are providing to be instruments for reverse transmission of funds from rural areas to the urban areas and metropolitan centres.
		The Committee are unhappy at this reverse transmission of funds from rural areas to urban areas which goes against the concept behind the nationalisation of banks and pronounced policy of Government to improve the rural economy and direct funds from the central money markets to agricultural economy and other priority sectors. The Committee,

1	2	3
		therefore, stress the urgent need to arrest this reverse trends so that the funds generated in the rural areas are deployed largely for the development of these areas. The Committee consider it of the utmost importance that the deposit mobilisation schemes for rural and under-developed areas should go hand in hand with the formulation of development schemes and district plans so that the funds mobilised from the rural areas are utilised for the development and uplift of these areas.
4	3.34	Government had enjoined on the public sector banks the duty to initiate appropriate action for stepping up advances to priority sectors in a planned and systematic manner so that overall target of lending to the priority sectors i.e. 33.3 per cent of aggregate advances is achieved by the end of 1978-79. As regards the question of making a total assessment of the credit requirements of the priority sectors the Secretary, Banking Wing, informed the Committee that several district plans had already been prepared. While a district plan gives an idea about the need for credit to a district, the sum total of these district plans would not constitute the national credit plan. The National Credit plan has to take into account certain macro-variables (*i.e.* factors that affect monetary expansion) and assess the extent of credit expansion that economy can tolerate without inducing inflation. Government would, therefore, have always to change the total credit in order to keep it on an even level, while dealing with the larger objective of keeping inflation under control. According to Ministry, while the district credit plans are useful they can act only as sign-posts for the types of lending at the district level. While the Committee appreciate that Government have to keep credit expansion under watch with a view to keeping inflation under check, they need hardly stress that credit restraint measures should not adversely affect the flow of credit to the weaker sections of society who have suffered deprivation of these facilities for decades and it should be

1	2	3
		ensured that the target of lending 33.1/3 per cent of aggregate advances to the priority sectors by the end of 1978-79 is fulfilled.
5	2.35	The Committee feel that Government should also have a realistic estimate of the credit needs of the priority sectors and formulate an integrated plan of action to meet their credit requirements. Changes in the integrated Plan if considered necessary, could be made as and when an occasion arises. The Committee emphasise that an integrated plan of action for meeting the credit needs of the priority sector should be finalised expeditiously. This plan of action should also aim at reduction imbalances in the credit distribution in the various regions of the country.
6	2.36	The Committee note with concern that notwithstanding the concerted efforts made by the 14 major Indian Scheduled Banks to increase their lending to agriculture and other priority sectors, the major share of the amount of loans was availed of by comparatively bigger farmers and the small farmers and agricultural labourers could not utilise the loan facilities to the desired extent.
	2.37	The Committee are unhappy at this trend. They cannot too strongly stress that the nationalisation of banks would have a real meaning and impact if the credit requirements of the weaker sections of society and small/marginal farmers and agricultural labourers are adequately met. The Committee would like Government to ensure that effective and determined measures are taken by the banks to meet the credit needs of the small|marginal farmers as well as the weaker sections of society in the country.
7	2.38	The Committee note that regional rural banks are being set up to cater to the credit requirements of small|marginal farmers, rural artisans and landless labourers etc. The Committee would like a close watch to be kept on the working of these banks

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		specially the opening of new branches to ensure that the object of meeting the credit needs of the weaker sections and persons of small means in the deep rural areas is being really achieved by these banks. Corrective measures should be taken contemporaneously in the light of experience gained in the working of these banks.
8	2.39	The Committee note with regret that the Government of India have no information relating to the Credit needs of rural population particularly of different categories of agriculturists, rural artisans. Attempts have however been made through decennial All India Rural Credit and Investment Survey since 1951-52 to quantify the credit needs of rural population. The Committee note that lately the All India Debts and Investment Survey put their aggregate debt position as on 30th June, 1971 at Rs. 3848 crores. The Committee are of the view that it is necessary that the quantum of rural indebtedness is known to the Government in precise terms so that concrete measures could be taken to eradicate this ever increasing menace in the life of rural poor. The Committee desire that the surveys conducted in this regard should throw up meaningful data and these should be conducted every five years so that the information could be utilised while drafting the plans. The last survey was undertaken in 1971-72. Government should loose no time to have an other survev conducted with a view to taking concrete measures during the next plan towards providing adequate funds to meet the credit needs of the rural sector.
9	2.40	The Committee have been informed that recently the National Commission on Agriculture (1976) assessed the graduate requirements for various programmes of agriculture developments by 1985 at Rs. 9400 crores which *inter alia* include Rs. 4000 crores for short term loans and Rs. 5000 crores for medium and long term loans. By 1985 the Com-

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		mission expects the Cooperative sector to reach the level of agricultural lending at Rs. 4250 crores and the Commercial banks at Rs. 4050 crores. It has been estimated that by 1985 the cooperative sector would be able to meet the full needs of agriculturists having irrigated land and 60 per cent in case of those owning unirrigated land. The Committee desire that the estimates made by the National Commission on Agriculture regarding the credit requirements for agricultural development by 1985, should be carefully considered while drawing up roles of the cooperative sector and the commercial banks in meeting the requirements of the agriculturists.
10	2.53	The Committee are concerned to note that although the Department of Revenue and Banking had stated in October, 1974 that the public sector banks were being requested to take necessary steps in that regard, it was only in September, 1976 that a circular was issued to the public sector banks advising them to intensify their efforts for enlarging the flow of credit to the hitherto neglected sectors so that by the end of the Fifth Plan, they could account for 33.1|3 per cent of their aggregate advances to these sectors. The Committee desire that the reasons for delay of more than two years in issuing instructions to the banks may be enquired into and the Committee apprised of the action taken. The Committee would also like to be informed of the arrangements made to ensure that a lapse of such serious nature in following up an assurance to the Committee by concrete action does not occur again.
11	2.54	The Committee are distressed over the slow rate of increase in the percentage of advances to the priority sectors as compared to the total advances. The percentage has only increased from 24.3 in June, 1973 to 25.5 at the end of June, 1976 though it touched 27.9 per cent mark at the end of December, 1975 the net increased being 1.2 per cent in three years, which is the lowest since nationalisation of banks. Further the figures as at the end of March,

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		1976 and March, 1977 indicate the advances to this Sector at 25.7 per cent and 26.9 per cent respectively of the total advances made to this sector. This shows a declining trend in the advances to this Sector after December, 1975 when this percentage had reached 27.9 per cent mark. The Committee are doubtful whether the banks will be able to achieve the target of 33.1|3 per cent by the end of 1978-79, if the rate of increase continues to be as low as in the past three years.
	2.55	The Committee are not satisfied with the explanation given for the low rate of growth of credit to priority sectors by the Department that banking system was called upon to shoulder large advances for food procurement and storage during the period. In the opinion of the Commitee this development should not have been allowed to affect adversely the credit needs of the priority sector. They would like Government to ensure that determined and concerted efforts are made by the banks to increase the percentage of credit to priority sectors so that the target of 33.1|3 per cent is achieved by the end of the 1978-79. A close watch should be kept on the progress made in this regard so that remedial steps may be taken in time, as necessary. It should be ensured that banks both in rural and metropolitan areas are geared to lendings to priority sectors and remedial action should be taken specially in case of lendings by the banks in the metropolitan sectors.
12	2.66	The Committee were informed that different Public Sector banks were aware of the importance of performance budgeting and were taking requisite steps for its implementation. The National Institute of Banks Management set up a Review Committee for the purpose of evaluating the work done by the banks for implementation of the system of performance budgeting and drawing up plans for future action and giving requisite guidance to banks. The Institute has also conducted from time to time training programmes by training of key personnel of

1	2	3
		banks in the techniques of performance budgeting. Currently, the Institute is engaged in an evaluation study of the system operating in the State Bank. The Committee were informed that though the principle behind the system of performance budgeting and techniques pertaining thereto are understored at all levels, application of these techniques on the part of large number of branch managers and other still requires considerable degree of refinement.
	2.67	The Committee need hardly emphasise the importance of preparation of performance budgets by the banks on right lines as they provide an effective instrument for realistic planning, management control and appraisal of achievements. The Committee would therefore like the Ministry to ensure that performance budgets are prepared by all banks regularly and in time. Any deficiencies in the preparation of the budgets should be brought to the notice of the banks concerned with a view to improving them. The Committee further stress that there is also a need for effecting continuous improvement in the preparation of performance budgets in the interest of correlating monetary and physical targets and for evaluating achievements.
	2.68	The Committee note that the National Institute of Bank Management had appointed a Review Committee for evaluating the work done by the banks for implementation of the system of performance budgeting and draw plans for future action and give requisite guidance to the banks. They further note that this Institute is planning further review in the light of the experience gained. A performance budgeting workshop to discuss devising of common format for all public sector banks for preparation of performance budgets in a uniform manner was held by the NIBM in December, 1977. The Committee trust that the National Institute of Bank Management must have by now finalised the common format for the purpose. The Committee desire that the

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		NIBM would lose no time in preparing guidelines for the preparation of performance budgets by the banks so that these budgets contain vital and meaningful information and are prepared on right lines.
13	2.82 to 2.85	The Committee note that the guidelines have been framed by the Tandon Committee on follow-up of bank credit. The Committee hope that the implementation of the recommendations of the Tandon Committee on follow up of Bank Credit would go a long way in ensuring that the funds advanced to the large borrowers are used for the purpose for which they were advanced and not for unsocial and unproductive uses. The Committee need hardly emphasise that the Central Committee of Direction set up by the Reserve Bank and similar Committees set by other banks should function effectively so as to see that the recommendations of the Tandon Committee which have been accepted by the Reserve Bank are implemented by all banks in letter and spirit in right earnestness. The Committee desire that the Central Committee of Direction of the Reserve Bank should keep a close watch on implementation of the recommendations and scrutinise the progress reports furnished by the banks in an objective manner and resolve the problems faced by banks in implementing the Tandon Committee recommendations. It should also be ensured that the progress reports are furnished by all banks regularly. The Committee would like this important aspect to be specifically dealt with in the annual reports of the Banks, including the consolidated Report on the Banks in the public sector which are laid on the Table of the House.
14	2.93	The Committee note that the banks have taken several organisational and other measures to see that the concessions meant for weaker sections with regard to bank credit are not misused by ineligible borrowers. Banks have also been expending the number of their offices in relatively backward areas

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		and have set up special cells in the Head Offices to guide the branch staff in the matter of identifying eligible borrowers and channelising large flow of credit under the various schemes. With a view to reducing incidence of corruption and taking effective deterrent action against delinquent officials, all the nationalised banks have set up vigilance cells in their organisations. All banks have also accepted the jurisdiction of the Central Vigilance Commission. A Vigilance Cell has been set up in the Department of Banking to coordinate and oversee the working of vigilance units in different public sector banks and maintain liaison with the Central Vigilance Commission and Central Bureau of Investigation. Besides a system of voluntary registration of small scale industrial units has been introduced under which before sanctioning loans, banks verify the antecedents of the applicants to find out bonafide of the entrepreneurs. For this purpose a proforma has been prescribed by the Ministry of Industry. The Committee emphasise that more intensive supervision from the regional level should be effected and all cases of misuse of concessions available to the weaker sections should be dealt with promptly and sternly and loopholes coming to notice should be plugged.
15	2.101	The Committee note that in the wake of inflationary pressures the Reserve Bank have to exercise maximum possible restraint on credit creation, while ensuring at the same time that both the quantum and distribution of credit will be conducive to augmenting production and achievement of social and economic objectives. The Committee have been assured that the policy of credit restraint followed by the Reserve Bank of India has not affected the flow of credit to weaker sections of society, which has shown a rising trend. The Secretary, Department of Banking also assured during evidence that it would be impressed on the banks that priority sectors should be insulated from the operations of policy of credit squeeze. The Committee would like Government to issue guidelines in this regard

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		and keep the position under continuous review so that the genuine requirements of the weaker sections of the society are not adversely affected by the credit restraint policy of the Reserve Bank.
16	2.102	The Committee note that banks have been asked among other things, to review their organisational machinery, delegation of loan sanctioning powers and streamline procedures to ensure expeditious disbursement of loans. Instructions have also been issued to secure disposal of loan applications involving credit limit of Rs. 10,000 or less within a period of 3-4 weeks. While noting these measures which are well intentioned, the Committee would like a watch to be kept so that these are implemented by the banks in letter and spirit.
17	2.113	The Committee note that although the percentage increase in the amount outstanding on account of public sector banks credit to priority sector, between June, 1969 and December, 1975 has been 1007.6 per cent in the North Eastern regions, 567.7 per cent in the Central region, 363.4 per cent in the Western and 313.1 per cent in the Southern region, the amount of outstanding credit varies very widely in these regions which ranges from Rs. 21.82 crores in the North Eastern region to Rs. 743.69 crores in the Southern region. Moreover, there is also wide disparity in the amount of outstanding credit to the priority sector at the end of December, 1975 between the various States. The outstanding credit in the States with less population is far more than that in the more populous States. For example, the amount of outstanding credit at the end of December, 1975 was Rs. 434.80 crores in Maharashtra, Rs. 295.56 crores in Tamil Nadu, Rs. 208.84 crores in Karnataka, Rs. 219.60 crores in Gujarat, while it was only Rs. 219.57 crores in Uttar Pradesh, Rs. 86.82 crores in Madhya Pradesh, Rs. 83.98 crores in Bihar and Rs. 56.73 crores in Rajasthan, Rs. 17.44 crores in Assam and Rs. 149.83

1	2	3
		crores in West Bengal. It is thus obvious that the development of these States has suffered adversely in the absence of adequate bank credit.
	2.114	The Committee realise that the deployment of bank credit is, to an extent, determined by the level of economic activity obtaining in different regions of the country particularly the organised sector of trade and industry. At the same time, the Committee feel that if these considerations continue to determine the deployment of bank credit, the gap in the quantum of bank credit in these States will not only tend to perpetuate but is likely to grow further.
	2.115	The Committee need hardly stress that one of the major roles of nationalised banks is to narrow down the regional imbalance and to ensure an equitable distribution of bank credit among the various States. Evidently the banks have not fulfilled this task to any significant degree. The Committee therefore recommend that the banks should take a lively and positive interest in the development of industry, trade and economic activity in the backward states and regions and should bring forward attractive schemes of advancing bank credit in these areas to generate additional industrial and economic activity. The Committee would also like Government to issue suitable instructions to the public sector banks to take more direct interest in the matter so that not only the gap in advancing credit to the various States is abridged but there is more equitable distribution of credit among the various States and regions.
	2.116	The Committee note that the Planning Commission has declared 237 districts as industrially backward districts in the country. As at the end of December, 1974, the total deposits of the scheduled commercial bank branches in these districts amounted to Rs. 2465.49 crores, accounting for 21.2 per cent of the total deposit of Rs. 11611.80 crores. Against this, the aggregate advances of scheduled commercial banks in these districts amounted to Rs. 1189

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		crores, accounting for 14.3 per cent of the aggregate advances *i.e.,* Rs. 8249 crores. The percentage of total advances in this sector further declined to 13.6 per cent of the total advances as at the end of June, 1976. It is argued that deposit ratio in underdeveloped regions can significantly be changed only over a period of time, depending on the additional economic activity generated by the plan programmes. The Committee, however, feel that the scheduled commercial banks have a special responsibility for the development of these backward districts. They are expected not only to advance credit equal to the deposits of these districts but even to increase the quantum of credit beyond their deposits to bring about a rapid economic transformation in these areas. The Committee would like concrete steps to be taken in this regard. The Committee recommend that the backward districts should be made the focus of development by Government as well as the banks and the pace of development in these districts should be accelerated by channelising more and more credits for productive purposes in these areas.
19	2.117	The Committee note that 48 Regional Rural Banks have been set up in the country and 86 industrially backward districts have been covered by their activities. The Committee feel that the scheduled commercial banks/public sector banks, regional rural banks and other lending institutions should work in a coordinated manner so as to bring about the economic development in the backward districts and also remove the credit imbalances between the various regions and States. The Committee would like to emphasise that apart from other measures, providing the banking facilities in the unbanked and underbanked areas in the backward districts/States in a planned manner may also go a long way in helping in the development of those areas. It is well known that the regions/States which are poorly served by the banking system, do not develop at the

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		same pace as other regions|States which comparatively have more banking facilities. The Committee would, therefore stress that in the programme of branch expansion, priority may be accorded to the opening of new bank branches in the comparatively unbanked and under-banked areas as per a well researched plan based on socio-economic surveys to be carried out in that behalf. Specific mention of the progress made in this regard should be made in the Annual Report of the Department of Revenue and Banking.
20	3.35	The Committee note that the banks are now working out three year rolling plans for branch expansion. While the plan for the first year is fairly detailed and indicates the names and other particulars of the centres where a bank proposes to open branches, the plan for the remaining two years is an aggregated terms. After the completion of one year, a fresh three year plan is prepared. Moreover, while sanctioning branch expansion, the objective of reducing the inter-State and inter-district inequality in the mater of availability of banking service is also taken care of. The Committee suggest that a periodical review should be carried out to ensure that inter-state, inter-regional and inter-district disparities in branch expansion are reduced at the earliest. They would like the Department of Banking/RBI to oversee and coordinate the follow-up action taken by the various banks in reducing the disparties area-wise potential-wise.
21	3.36	The Committee note that all the Public Sector Banks have submitted their perspective plans for branch expansion for the period 1977-79 but there has been considerable delay in submission of the reports by some of the banks. The Committee, desire that a time limit for the submission of the perspective plans be laid down and it may be ensured that the plans are received in time so that these can be scrutinised by the authorities concerned and decision

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		taken for opening branches in unbanked rural centres expeditiously.
22	3.37	The Committee note that banks have been advised to open branches where they have undertaken|propose to undertake financing by special schemes with refinance assistance from the International Development Association, Agricultural Refinance Development Corporation etc. also in Adivasi and tribal belts. The Committee further note that against the target of opening 5000 branches during the period 1975-77, the banks had opened 6704 offices upto 30 June, 1977. As on 30 June, 1977 banks had about 3004 licences|allotments pending with them the Committee are concerned over the large number of licences pending with banks. The Committee desire that reasons for these licenses being pending may be analysed and if necessary reallocation of new bank offices/branches in the overall interest of development in a particular area may be considered. They further desire that the opening of new offices, particularly in rural and unbanked areas, underbanked and backward districts and States may be expedited.
23	3.38	The Committee informed that in the wake of nationalisation in a determined bid to expand bank services in hitherto neglected and backward areas, banks had launched a massive programme of branch expansion in these areas. But in subsequent years, the banks adopted a more selective approach, with a view to balancing the financial, organisational and manpower limitations *vis-a-vis* the requirements of the rural areas. With the massive coverage in the initial years of the unbanked centres which offered growth potential, the banks were left with comparatively difficult areas to be covered in the subsequent years. Besides, having low population many of the unbanked centres lacked basic infrastructure facilities like approach roads, suitable premises etc. The Committee are not convinced by the reasons advanced for slowing down the growth rate of bank branches in

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		rural and semi-rural areas. They feel that with proper initiative and drive and close co-ordination with State Governments, the minimum infrastructure facilities can be provided at most of the unbanked centres, in rural areas. They, therefore, stress that determined efforts may be made with due regard to the economic factors to open branches in rural areas in the interest of their rapid development and consequential availability of employment opportunities.
24	3.39	The Committee note that as at the end of June, 1977 the total number of Community Development Blocks in the country which had no banking facilities, numbered about 544. The number of unbanked community development blocks is 90 in U.P., 104 in Bihar, 62 in Orissa, 107 in Madhya Pradesh and 33 in West Bengal. It is a moot point whether the lack of banking facilities has not come in the way of equitable development of these States. The Committee desire that more serious attention should be paid to providing banking facilities in these States.
	3.40	The Committee note that banks advised to ensure that all unbanked community blocks are provided with atleast one bank branch by June, 1978. The State level Bankers Committees have been asked to draw up an agreed and time bound programme of branch expansion in these unbanked blocks and keep a watch over the implementation of the programme. The Committee also note that according to the latest policy announced by the Reserve Bank of India in December, 1976, out of every 6 branches opened by banks, at least 4 must be in unbanked areas. The Committee welcome this change in emphasis in opening new branches. The Committee consider that provision of banking facilities is one of the important infrastructure for development. It is therefore imperative that suitable institutional arrangements for banking may be made in rural areas. The Committee desire that the banking facilities in the unbanked Community Development Blocks in the States should be provided on priority basis.

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	3.41	The Committee desire that the Department of Banking and the Reserve Bank of India may keep a close watch over the progress of preparation and implementation of a time bound programme for opening bank branches in unbanked blocks and ensure that all unbanked community blocks are provided with at least one or more bank branches by June, 1978.
25	3.42	The Committee suggest that in the establishment of bank branches, the availability of only the barest minimum infrastructure may be insisted upon. In cases where such infrastructure may not be available, concerted efforts may be made to arrange for such facilities being provided at the earliest through the State/district authorities.
26	3.43	In paragraph 3.15 of their 62nd Report the Committee had recommended that the classification of rural areas might be revised with a view to classifying centres with population upto 5000 as rural instead of the present limit of 10,000. The Committee have been informed that while the existing classification is being retained unchanged, the present branch expansion is directed towards opening more and more branches at centres with less than 5000 population. The Committee feel that if more bank branches are to be opened in rural centres with less than 5000 population, there should be no difficulty in changing the classification of rural areas as desired by them. They, therefore, reiterate that in order to put the position beyond any doubt, necessary amendment may be made in the existing classification of rural areas.
27	3.44	The Committee were informed by the Ministry that the regional disparities in the matter of utilisation of bank credit are not the cause but the effect of more basic imbalance which cover much wider and fundamental facets of economic development, such as natural endowments, transport, communications, power, entrepreneural aptitude of the people, availa-

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		bility and size of markets etc. These were the factors which basically determined the economic activity as also the absorbtive capacity of bank credit. While the Committee agree that the credit deposit ratio in underdeveloped regions/States is related to the economic activity generated in those areas, they feel that the banks have a significant role to play in this behalf. The Committee desire that banks should intensify efforts to introduce suitable bankable schemes in these regions/States to suit the special needs and make available requisite finance for such bankable development scheme.
28	3.45	The credit-deposit ratio in rural areas worked out to 57.4 per cent as against 102.49 per cent in metropolitan areas, during the year ending December, 1976. It is thus evident that the advances made by the banks to rural areas continue to be very low as compared to metropolitan areas. The Committee would like to sound a note of caution that the Government should guard against the deposits from rural areas being diverted to meet the credit needs of metropolitan and other urban areas at the cost of rural areas. It is distressing that the rural areas where there is a crying need for development, should remain neglected and should lack even the absorptive capacity of the deposits generated there, with the result that even the deposits mobilised in backward and rural areas find way to urban areas thereby accentuating the disparities further. The Committee cannot too strongly stress that the banks should identify the economic and industrial potentialities of the backward and rural areas in conjunction with the State authorities concerned and assist them in availing of the credit facilities in larger measure to implement suitable developmental schemes. The Committee desire that not only the deposits generated in the rural and backward areas may be utilised there but necessary additional funds may be made available for development of these areas in the interest of narrowing the marked disparities in the level of development obtaining at present.

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	3.46	While the Committee appreciate that banks assistance is also given for rural purposes by investing in State Government Securities and debentures, State Finance Corporation Bonds, rural electrification etc., this should not slacken the efforts of rural branches of banks to step up the level of direct advances to rural sector
29	3.47	The Committee have been informed that the branches in urban and metropolitan areas started making profit in about 5 years' time whereas rural and semi-urban branches required a relatively longer gestation period. Low deposit credit ratio, higher operational cost, relatively poor business, particularly in rural branches have *inter alia* been identified to be the main causes leading to loss. The Committee cannot too strongly emphasise that concerted measures should be taken by the banks to observe utmost economy and effect necessary improvements in the branches which are running at a loss so as to put them on a sound footing.
	3.48	The Committee note that on the basis of a survey of some branches working at a loss conducted by the Reserve Bank of India, instructions were issued to banks to effect improvement in the functioning of these branches. The Committee desire that the Reserve Bank, the Department of Banking make suitable arrangements for continuous monitoring of getting feed-back information with a view to ensuring that the guidelines issued by them for improving the working of the loss making branches are actually followed by the banks and perceptible improvement is brought about in their working.
30	3.49	The Committee desire that no new branch opened in the rural areas should be allowed to be closed down. Periodical review of the working of loss making branches should be carried out with a view to analysing the reason for losses and taking remedial measures.

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	3.50	The Committee also emphasise that with a view to ensuring development of rural sector proper co-ordination should be established by commercial banks with Regional Rural Banks and State Government authorities at regional and district levels in promoting banking facilities in rural areas.
31	3.51	The Committee suggest that the Department of Banking may consider the question of introducing suitable built-in incentives in the wages of employees in order to encourage them to play a more dynamic role in improving the working and business of the banks and serving the people. The performance of the employees in this regard may also be suitably reflected in their service records. The Committee hope that this question would be subject to a careful study.
32	3.77	The Committee have been informed that the lead banks have since completed surveys of all the 338 districts covered under the scheme and that these survey reports have yielded useful bench-mark data relating to growth centres, credit gaps occupational structure, main crops and several other economic and social aspects. The District Consultative Committees have been set up in all districts excepting 4 districts of Meghalaya and 2 districts of Andaman and Nicobar islands. But the credit plans have so far been prepared in respect of 179 districts as per progress reports for the period ended 31 December, 1976 and these plans have been launched for implementation in 68 districts. For the remaining districts the plans are at various stages of preparation and were expected to be completed by March, 1978.
	3.78	The Committee are concerned at the slow progress made in the preparation of credit plans by the banks. The Committee urge that determined efforts should be made by the Department and the Reserve Bank to ensure that remaining credit plans are finalised as scheduled and are launched for implementation

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		without any loss of time. A close watch should be kept over the progress made in the formulation of these plans so that remedial measures are taken wherever necessary at the earliest. The Committee hope that the district credit plans are being formulated by the banks with the necessary co-operative support and approval of all the participating institutions and developmental agencies so that viable schemes of investments and devlopment are identified and there is no problem in their implementation within a time bound programme.
	3.79	The Committee need hardly stress that the schemes included in the credit plans should be implemented within a time bound programme and a periodical review be made to watch the implementation of the schemes.
33	3.80	The Committee note that based on the suggestions of the study groups on the lead bank scheme in the States of Gujarat and Maharashtra, a High Powered Committee had been constituted in the Reserve Bank with one of the Deputy Governors as the Chairman. Pursuant to the recommendation made by the High Powered Committee, the Reserve Bank has suggested to the State Governments to set up focal points in the form of cells at the State Government level and district levels to maintain effective liaison between the lead banks and the State Government at the State and District levels. The Committee desire that the setting up of the cells should be vigorously pursued with the State Governments for the effective implementation of the lead bank scheme.
34	3.81	The Committee have been informed that the progress reports for the period ended June, 1976 as well as subsequent ones for the half-year ended 31 December, 1976 have been received by the Reserve Bank from the lead banks in respect of all the districts allotted to them except 25 lead districts for the latter half year, or the half year ended 30 June, 1977 the

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		Reserve Bank have so far received reports in respect of 126 districts only. Only 8 banks have submitted reports in respect of the 56 districts allotted to them, 3 banks have submitted reports in respect of 70 districts out of 95 districts allotted to them and the remaining 13 banks have not so far submitted reports in respect of any of their lead districts. The Committee take a serious view of the delay in submission of progress report by banks. They desire that the need for timely submission of progress reports should be impressed upon defaulters.
	3.82	The Committee note that scrutiny of the progress reports for half year ended June/December 1976 has revealed many deficiencies. The Committee would emphasise that the R.B.I. should prepare a format for these report indicating the various aspects on which information is desired and insist on timely submission of the progress reports which should be complete in all respects. These reports should be critically examined by the Reserve Bank with a view to arriving at definite conclusions and issuing suitable guidelines for the effective implementation of the scheme.
35	3.83	The Committee note that two study Groups appointed by the Reserve Bank on the working of the Lead Banks Scheme in Gujarat and Maharashtra have in their report (December, 1975), identified various deficiencies and drawbacks in the functioning of the District Consultative Committees. According to the Study Groups effective rapport between the lead banks and the Government authorities at the district level which is an important pre-requisite for operation of the scheme, had not been fully established. The Working Group have laid down guidelines for revitalisation of the District Consultative Committees. The Committee desire that a close watch should be kept to ensure that the guidelines are followed by all lead banks for the strengthening of these Consultative Com-

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		mittees, and that necessary rapport between the banks and other development authorities is established at the district level.
36	3.84	The Committee have been informed that the Reserve Bank have advised the lead banks in March, 1976 to associate non-officials at least in one district and report the assessment about their contribution to the deliberations of the District Consultative Committee by the middle of May, 1977. The Committee feel that the association of members of weaker section in these committees would help in high lighting their problems at this forum. They would therefore like their representatives to be associated with these committees.
37	3.85	The Committee note that the designated banks have been asked to constitute State level Bankers' Committee so that State level problems requiring consideration from the banking system at least at the middle management levels and problems remaining unresolved at the district levels, could be sorted out by the Zonal/Regional Managers of the banks at the meetings and necessary guidelines/instructions issued to the bank branches. Such Committees have been organised in all the States. The Committee hope that these State level bankers' Committee will be effective in resolving the various problems which remain unresolved at the district levels.
38	3.86	The Committee note that High Powered Committee at its second meeting decided to have a 3-tier programme of training of bank officials in consultation with the National Institute of Banking Management (NIBM) at the national level, State level and district level in order to bring about better appreciation and understanding of the objectives of implementation of the lead bank scheme by the State Government officials and those from the commercial banks. Initially it is proposed to arrange for such training programme in the State of Uttar Pradesh and West Bengal in the

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		first half of 1977. Subsequently, the Ministry informed in November, 1977 that the NIBM was expected to start the training programme in the State of Uttar Pradesh soon and after the planning of the Uttar Pradesh Programme was over, NIBM would take up similar steps in West Bengal. The Committee trust that the training programme has been organised in the States of Uttar Pradesh and West Bengal. They desire that based on the experience gained from the training programme in the States of Uttar Pradesh and West Bengal, the same would be extended to other States, with suitable modifications wherever necessary.
39	3.107	The Committee note that according to information received in November, 1977, 48 regional rural banks have been established in 16 States covering 87 districts. The Committee have been informed that the criteria adopted for locating these banks in the various areas are, presence of adequate developmental potentialities, weak cooperative credit structure and inadequate coverage by commercial banks. The Committee desire that based on the experience of working of the regional rural banks, some of which were set up in 1975, the Steering Committee which is responsible for monitoring the programme of rural banks, may undertake a survey to identify the areas for the setting up of these rural banks and prepare a time bound detailed programme for their setting up so as to cover the eligible areas as early as possible.
39	3.108	The Committee have been informed that the Reserve Bank set up in June, 1977, a Committee under the Chairmanship of Prof. M. L. Dantwala to review the working of the Regional Rural Banks. The Committee hope that the review committee would complete their work expeditiously. The Committee would like to be apprised of the recommendations of this Committee and action taken thereon. Considering that the major share of commercial banks lending to agricultural sector was availed of by comparatively bigger farmers, the Committee would like the review

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		Committee to critically consider this aspect and suggest necessary measures whereby the benefit of loans granted by the regional rural banks actually should reach the small and marginal farmers as well as the landless labourers for which these were set up.
40	3.109	The Committee note that the regional rural banks generally charge interest at rates between 13½ per cent and 14½ per cent which are at par with the co-operative credit societies in their areas of operation. The Committee note that these rates of interest are in certain cases higher than those charged by commercial banks/public sector banks on agricultural advances which range between 8½ per cent to 16½ per cent, depending on the size of the agricultural holdings. The Committee consider that keeping in view the clientele of the rural banks *viz.*, the small and marginal farmers and the agricultural labourers etc., the rates of interest charged by them appear to be on the higher side. The Committee suggest that the feasibility of introducing schemes like DIR and graded rates of interest by the regional rural banks, may be examined particularly when the clientele served by them, are the weaker sections and the rural poor.
41	3.110	The Committee note that the rural banks will operate in close cooperation with the cooperatives and Farmers Service Societies. They will provide loans through the Service Societies where they are functioning and will help to organise the Farmers Service Societies into viable multipurpose societies which may provide inputs of production, storage, marketing etc., to their members. The Committee have no doubt that these Banks would coordinate their activities and planning with the development plans of their areas which would cover not only agriculture but the entire economic activity of the people of these areas. The Committee need hardly stress the importance of formulating integrated and viable schemes by these banks for the overall improvement in the economic condition of the areas of their operation.

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42	3.111	The Committee would like to point out that these rural banks are set up to impart a new direction and reorientation to banking operations in rural areas. The success of these banks would be judged by the impact that they make in bringing about prosperity and economic well-being in the rural areas of their operation. With the drying up of traditional sources of funds *i.e.*, the money lenders in rural areas a great responsibility has fallen on these banks. The Committee would like these banks to fill up the gap and meet the financial needs of the rural poor. They further desire that the Regional Rural Banks should accord priority to formulating schemes for the rehabilitation of freed bonded labourers and provide them with necessary loan facilities.
43	3.112	The Committee need hardly emphasise that as these banks would be operating in rural areas, they should be staffed very economically and in consonance with rural environment. It is also necessary that the staff of these banks is imparted training at the field level so that the staff have a deep in-sight and clear appreciation of the requirements of rural people and the conditions of the rural areas. The success of these banks would depend on the dedicated personnel appointed to run them, and the innovative practices which they employ in dealing with the credit needs of their illiterate and semi-literate clientele. It would be desirable if these banks not only provide adequate credit to their clients in time but also assist in educating them on the end-use of such loans and thereby create conducive climate for repayment of loan instalments.
44	3.113	The Committee are anxious that the Regional Rural Banks should provide rural environment to the credit structure and simplify their rules and procedures. They should ensure that the administrative and over-head charges are kept to the minimum. It should also be ensured that the deposits mobilised by the Regional Rural Banks are deployed in giving

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		advances and loans in the respective rural areas so that there is no flow of funds from the rural areas to urban areas. The Committee consider that in view of the important role assigned to the Regional Rural Banks in meeting the credit needs of rural areas, it is of utmost importance that their working is continually monitored by the Reserve Bank of India to ensure that the objectives for which they were set up are achieved in actual practice.
45	3.122	The Committee note that Government have wound up the Banking Commission which was set up in July, 1976 to review, *inter alia* the existing organisational structure of the 22 public sector banks and to recommend suitable changes in the structure of these public sector banks including their re-grouping and re-organisation etc. The Committee consider that as the nationalised banks are working for about 8 years now, it is high time that a comprehensive review be made to evolve the most appropriate structure for the banking system in the country and concrete proposals in this regard are brought forward by Government to ascertain public reaction and parliamentary approval.
41	3.138	There has been delay of more than one year on the part of the department in issuing instructions to the banks regarding the formulation of special bankable schemes for development of backward areas. The Committee hope that at least now it will be ensured that bankable schemes in the backward districts are prepared by the banks in consultation with the district/State Government authorities and implemented expeditiously. The progress made in this regard should be mentioned in the Annual Reports of the Banks concerned.
47	3.139	The Committee note that the main constraints in the industrial development of the backward areas are that the strategy for the development of these areas has not been completely mapped out in terms of the inherent problems which have accounted for industrial

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		backwardness and that the organisational arrangement necessary to spear-head and support the industrial development programme in backward areas both at the Centre and States are inadequate. The Committee were informed in October, 1974 that the Planning Commission proposed to create in the Fifth Plan appropriate machinery capable of identifying industries suitable to the needs and potentialities of backward areas. The Committee were informed in November, 1976 that the Planning Commission have not separately identified industries to be set up exclusively in backward areas. However, the Industrial Development Bank of India, the Small Industries Service Institute and a number of State Governments have carried out surveys of industrially backward States/districts with a view to identifying industries suited to their needs and potentialities. In November, 1977, the Committee were informed that the approach to the economic development of backward areas is being reviewed by Planning Commission in the context of the Sixth Plan and a decision on whether any new agencies are required for the purpose will be taken within the next twelve months. The Committee hope that the exact nature of machinery to be set up for the development of industries in backward areas will now be decided by the Planning Commission before long and set up at the earliest to ensure development of industries in backward areas.
	3.140	The Committee expect that the results of the surveys of backward areas already made will be carefully studied and analysed. The Committee need hardly emphasize that the backward areas which have been ignored for a long time should be developed on priority basis.
48	3.141	In paragraph 2.4 of their 69th Report (1974-75) and paragraph 3 of their 95th Report (1975-76) the Committee had expressed their dismay and unhappiness over the inordinate delay in the finalisation of the Report of the Committee constituted by the Planning Commission in October, 1972 to examine the details

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		of strategy and other matters relating to evolution of objective national criterial for demarcating backward areas, fiscal and monetary incentives to support development programmes in such areas, and the institutional arrangements for the formulation and implementation of the integrated development programmes. The Committee are perturbed that this report has not yet been finalised even after lapse of more than 5 years. The Committee desire that this report may be finalised without further loss of time and necessary follow up action taken on as recommendations. The Committee would like to be informed about the progress made in this regard within 3 months.
49	3.155	The Committee note that advances of the public sector banks under the Differential Rate of Interest scheme rose from Rs. 6.81 crores (*i.e.* 0.13 per cent of aggregate lending) in September, 1973 to Rs. 46.21 crores at the end of December, 1976, the percentage having risen to 0.55 per cent of aggregate lending as against the target of ½ per cent of aggregate lending as fixed under this scheme. While the Committee wished that the percentage of funds to be made available under this scheme would gradually rise, they were dismayed to find that, as at the end of March, 1977, the quantum of advances made under this scheme declined to 0.46 per cent of the aggregate lending. In view of the fact that the scheme has now been extended to cover a much larger section of population in the entire country, the Committee would like the Government to raise subsequently the present target of ½ per cent lending under this scheme, so as to achieve the underlying object of providing adequate funds to improve the economic lot of the weakest amongst the weaker sections of society at an accelerated pace.
50	3.156	The Committee note that the Differential Rate of Interest Scheme has been recently revised by the Government. The Schemes now extends to the entire country. To ensure flow of adequate benefits of the scheme to the rural areas and to the persons

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		belonging to the scheduled castes/scheduled tribes it has been stipulated that the banks will ensure that at least 2/3rd of their total advances under the scheme are made through the rural/semi-urban branches. It has also been stipulated that at least 1/3rd of the total D.R.I. advances will be given to the members of scheduled castes and scheduled tribes. It is expected that the regional imbalances in the existing pattern of the dispersal of banks' lending under the scheme, if any, will be corrected by the individual banks in accordance with these norms latest by March 1979 and that the flow of credit will be biased in favour of under developed States.
	3.157	The Committee desire that the progress of the revised schemes should be closely monitored by the Department of Banking so as to ensure implementation of revised guidelines by all banks. They also suggest that adequate publicity should be given to the scheme and that a periodical review should be carried out of the working of the scheme with a view to ensuring that the existing regional imbalances in the pattern of dispersal of bank lending under this scheme are corrected, as planned by the Scheduled date (March, 1979) and the flow of credit is biased in favour of underdeveloped States. The Committee would also like that procedure for release of loans under this scheme should be kept under review so as to minimise delays in the release of funds.
	3.158	The Committee would like the Government to make sure that benefits of the scheme reach the small/marginal farmers, member of the scheduled castes/tribes and rural artisans in full measures. The Committee also suggest that efficiency of the scheme should be kept under scrutiny.
51	4.40	The Committee note that under the strategy of the Area Approach adopted by the public sector banks, out of about 5.67 lakhs villages in the country only 6870 villages had been adopted by the banks up to

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		March, 1973. The Committee were later informed that up to the end of June, 1973 about 19,000 villages were adopted by the different public sector banks under the Area Approach. As per the consolidated report of the Public Sector banks for the year ending December, 1975 the nationalised banks have adopted 18146 villages up to the end of June, 1975 the State Bank of India group have adopted 10974 villages as at the end of September, 1975. The figures as at the end of June, 1976 indicate that the nationalised Banks and the State Bank of India Group had adopted 25206 and 14193 villages respectively (totalling 39399 villages). As a part of the strategy of the Area Approach, the State Bank of India Group have also opened 290 agricultural development branches upto 30 June, 1977. The Committee find that there was a spectacular increase in the number of villages adopted by the Banks during the period March, 1973 and June, 1973 *i.e.*, from 6870 to 19000. The progress during the next two years was not upto the mark. The Committee desire reasons for this slow progress should be looked into by the Department. The Committee need hardly emphasise that the public sector banks and the commercial banks should intensify their efforts to adopt more and more villages. The Committee would like the Department to lay down a target in this regard for the 5th Five Year Plan.
52	4.41	The Committee note that the banks have so delegated powers to their branch managers that they could dispose of about 80 per cent of loan applications at their level and only proposals involving larger amounts are required to be referred to the higher authorities. The Committee desire that it should be ensured that the delegated powers are used by the Branch Managers in a judicious manner and delays do not occur in sanction of loans especially in case of small borrowers. The Committee need hardly emphasize that bank credit should be made available to the farmers at the right time of crop season.

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53	4.42	The Committee understand that the public sector banks have adopted the credit norms for different crops as advised by Field Workers Conference/ Technical Group constituted at the district level for the Central Cooperative banks, with reference to the use of fertilisers and other inputs and adoption of improved agricultural practices in the area of their operation. The Committee recommend that efforts should be made by banks to review the credit norms for different crops on a continual basis. The consultancy services made available to small farmers by the banks' field staff should also be improved.
54	4.43	The Committee note that in response to the recommendations of the National Commission on Agriculture, an innovation has been made in setting up the Farmers' Service Societies which are registered as cooperative institution and function as multipurpose agencies at the base level, taking care of the needs of the farmers in the area of their operation. With the setting up of these societies, the farmers can look to a single agency for all their requirements. 250 such societies have been set up all over the country and there is a programme of organising such societies in other areas having special development schemes. The Committee welcome this step and hope that the Farmers' Service Societies would go a long way in serving the needs of small farmers at one contact point by providing an integrated service including technical advice. The Committee, however, feel that the number of societies set up so far is inadequate. They suggest that a timebound programme should be evolved to set up a large number of such Farmers' Services Societies all over the country and a watch kept regarding the implementation of the programme.
55	4.44	The Committee attach much importance to coverage of relatively small borrowers by the credit deployment of public sector banks. According to the information furnished to the Committee, small farmers having land holdings upto 5 acres accounted

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		for 74.12 per cent of the agricultural short term borrowal accounts and 50.8 per cent of the amount outstanding at the end of September, 1976. As regards the term loans, this category accounted for 45.8 per cent of the loan accounts and 23.64 per cent of the amount outstanding at the end of September, 1976. Although the small farmers account for a substantial percentage of the short-term loan accounts, the outstanding amounts advanced to them does not proportionately constitute the same percentage of the total amount. The percentage of outstanding amount is significantly low under term loans. The Committee therefore desire that concerted efforts should be made by the public sector banks to increase the coverage and quantum of bank credit to small borrowers having land holdings upto 5 acres.
56	4.45	Besides the advances given directly to farmers, the public sector banks are indirectly assisting them through agricultural primary credit societies. As the end of December, 1976, the total outstanding short term advances made by commercial banks (including public sector banks) amounted to Rs. 30 crores involving 2548 societies and medium term advances amounted to Rs. 5 crores involving 1055 societies. The Committee consider that the amount of loans and the number of societies involved in the whole country is very low. It should be examined what measures are necessary to increase credit through primary credit societies.
57	4.46	The Committee note that the Public sector banks also assist the identified participants in Small Farmers Development Agencies Marginal Farmers and Agricultural Labourers areas. During the year 1976-77, the loans disbursed by the Commercial Banks (including public sector banks) to the identified participants in SFDA/MFAL agencies increased to Rs. 30 crores from Rs. 16 crores during 1975-76. The Committee desire that the progress made in disbursement of loans to identified participants in SFA/MFAL areas should be kept under close watch.

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58	4.47	The Committee note that in the case of the North Eastern Region where the ownership of land is vested in Village Councils/Anchal Samities, a Study Group appointed by the Reserve Bank of India has *inter-alia* suggested that banks should lend on a group guarantee basis. The State Bank of India is following the procedure and the other banks operating in the region have been instructed by the Reserve Bank of India to implement the recommendation. The Committee desire that the matter should be pursued with the banks and it should be ensured that the credit needs of the farmers in the North Eastern Region are adequately met.
59	4.48	The Committee note that there have been complaints about disbursement of loans in kind, but the existing system is preferred because it prevents any scope for diversion or misutilisation of the loan money and the investment goes to promote a productive function and generate additional income for the borrower. The Committee desire that in all cases where serious complaints are made about the disbursement of loans in kind, it should be ensured that proper investigations are made and necessary remedial measures are taken.
60	4.49	The Committee further note that the Government have urged the public sector banks and private sector banks to accord priority in providing required credit for implementation of the drought prone areas programme and also to evolve schemes for rehabilitation of victims of flood and other natural calamities. As regards the recovery of loans under the programme, both commercial and cooperative banks adopt flexible approach wherever necessary. The Committee are anxious that credit schemes evolved for drought prone and flood areas which are susceptible to natural calamities should be kept under review with a view to improving the economy of the areas and relieving the hardship of the affected people. It should be ensured that in case of crop failure, the recovery of interest on loan is suitably postponed.

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61	4.50—4.53	The Committee feel that with a view to keeping prices of agricultural produce under check, it is ncessary to make agriculture credit cheaper. The Committee therefore suggest that it should be carefully examined how the agriculture credit given by the various lending agencies could be made cheaper and the penal rates for delay in repayment less harsher particularly when such delays are caused by failure of crops drought, flood and other natural calamities etc.
62	4.60	The Committee note that the Reserve Bank of India through its Study Teams has so far undertaken special studies of the financial and organisational position of the Cooperative Credit Institutions in the State of Kerala, Maharashtra, West Bengal, Bihar, Rajasthan, Madhya Pradesh and Uttar Pradesh. Such special teams have been set up for Jammu & Kashmir and Himachal Pradesh. The recommendations made by the Study Teams have been conveyed to the State Governments for speedy implementation. The Committee hope that such special studies will be taken up by the Reserve Bank in the remaining States according to time-bound programmes. The Committee also desire that it should be ensured that recommendations of the Study Teams are implemented by the State Governments expeditiously.
63	4.61	The Committee note that Government of India have not yet taken a final view or the recommendations of the Hazari Committee or the Integration of Cooperative Credit Institutions as views from some of the State Governments are still awaited. The Committee desire that the matter should be vigorously pursued with the State Governments concerned.
64	4.62	The Committee desire that implementation of the recommendations of the Hazari Committee with regard to grant of loan by Land Development Banks on the basis of a charge on land instead of insisting on a mortgage as at present may be pursued with the State Governments who have not yet amended their Cooperative legislation.

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65	4.70	The Committee note that the Department of Banking approached the Reserve Bank to constitute the Expert Group to review the working of all schemes for agricultural finance only in September, 1976. The Committee trust that the Expert Group under the Chairmanship of Shri G. Desai have completed their work as scheduled. The Committee would like to be informed of improvements made in the schemes for agricultural finance and new pattern of schemes framed to meet the credit requirements of farmers and agriculturists.
66	4.78	The Committee note that in pursuance of their recommendation made in paragraph 4.32 (i) of the 62nd Report, 16 States have issued pass-books to farmers in some areas, containing record of the land owned by them to facilitate grant of loans speedily. The Committee recommend that the State Governments concerned may be impressed upon to cover all the areas in issuing such pass books so that farmers, particularly small and marginal farmers, have not to face any difficulties in getting loans.
	4.79	The Committee further desire that the question of issuing land pass books to farmers may also be vigorously pursued with the remaining States.
67	4.80	The Committee note that 10 public Sector Banks have issued loan account pass books/cards to farmer borrowers and 2 more banks decided to introduce such pass books shortly. One bank has issued pass books on pilot basis in 3 States and it would extend the scheme to other regions after gaining experience. The Committee desire that the remaining banks should also be impressed upon to introduce this procedure of issuing passbooks to borrowers. The Committee need hardly stress that these pass-books will be useful as they would serve as a ready-reckoner for banks to give loans and effect recoveries.
68	4.87	The Committee note that under a tripartite arrangement between the banks, Sugar Mills and Registered Sugar Cane growers banks advance credit tc

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		the sugar cane growers who undertake to deliver cane to the Mills which deduct payments due to the banks from the cane price payable to the growers and remit the same to the banks. This arrangement which ensures that the cane growers get their credit requirements in time, is stated to be in operation for a long time in some States. The credit needs of Sugar Cane growers are met by the banks in time under this arrangement.
	4.44	The Committee desire that the Public Sector Banks should make efforts to extend the scheme to other States where such arrangement does not exist.
69	4.97-4.98	The Committee find that in order to meet the immediate consumption credit requirements of the tribal areas, large size multi-purpose societies were to be organised and as a result of decision taken in this regard in a meeting of Chief Ministers of seven States about 1414 such multi-purpose societies have been formed as on 1-4-1977. The Committee emphasize that in view of the unenviable predicament of the unorganised class of agricultural and other labourers, small farmers, etc. particularly in tribal areas, all out efforts should be made to meet their consumption credit requirements in order to relieve them from their age old sufferings at the hands of traditional moneylenders. The Committee would further like to be infromed about the progress made in setting up the multi-purpose societies in tribal areas and also the further programme for coverage of more areas by such societies.
70	4.99	The Committee note that on the recommendation of the Sivaraman Committee, certain commercial banks have introduced schemes of advancing money for consumption purposes against the security of gold and silver. Similarly the Bombay unit of State Bank of India have issued instructions to 50 Branch Managers to introduce in 59 selected rural centres, schemes like loans for consumption purposes against brass and

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		copper wares and loans from 'imprest amount' of Rs. 250/- kept by the Branch Managers for the purpose. The Committee desire that the working of all these schemes should be closely watched and it should be seen how far these have become popular. As a result of the experience gained, these schemes should be extended to the rural banks branches of the commercial/public sector banks and Regional Rural Banks all over the country.
71	4.105	The Committee were informed that the banks have started financing primary agricultural cooperative credit societies in a number of States where the concerned central cooperative banks are unable to meet the credit needs of these sociteies. The Committee further note that experiment in this regard was started in 1970, in the States of Madhya Pradesh, Andhra Pradesh, Uttar Pradesh, Mysore and Haryana and has since been extended to Orissa, West Bengal, Bihar, Jammu and Kashmir, Maharashtra, Assam and Tripura. It is proposed to extend it to Rajasthan and Tamil Nadu. The Committee suggest that on the basis of the experience gained the experiment may be extended to all other States where the cooperative structure is weak.
72	4.106	The Committee note that the Commercial banks have made efforts to increase their lending for agricultural and other allied activities. The banks are financing small and marginal farmers up to specified amounts under various schemes without insisting on mortgage land. The emphasis is on moving away from security oriented lending to purposive, productive and incremental income oriented lending. The Committee further note that the banks have started taking group guarantee in respect of loans granted to very small farmers. Banks have introduced scheme of graded interest rates according to the size of land holdings whereby small farmers get some concession in the interest charged as compared to the bigger farmers. Public Sector Banks have also started asso-

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		ciating themselves with and financing the newly formed farmers' Service Societies in order to provide loans to small farmers. A working group has been set up by the Reserve Bank in October, 1976 to study the problems arising out of adoption of multi-agency approach in agricultural financing. The Committee hope that the working group will complete its work expeditiously and necessary follow up action will be taken on its report.
73	4.126	The Committee note that on the basis of the recommendations of Thakkar Committee, which reviewed the special Credit Schemes of Banks with particular reference to their employment potential, the Reserve Bank had issued guidelines to commercial banks in March 1971 which were also applicable to the small scale industries. These guidelines *inter alia* have emphasised the imperative need of simplification of credit procedures, delegation of powers to branch Managers and reduction of delays in processing of loan applications etc. The Committee also note that the recommendations of the Banking Commission (1972) as accepted by Government have also since been brought to the notice of the Commercial Banks by the Reserve Bank of India. The Committee would like the Reserve Bank and the Department to keep a close watch over the implementation of the recommendations of the Banking Commission with particular reference to those relating to the Small Scale Industries.
74	4.127	The Committee note that Government have been impressing upon the public sector banks the need for expeditious disposal of loan applications from small entrepreneurs. Government have in September, 1976 enjoined on public sector banks to ensure that loan application involving credit limits of Rs. 10,000 or less are disposed of by the banks within a period of 3-4 weeks from the date of their receipt. In the guidelines issued to Public Sector Banks for dispensation of credit under Half-a-million jobs program-

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		me, it had been stipulated that loan applications are disposed of as expeditiously as possible and in any case within a period of two months from the date of receipt. The Ministry of Industrial Development have also requested Government of States/Union Territories to issue suitable instructions to State Finance Corporations and other State financing agencies responsible for disbursement of loans to small scale industries and ensure that delays do not occur in clearing proposals for grant of financial assistance. The Committee emphasize that the Department should ensure that loan applications of small entrepreneurs are disposed of as expeditiously as possible, at least within the time-limit, stipulated for the purpose.
	4.128	The Committee feel that for the purpose of speedy disposal of loan application of small entrepreneurs, suitable measures should be evolved to establish effective coordination between the Development Commissioner of Small Scale Industries, Director of Industries, State Finance Corporations, Banks and various other agencies concerned with the grant of loans. The Committee suggest that periodical meetings of the representatives of the various agencies at regional and district levels should be held to review the time taken in the disposal of loan applications from small entrepreneurs with a view to ensuring expeditious disposal.
75	4.129	The Committee also emphasise that simplification of procedures for grant/disbursement of loans to the prospective entrepreneurs should receive continual attention so that the small borrowers have not to experience difficulties. The Department should keep under watch how far Public Sector Banks have streamlined the procedures to expedite sanction of loans to small borrowers.
76	4.130	The Committee note that the Western Maharashtra Development Corporation (Pune) have adopted a scheme of the Planning Commission for small entrepreneurs, whereunder 10 per cent of the cost is met

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		by the State Government, 10 per cent by entrepreneurs and 80 per cent is given by the bank. Under the scheme the recovery of the money given by the State Government is made by the bank. The Committee desire that adoption of this scheme by other State Governments should be pursued.
77	4.131	The Committee note that at the end of December, 1975, the total outstanding credits given to the Small Scale Industries was Rs. 1,147 crores which formed 11.7 per cent of the total bank credit. The position as at the end of March, 1977 was that the amount outstanding increased to Rs. 1403 crores forming 10.7 per cent of the total bank advances. The public sector banks accounted for 89 per cent of the total outstanding credit to small scale industries as at the end of March, 1977. The net increase in outstanding credit to this sector during the year ended 1975 was Rs. 130 crores and during the period January, 76 to March, 77 it was Rs. 256 crores. The number of units financed increased from 273188 at the end of March, 1976 to 425703 at the end of March, 1977. This trend indicates more financing of smaller units by the banks. The Committee desire that sincere efforts should continue to be made by the Commercial Banks to provide loan assistance to the Small Scale Industries at a larger scale so as to cover the maximum number of units.
78	4.132	The Committee note that the Ministry of Industry have recently taken a decision to give subsidy to the extent of 15 per cent on the investments made by the entrepreneurs on small scale industries established in backward areas. Necessary instructions in this regard have been issued to the State Governments. The Committee hope that the implementation of this measure will give fillip for establishment of industries in backward areas, and help their development. The Committee, however, desire that progress made in this regard may be kept under watch with a view to taking further necessary steps.

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79	4.148	The Committee note that for giving loans to "professionals and self-employed" sectors, banks have formulated various employment oriented schemes. Besides, the banks were involved in the "Half-a-Million job Programme" being implemented by the Planning Commission since 1973. Under the two programmes up to the end of June, 1976 the public sector banks received 99887 applications out of which 50578 applications (50.6 per cent) were sanctioned, 39596 applications (39.7 per cent) were rejected and 9713 applications (9.7 per cent) were pending. The amount of advances outstanding as on that date was Rs. 61.26 crores. The relative figures as at the end of March, 1977 show that the banks received 129105 applications out of which 72730 (56.3 per cent) were sanctioned, 47690 (37 per cent) were rejected and 8685 (6.7 per cent) were pending. The amount of advance outstanding increased to Rs. 84.06 crores. The Committee are disappointed over the results of the implementation of the schemes. Considering the magnitude of unemployment amongst educated, professionals etc., the Committee feel that sanction of 72730 applications during the past several years is not enough and would not make a significant dent on the problem. In view of the increasing numbers of unemployed persons, engineers, doctors and other professionals, banks should play a catalystic role in promoting self-employment and meeting the loan requirements of this sector. More positive and determined measures by the banks are necessary to increase the contribution to this sector.
80	4.149	The Committee understood that the public sector banks have undertaken sample studies to assess the impact of bank credit on specific schemes formulated by them. But such studies have been made to assess the impact of bank credit on agricultural borrowers. The Committee desire that the public sector banks should undertake sample studies to assess the impact of bank credit in respect of various schemes formulated under the "professional and self-employment"

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		sector and "Half-a-Million job Programme". The sample studies should particularly look into the reasons for high rate (39.7 per cent) of rejections of applications with a view to evolving remedial measures. It should also be examined how far the difficulties experienced in the past in extending credit assistance under half-a-million job programme are continuing and what further steps are necessary to resolve them and establish proper coordination with the State Governments who sponsor the applications under the scheme. The Committee suggest that these studies should be initiated immediately.
	4.104	The Committee also desire that the banks should review the arrangements made for giving publicity to the various employment oriented schemes with a view to ensuring that the information reaches even the remote areas of the country.
81	5.18	The Committee note that for the purpose of improving recovery position in the agricultural sector the commercial banks have adopted 'area approach' with more careful scrutiny of applications at the initial stage, ensuring end-use of credit and follow up of recoveries at the time of harvesting of the crop. The Committee have been informed that with the implementation of the Talwar Committee recommendations by the State Governments and introduction of simplified recovery procedures in different States, the position of recoveries is expected to show improvements in future. In pursuance of the recommendations of the Talwar Committee, most of the State have already enacted legislation on the lines of the Model Bill. The Committee desire that the State Governments which are in the process of reviewing the Model Bill based on the Talwar Committee recommendations, may also be persuaded to initiate legislation at the earliest.
	5.19	With the enactment of legislation by the State Governments, the Committee hope that the banks

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		will spare no efforts to recover the outstanding dues. The Committee desire that the improvements effected in recovery should be kept under constant watch.
82	5.20	The Secretary (Banking) during the evidence expressed the view that even after the merger of the two credit guarantee schemes administered by the Credit Guarantee Corporation and the Reserve Bank of India Schemes, both the rates of guarantee fee could co-exist and that there was no need for apprehension that merger would lead to enhancement of guarantee fee. The Committee, therefore, reiterate their earlier recommendation regarding enlargement of the scope and coverage of the Credit Guarantee Corporation and desire that the whole matter should be re-examined with a view to bringing about the credit guarantee scheme administered by the Reserve Bank of India for small scale industries, within the ambit of the Credit Guarantee Corporation. The Committee would like to be informed about the outcome within six months.
83	6.9	The Committee note that the profit of nationalised banks as percentage of working funds which was 0.27 per cent in 1973 and 0.28 per cent in 1974 declined to 0.24 per cent in 1975. The decline has been attributed due to the rate of expenditure being higher than the rate of rise in income. The higher rate of expenditure is stated to be due to opening of new banks offices in rural, semi-urban and hitherto unbanked centres which would take sometime to break even and other development activity undertaken by banks which involved expenditure on additional staff and their training as also expenses over a large number of advances with lower returns. The Committee feel that with better management techniques and rationalisation of staff, the servicing costs could be considerably reduced by the banks. It is imperative that cost consciousness should be continuously instilled in the bank staff at all levels. The Committee cannot over emphasise that it is of utmost importance that the banks exercise maximum economy in their operations so as to keep overheads and establishment charges to

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		the minimum. They would like the banks to undertake continual review of the costs of various activities so that effective measures could be taken to bring down the costs wherever possible.
84	6.10	The Committee note that the Banking Commission has recommended regular studies to evolve standards for various jobs, facilities control and rationalise service charges etc. The Committee have been informed that the Reserve Bank of India has taken up a sample survey of some of the branches working at a loss. The Committee desire that effective steps should be taken to evolve the standards and norms suggested by the Banking Commission at the earliest. They would further like that the standards and norms should be reviewed periodically in the light of experience gained.
85	6.26	The Committee note that the lending and deposit interest rates have been revised by the Reserve Bank w.e.f. 1 March, 78. The major change affected is to bring about a downward revision of lending rates of various categories. There is sizeable reduction in the upper ranges of interest rates. For banks with deposit liabilities in excess of Rs. 25 crores, current rates of interest chargeable by them at 16-1/2 per cent and 17-1|2 per cent have been brought down to 15 per cent. For banks with deposit liabilities less than Rs. 25 crores, the new rate of interest has been fixed at 16 per cent. The rate of interest on food credit has been reduced from 12 per cent to 11 per cent. As regards the interest rates on deposits, the reduction is particularly noticeable in the case of longer maturity deposits. An important decision taken is to merge the two types of saving accounts into one single saving deposit account with limited cheque facilities which will attract interest of 4-1|2 per cent per annum. According to the Reserve Bank of India the attempt to reduce the deposit rates marginally has been aimed at balancing the two rather conflicting considerations of reducing the cost of mobilisation of

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		resources and at the same time not adversely affecting the savings of the public. The general frame in which the monitory and credit policies will operate would continue to be one of over all restraint. The Committee have no doubt that the policy would be kept under constant review by the Reserve Bank of India. The Committee would however like that international norms in regard to the deposit and credit rates may also be studied and appropriate lessons drawn for applications to the conditions in our country, wherever feasible.
86	6.31	It has been stated by Government that the broad objectives to be pursued by the nationalised banks were succinctly set out by the then Prime Minister in her statement in the Houses of Parliament on 21 July, 1969. Within the broad frame work of the objectives and obligations specific directives/guidelines are issued by Government|Reserve Bank of India from time to time in response to the emergent needs of the changing situation but these cannot be considered as long term objectives. Government feel that it would neither be feasible for practicable to lay down very detailed parametres within which nationalised banks should function within the short-time. There appears to be no need to define in detail the objectives and obligations of the nationalised banks. The Committee are, however, not convinced with the arguments of the Ministry. They feel that with a view to ensuring accountability of the nationalised banks and avoid uniformed criticism about their working, it would be desirable to define in detail their objectives and obligations. The Committee therefore reiterate their earlier recommendation made in April 1974 that Government should make a comprehensive and clear statement of the objectives and obligations of the nationalised banks and lay it on the Table of the two Houses of Parliament. Any change in the detailed parametres necessitated by the changing economic situation can be incorporated as and when necessary and the Parliament informed about this.

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87	6.38	The Committee are concerned to note that reconciliation of accounts still remains to be completed in respect of three banks. The Ministry is, however, now instructing the Chairman of three banks to draw up a time bound programme for the reconciliation of inter-branch accounts. The Committee stress that the work should be completed expeditiously and the Committee informed of the position after three months.
	6.39	The Committee also desire that during the inspection of banks, the officers of Reserve Bank of India should ensure that the guidelines issued by Reserve Bank of India are strictly followed by all the banks and that arrears of reconciliation of inter-branch accounts are not allowed to recur.
88	6.46	The Committee note that to ensure speedy disposal of loan applications from small borrowers, the banks have taken certain measures like delegation of powers and simplification of forms and procedures. The banks have also introduced simplified loan application forms in respect of agriculture and small scale industries in regional languages. The Department of Revenue and Banking has also taken decisive measures that all small loans should be sanctioned and the loan applications disposed of within 3 to 4 weeks from the date of their submission. While the Committee consider that these measures are a step in the right direction, they would like to stress that the efficacy of these measures would be judged by the manner in which these are actually implemented by the banks and the impact they create on the borrowers. The Committee would like that a periodical review should be made to ascertain the real utility of these measures and the time within which the loan applications particularly of the small borrowers, are disposed of.
89	6.47	The Committee note that the Reserve Bank of India had conducted a survey as far back as 1972 in Delhi region when it was found that about 97 per cent

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		of loan applications were disposed of within one month. The Committee feel that it is high time that another survey is undertaken by the Reserve Bank of India. The survey should *inter-alia* include backward areas to assess the time taken in the disposal of loan applications in the priority sector particularly from the weaker sections of society. The difficulties experienced by the intending borrowers owing to their illiteracy and ignorance of rules/regulations governing grant of loans may also be studied in the survey so that suitable remedial measures may be taken in this regard.
90	6.57	The Committee note that the Banking Service Commission Act, 1975 has been repealed and the Banking Service Commission has been dissolved with effect from 19th September, 1977. The Committee, however, hope that the Government would consider the desirability of evolving a uniform system for staff recruitment in all the nationalised banks in the interest of attracting the best talent for banking service on merit keeping in view the policy of Government regarding reservations.
91	6.64	The Committee note that the Committee of Direction for formulating and implementing the training programmes, has devised various training programmes as also a system of feed back to ensure the efficiency of training methods and training courses. The Committee further note that a sub-group of the Committee of Direction which was appointed to design a common training programme for probationary officers of all public sector banks, has submitted its report which has been broadly approved by the Committee of Direction. Under the training course designed by the sub-group, 1926 probationers were trained in 1975 and upto June, 1976, 484 more probationers have received training. Under other schemes of training for different categories of staff, about 56,000 people are stated to be trained every year. The Committee desire that a detailed pro-

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		gramme should be evolved for imparting training through regular/refresher courses to all categories of the existing staff in all the public sector banks on a uniform basis. The Committee suggest that as in the case of probationary officers the training of the staff and their recruitment should be so linked that the incumbents undergo necessary training immediately after their recruitment and are put on the job only after successful completion of the training course. The Committee have no doubt that the training courses have been designed keeping in view the objectives before the nationalised banks and to inculcate a spirit of dedication in the officers/staff in order to achieve those objectives so that there is a spectacular change in their outlook and also service rendered to the people.
92	6.75-6.77	The Committee note that the Government were still examining 11 recommendations out of 97 recommendations contained in the interim report of the Working Group on Customer Service in consultation with the Reserve Bank of India and were taking steps/decisions to formulate legislation for implementing recommendations which required legislation. The Committee further note that the Working Group on Customer Service have submitted their final report to the Government in April, 1977. The final report which contains 176 recommendations is an integrated report containing recommendations made in the interim report also. The recommendations are under examination of the Department of Revenue and Banking. The Committee need hardly stress that the prime function of banks is the creation and delivery of customer-satisfying service. To accomplish this aim, banks have to be conscious of the aspirations and the needs of the community that they are expected to serve and endeavour to rise to the occasion by providing efficient and dedicated service to their clients.

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		The banks have to realise that their task is to anticipate the needs of their customers and provide positive responses. The Committee desire that the Department of Revenue and Banking/Reserve Bank of India, on their part, should expedite examination of the recommendations of the Working Group on Customer Service and take immediate steps for implementation of the operative recommendations which have been accepted by them. The progress in implementation of recommendations should be watched by the Department/Reserve Bank in a purposeful manner so as to ensure that a spectacular change in the customer service in banks could be noticed by the clientele served by the banks, at the earliest.

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