

EIGHTY-FOURTH REPORT

ESTIMATES COMMITTEE (1983-84)

(SEVENTH LOK SABHA)

**MINISTRY OF FINANCE
(Department of Economic Affairs)**

BANKING



[Presented to Lok Sabha on 30th April, 1984]

**LOK SABHA SECRETARIAT
NEW DELHI**

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(1983-84)

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1. **Shri T.R. Krishnamachari—*Joint Secretary***
2. **Shri Bipin Behari—*Chief Financial Committee Officer***
3. **Shri S.P. Chanana—*Senior Financial Committee Officer.***

INTRODUCTION

I, the Chairman of Estimates Committee, having been authorised by the Committee to submit the Report on their behalf, present this Eighty-fourth Report on the Ministry of Finance (Department of Economic Affairs)—Banking.

2. The Committee took evidence of the representatives of the Ministry of Finance on the 28 and 29 October, 10 and 11 November, 1983. The Committee wish to express their thanks to the officers of the Ministry of Finance for placing before them the material and information desired in connection with the examination of the subject and giving evidence before the Committee.

3. The Committee also wish to express their thanks to Shri N.N. Pai, Chartered Accountant, Bombay, the representatives of Indian Banks Association, Bombay and Federation of Indian Chambers of Commerce and Industry, New Delhi for giving evidence and making valuable suggestions to the Committee.

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

5. The Report was considered and adopted by the Committee on 25 April, 1984.

6. For facility of reference the recommendations/observations of the Committee have been printed in thick type in the body of the Report, and have also been reproduced in a consolidated form in Appendix to the Report.

NEW DELHI ;
April 28, 1984
Vaisakha, 8, 1906(S)

BANSI LAL
Chairman,
Estimates Committee.

CHAPTER I

NATIONALISATION OF BANKS

1.1 Banking is known to have been practised in India since the 6th Century B.C. by the money-lenders. They dealt in 'hundies' i.e. bills of exchange. During the 17th Century A.D. the indigenous bankers used to make remittances of money, grant crop loans and property loans and also finance agriculture and internal trade.

1.2 With the arrival of the British East India Company, a great change took place in the monetary system in India. A few British merchants in Calcutta promoted Agency Houses which received deposits and granted advances and also issued paper currency. The Calcutta Agency Houses were the precursors of early Joint Stock Banking in India. To Alexander & Co. goes the credit of establishing the Bank of Hindustan in Calcutta, in 1770. The Calcutta Agency Houses came to grief in 1833 due to reckless speculation. Around that time a few banks were established based on the principle of unlimited liability. Between 1833 and 1860, 12 such banks were established, and half of them had to close down due to speculation and frauds.

1.3 In the year 1860, by an Act, the principle of limited liability was applied to the Joint Stock Banking. Between 1806 and 1843 the Bank of Bengal, the Bank of Bombay and the Bank of Madras were established under the Charter. The Government were shareholders in these banks and deposited large funds with them. These three banks were renamed the Presidency Banks by an Act of British Parliament in 1876. During the period of Swadeshi Movement (1906-1913) a number of banks were established and 98 of them failed due to speculation and mismanagement. In 1920, the three Presidency Banks were taken over by the Imperial Bank of India under a special legislation. The Imperial Bank of India acted as the Banker to the Government till 1935 when the Reserve Bank of India was established as the Central Bank of the country.

1.4 The Reserve Bank of India (RBI) started functioning from the 1st April, 1935. Since then it has been acting as the Banker to the

Government, bankers' bank, regulatory authority regulating the functioning of the commercial banks, and looking after public debt and currency management. The Banking regulation Act, 1949 empowered the RBI to control and regulate the functioning of commercial banks. This Act was enacted mainly for the purpose of protecting the interest of depositors. It provided for, among other things, restrictions and control on loans and advances, control over branch expansion and inspection of Banks.

1.5 Although the co-operative movement was started in 1904 with a view to providing credit to agriculture, the progress was far from satisfactory. Therefore, at the recommendation of the Rural Banking Enquiry Committee the Imperial Bank of India was asked to open 114 new branches in rural and semi-urban areas within a period of 5 years from 1st July, 1951.

The Bank, however, could open only 63 branches as it found that the new branches in rural and semi-urban areas were unremunerative for several years. Consequently, in accordance with the recommendations of the all India Rural Credit Survey Committee the Imperial Bank of India was converted into State Bank of India from the 1st July, 1955 by the State Bank of India Act, 1955.

1.6 In 1968, the Government of India introduced "social control" over banks by which they were directed to provide larger volume of credit to hitherto neglected sectors such as Agriculture, Small Industries, Village Artisans etc., to make bank credit a more effective instrument of economic development. However, the progress made by banks in this regard was not found adequate. Hence, with a view to ensuring that banks were adequately motivated towards a speedy achievement of the social objectives of meeting the legitimate requirements of the weaker sections of the Society, 14 major India Scheduled Commercial Banks were nationalised on the 19th July, 1969 by the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970. This was further followed by nationalisation of 6 more, banks in April, 1980. The names of the 20 Nationalised Banks are :

1. Central Bank of India
2. Bank of India

3. Punjab National Bank
4. Bank of Baroda
5. United Commercial Bank
6. Canara Bank
7. United Bank of India
8. Dena Bank
9. Syndicate Bank
10. Union Bank of India
11. Allahabad Bank
12. Indian Bank
13. Bank of Maharashtra
14. Indian Overseas Bank
15. Andhra Bank
16. Corporation Bank
17. New Bank of India
18. Oriental Bank of Commerce
19. Punjab and Sind Bank
20. Vijaya Bank

1.7 The 14 Commercial Banks were nationalised in 1969 with the following objectives as given in the Statement of Objects and Reasons appended to the Banking Companies (Acquisition & Transfer of undertaking) Bill, 1969 :—

“The Banking system touches lives of million and has to be inspired by larger social purpose and has to subserve national priorities and objectives, such as rapid growth in agriculture, small industries and exports, raising of employment levels, encouragement of new entrepreneurs and the development of the backward areas. For this purpose, it is necessary for Government to take direct responsibility for the extension and diversification of banking services and for the working of a substantial part of the banking system.”

1.8 The objectives of Bank Nationalisation in 1980 were given as :

“In order further to control the heights of the economy, to meet progressively and serve better, the needs of the development of the economy and to promote the welfare of the people, in conformity with the policy of the State towards securing the principles laid down in clause (b) and (c) of Article 39 of the constitution, six Indian private sector banks, each having deposits of Rs 200 crores or more on 31st March, 1980 were nationalised”.

1.9 Dealing with the socio-economic objectives underlying the nationalisation of Banks, the Ministry of Finance (Department of Economic Affairs) have claimed, in a note, that :

“The Banking industry is no longer meant for just a few elite clients. Bankers are not now sitting in their offices and waiting for customers to show up. They now, instead, go out and meet the ever-widening circle of common people who earlier had no access to banking e.g. farmers, small scale entrepreneurs, artisans, rickshaw-pullers, vegetable vendors, cobblers and many others who are engaged in some gainful occupations even on a very small scale.

Banks have, in fact, traversed a long distance in terms of territory. functions and segments of society they serve. They have moved from towns to villages, from large and medium industry to small business and to peddlers of sundryware; from qualified professionals to rickshaw-pullers, to barbers and washerman, to convicts still in jail and ex-convicts; to tribals and physically handicapped; from the privileged to under-privileged and on to un-privileged; in short to all those who work for a living or looking for opportunities to work for a living and believe in dignity of labour and self-respect.”

1.10 The Committee wanted to know the achievements of the Banks after nationalisation in quantitative terms. In reply, a representative of the Ministry of Finance gave the following details during evidence :

- (i) Total Bank Deposits have increased from Rs. 4,646 crores in June, 1969 to Rs. 56,000 crores in December, 1982 an increase of 13 times; deposits in proportion to the national income have increased from 15.5 percent of the national income in June, 1969 to 36.1 percent in June, 1982.
- (ii) In June, 1969, the priority sector accounted for 14.6 percent of the public sector bank credit. Today, this percentage has increased to 37.2 percent.
- (iii) As against 1,832 rural branches which constituted 22.2 percent of the total number of Branches in June, 1969, the number of rural branches has increased to 21,648 as at the end of December 1982 which account for 52 percent of the total branches.
- (iv) 'The credit-deposit ratio in the rural branches has gone up from 37.24 percent in June, 1969 to 60.3 percent in December, 1982. The ratio has also increased from 39.7 to 51 percent in semi-urban areas. During this period the credit deposit ratio has been brought down in metro-politan cities from 10 percent in June, 1969 to 76 percent in December, 1982.'

1.11 When the Committee asked how could the achievement of socio-economic objectives by Banks be considered satisfactory when even after 14 years of nationalisation the priority sectors are getting only 37 percent of the gross bank credit and flow of credit to weaker sections was no more than 7 percent, the witness pleaded :—

"There is always room for improvement; our claim is not that we have become very efficient, or that we have achieved all Our socio-economic objectives. But what we say is that we have travelled a long way."

1.12 The share of the public sector in India's banking has increased to 91 percent.

1.13 In their 8th Report, Rajya Sabha Committee on Papers laid on the Table presented on 11 August, 1983, pointed out that :—

"The Committee is distressed that inspite of a clear direction given by the Estimates Committee of the Parliament in the sixty-second Report of 1973-74, there has been a failure on the part

of the Government to submit a Consolidated report on the working of the public sector banks for the year 1981 and that there has been no statement giving reasons for the delay and for the failure on the part of the Government in this regard. The Committee need hardly stress that a consolidated review, if laid along with the Annual Reports, would have greatly helped the Members of Parliament in acquainting themselves with an overall view of the performance and the impact of the nationalised banking in the wider background of social objectives and national priorities. The very purpose of such an informative document is defeated if it is not laid in time before the Parliament. The interest of Parliament in the nationalised banks arises not only on their performance as public sector units but more on the fact that the aim of nationalisation was to convert the "making of classes" into "making of masses".

1.14 As early as in 1935, Government had set up the Reserve Bank of India. RBI has been acting as the Banker to the Government, bankers' bank, regulatory authority, and looking after public debt and currency management. In 1949, the Banking Regulation Act was passed empowering the RBI to control and regulate the functioning of commercial banks. Later, in pursuance of the recommendations of All India Rural Credit Service Committee, the Imperial Bank was converted into the State Bank of India from 1 July, 1955 by the State Bank of India Act, 1955. In 1968, Government introduced "Special Control" over banks by which they were directed to provide larger volume of credit to hitherto neglected sectors and make bank credit a more effective instrument of economic development. The progress made in this direction was not found adequate with the result the Government nationalised 14 major scheduled commercial banks in July, 1969, followed by nationalisation of 6 more banks in April, 1980.

1.15 The objectives underlying the nationalisation of banks were to "subserve national priorities and objectives" and to "serve better the needs of the economy and to promote the welfare of the people". The Committee's examination, however, revealed that despite the fact that the share of the public sector in India's banking has risen to 91 percent, priority sectors' share in gross bank credit even after 14 years of nationalisation had reached 37.2 percent as against 14.6 percent at the time of nationalisation. Out of the priority sectors' share of 37 percent, the share of weaker sections of society is still quite less i.e. 7 percent. As

far as the Committee can see, public sector banks have to go a long way to achieve fully the objectives for which the banks were nationalised.

1.16 In their 8th Report presented on 11 August, 1983, the Rajya Sabha Committee on Papers Laid on Table have pointed out that despite a clear direction given by the Estimates Committee in their 62nd Report of 1973, Government failed to submit a Consolidated Report on the working of public sector banks regularly. The Estimates Committee would urge Government that the consolidated Report should be brought out annually without fail in future.

CHAPTER II

CREDIT POLICY

The Ministry of Finance have intimated that in the context of the continued existence of inflationary pressures in the economy and the high rate of monetary expansion in the preceding year, the credit policy of the Reserve Bank of India from the period 1980-81 onwards has been aimed at restraining growth of credit without, however, denying to the economy its essential credit requirements for production of goods. While all seasonal measures had relevance to emerging monetary situation at relevant times during these three years and had to be resounded, retained, revised or reinforced according to the seasonal developments, the underlying continuing theme of the credit policy during 1982-83 also has been one of the cautious regulation so as not to harm the production but at the same time preventing excess credit expansion which could only reinforce the inflationary pressures in the economy.

2.2 The measures taken by the Reserve Bank to contain credit expansion and mop up excess liquidity from the economy have taken the form of issue of overall guidelines for quantitative limits of credit expansion, stipulation of higher liquidity requirements (Statutory Liquidity Ratio and Cash Reserve Ratio), curtailment of refinance facilities and recourse to outside funds, all of which reduce the capacity of the banking system to create credit ; upward revision of rates of interest which by raising the cost of borrowing induce greater economy in the use of borrowed funds and also makes hoarding less profitable; curtailment of bigger credit limits to ensure better funds management by borrowers; upward revision of margins for advances against stocks of sensitive commodities which reduce the capacity of the hoarders to hold on to stocks of such commodities and upward revisions of rates of interest on deposits which made it worthwhile for a saver to hold his savings in a financial form in the banking system even during an inflationary situation.

2.3 Though the basic stance of the credit policy of Reserve Bank of India had been one of "restraint and caution," changes in this policy

were made 3 times during 1982-83 i.e. in April, June and October, 1982. On 30 April, 1983, Governor RBI had outlined further measures which the Banks would be pursuing during the first half of the financial year 1983-84. Credit policy was further liberalised in October, 1983. Some of the important changes made by the RBI in its Credit Policy were as under :-

- (a) In the credit policy announced in March, 1980, Banks were asked to ensure that the absolute increase in non-food credit during the period end March, 79 to end June, 80 should not exceed the absolute expansion during the 15 months period ended June, 1979. On 27 June, 1980, they were asked to limit their non-food credit expansion between April-Oct., 1980 to 40 percent of their additional deposits. The Credit Policy for 1981-82 advised the banks that their non-food credit expansion during 1981-82 should be marginally lower than the expansion in 1980-81.
- (b) The incremental cash Reserve Ratio (10% of the increase in Net Demand and time liability over the level of 14 Jan., 77) was discontinued for those banks which had not been defaulted in maintaining this ratio. In May, 1981, the CRR was raised from 6 to 7 percent of net demand and time demands in two stages viz. 6.5 percent by 31 July, 1981 and 7 percent by 21 August, 1981. In November, 1981, the banks were advised that the ratio was to be further enhanced from 7 percent to 8 percent in 4 stages viz. 7.25 percent from 25 Nov., 1981, 7.50 percent from 26 Dec., 1981, 7.75 percent from 30 Jan., 82 and 8 percent from 26 Feb., 82. In the credit policy for 1983-84, it was however stipulated that w.e.f. 27 May, 1983 the ratio may be raised to 7.5% and further raised to 8% w.e.f. 29 July, 1983.
- (c) In the Credit Policy for 1980-81 banks were asked to raise the flow of credit to priority sectors to the level of 40 percent by March, 1985. Following the recommendation of the Working Group on the role of Banks in the implementation of the New 20 Point Programme that banks were asked in April, 1983 to ensure that (i) the Direct Finance to agriculture (including allied activities) should reach a level of at least 15 percent of total credit by March, 1985 and at least 16 percent

of total credit by the end of March, 1987 and (ii) the advances to the Weaker sections should reach a level of 25 percent of priority sector advances or 10 percent of total bank credit by the end of March, 1985.

- (d) In the Credit Policy for 1981-82 the Bank rate was raised from 9 to 10 percent per annum w.e.f. 11 July, 1981.
- (e) The Statutory Liquidity Ratio was raised from 34 to 35 percent of total demand and time liabilities in two phases—34.5 percent effective from 25 Sept., 81 and 35 percent effective from 30 October, 81.

2.4 Dealing with the Credit Policy of the Reserve Bank of India, a non-official organisation has, in its memorandum, expressed the view that :—

“The primary objective of the credit policy of the RBI has been to regulate the behaviour of prices and performance of different sectors of the economy through a check on credit system. Whenever prices showed an upward trend, credit control measures were tightened. However, such an approach is misplaced. It needs to be appreciated that in our country, unlike developed nations, bank credit is largely given for financing production and distribution rather than consumption. The curb on Credit leads to cut back in production, distortion in smooth distribution system and rise in prices. Very often sudden changes are announced in Credit Policy.”

2.5 The Committee asked, whether looking at the frequent changes made in the credit policy, it would be correct to say that the credit policy was living from hand to mouth, and if so whether it was not possible for the Reserve Bank of India to evolve a stable, long term credit policy to obviate the need for frequent changes. In reply, a representative of the Ministry of Finance pleaded that :—

“The objective of a credit policy is to go on the basis of requirement of real economy. The real economy consists of a number of sectors—agriculture, industry, infrastructure and other social objectives which may be for the upliftment of weaker sections or directional flow of credit. To reflect this

requirement and also taking into account the growth of deposits credit policy is changed from time to time. It cannot be a stagnant and completely unchanging credit policy for all circumstances. It is a good thing to have a credit policy which can change from time to time according to needs instead of permanent for all times to come. When economic situation changes some change in the policy is also needed. It is duty of the Central Bank of the country to keep on reviewing these things. We are reviewing only twice a year. In other countries it is done more frequently."

2.6 The Committee enquired that even if any change in the credit policy became inescapable, was it not possible to notify in advance the proposed change so that banking circles were not taken by surprise. In reply, the witness explained :—

"a change in credit policy is something which cannot be avoided from time to time. It is not, however, a fact that our credit policy, as announced by the Reserve Bank from time to time, is something which is totally unexpected in the circumstances. If in a situation where prices are rising very fast and the credit expansion is taking place in a manner which is not planned, then it is expected that the RBI would take steps which would result in curbing this expansion of credit."

2.7 Asked if while formulating its credit policy or making changes therein, the Reserve Bank of India took into consideration the extent of black money in the country. The witness said :—

"It is not merely for banks to rely on this."

But when it was pointed out that the Banks were also affected by this parallel economy because they get less deposits, the witness conceded "As a proposition one has to agree with what you are, saying. There are parallel banks going on."

2.8 The Committee desired to know if Government or the Reserve Bank of India had assessed the extent of black money in the country. In reply, the Chief Economic Adviser in the Ministry of Finance pointed out that :—

"It is a fact that there is a part of the economy which is not covered by the banking sector the effectiveness on the monetary

policy to that extent is less. If we contract credit in the formal market, that raises the rates of interest in the informal market. The problem is that we have a very large section of people about whom we do not know what their wage earnings etc. are. The wage earnings is to the extent of a very small proportion about 17 per cent of our national income the incomes are generated from the self employed sector and the bulk of them do not file tax returns. There are four different methods by which black money has been estimated abroad as well as in India. Unfortunately these (estimates) vary so much that if you take an estimates for example, for the year 1968-69, the Wanchoo Committee's method yielded an estimate of Rs. 1400 crores. Another economist's estimate was Rs. 1800 crores. But there is a third method which has yielded an estimate roughly of Rs. 30,000 crores in 1976-77. I am sorry that we do not have scientifically acceptable estimate of the black money."

2.9 Asked if in view of the difficulties faced in the estimation of black money, Government was not interested in pursuing this matter further, the witness revealed :—

"the Government has requested the National Institute of Public finance to look into this matter and try and provide us with some kind of an idea or at least an authoritative view on whether an estimate of black money can be made or not."

2.10 According to the Ministry of Finance, from the year 1980-81 onwards, the credit policy of RBI was aimed at restraining growth of credit without, however, denying to the economy its essential credit requirements for production of goods. Though the basic stance of the credit policy of Reserve Bank of India had been one of "restraint and caution", changes in the policy were made three times during 1982-83 i.e. in April, June and October, 1982. On 30 April, 1983, the Governor of Reserve Bank outlined further measures which the Banks would be pursuing during the first half of the financial year 1983-84. In October, 1983, the credit policy was further liberalised. Defending these changes, the Ministry of Finance have claimed that these were "seasonal measures" and had to be "resounded, retained, revised or re-inforced." While the Committee do concede that the credit policy cannot remain static for all times to come and that it will have to respond and react to emerging

trends in the economic scene of the country, they feel that it should be possible for the Reserve Bank of India to atleast ensure that credit policy is not changed too frequently. The Committee feel that it should not be too difficult for the RBI to ensure that the credit policy remains stable for a reasonable time.

2.11 The Committee are of the firm view that if the credit policy of the Reserve Bank of India is to be really effective, it must not be confined to the banking sector alone but should also aim at checking the growth of black money in the country. The Chief Economic Adviser in the Ministry of Finance recalled during evidence that Wanchoo Committee had estimated the black money in 1968-69 to be around Rs. 1400 crores, another estimate had placed it at Rs. 1800 crores, and according to yet another estimate, it could be roughly Rs. 30,000 crores in 1976-77. He pointed out that so far, "we do not have scientifically acceptable estimate of the black money". He indicated that Government had already requested the National Institute of Public Finance to conduct a study and provide an authoritative view in this matter. The Committee would like to be apprised of the outcome of this study.

CHAPTER III

BRANCH EXPANSION

A. Population Coverage

3.1 The number of Commercial Banks' Offices in the country has increased from 8,321 at the time of nationalisation of the major banks to 42,027 by the end of June, 1983. Of the 33,706 offices added during the period, 61 per cent were in the unbanked areas.

3.2 The national average population per bank office which was 65,000 at the end of June, 1969 was reduced to 19,000 by June, 1981, 17000 by June, 1982 and to 16000 (1981 census) by the end of June, 1983. State-wise population coverage is given below :

| State/Union Territory | No. of officers at the end of | | Population per Bank Office in thousands as at the end of | |
|-----------------------|----------------------------------|--------------|--|--------------|
| | June 1969 | June 1983 | June 1969 | June 1983 |
| 1 | 2 | 3 | 4 | 5 |
| Andhra Pradesh | 557 | 3275 | 75 | 16 |
| Assam | 74 | 653 | 198 | 30 |
| Bihar | 273 | 30450 | 207 | 23 |
| Gujarat | 752 | 2604 | 34 | 13 |
| Haryana | 172 | 947 | 57 | 14 |
| Himachal Pradesh | 42 | 461 | 80 | 9 |
| Jammu & Kashmir | 35 | 582 | 114 | 10 |
| Karnataka | 756 | 3150 | 38 | 10 |
| Kerala | 601 | 2501 | 35 | 10 |
| Madhya Pradesh | 343 | 2773 | 116 | 19 |
| Maharashtra | 1118 | 4115 | 44 | 15 |
| Manipur | 2 | 44 | 497 | 32 |
| Meghalaya | 7 | 79 | 147 | 17 |
| Nagaland | 2 | 50 | 205 | 15 |

| 1 | 2 | 3 | 4 | 5 |
|-----------------------------|------|-------|-----|----|
| Orissa | 100 | 1302 | 212 | 20 |
| Punjab | 346 | 1777 | 42 | 9 |
| Rajasthan | 364 | 1899 | 70 | 18 |
| Sikkim | — | 11 | — | 29 |
| Tamil Nadu | 1060 | 3394 | 37 | 14 |
| Tripura | 5 | 88 | 276 | 23 |
| Uttar Pradesh | 747 | 5267 | 119 | 21 |
| West Bengal | 504 | 2596 | 87 | 21 |
| Andaman and Nicobar Islands | 1 | 12 | 82 | 16 |
| Arunachal Pradesh | — | 31 | — | 20 |
| Chandigarh | 20 | 93 | 7 | 5 |
| Dadra & Nagar Haveli | — | 6 | — | 17 |
| Delhi | 274 | 940 | 10 | 7 |
| Goa, Daman & Diu | 85 | 250 | 8 | 4 |
| Lakshadweep | — | 5 | — | 8 |
| Mizoram | — | 15 | — | 33 |
| Pondicherry | 12 | 57 | 31 | 11 |
| | 8262 | 42027 | 65 | 16 |

3.3 At present for the purpose of branch expansion statistics, classification of centres is being made as under :

- Rural Centres : Places with a population upto 10,000.
- Semi-urban Centres : Places with a population of over 10,000 but not exceeding 10,00,000.
- Urban Centres : Places with a population of over 1,00,000 but not exceeding 10,00,000.
- Metropolitan Centres/
Port Towns : Places with a population of over 10,00,000 and Port Towns of Cochin, Kakinda, Mangalore, Nagapatnam, Okha, Pondicherry, Paradeep,

Port Blair, Kandla, Vizakhapatnam, Tuticorin and Mormugao.

3.4 Ministry of Finance have intimated *inter alia*, that according to available data, the average population per bank office achieved by the end of June 1983 for rural/semi-urban areas, Urban/Metropolitan areas and for all the categories of centres as a whole is as follows :

| | |
|---|--------|
| Rural/Semi-urban population per rural/semi-urban Office | 19,000 |
| Urban/Metropolitan/Port Towns population per urban/Metropolitan/ Port Town Office | 7,000 |
| Average population per bank office (For all categories of centres) | 16,000 |

3.5 The Branch Licensing Policy formulated in August, 1978, and which came into effect in January, 1979 terminated in March, 1982. The policy was oriented towards extension of banking facilities in areas which were deficient in such facilities (i. e. districts where average population per bank office in respect of rural and semi-urban areas was higher than the national average of 20,000 as at the end of June, 1978), and also towards reduction of inter-state and inter-district disparities in this regard.

3.6 The new Branch Licensing Policy for the Three year period (April 1982—March 1985) formulated by the RBI in consultation with the Government of India had aimed at achieving a coverage of one bank office on an average for a population of 17,000 in the rural and semi-urban areas as per 1981 census. It was estimated that about 8,000 additional bank offices would have to be opened during the new policy period i.e. upto March, 1985, to attain the objective set out under the policy.

3.7 The following is the break up of number of offices opened by banks in deficit and surplus districts during the period January, 1979 to March, 1983 :

| Year | No. of offices opened in rural/ semi-urban Centres | |
|--------------------------|---|----------------------|
| | Deficit Districts | Surplus Districts |
| 1979 | 1483 | 350 |
| 1980 | 1568 | 1087 |
| 1981 | 2523 | 566 |
| 1982 (upto March) | 357 | 157 |
| 1982-83 (April to March) | 1758 | 509 |
| | <u>7689</u> | <u>2669</u> |

3.8 As on June, 1983 the comparative position of branch net work, population-group wise that has emerged is as under :-

| | 19 July 1969 | | June, 1983 | |
|----------------------------|--------------|--------------|---------------|--------------|
| | Number | Percentage | Number | Percentage |
| Rural Areas | 1860 | 22.3 | 22,629 | 53.8 |
| Semi-urban | 3344 | 40.2 | 9,031 | 21.5 |
| Urban | 1456 | 17.5 | 5,574 | 13.3 |
| Metropolitan/ Port Town | 1661 | 20.0 | 4,787 | 11.4 |
| Total : | 8321 | 100.0 | 42,027 | 100.0 |

3.9 In addition, at the end of June, 1983, banks are stated to be holding authorisation/licences for opening office at 5,108 Centres.

3.10 The Committee wanted to know if all the Licences Policy (1979-82) all the licences issued by the RBI under the Branch Licensing Policies of 1979-82 for opening Branches in rural and semi-urban areas had been implemented and if not what had been the shortfall. In reply, a representative of the Ministry of Finance revealed in evidence :

"In addition to 1850 allotments and licences already pending with

banks for opening branches in rural and semi-urban areas of deficit districts, it was estimated that 6501 additional branches would be required to be opened in rural and semi-urban areas of these deficit districts during the policy period January 1979 to March, 1982 to achieve the target of 20,000 rural semi-urban population, based on 1971 Census. So in all 8351 rural and semi-urban branches were required to be opened. At the end of March 1982, 3005 authorisation for opening offices in rural and semi urban arlas were pending with Banks, the bulk of which are in respect of deficit areas.”

3.11 A Block Headquarter is a focal point in our developmental Administration. The Committee, therefore, asked if there are still any Block Headquarters in the country which have not been covered by banking so far, Ministry of Finance have furnished the following information in this regard as at the end of September, 1983 :

| | |
|--|-----|
| 1. Total No. of block headquarters identified | 675 |
| 2. No. of block headquarters adequately served by commercial banks functioning beyond 3 kms according to the allottee bank/State Government | 9 |
| 3. Block Headquarters falling within 3 kms. from the nearest commercial bank office and are treated as banked. | 134 |
| 4. Block Headquarters served only by a branch of Regional Rural Banks where the concerned lead bank consider that there is no scope of opening additional offices. | 167 |
| 5. No. of block headquarters where bank branches have been opened. | 292 |
| 6. The remaining block headquarters falling beyond 3 kms from the nearest bank office which are yet to be covered. | 73 |

3.12 Answering a query as to what criteria is followed in deciding on the location of a bank branch in a particular area, a representative of the Ministry of Finance explained :

"The Reserve Bank of India give the license. There are no targets or the minimum deposits prescribed before the license is given. Before that, firstly the State Government is concerned with the question of identifying the areas and get license. Their surveys are also carried out by the banks which are open to branches in these areas and based on business potential, when it is started, that particular branch is to be opened, the license is given. There is a survey carried out to know the likely business potential before a branch is opened in a particular area the license is not issued on the basis of the minimum target what is prescribed and unless certain money is collected a bank branch would not be opened."

3.13 While the Committee note with satisfaction the fact that the branch network of scheduled commercial banks has expanded by more than five times from 8,321 at the time of nationalisation to 42,027 at the end of June, 1983, they would like to draw attention to the wide gap which still exists between population coverage per bank office in Metropolitan/Port towns on the one hand and rural/semi urban areas on the other. As against population coverage of 65,000 per bank office on an average at the time of nationalisation the population coverage at the end of June, 1983 was 16,000 per bank office. While overall population coverage per bank office in Metropolitan/port towns is ,000, there is, on an average, one bank office for a population of 19,000 in rural/semi-urban areas. It has been stated that under the Current Branch Licencing Policy (1982-85) which was formulated in consultation with the Government of India, the target is to achieve by March, 1985 a coverage of one bank office for a population of 17,000 in the rural and semi-urban areas as per 1981 census. The Committee recommend that while formulating the new Branch Licensing Policy, for the period beyond 31 March, 1985, it should be made obligatory on the part of schedule commercial banks to locate a minimum percentage of new Branch offices in rural/semi-urban areas.

3.14 It is indeed surprising that even though a Block Headquarters is a focal point in our developmental Administration, bank branches have been opened in only 292 out of 675 identified unbanked block Headquarters, 9 block headquarters are adequately covered by commercial banks, 134 Block Headquarters do have a commercial bank office within a distance of 3 kms., 167 block headquarters are served only by a branch of Regional Rural Bank. There are still 73 block headquarters falling beyond 3 kms. from the nearest bank office which are yet to be covered.

The Committee recommend that coverage of block headquarters by Commercial banks, Regional Rural Banks should be speeded up.

3.15 The Committee find that there are wide regional disparities in the matter of population coverage by scheduled commercial banks. As at the end of June, 1983, as against the All India national average of 16,000 per bank office, there is one bank branch office for a population of 30 thousand in Manipur and Assam and 29 thousand in Sikkim, 23 thousand in Tripura and Bihar, 21 thousand in U. P. and West Bengal, 20 thousand in Orissa and Arunachal Pradesh, and 19 thousand in Madhya Pradesh. The Committee would urge Government/RBI to ensure that such inter-state disparities in population coverage are reduced to the minimum.

B. Boards of Directors

3.16 Clause 3 of the Nationalised Banks (Management Misc. Provision) Schemes, 1970 and 1980 stipulate that the Boards of Nationalised Banks consisting of the following shall be constituted by the Central Government :—

- (a) not more than two whole time Directors, of whom one shall be the Managing Directors;
- (b) One Director, from among the employees of the nationalised bank who are workmen;
- (c) One Director, from among the employees of the nationalised bank who are not workmen;
- (d) One Director from among the Depositors of the Bank;
- (e) Three Directors to represent the interests of farmers, workers and artisans;
- (f) not more than five Directors having special knowledge or practical knowledge in respect of one or more matters likely to be useful for the working of the nationalised banks;
- (g) One Director who is an official of the RBI; and
- (h) One Director who is an official of the Central Government.

3.17 Ministry of Finance have intimated, in a note, that some of Officers' Associations have gone to the High Courts at Hyderabad,

Madras and Karnataka challenging the provisions contained in clause 3 (c) of the Nationalised Banks (Management and Miscellaneous Provisions) Schemes which, *inter alia*, empower Government to appoint in consultation with the Reserve Bank of India one Director from among the employees of the nationalised bank who are not workmen. The relief prayed for, the nature of the grounds alleged in support of the relief claimed and the nature of the interim orders prayed for are substantially the same in all the writ-petitions. Some of the Courts have granted interim injunction/stay orders restraining Government and Banks Managements from appointing on the Boards of the concerned banks any officer employee who is not a principal office bearer of the concerned Banks Officers' Association. These cases are yet to be decided by the Courts.

3.18 The Committee wanted to know if it was a fact that sometimes persons who were not fit to represent the interests of farmers, workers, artisans etc. or who lacked knowledge of one or more matters likely to be useful for the working of nationalised banks were selected by Government and even continued for more than one term. In reply, a representative of the Ministry of Finance said in evidence :

"Efforts are always made to appoint Directors on Boards of nationalised banks from all walks of life and persons associated with agriculture, trade, industry, etc. having special or practical knowledge are selected for being appointed as Directors representing different interests.....Normally we do not nominate the same persons for more than one term of 3 years. After the initial constitution, when we reconstituted the Boards in 1982, we have tried to see that the same persons are, as far as possible, not nominated on the Boards. In 1977, out of 140 Directors representing these Boards, omitting Government and RBI Directors, only two were there in the previous Boards who were reappointed. There is also a provision in the Scheme that unless a substitute is appointed the same Director continues so it has often happened in the past, especially before 1977 that no substitute was appointed and so the same person continued for many years though his term was over."

3.19 When the Committee pointed out instances where the same persons had continued for as many as 25 years in the State Bank of Bikaner and Jaipur and State of Mysore, the witness said :

"The State Bank and its subsidiaries really are in a different class and the other nationalised banks are in a different class. What happens is that the law is also different in regard to them and Directors of the subsidiaries of the State Bank of India are appointed by the State Bank and not by Government. It is quite possible that some of these people are perhaps continuing for a long time. There are four subsidiaries which have private share holdings and private share holders can elect their own Directors and no limitations is there on their continuing for more than one term."

3.20 It was represented to the Committee that a non-official Director of New Bank of India had misused his position by helping the firms/companies in which he was interested as partner/Director. It was alleged that one such firm had not repaid the advance of Rs. 8 lakhs to the State Bank of India and another firm was declared as sick unit and given substantial reliefs and concessions from the Punjab National Bank and Oriental Bank of Commerce besides reconstructing assistance loan of about Rs. 25 lakhs from IRCI.

3.21 When asked to furnish a factual note on the aforesaid case, the Ministry pleaded, *inter alia*, that :—

"in terms of Section 13 of the Banking Companies (Aquisition and Transfers of undertakings) Act of 1970 and 1980, the banks are required not to disclose information, *inter alia*, relating to the affairs of their constituents. As such, it was not possible to know from the banks dealing with the companies and firms of Shri..... the details relating to their accounts. However, it is not desirable for Government to make proving enquiry into the affairs of the person proposed to be appointed as a director on the Board of nationalised bank or his relatives. Position relating to the dealings of the firms/companies, with which Shri..... is associated and their state of affairs with the Punjab National Bank and Oriental Bank of Commerce is being ascertained from the banks concerned."

3.22 The Committee pointed out that if the antecedents of persons to be appointed as Director of a Nationalised Bank are not enquired into, even a black marketer or a smuggler could manage to become a Director and start favouring firms in which he had some interest. In reply, the witness said :

"Generally, a person with good reputation is appointed. He is himself supposed to give a declaration that he does not have interest in any firm or institution before accepting Directorship. It is for the management to ensure that no favour is shown to any firm or institution"

3.23 Asked whether Government agreed that Directorship should go to only those persons who really deserve it and not those who run after it, the witness said :

"The people who are canvassing for themselves, should not be appointed".

3.24 Asked if any enquiry was held to find out that assets and liabilities a person had before and after becoming a Director of Bank, the witness replied "No".

3.25 The Committee cannot resist the impression that the manner in which Boards of Directors of Nationalised Banks are constituted by the Central Government leaves much to be desired. Under the Nationalised Banks (Management Misc. Provision) Schemes, 1970 and 1980, the Board is to consist among others of three Directors to represent the interests of farmers, workers and artisans and not more than five Directors having practical knowledge or knowledge in respect of one or more matters likely to be useful for the working of the nationalised banks. On receipt of a complaint alleging that one of the non-official Directors on the Board of New Bank of India had mis-used his position by helping the firms/companies in which he was interested as a partner/Director, the Committee called for a factual note. In reply, the Ministry of Finance pleaded *inter-alia*, that "It is not desirable for Government to make roving enquiry into the affairs of the persons proposed to be appointed as a Director on the Board of a Nationalised bank or his relatives." If this plea of Government is accepted, it would mean that even an undesirable person with a shady past could, without any fear of detection, get into the Board of Directors of any nationalised bank. The Committee recommend that a thorough probe should be made into this case and the result reported. The Committee also suggest that in future the character and antecedents as also the business interests of the person concerned should be ascertained by discreet enquiries so that the conduct and dealings of every person who is appointed as Non-official Director is above board. In any case, persons who are likely to abuse the position to help their relatives and

friends or the firm/company in which they have a pecuniary or other interest should be rejected outright.

3.26 It transpired during evidence, that even though the term of appointment of a Director is only for 3 years, there are instances where non-official Directors had continued in that capacity for as many as 25 years. A representative of the Ministry of Finance explained that as far as nationalised banks were concerned they had eliminated such cases after 1977 and that such cases were there only in subsidiary banks of the State Bank of India. He pointed out that non-official Directors on the Boards of SBI's subsidiary banks were made by the SBI and not by the Government and that private share holders of these banks were, under the law, free to appoint a Director for more than one term. The Committee feel that as subsidiaries of the State Bank of India are also in the public sector, appointment of Directors should be for a maximum period of two terms. If necessary the SBI Act should be suitably amended for this purpose.

C. Staffing Pattern

3.27 The data relating to staff strength of Public Sector banks as at the end of 1982 furnished by the Ministry of Finance indicates that out of 28 public sector banks, the range of officer-clerk ratio is between 1 : 1 to 1 : 2 in the case of 9 banks, viz. Central Bank of India, Corporation Bank, Bank of Baroda, United Commercial Bank, Oriental Bank of Commerce, Indian Bank, Punjab & Sindh Bank, Union Bank of India, Andhra Bank. The ratio is between 1 : 2 and 1 : 3 in the case of 18 banks, namely State Bank of India, State Bank of Bikaner, State Bank of Hyderabad, State Bank of Indore, State Bank of Saurashtra, State Bank of Mysore, State Bank of Travancore, Bank of India, Punjab National Bank, Canara Bank, United Bank of India, Dena Bank, Syndicate Bank, Allahabad Bank, Bank of Maharashtra, Indian Overseas Bank, New Bank of India and Vijaya Bank.

3.28 However, the ratio is between 1 : 3 and 1 : 4 in the case of State Bank of Patiala.

3.29 The Committee find that in 17 out of 28 public sector banks, the officer-clerk ratio ranges between 1 : 2 and 1 : 3 indicating that there is large complement of officers in these banks. The Committee are not sure whether this imbalance has arisen due to either shortages in clerical

strength or due to the banks having opened more branches in rural and semi-urban areas and each such Branch has to have one Manager. The Committee recommend that the Reserve Bank of India should undertake a review of staffing pattern in the public sector banks and take steps to ensure that administrative set up of any public sector bank does not become top heavy.

D. Customer's Service

3.30 A Working Group on Customer Service in Banks had made as many 176 recommendations. It submitted its Interim Report in August, 1975 and final Report in March 1977. According to RBI's review, out of 136 recommendations accepted by Government while the State Bank of India and its subsidiaries had implemented more than 100 recommendations, 14 nationalised banks had implemented more than 90 recommendations. Private sector banks are stated to be implementing only 54 recommendations.

3.31 According to a non-official organisation, "substantial delays continue to occur in various services rendered by Banks like collection of cheques, discounting of bills, crediting of proceeds, despatch of statement of accounts and so on. The behaviour of the bank employees to the customers is also rude." A suggestion has been to the Committee that banks should be held responsible for undue delays and should bear the loss caused to customers. It has also been urged that "each bank should also have Customer Advisory Committee which should be represented by the borrowers and bank management to consider common problems."

3.32 The Committee desired to know as to what factors had led to deterioration in Customers service and what steps Government contemplate to bring about improvement. In reply, the Finance Secretary explained in evidence ,

"There have been complaints regarding delay in the collection of cheques. The systems of credit over a decade ago have failed to keep pace with the demand made on the bank. The other factors are rapid expansion of banking service, unhelpful attitude of bank employees, postal delays and failure of the clearing system despite the difficulties faced by the banks, they have been taking steps to streamline the system and affecting

improvements in the system as far as possible. The RBI Customers' service progress has been reviewed. Clearing operation at the metropolitan centres are computerised and regional collection centres have been set up. It is expected that various measures being taken by the banks will speed up the process of collection of out-station cheques, etc. There are likely to be delays where disputes are there."

3.33 Asked if Bank of India had introduced a "Card System" which enabled customers to withdraw money upto Rs. 1000/- without following the usual formalities and if other banks also follow it so that customers have not to stand in long queues, a representative of the Ministry of Finance said :

"Bank of India has introduced this Card System. Perhaps Andhra Bank and Central Bank have also started it. We have noted your suggestion".

3.34 The Committee find that expansion of Branch net-work since nationalisation of major banks in 1969 has led to deterioration in the standards of customers service. According to RBI's review, out of 176 recommendations made by a Working Group on Customer Service, in their Reports submitted in August, 1975 and March 1977 Government had accepted 136 recommendations. While the State Bank of India and its subsidiary have implemented more than 100 recommendations, 14 nationalised banks are stated to have implemented only 90 recommendations. The Committee can not but deplore the slow pace of implementation of these recommendations. The rest of the recommendations may be implemented by all public sector banks within a year i.e. by March, 1985 at the latest. In order to ensure that this time limit is adhered to, Boards of Directors of these Banks should review the progress in this direction periodically.

3.35 The Finance Secretary assured the Committee in evidence that systems were being improved to provide better customer service and these include computerisation of clearing operations in Metropolitan cities and setting up of regional collection counters. The Committee were given to

understand that the Bank of India, Andhra Bank and Central Bank have introduced a "Card System" which enables the customer to draw money upto a maximum of Rs. 1,000 at a time without undergoing the usual formalities. The Committee suggest that other banks should also go in for such a system to avoid long queues of customers at the banks offices.

3.36 If introduction of computerisation in a phased manner can bring about greater efficiency and smoother working of banks and customer service, Banks should certainly go in for it but it should be ensured that it does not result in any retrenchment of existing staff and does not affect the employment potential in this sector.

CHAPTER IV

DEPOSIT MOBILISATION

A. Growth of Bank Deposits

4.1 The aggregate Deposits of Scheduled Commercial Banks have increased from Rs. 4,646 crores in June, 1969 (i.e. prior to Nationalisation) to Rs. 56,879 crores in November, 1983—an increase of more than 13 times. Analysis of Deposit Mobilisation during the last 5 years has, however, revealed that banks deposits increased to Rs. 26,550.79 crores at the end of 1978 registering 24.47 per cent growth over the previous year. But in subsequent years, the yearly rate of growth has been on the decline. The accretion to deposits over the previous year was 18.50 per cent in 1979, 17.28 per cent in 1980, 19.57 per cent in 1981, 14.8 per cent in 1982 and 8.80 per cent in 1983 (upto 11-11-83). Details are given below :

| Year (At the end of last Friday of Dec. | Aggregate Bank Deposits (Rs./crores) | Per cent Increase over the previous year |
|--|--|--|
| 1978 | 26,550.79 | 24.47 |
| 1979 | 31,462.85 | 18.50 |
| 1980 | 36,899.94 | 17.28 |
| 1981 | 44,122.96 | 19.57 |
| 1982 | 56,279.00 | 14.80 |
| 1983 (as on 11.11.83) | 56,879.00 | 8.80 |

4.2 A review of growth of Deposits since nationalisation upto the end of June, 1982 has revealed that in terms of growth rate of deposits, the performance of rural offices was far more impressive than that of offices of other population groups. Rural deposits note from Rs. 145 crores to Rs. 6,464 crores or by 44 times, semi-urban deposits from Rs. 1,024 crores to Rs. 10,788 crores or by 10 times, and deposits of urban/metropolitan offices from Rs. 3,496 crores to Rs. 29,161 crores or by 7 times.

4.3 While growth of deposits of Scheduled Commercial Banks during the last years ending December, 1982, had been sluggish, non-banking companies were able to increase their deposits substantially during the years ended March 31, 1980 to 1982. The quantum of such deposits and their growth rate during these years were as under :-

| | Aggregate Deposit (Rs./crores) | Growth over previous year (percentage) |
|---------|--------------------------------------|--|
| 1979-80 | 3453.6 | 31.0 |
| 1980-81 | 4188.0 | 21.3 |
| 1981-82 | 5491.8 | 31.3 |

4.4 In the wake of deceleration in bank deposits, the Reserve Bank of India introduced in October, 1982 new category of term deposit having a maturity of 5 or more years and carrying an interest of 11 per cent. No assessment of response to this measure has been made till now.

4.5 Asked if deposits from the rural and semi-urban branches were less than the extent of Branch expansion in these areas, a representative of the Ministry of Finance said in evidence :

"About 37% of the total deposits (in the end of December, 1982) were in rural and semi-urban branches whereas the number of branches (in these areas) came to 75% of the total number of branches."

4.6 The Committee desired to know if sluggish growth of deposits of Scheduled commercial banks as compared to non-banking companies was due to the fact that interest on Bank deposits was far less than the interest offered by non-banking companies. In reply, another representative of the Ministry stated :

"in the new instrument which we have announced, interest on bank deposit is 11 per cent. Companies, both private and public, can go upto 15 per cent".

4.7 Asked that as deposits constitute stock-in-trade for banks, would not Government favour increase in the rate of interest offered

by Banks to attract sizeable deposits from public, another representative of the Ministry explained that :

‘There is a difference between them; company deposit money is entirely locked up and can’t be withdrawn. At least to some extent you can say there is less security of that deposits because there are unsecured loans and in bank money is secure. For Income-Tax purposes upto a limit it is not taxable. There is no doubt that there is considerable difference in the rate of interest of these deposits for over 3 years.....At the moment no increase has been envisaged in the rate of interest on Bank deposits ”

4.8 Replying to a question whether deposit mobilisation could not be boosted by tapping the non-resident deposits, the witness informed the Committee that :

“Non-resident deposits are being tapped. Latest figure of non-resident deposits in the country comes to 2400 crore. Two types of accounts are there—non-resident rupee A/c and non-resident foreign currency A/c. We give 2% additional to what is paid on similar deposits with similar maturity by a resident.”

4.9 The Committee enquired if while accepting deposits from the non-resident Indians, they were asked to declare the source of that money, the witness said : “This point was examined at considerable length when these schemes were announced and it was considered inadvisable to ask for information regarding source of funds.” Asked that if large amount of black money went out of India and come back as white money and deposited with Banks, would it not be in the fitness of things to exercise some check, the witness pointed out that :

“This is a very basic question to entire banking industry and one of the fundamentals is that details regarding the banking transaction of constituents are not normally asked unless there is a case of some illegal action.”

4.10 The Ministry of Finance have claimed that the aggregate deposits of scheduled Commercial Banks have increased from Rs. 4,646 crores in June, 1969 (i.e. prior to nationalisation) to Rs. 56,879 crores in 1983 (as on 11-11-83)—an increase of more than 13 times. Apparently, the rate of this growth in deposit mobilisation does not take into account the appreciation in prices over the years. If the inflation factor is taken into consideration, the rate of growth would work out to be far less. The

Committee would, therefore, recommend that Reserve Bank of India should make a realistic assessment so that a comparative picture of deposit mobilisation in real terms over a period becomes available.

4.11 The Committee find that bank deposits had increased to Rs. 26,550,79 crores as at the end of 1978, registering an increase of 24.47 per cent over the previous years. But in subsequent years, scheduled commercial banks failed to maintain that tempo of deposit mobilisation. The yearly rate of growth of deposit was 18.50 per cent in 1979, 17.28 per cent in 1980, 19.57 per cent in 1981, and 14.80 per cent in 1982. If the progress made in deposit mobilisation upto 11 November, 1983 is any indication, the year 1983 is not expected to end up in a better rate of growth. What has surprised the Committee more is that while during the last 3 years, non-banking companies had been able to attract more deposits, their yearly growth of deposits being 31.0 per cent in 1979-80, 21.3% in 1980-81 and 31.3 per cent in 1981-82, the growth of bank deposits had been comparatively sluggish. A representative of the Ministry of Finance pointed out in evidence that these non banking companies, both in public and private sectors, give interest upto 15 per cent on deposits as compared to 11 per cent by Banks. Non-resident deposits are already being paid 2 per cent more by Banks. The Committee recommend that interest in bank deposits may be suitably raised so that scheduled commercial banks are able to attract large deposits.

B. Mapping up of Excess Liquidity

4.12 The Cash Reserve Ratio was raised from 6 to 7 per cent of net demand and time liabilities in two stages viz. 6.5 per cent by 31 July, 1981 and 7 per cent by 21 August, 1981. The CRR was enhanced further by the Reserve Bank of India in three stages from 7% to 7.75%, the last stage effective from 29-1-82. In 1982, the CRR was reduced in two stages from 7.75% to 7.0% effective from 9-4-82 and 11-6-82. It was again increased in two stages viz. from 7 to 7.5% from 27 May, 1983 and from 7.5% to 8% from the 29 July, 1983 thereby impounding Rs. 275 crores at each stage. This was followed by another hike in the CRR from 8 to 8.5% from the week beginning 27 August, 1983 resulting in the impounding of a like amount i.e. Rs. 275 crores. Under Section 42 (1A) of the RBI Act, 1934, the RBI asked the Banks on 8 November, 1983, to maintain in addition to the present cash Reserve Ratio of 8.5 per cent of net demand and time liabilities from the week beginning 12 Nov., 83 an incremental Cash Reserve Ratio of 10 per cent of the in-

crease in net demand and time liabilities over the level as on 11 November, 1980.

4.13 RBI's circulars issued on 8-8-83 and 8-11-83 stressed the point that the banks would have no difficulty in providing adequate credit to support the acceleration in output. In the policy guidelines issued on 20-10-83, Governor RBI had enjoined upon banks to :-

- (1) ensure that all legitimate credit requirements of productive activity are met both without fueling inflationary expectations or promoting the counter productive build up of inventories. They were also advised to provide adequate support to the revival of industrial activity expected in the wake of favourable monsoon and the significant recovery of agricultural output.
- (2) fully achieve the bank-wise balance indicated to the Reserve Bank in Credit Budget discussions, earlier during the year 1983. There should be no complacency on the part of banks in respect of their performance under the IRDP.
- (3) special attention must be paid to the needs of small borrowers. Banks must use their influence with their clients in the large and medium industries sector to ensure that payments due to suppliers in the small scale industries are not delayed.

4.14 The Committee desired to know the considerations which had weighed with the Reserve Bank in resorting to frequent hikes in Cash Reserve Ratio of Banks in 1983. In reply, a representative of the Ministry of Finance explained :

“When the excess liquidity is to be mopped up, there are increases in the cash reserve ratio..... main objective is to see that the excess liquidity does not result in unnecessarily hoarding and speculative activities. The growth in the deposits has been very high this year and with this very high availability of deposits in the banks it was necessary to increase the cash reserve ratio and take other steps to contain this liquidity. Otherwise, there would have been still greater pressure on prices”.

4.15 Another representative added :

“despite the policy announcement of October, 1983, the deposits have grown at a faster rate than anticipated and the credit

requirements have not been to that large extent and the banks have excess liquidity. I may inform the Committee that the excess liquidity is around Rs. 1400 crores. So, in order not to allow reckless lending, this step has been taken".

4.16 The Committee wanted to know whether it was a fact that these hikes had resulted in lesser flow of Credit to small scale industries. In reply, the Finance Secretary said :

"The amount of credit facilities granted by public sector banks to the small scale sector in quantum terms can be judged from the following figures; In June 1969, the amount outstanding was Rs. 25% crores; In June, 1979 Rs. 1664 crores, in June, 1980 Rs. 2640 crores; and in June, 1982 Rs. 3748 crores (data provisional) crores... ..In the priority sector, initially the small scale units had an important weightage, but with growing emphasis on lending to agriculture and allied agricultural activities there has been a more concerted drive to see that the needs of agricultural sector are also met. So there is a shift in percentage terms in the total lending to the priority sector, as between agriculture and small scale industries. It is difficult for both to increase in percentage terms, because after all, they are sharing what is 100. As a percentage, the share of small scale industry has gone down; in absolute terms, however it is growing".

4.17 In a Note furnished after evidence, Ministry of Finance intimated that the percentage of bank advances to small scale industries as percentage to total gross bank credit had gone down from 13.4 percent as on March, 1982 to 13.1 percent as on March, 1983.

4.18 When the Committee suggested in evidence that the RBI should issue a Press Release assuring the public that impounding of incremental bank deposits will not in any way affect flow of credit to priority sector especially the small scale sector, the Finance Secretary assured "We will do that".

4.19 Accordingly a Press Release was issued by the RBI on 9 December, 1983. According to this Press Release the Government emphasised the need for greater attention being paid to the priority sectors financing in general and direct agricultural finance, attention to Scheduled Castes and Scheduled Tribes, IRDP lending, lending under the

Scheme of Self-Employment for the Educated Unemployed youth and the Small Scale Industries, including artisans and village and cottage industries, in particular.

4 20 The Committee agree that if and when the bank deposits grow at a faster rate than anticipated, thereby creating excess liquidity in the banking system, the Cash Reserve ratio of Banks has to be raised to see that such liquidity does not go to fuel the inflationary tendencies in our economy or result in "counter productive build up of inventories". The Committee, however, find that in the year 1983 the Cash Reserve Ratio was raised by the Reserve Bank of India so frequently and so suddenly on each occasion that even banking circles were taken by surprise. The ratio was enhanced from 7 to 7.5 percent from the week beginning 27 May, 1983 and from 7.5 to 8.0 percent from the 29 July, 1983, thereby impounding Rs 275 crores at each stage. This was followed by another hike from 8 to 8.5 percent from the week beginning 27 August 1983, resulting in the impounding again of a like amount. On 8 November, 1983, RBI asked the Banks to maintain, in addition to the percent CRR of 8.5, an Incremental Cash Reserve Ratio of 10 percent of the increase in net demand and time liability over the level as on 11 November, 1983. The Committee would like the Reserve Bank of India to examine if trends in deposit mobilisation cannot be predicted more accurately to avoid the need for frequent hikes at short intervals in the Cash Reserve Ratio.

4 21 The Committee were assured during evidence that hikes in Cash Reserve Ratio would not, in any way, affect the flow of credit to priority sectors and especially to weaker sections of society and small scale industries. The Committee's attention in this connection has been drawn to the guidelines issued by the Reserve Bank of India on 20 October, 1983, exhorting the banks to meet, despite increase of Cash Reserve Ratio, all legitimate credit requirements of productive activity and pay special attention to the needs of small borrowers. Banks have also been asked to use their influence with their clients in the large and medium industries sector to ensure that payments due to suppliers in the small scale industry are not delayed. The Committee urge the Reserve Bank of India to see that these guidelines are implemented by banks in letter and spirit.

CHAPTER V

CREDIT DEPLOYMENT

A. Sectoral Deployment of Credit

(i) Credit to Priority Sectors

5.1 According to the data on sectoral deployment of credit in respect of 50 major banks which account for about 96% of total gross bank credit, the position is as under :

| Year | Public | Priority | Sector | Credits | Industry | Wholesale | Other | Gross |
|---------------|--------|-------------|--------------|-----------------|---------------|-----------|---------|---------|
| | Food | Agriculture | Small | other total | (Medium | trade | Sectors | Bank |
| | Credit | | Scale Sector | Priority Sector | & Large) | | | Credit |
| Ending | 2410 | 2915 | 2715 | 1351 | 6981 8238 | 1835 | 2281 | 21,745 |
| June' 80 | (11.1) | (13.4) | (12.5) | (6.2) | (32.1) (37.9) | (8.4) | (10.5) | (100.0) |
| Ending | 22.02 | 3783 | 3406 | 1777 | 8966 9983 | 2000 | 2737 | 25,888 |
| June'81 | (8.5) | (14.6) | (13.2) | (6.9) | (34.6) (38.6) | (7.7) | (10.6) | (100.0) |
| Ending | 2825 | 4594 | 3909 | 2170 | 10673 11213 | 2122 | 2942 | 29,775 |
| June' 82 | (9.5) | (15.4) | (13.1) | (7.3) | (35.8) (37.7) | (7.1) | (9.9) | (100.0) |
| Ending | 3589 | 5356 | 4563 | 2646 | 12565 134 8 | 2273 | 3615 | 35,460 |
| June' 83 | (10.1) | (15.) | (12.9) | (7.5) | (35.4) (37.8) | (6.4) | (10.2) | (100.0) |
| (Provisional) | | | | | | | | |

(i) Figures in Brackets are percentage to total gross bank credit.

(ii) Targets of Priority sector advances are with reference to net bank credit.

5.2 Total credit extended by Scheduled Commercial Banks at Rs. 35,460 crores at the end of June, 1983, was more than nine times in 1969.

5.3 The Reserve Bank of India has called upon the Scheduled Commercial Banks to ensure that -

- (i) the share of priority sectors advance in the total gross bank credit should reach the level of 40 percent by March, 1985.
- (ii) the advances to weaker sections of society should reach a level of 25 percent of priority sector advance or 10 percent of total bank credit by March, 1985.
- (iii) direct finance to agriculture (including allied activities) should reach a level of at least 15 percent of the total credit by March, 1985 and at least 16 percent of the total credit by March, 1987.

5.4 The Ministry of Finance have reported that banks have achieved these targets to the following extent so far :

- (a). The share of the priority sectors credit of Scheduled Commercial Banks has reached the level of 35.4 percent of the total banks credit as at the end of June, 1983. At the time of nationalisation i.e. June, 1969 share of public sector Banks in these advances was 14.6 percent only. Only 5 out of public sector banks (State Bank of Hyderabad, State Bank of Patiala, United Commercial Banks, Andhra Bank, Punjab & Sind Bank) have achieved the national target of 24.0 percent share to priority sector, 12 public sectors have reached the level more than 37%. 11 Public Sector Banks including SBI, United Bank of India, Indian Overseas Bank, New Bank of India are however still lagging behind and are within the range of 31 and 37%.
- (b) As at the end of September, 1983 flow of credit to weaker sections of society by Public Sector Banks has reached the level of 19.3% of priority sectors advances and 7.5% of total credit. Among the public sector banks, the percentage of advances to weaker sections to total credit is the lowest in the case of Oriental Bank of Commerce (10.8%), Dena Bank

(10.6%), Vijay Bank (10.6%), Bank of Maharashtra (9.7%) and New Bank of India (4.7%).

- (c) As at the end of June, 1983, direct credit provided to Agriculture (including allied activities) reached the level of 15.4% of total credit and 42.6% of priority sector advance. However, only 5 out of 28 public sector banks have achieved the target of 15%. These Banks are the State Bank of Patiala (20.7%), Andhra Bank (19.3%), State Bank of Hyderabad (18.6%), State Bank of India (15.1%) of the direct agricultural advance provided by public sector banks, the share of small and marginal farmers ranged between 37 to 3 %.
- (d) As at the end of June, 1983 while the percentage of credit provided to small scale sector by scheduled commercial banks constituted 12.9 percentage of total credit, the flow of credit to large and medium industries was 7.8 percent of total credit; In earlier years, the share of small scale sector was 13.2 percent June 1981 and 13.1 percent in the year ended June 1982.

5.5 The Committee wanted to know if any guidelines on sectoral deployment of credit have been issued or was it left to the discretion of each public sector bank to determine what share of credit should go to the priority sectors or for that matter to other sectors of economy.

5.6 In reply, a representative of the Ministry of Finance said in evidence :

"The only guidelines that have been issued (by RBI) are that 40 percent of the net bank credit should go to priority sectors by March 1985 from each bank ; it is not that any bank has any discretion about it. All the banks have to do it individually and of this 40 percent, 25 percent should go to Weaker Sections. This is the main guidelines. For general industry and trade there are no guidelines Banks are free to give".

5.7 Asked whether the public sector banks which had been lagging behind and were nowhere near the national target of 40 percent share to priority sectors had been asked to redouble their efforts in this direction, the witness assured :

"These banks will have to redouble their efforts. There is no doubt about it. There is a great pressure on the Board (of the Bank)

to see that this is done. They are being asked to redouble their efforts”.

5.8 The Committee pointed out that not only the flow of credit to Weaker Sections of people was quite inadequate but a fraction of whatever little was sanctioned to them was pocketed by the middlemen who assist such people in obtaining credit from Banks. Asked if it was not possible to put an end to this practice, a representative of the Ministry of Finance assured :

“The intermediaries coming in between is really a malpractice. Sometimes an institutionalised intermediary coming in is a different thing e.g. for distribution pumping sets. But if there is an intermediary who asks a man to put in his Thumb impression, it is really a malpractice. Perhaps a large scale prevalence of this malpractice cannot take place without the convenience of bank employees, themselves. Even if you say that the bank employees do it, there is a malpractice now, we have to see that there is really better supervision, better inspection, better returns and some spot checks to see that these malpractices are removed. Meanwhile, we will try to devise some instruction and send them to every body, to ensure that the Weaker Sectors, scheduled castes and schedule tribes, and poor, illiterate people are able to get whatever money is sanctioned to them fully and that no body siphons it off. We will take up this particular question much more seriously and see what we can do about it.”

5.9 Asked, what action is taken against a Bank Manager who does not cooperate whenever a credit camp is organised by a District Collector, the witness said, “If the Manager of the bank does not do his work, he is taken to task. The collector can bring this up-to the higher authority ”

5.10 A representative of the Ministry of Finance recalled in evidence that full requirements of credit for agricultural sector were assessed by the National Commission on Agriculture at Rs. 16,549 crores which consisted of Rs. 7884 crores for lending. Based on the estimates of the National Commission, Ministry of Agriculture in consultation with the National Federation of Land Development Banks and the State cooperative Banks had, however, fixed a target of Rs. 5415

consisting of Rs. 4,000 crores for short term credit, and Rs. 1415 crores for term lending during the terminal year of 6th plan i.e. during the 1984-85. Cooperatives were to give Rs. 2500 crores and commercial banks and regional rural banks Rs. 1500 crores. Under term loans, the Cooperatives were expected to give Rs. 795 crores, and commercial banks and regional rural banks Rs. 620 crores during 1984-85.

5.11 Asked if the Sixth Plan target is likely to be achieved, the witness assured "there is absolutely no doubt that this target would not only be reached but also surpassed by 1983-84."

5.12 Asked what is the number of Small and marginal farmers in the country, the Ministry have intimated, in a Note, that :-

"The number of small and marginal farmers in the country is not available."

5.13 The Committee wanted to know what was the number of applications received from the farmers by public sector banks, how much credit was asked for and how much was given. In reply, a representative of the Ministry of Finance said :-

"The application formula we can try out as an experiment, but for these people who are working in the field, these applications are not there, they have to be generated "

5.14 The Committee desired to know why the share of Small Scale industries in the total bank credit had gone down from 13.2 in the year ended June, 1981 to 12.9 in the year ended June, 1983. In reply, a representative of the Ministry of Finance explained in evidence that :-

"In the priority sector, initially the small scale units had an important weightage, but with growing emphasis on lending to agriculture and for agricultural operations, there has been a more concerted drive to see that the needs of the agricultural sector are also met. So there is a shift in percentage terms, in the total lending to the priority sector, as between agriculture and small scale industries. It is difficult for both to increase in percentage terms, because after all, they are showing what is 100. As a percentage, the small scale industry's share has gone down, In absolute term, perhaps it is growing."

5.15 Since the increase in the share of small scale industries in the outstanding credit of scheduled Commercial banks in absolute terms would not mean much if the number of small scale units had gone up, the Committee wanted to know if the number of Small Units had gone up and if so to what extent. In a Note furnished after evidence the Ministry of Finance have replied, *inter alia* that "Corresponding figures of the number of Small Scale industrial credits is not available."

5.16 According to the targets set by the Reserve Bank of India, the scheduled commercial Banks were required to ensure that by March, 1985 (i) the share of priority sector advances in the total gross bank credit reaches the level of 40 per cent, (ii) advances to weaker sections of society should reach to level of 25 per cent of priority sector advances or 10 per cent of total bank credit and (iii) direct finance to agriculture (including allied activities) should reach a level of at least 15 per cent of the total credit. The Committee are disappointed that while the targeted percentage of providing direct finance to agriculture has already been reached by scheduled commercial banks, they are nowhere near the targets as far as flow of credit to priority sectors and weaker sections of society are concerned. The level reached for priority sectors upto June, 1983 is only 35.4 per cent against the target of 40 per cent of total credit. The credit level for weaker sections of society by public sector banks that has been reached upto the end of September, 1983, is 19.3 of priority sector advances and 7.5 per cent of total credit as against the targets of 25 per cent and 10 per cent respectively. What is worse is that some of the leading public sector banks like Oriental Bank of Commerce, Dena Bank, Vijay Bank, Bank of Maharashtra and New Bank have not achieved even these low levels and are lagging far behind. The Committee attach great importance to the flow of credit to priority sectors particularly weaker sections of society because if banks lag behind in this field, the very purpose of nationalisation of banks would be defeated and small borrowers will continue to be at the mercy of private money lenders. The Committee, therefore, strongly recommend that performance of public sector banks in this respect should be closely watched by the Boards of the Banks, the Reserve Bank of India and the Banking Division of the Ministry of Finance to ensure that there is no shortfall whatever in achievement of the national targets set by the Reserve Bank of India.

5.17 The Sixth Five Year Plan had stipulated that by the terminal year of the Plan i.e. 1984-85 credit to agricultural sector would be

Rs. 5,415 crores made up of short term credit of Rs. 4,000 crores (i.e. Rs. 2,500 crores by cooperatives and Rs. 1,500 crores by Commercial banks and regional rural banks) and term loan of Rs. 1,415 crores (i.e. Rs. 795 by Cooperatives and Rs. 620 crores by commercial banks and regional rural banks). As far as the scheduled commercial banks are concerned, the direct credit provided by them to agriculture (including allied activities) is hardly 15 per cent. The Committee feel that agricultural sector deserves a much larger share of the total bank credit than what it is getting at present. The Committee hope that claims of this sector would be given due consideration by Government/Reserve Bank of India while fixing new targets for sectoral deployment of credit.

5.18 The Committee cannot help pointing out that not only the flow of credit to weaker sections of society is not adequate but out of whatever is sanctioned to them by banks a substantial portion is pocketed by middlemen. This exploitation of the poor and illiterate people must stop. One way to eliminate this malpractice could be that the Banks concerned should establish direct rapport with the beneficiaries rather than deal with them through intermediaries. A representative of the Ministry of Finance assured the Committee in evidence that they would issue suitable instructions to Banks in this regard.

B. *Regional Imbalance in Credit Deployment*

5.19 One of the national target set for banks was deployment of 60 per cent of deposits mobilised in rural/semi-urban areas by way of credit in these areas. While the public sector banks were expected to achieve this target by March, 1979, the private sector banks were to achieve the same within a time bound programme.

5.20 The population group-wise credit deposit ratio of Scheduled Commercial Banks before nationalisation and during the last 5 years is given below :-

| | | Rural | Semi-Urban | Urban/Metro-politan | All India Credit Deposit Ratio of all Banks. | All India Credit Deposit Ratio of Public Sector Banks |
|------------|--|-------|------------|---------------------|--|---|
| June, 1969 | | 37.2 | 39.8 | 90.1 | 77.4 | |
| Dec., 1978 | | 56.6 | 49.3 | 78.8 | 70.1 | 70.3 |
| Dec., 1979 | | 56.2 | 49.6 | 77.9 | 69.1 | (June 78) 69.1 |
| Dec., 1980 | | 56.9 | 49.2 | 75.2 | 66.9 | 66.4 |
| Dec., 1981 | | 60.6 | 51.4 | 78.1 | 68.1 | 67.5 |
| Dec., 1982 | | 60.3 | 51.1 | 76.3 | 68.2 | 67.5 |

5.21 Region-wise Credit Deposit Rates of all scheduled Commercial banks according to population groups as at the end of June, 1982 were as under :-

| All India | Population Group | Northern Region | Western Region | N. Eastern Region | Eastern Region | Central Region | Southern Region |
|-----------|-----------------------|-----------------|----------------|-------------------|----------------|----------------|-----------------|
| 58.7 | 1. Rural | 50.1 | 52.5 | 45.8 | 49.6 | 56.1 | 80.7 |
| 50.0 | 2. Semi-Urban | 52.1 | 47.8 | 37.6 | 33.5 | 51.6 | 60.4 |
| 75.1 | 3. Urban/Metropolitan | 84.7 | 75.5 | 55.5 | 64.0 | 49.8 | 89.4 |
| 67.0 | Total | 73.3 | 68.5 | 43.9 | 55.5 | 51.6 | 79.1 |

5.22 The following facts emerged from analysis of the Credit-Deposit Ratios :-

- (a) As against the national target of 60 per cent set for rural and semi-urban offices of Scheduled Commercial banks the All India Credit Deposit Ratio for rural and semi-urban offices have increased to 60.3 to 51.1 per cent respectively at the end of December, 1982.
- (b) Public sector banks were able to achieve the national target of 60 per cent for rural offices by December, 1981 as against the stipulated dead line of March, 1979. They have not been able to achieve this target in their semi-urban offices even upto December, 1982.
- (c) As at the end of June, 1982 while the credit Deposit ratio in rural offices of Scheduled Commercial banks was 80.7 per cent in the Southern region, it ranged between 49.6 and 56.1 per cent in the Northern, Eastern Central and Western region and was only 45.8 per cent in the North Eastern region.
- (d) In respect of semi-urban offices also the Southern region topped the list with the Credit Deposit ratio at 60.4 per cent followed by Northern Region (52.1 per cent), Central Region

(51.6 per cent), Western region (47.8 per cent), North-Eastern Region (37.6 per cent) and Eastern Region (33.5 per cent).

5.23 Among the public sector banks the highest and lowest credit deposits-ratios as at the end of December, 1982 were as under :-

- (i) In rural offices, while the Credit Deposit ratio of the State Bank of Hyderabad was 95.0 per cent it was 30.7 per cent in the case of State Bank of Saurashtra.
- (ii) In semi-urban offices, the Credit Deposit ratio of the State Bank of Hyderabad was (68.4) and the ratio of United Bank of India was 27.3 per cent.

5.24 The Committee wanted to know whether Government agreed that sizeable part of deposits received in rural and semi-urban areas should be ploughed back by scheduled commercial banks to those areas and if so what steps had been taken in this direction. In reply, a representative of the Ministry explained in evidence that this precisely was the underlying objective in laying down a national target i.e. Credit Deposit Ratio of 60 per cent for rural and semi-urban area. He indicated that they are pursuing a two pronged strategy of expansion of branch network in rural areas on the one hand and formulation and execution of specific schemes meant people living in to the rural areas on the other e.g. Integrated Rural Development Programme, 20-Point economic Programme, Loans to the Small and Marginal farmers, scheme for self-employment of Educated Youth. The witness expressed the view that :-

“Branch expansion has helped them. But that by itself cannot create a large potential. For that other schemes are necessary in order to enable the poorer sectors, who were either traditionally or because of their ignorance, not able to go to the Credit institutions to take Credit. So, the expansion of branches and the formulation of Schemes creates the atmosphere for people to get more credit from the Commercial banks in the rural areas.”

5.25 From the population group-wise, and region-wise credit deposit ratios made available by the Ministry of Finance to show how much of the deposits mobilised in an area were given by way of credit to people of that area, the Committee find that as against the national

target of Credit Deposit ratio of 60 per cent for rural and semi urban offices of scheduled commercial banks to be achieved by March, 1979, scheduled Commercial banks were able to reach this target only by December, 1981 in the case of rural branches. They have failed to achieve this target even upto December, 1982 in their semi-urban branches. The Committee urge that the reasons for this slow progress may be analysed and effective steps taken to achieve without further delay the targeted ratio in their semi-urban branches as well

5.26 Analysis of the Credit Deposit Ratios of scheduled commercial banks in various regions has revealed that at the end of June, 1982, while the credit Deposit Ratio in rural offices of scheduled Commercial banks was 80.7 percent in the Southern region, it ranged between 49.6 and 56.7 per cent in the Northern, Eastern and Western regions and was only 45.8 percent in the North-Eastern Region. In respect of semi-urban offices also, the Southern region topped the list with the Credit Deposit Ratio of 60.4 per cent followed by Northern Region (52.1 per cent), Central Region (51.6 per cent), Western region (47.8 per cent), North Eastern Region (37.6 per cent) and Eastern Region (33.5 per cent). These ratios not only reveal staggering regional disparities but also strengthen the impression of the Committee that sizeable part of deposits received in rural and semi-urban areas of the country are not being ploughed back by scheduled commercial banks in these areas. Such imbalances, to say the least, are deplorable. The Committee would stress the need to see that these imbalances are rectified as early as possible in the interest of balanced development of all regions of our country.

C. Credit Support to Socio-Economic Schemes and Programmes

(i) Integrated Rural Development Programme

5.27 Scheduled Commercial banks are involved in a number of development scheme and programmes of socio economic nature going on in the country. One such programme is the Integrated Rural Development Programme (IRDP). The programme was launched in 1978-79. It seeks to improve the lot of the poorest of the poor, small and marginal farmers, share croppers, agricultural labourers, rural artisans, scheduled castes/scheduled tribes and other weaker sections by enabling them through credit and subsidy support to acquire capital assets and to improve their earning from them.

5.28 Sixth Five Year Plan had envisaged covering 15 crores such families at the rate of 600 families per community development block per year. There are 5,011 C.D. blocks in the country. While the expected credit support from banks (commercial as well as cooperative) was expected to be around Rs. 3,000 crores, total Government's subsidy during the Plan period was estimated at Rs. 1500 crores. Progress of credit and subsidy support under IRDP since 1980-81 was as follows :—

| | 1980-81 | 1981-82 | 1982-83 | Total |
|---|---------|---------|---------|---------|
| (1) Subsidy Allowed (Rs./Crores) | 250.55 | 300.66 | 400.88 | 952.09 |
| (2) Subsidy utilised (Rs./Crores) | 158.64 | 264.65 | 359.59 | 782.88 |
| (3) Term Credit Dispersed (Rs./Crores) | 289.05 | 477.59 | 713.98 | 1470.62 |
| (4) Number of Scheduled Casts, S.T. assisted (in lakhs) | 7.81 | 10.01 | 14.06 | 31.88 |
| (5) Total number of families assisted (in lakhs) | 27.27 | 27.13 | 34.55 | 88.95 |

5.29 The operations of the Integrated Rural Development Programme were reviewed at a high level meeting held in New Delhi in November, 1981, by Senior Officers of the Central and State Governments and Chief Executives of the public sector banks. The review is understood to have disclosed that the progress in disbursement of institutional credit for IRDP was "not satisfactory". Some "operational problems" which were encountered in the successful implementation of the Integrated Rural Development Programme related to the difficulties in ensuring (i) provision of bankable schemes for all beneficiaries, (ii) preparation of diverse schemes according to the capability and aptitude of the beneficiaries, (iii) making adequate arrangements for

provision of backward and forward linkages such as raw materials and technological inputs and marketing arrangements, (iv) a smooth and regular flow of applications throughout the year, (v) proper coordination between bank officials and State Government officials, (vi) a regular flow of information from bank branches to the district authorities about sanction/rejection of applications, (vii) post-lending supervision to ensure proper utilisation of funds.

5.30 Since progress in bank lending fell short of the targets fixed under the IRDP, banks were asked in February, 1983 to take all steps to increase their lending under this programme.* The progress of lending under IRDP is reviewed monthly at the district level Consultative Committee and quarterly at the State level Bankers Committees.

5.31 The Committee asked if fisherman Cooperatives were eligible for assistance from Banks and if so under what scheme. In reply, the Ministry of Finance have, in a Note intimated, *inter alia*, that :—

- (i) Normally, Cooperative Societies of fisherman avail themselves of finance from the District Central Cooperatives Banks. It is understood that Commercial banks have also financed a few fisherman co-operatives under specific projects approved for refinance by NABARD. In these cases rate of interest chargeable to the fisherman would inform to the rates for term loans (i.e. Small beneficiaries at the rate of 10 percent and other beneficiaries).
- (ii) Cooperatives are not eligible to be covered under DRI Scheme both in the case of fisherman and agriculturists. In terms of Government of India guide lines on DRI Scheme, the agencies recognised for routines. Differential Rate of Interest loans are State owned Scheduled Castes/Scheduled Tribes Corporation and Societies organised specifically for tribal population in areas identified by Govt. of India.

* At the time of factual verification, the Ministry of Finance intimated that "In February, 1983, instructions were issued by RBI for the implementation of 20-Point Programme as a whole and not specially IRDP. In February, 1983, a study was conducted by RBI on IRDP on the basis of which instructions were issued on 9th May, 1983. Further instructions were issued on 27th May, 1983."

- (iii) Fisheries Development is one of the activities which can be taken up under the IRDP. Under IRDP industrial fishermen are eligible for subsidy of 33-1/3 percent of the total cost for items such as nets, fingerlings, boats, manures etc. Subsidy is also available for providing desilting or reclamation of tanks if the tanks are given on lease by Panchayats to fish farmers belonging to the target group for a minimum fixed of 10 years. Fishermen cooperatives are eligible for subsidy of 50% of the cost.

5.2 The Committee desired to know whether the Sixth Plan target of assistance 600 families in each block each year had been achieved. In reply, a representative of the Ministry of Finance said (October, 1983) in evidence :

“As far as the achievement of targets at the rate of 600 families per block is concerned, we do not have figures block-wise whether 600 families in every block have been assisted or not. The broad picture is some thing like this there may be about 6 crores of families, which may be under the poverty line, out of which we have till now covered something like 1 crore families.....”

5.33 Asked whether it was a fact that some of the banks had not been cooperating with State Government authorities in implementation of this programme, the Secretary, Ministry of Finance confided :

“There are sporadic reports received from time to time. There have been reports from governmental agencies about the lack of co-ordination or cooperation from the banking system. When these complaints come, we have a mechanism which looks into them and try to get in touch with the.....there is a block level Committee which is supposed to look into this. There are Committees at the State levels which can look into this Collector is the Chairman of DCC—District Consultative Committee. Lead Bank is convenor of DCC other financial agencies operating in the district and Govt. Departments are Members.”

5.34 A representative of Ministry of the Finance added :

"There is a high powered Committee on Credits Constituted for the IRDP by the Ministry of Rural Development on which a representative of the Banking Industry also has been nominated to spot out different bottlenecks or constraints."

5.35 The Committee enquired if any cases had come to notice where in collusion with bank employees the people pocket the subsidy given under IRDP but return the loans granted to them by Banks and if so what steps are proposed to be to check this malpractice. In reply, a representative of the Ministry of Finance said :

"We have no specific knowledge about any specific case of this kind. We can carry out assessment in a few sample districts. We will find out in how many districts, people returned it in that way."

(ii) B. 20-Point Programme

5.36 It has been reported that the public sector banks' aggregate assistance to beneficiaries under the 20-Point programme at the end of December, 1981 was Rs. 2,037 crores in 57.72 lakhs accounts. Such advances are estimated to have increased to Rs. 2,623 crores in respect of 74.84 lakh accounts by the end of December, 1982.

5.37 On 11 March, 1982, a working Group under the Chairmanship of Shri A. Ghosh, Deputy Governor, RBI was constituted to (a) identify the tasks for the banking system for effective implementation of the new 20-Point Programme, (b) review the present targets and sub-targets within the priority sectors with special reference to the needs of the Weaker Sections, (c) examine the scope for modification in the definition of the priority sector, (d) review the present reporting and monitoring system and (e) make any other recommendations which are incidental or related to these terms of reference. The Working Group submitted its Report on 17 June, 1982. The recommendations made by this Working Group were accepted by the Govt. of India and the Reserve Bank of India with certain modifications. In its circular letter dated 7 February, 1983, addressed to all commercial banks the Reserve Bank of India advised the banks to (i) assist the State Government in formulation of suitable viable scheme (ii) integrate assistance to the new

20-Point Programme beneficiaries under District Credit Plans/Annual Action Plan by including all viable/banking schemes drawn up under the programme (iii) District Consultative Committees should have effective instruments for coordination between banks and State Government Departments/agencies (iv) increase the share of advances for minor irrigation and land development, purposes substantially (v) review the existing staff position and training facilities particularly in respect of Staff posted to rural/semi-urban offices. (vi) explain the salient features of schemes included in programme and help the beneficiaries in filling up the loan application forms (vii) the mechanism for monitoring or evaluation of performance of individual banks to be the same as for priority sectors lending.

5.38 The Committee wanted to know whether year-wise targets of Credit support to the 20-Point Programme and laid down either by Reserve Bank of India or by banks and performance evaluated in the light of such targets, in reply, a representative of the Ministry of Finance said in evidence :—

“There is no specific target fixed. The concerned Ministries fix physical targets; and we are providing credit support.”

5.39 A representative of the Reserve Bank of India added :—

“We have not laid down targets, state-wise or district-wise, as to how much credit should be given.”

5.40 Asked what has been the impact of Reserve Bank of India's guidelines of February, 1983 to banks on the working of 20-Point Programme, a representative of the Ministry of Finance pleaded :—

“Detailed guidelines were issued by the Reserve Bank of India on 7th February, 1983 to all the Commercial banks. So, it is too early to say as to what has been the impact of those guidelines.”

(iii) Differential Rate of Interest Scheme

5.41 Under the Differential Rate of Interest Scheme, banks are required to lend at least one per cent of their total advances as at the end of the previous year. The scheme also provides that (i) not less

than 40% of DRI advances should flow to borrowers belonging to Scheduled Castes and Scheduled Tribes and (ii) not less than 2/3rd of the DRI credit has to go through Rural/Semi-urban branches. Ministry of Finance have furnished the following data about the Scheme :

| | At the End of Dec. 80 | At the End of Dec. 81 | At the End of Dec. 82 (Revised Data) |
|--|--------------------------|--------------------------|--|
| (i) No. of Borrowal Accounts | 25,10,271 | 29,25,278 | 33,44,344 |
| (ii) Amount Outstanding (Rs. crores) | 192.49 | 257.50 | 311.50 |
| (iii) of which of SC/ST | | | |
| (a) No. of Borrowal Accounts | 11,17,658 | 13,76,442 | 16,35,638 |
| (b) Amount Outstanding | 87.37 (45.4) | 123.29 (47.9) | 154.43 (49.6) |
| (iv) of which by rural/ semi-urban Branches | 138.24 (71.8) | 188.57 (73.2) | 236.01 (75.8) |
| (v) Percentage of DRI Advances as % of total advances at the end of previous year. | 1.01 | 1.17 | 1.17 |

5.42 The National Institute of Bank Management had at the instance of the Government of India undertaken a study of the Differential Rate of Interest Scheme and submitted its Report in December, 1982. Government of India had also appointed a Working Group under the Chairmanship of Shri V.K. Dixshit, Joint Secretary (since replaced by Shri Ashok Chandra, Joint Secretary) in the Ministry of Finance to review the DRI Scheme. The Report of the Working Group is awaited.

5.43 The Committee wanted to know as to what criteria is followed by Banks in determining eligibility for assistance under this scheme. In reply, the Finance Secretary said in evidence :

"Rate of interest is 4% p.a. The criteria is that the family income of borrower from all sources should not exceed Rs. 3,000 p.a. in urban/semi-urban and Rs. 2,000 for rural areas.....I will tell you the policy. The borrower's land holding should not exceed 1 acre in case of irrigated land and 2.5 acres of unirrigated land. Members of Scheduled Castes/Tribes are eligible for loan under the Scheme irrespective of their land holding if they satisfy the income criteria condition of eligibility. Orphanages, women's homes, institutions of physically handicapped persons, are also eligible for credit assistance under the scheme. They are exempted from the land holding and income criteria, but the individual beneficiaries should fulfil the eligibility criteria laid down under the Scheme."

(iv) *Village Adoption Scheme*

5.44 According to the data furnished by the Ministry of Finance, number of accounts serviced, number of villages adopted by Public Sector Banks from June 1977 to June 1981 was as under :—

| Year | No. of Villages adopted | No. of direct agri. Advance account serviced | Amount outstanding (Lakh of Rs.) |
|------|-------------------------|--|----------------------------------|
| 1977 | 47393 | 1158461 | 22186.00 |
| 1978 | 59393 | 1511315 | 31164.00 |
| 1979 | 89242 | 2717454 | 63976.37 |
| 1980 | 107451 | 3491131 | 86971.22 |
| 1981 | 121003 | 4235933 | 127755.55 |

5.45 In the guidelines for financing of agriculture by commercial banks issued in December 1970 Reserve Bank of India has asked banks to adopt the area approach and had stressed the need to avoid the possibility of overlapping of efforts and resources in the same area by two or more commercial banks. Thus, banks were advised to decide on the "command area" of each branch consistent with the availability of staff.

5.46 The Ministry of Finance have intimated in a Note that the VAS apparently emerged as a sequel to such "area approach".

However, the concepts of area approach and VAS had been interpreted banks in different ways. A study conducted by RBI indicated that a) barring a few exceptions, the adoption of villages by banks had been generally on an *ad-hoc* basis and that there had been instances of villages having been treated as adopted, although the bank concerned had very little involvement in such villages. (b) the scheme had not resulted in any overall integrated development in many villages; (c) in some cases, it appeared that VAS had been viewed by some banks as a means of precluding other banks/agencies from financing in the villages adopted by them. Thus, several complaints had emanated, from banks stating that other banks were trying to grant advances in villages adopted by them implying thereby that by adopting a village it becomes the exclusive field of operation of a particular bank.

5.47 In order to obviate the misinterpretation of banks in regard to the VAS the RBI communicated its observations to the banks in December 1980 which are detailed here under :

- (a) The objectives of rural lending are (i) to promote integrated development of the village economy by meeting the credit needs of agriculturists and other small borrowers (ii) to avoid scattered lending and instead have resources, as far as possible, to schematic lending and (iii) to ensure better supervised credit. While the accent has to be on agricultural development, other credit needs of the villages should not be overlooked.
- (b) With the existing multi-agency system, it would not be desirable or even feasible to demarcate the area operation of different credit agencies. Adoption of village by a bank should only mean that it has declared its intention to do intensive lending in the area but does not mean that other banks are excluded from financing in that area.
- (c) the concept of 'area approach' has to manifest itself in intensive lending with proper staff support rather than the exclusion of other lenders. The basis of such lending should not be a unilateral declaration by a bank that it has adopted a village or a group of villages and therefore, others are precluded from lending in such villages. The coordination of rural lending under the multi-agency system could be achieved through the

district Credit Plans, the D.C.C. Meetings and other platforms of mutual consultation and discussions.

- (d) Adoption of villages often creates a feeling of discrimination in the field as there is a possibility of 'non-adopted' villages feeling ignored and uncared for. Such an impression should not be created.

5.48 The Committee recalled that a Study Group of the Committee has visited a village in Mahabalipuram adopted by the Indian Overseas Bank and gathered the impression that village had made by all round progress. The Study Group was given to understand that recovery of loans advanced to the people of that village was around 90 per cent. Asked if any study had been made to assess the impact of this Scheme and whether the implementation of the Scheme was being monitored at the national level by any organisation. In reply, a representative of the Ministry said in evidence :—

“No specific study is available to assess the impact of these Village adoption schemes.....There is no organisation at the national level. This is the present position.”

(v) Credit Planning and Lead Bank Scheme

5.49 Lead Bank Scheme which embodies the 'Area approach' to development, as recommended by Godgil Committee of the National Credit Council, has been in operation since the beginning of 1970. To begin with, Lead Banks carried out a survey of their respective lead districts, their resources, needs and potential in banking development. Thereafter the Banks prepared District Credit Plans as well as Annual Action Plans for the period 1980-82 in pursuance of Guidelines issued by the RBI on plan formulation. Three plans are stated to have provided details of various schemes proposed to be taken up, the number of beneficiaries expected to be covered and the quantum of possible credit development Ministry of Finance have reported *inter alia* “RBI do not have complete data in respect of the achievements made under the Annual Action Plans 1980, 1981 and 1982.”

5.50 Asked if Annual Action Plan for 1983 had been prepared for all the Districts, the witness reported :

"The lead banks have prepared the District Credit Plans for 1983-85 and Annual Action Plans for 1983 in respect of their lead districts excepting seven districts of North Eastern Region."

5.51 During evidence the Committee desired to know why complete data in respect of the achievements made under the Annual Action Plans, 1980, 1981 and 1982 was not available. In reply, a representative of the Ministry of Finance explained that :—

"The system of formulating Annual Action Plans as part of the District Credit Plans was introduced by the Reserve Bank of India from January, 1980 to December, 1982. The Reserve Bank has introduced the information system for monitoring the progress of the implementation of the Credit Plan. However, the information system has not stabilised and complete data for a number of districts could not be consolidated. The Working Group to review the working of lead bank scheme has recommended simplification of new Information System schedules which are under consideration of a High Power Committee on the working of the lead bank scheme."

5.52 Asked if it would not be desirable to collect data of working of lead Lead Bank Scheme not only at the district level but also at the national level, the Finance Secretary assured :—

"The present arrangements do not provide for data relating to lead bank and district credit plans to be kept at the national level; they are available only at the district level.....We will try and work out a mechanism whereby at least some data on a very broad magnitude do become available at the national level also, apart from the priority sector one."

(vi) *Rehabilitation of Sick Industries*

5.53 According to the "Policy for sick industries" laid down by the Ministry of Industry (Department of Industrial Development), on 6 October, 1981 and modified on 15 February, 1982 the responsibility for prevention of monitoring of sickness, and coordinating action for revival has been vested in the administrative Ministries concerned. It has been stipulated that as soon as the banks/financial institutions become aware of definite signs, of sickness, necessary corrective action should be initiated on the basis of a diagnostic study undertaken by them.

in the case of growing sickness, financial institutes may consider assumption of management responsibility after assessing the viability of the unit provided they are confident of restoring the units to a healthy state. Where banks financial institutions feel that it may not be possible to present an industrial unit from becoming sick or their efforts are unlikely to revive the sick undertaking, the administrative Ministry concerned may, in consultation with the Department of Industrial Development, decide whether the unit should be nationalised in the public interest.

5.54 The policy of sick units essentially assigns the following roles to the banks :—

1. To monitor the financial health of the units so as to identify sickness at the incipient stage and take remedial action.
2. When sickness become manifest, to take remedial action on the basis of diagnostic studies, and
3. To keep the Government informed wherever action at the Governmental level was necessary to deal with the sickness.

5.55. Banks assistance to sick industries had been as under :

| Year ending | No. of sick units identified by banks | Agg. outstanding Bank credit (Rs./crores) | No. of units for which viability studies were undertaken | No. of units considered potentially viable | No. of units put under nursing programme |
|-------------------------------|---------------------------------------|---|--|--|--|
| <i>I. Large Units*</i> | | | | | |
| June, 1981 | 422 | 1,453 | 385 | 342 | 242 |
| June, 1982 | 435 | 1,729 | 393 | 337 | 244 |
| <i>II. Medium Units**</i> | | | | | |
| June, 1981 | 960 | 137 | — | — | — |
| June, 1982 | 1020 | 176 | — | — | — |
| <i>III. Small Scale Units</i> | | | | | |
| June, 1981 | 22360 | 322 | 16,814 | 5468 | 2,029 |
| June, 1982 | 26,973 | 394 | 19,892 | 5316 | 1,982 |

* 'Large Units' denote individual units enjoying bank credit limits of Rs. 1 crore and above from the banking system.

** 'Medium Units' denote non-SSI units enjoying bank credit limits of less than Rs. 1 crore.

5.56 The Committee pointed out that sometimes management of sick units engineer sickness deliberately in order to seek assistance from financial institutions/banks and latter either that assistance is misused or diverted. Asked that in such cases should not the Banks take over the management of such units, the Finance Secretary expressed the view that :—

“In my opinion, banks assuming management responsibility is difficult, because I don't think they have the structure to take over industry, whether textile, sugar, cotton or engineering units. They are not designed to do it.”

(vii) Scheme for providing Self Employment to Educated Unemployed Youth

5.57 The Union Ministry of Industry has launched a new Scheme for providing self-employment to educated unemployed youth with minimum qualification as 10th class pass and within the age group of 18 to 35 years. Such youth will be provided bank credit and Government subsidy for undertaking self employment ventures through industry, service and business avocations. The Scheme aims to cover 2.5 lakh such persons in a year. The scheme extends to all areas of the country except cities with more than 10 lakh population as per 1981 census. Operational responsibilities of the scheme has been assigned to District Industries Centres in collaboration with lead banks of the respective areas.

5.58 The banking system is to provide credit of the order of Rs. 160 crores (since raised to Rs. 325 crores) during 1983-84 under the scheme. Capital subsidy of 25% is available from the Government. The Beneficiaries of the scheme will be indentified by a Task Force at District Industries Centre level and will be eligible loan not exceeding Rs. 25,000/- which will carry interest at 10— per annum in backward areas and 12% per annum in other areas. The repayment will be in Instalment beginning after an initial moratorium period ranging between 6 and 18 months. The repayment instalments would range over 3 to 7 years depending upon the nature and profitability of the venture.

5.59 Scheduled Commercial banks have been extending credit support to a number of on-going socio-economic schemes and programmes in the country This is as it should be. One such programme is the integrated Rural Development Programme which seeks to improve the lot fo the poorest of the poor, small marginal farmers, share croppers, agri-

cultural labourers, rural artisans, scheduled castes/scheduled tribes, fishermen and other weaker sections of society. A representative of the Ministry of Finance indicated during evidence that "there may be about 6 crores of families, which may be under the poverty line." During the first 3 years of the Sixth Five Year Plan i.e. 1980-81 to 1982-83, a total term credit of Rs. 1470.62 crores is stated to have been disbursed, a total subsidy of Rs. 952.09 crores allowed, and 88.95 lakh families assisted under this programme.

5.60 The Committee however, note with concern the fact that though as early as in November, 1981 a high level review of the Integrated Rural Development Programme had disclosed that the programme had run into some "operational problems" and that the progress in disbursement of institutional credit was "not satisfactory". It was only in February, 1983 that instructions were caused by Reserve Bank of India for the implementation of 20- Point Programme as a whole and not specially IRDP. In February, 1983 studies was conducted by RBI on the basis of which instructions were issued on 9th May, 1983. Further instructions were issued on 27 May, 1983. The Sixth Five Year Plan had envisaged that during the plan period 600 families per community block would be assisted per year. The representative of the Ministry of Finance could not give any block-wise figures to show to what extent the block-wise target had been met. It also transpired in evidence that even Government agencies had reported "lack of coordination or cooperation from the banking system". In the circumstance, the Committee recommend that all loopholes or deficiencies in the existing system of implementation and monitoring of this programme should be plugged early and operational problems overcome. The Committee would stress the need to ensure assistance for formulation of bankable schemes, smooth and regular processing of applications throughout the year, proper coordination between bank officials and State Government officials and post lending supervision to ensure proper utilisation of funds.

5.61 While noting the fact that Public sector banks' aggregate assistance under the 20- Point Programme has gone up from Rs. 4,057 crores (57.74 lakh accounts) at the end of December, 1981 to Rs. 4,040 crores (74.84 lakh accounts) by the end of December, 1982, the Committee are amazed to learn that at present no State-wise or district-wise targets of credit support to be extended by the banks under this programme are laid down. The Committee feel that considering the importance of this programme, year-wise targets of credit support expected of banks in the implementation of this programme should be laid down so that the role

and performance of banks in making this programme a success can be evaluated.

5.62 The Committee note that the banks' lending under the scheme of Differential Rate of Interest has increased from Rs. 192.49 crores (No. of borrowal accounts Rs. 25.10 lakhs) at the end of December, 1980 to Rs. 311.50 crores (Rs. 33.44 lakh borrowal accounts) at the end of December, 1982. Advances under this scheme are given at the rate of interest of 4%. Only borrowers who fulfill the land holding and income criteria are eligible for such advances. The Committee understand that after the National Institute of Bank Management had given its Report on the working of this scheme in December, 1982, Government have appointed a working Group to review the DRI scheme. The Committee would like to be apprised of the outcome of the review.

5.63 The Committee find that even though the number of villages "adopted" by the public sector banks has gone up from 47,393 at the end of June, 1977 to 1,21,008 at the end of 1981 and the amount outstanding increased from Rs. 221.86 crores to Rs. 1227.55 crores, neither any study has been undertaken to assess the impact of the Village Adoption Scheme nor the implementation of this scheme is being monitored at the national level by Government/Reserve Bank of India. A study group of the Committee had made an on the spot visit to a village in Mahabali-puram adopted by the India Overseas Bank and gathered the impression that village had made all round progress. The Committee, therefore, feel that this scheme, if implemented in the true spirit and in accordance with the guidelines issued by the Reserve Bank of India in 1980, could prove a boon to the villages, promote integrated development of the village economy, ensure intensive and schematic lending instead of scattered lending and help in better supervision over credit. The Committee recommend that progress made under this scheme may be monitored at the National level by the Banking Division of the Ministry of Finance.

5.64 The Committee regret to find that though under the Lead Bank Scheme, Lead Banks had prepared the District Credit Plan as well as Annual Action Plans for the years 1980, 1981 and 1982 which provided details of various schemes proposed to be taken up, the number of beneficiaries expected to be covered and the quantum of credit deployment, the Ministry of Finance have reported that "RBI do not have complete data in respect of the achievements made under the Annual Actions Plans, 1980, 1981 and 1982." The Committee feel that lead bank had to play an effective

role in bringing about conditions conducive to development by undertaking socio-economic surveys, identifying schemes and projects and converting them into bankable ones, locating entrepreneurs, and helping them in setting up projects successfully. All this underscores the need to have a perfect information system. The Committee would, therefore, urge Reserve Bank of India to work out a simple but meaningful information system so that progress made from year to year in implementation of this Scheme is available at the District level and a broad consolidated picture at the national level.

5.65 The Committee find that during the year ending June, 1982, banks identified 435 sick units among large industries 1,020 sick units among medium units and 26,973 sick units among small scale units and after carrying out viability studies, placed 244 large scale units and 1,982 small scales under "nursing programme". The Committee would like to know out of the sick units placed under nursing programme during the year 1982, how many have been rehabilitated so far. The Committee would also like a study to be undertaken to see if the units which continue to be sick despite assistance from Banks had in fact used the assistance for the purpose for which it was meant.

5.66 The Committee welcome the launching of a Scheme by the Ministry of Industry for providing Self Employment to educated unemployed youth under which the banking system would provide credit of the order of Rs. 325 crores during 1983-84. Each beneficiary is eligible for a composite loan of Rs. 25,000/- which will carry interest at 10 percent in backward areas and 12 percent in other areas. The Committee have been informed that beneficiaries of the Scheme will be identified by a Task Force at District industries Centre level. The Committee stress the need to ensure that beneficiaries are selected with due care and caution so that benefits of the scheme reach the persons who really deserve it.

5.67 The interest chargeable from borrowers varies from Scheme to Scheme but, whatever be the rate, public sector banks should ensure that the total amount of interest charged on a loan does not exceed the principal.

CHAPTER VI

FINANCIAL MANAGEMENT

A. Working Results of Public Sector Banks

6.1 According to the published Annual Reports, the profits earned by public sector banks during the years 1980, 1981 and 1982 were as under :-

| | (Rs. Crores) | | |
|---|--------------|---------|---------|
| | 1980 | 1981 | 1982 |
| I. SBI and its 7 Associate Banks | | | |
| Income | 1323.36 | 1704.36 | 2022.90 |
| Expenditure | 1310.20 | 1688.04 | 2002.59 |
| Profit | 13.16 | 16.32 | 20.31 |
| II. Nationalised Banks | | | |
| Income | 2512.13 | 3122.71 | 3676.62 |
| Expenditure | 2469.35 | 3074.56 | 3619.37 |
| Profit | 42.78 | 48.15 | 57.25 |

6.2 From the bank-wise details furnished by the Ministry of Finance it has been noticed that the year-wise profits have come down from Rs. 1.60 crores in 1980 to Rs. 1.35 crores in 1982 in the case of Indian Bank, from Rs. 0.83 crore in 1980 to Rs. 0.61 crore in 1982 in the case of New Bank of India and from Rs. 0.36 crores in 1980 to Rs. 0.19 crores in 1982 in the case of Vijay Bank.

6.3 Analysis of data furnished by the Ministry of Finance has also revealed that in the case of certain public sector banks the establishment cost as percentage of their total expenditure in 1982 was more than 25 per cent. These banks are State Bank of Bikanere & Jaipur (32.12%), State Bank of Hyderabad (30.43%), State Bank of Indore (30.56%), State Bank of Mysore (30.83%), State Bank of Saurashtra (31.02%), Dena Bank (27.0%), Union Bank of India (26.02%), Oriental Bank of Commerce (25.64%), Vijay Bank (30.27).

6.4 A non official organisation, in its memorandum expressed concern that despite substantial increase in the volume of business, the profitability of banks had remained almost constant. It has been pointed out by that organisation that the total earnings as percentage of deposits rose marginally from 9.8% in 1973 to 12.8% in 1980 in case of State Bank Group and from 8.5% to 10.8% in regard to 14 nationalised banks. According to that organisation "this is largely attributable to substantial increase in expenditure particularly establishment expenses of public sector banks."

6.5 The Committee desired to know whether Government had analysed the reasons for decline in profits of Indian Bank, New Bank of India and Vijay Bank and if so whether there was scope for improvement. In reply, a representative of the Ministry of Finance pleaded stated that :-

"The banks operate within certain parameters. About 85.90 per cent of banks income is essentially from interest and discount income on which they have little or no control as the interest rates are prescribed by the Reserve Bank of India. Besides, 35 per cent of deposits have to be kept in Government securities where the return is low; 8½ per cent has to be kept in cash with the RBI. Out of the remaining, about 35 to 40 per cent have to be deployed in the priority sector where also the return is low, 1 per cent of the finances have to be under the Differential Rate of Interest on which the return is 4 per cent. Then the banks are also required to deploy their finances under the Food Procurement Programme on which the return is low. They have to support the export sector also where the return is poor. All these factors have contributed to low income to the banks in general.

6.6 In the case of Indian Bank, the profit came down from Rs. 1.60 crores to Rs. 1.35 cr res in 1982 because of proportionate increase in the interest paid on deposits etc.. The New Bank of India paid Rs. 1.25 crores as arrears to staff on account of pay scales in line with Pillai Committee recommendation. The increase in fixed deposits with the Vijay Bank was relatively larger and therefore the amount of interest increased. The expenses also increased by a large amount,

6.7 Asked whether expansion of Branch network in rural and semi-urban areas regardless of commercial considerations had also affected the profitability of public sector banks, the witness conceded that "it is true that the branches which are opened in the rural and semi-urban areas take more time to break even" but nevertheless "Government had taken a deliberate policy decision to open branches in the unbanked and underbanked areas so that the banks could reach the remotest areas of the country.

6.8 Dealing with a query whether it was a fact that the establishment expenses of public sector banks had gone up since nationalisation, the witness gave the following data :-

"So far as the establishment expenses are concerned, we find that the percentage of establishment expenditure to the total expenditure has shown distinctive declining trend since nationalisation of banks. In 1969, it was 30.58 percent; in 1970, it rose to 36.88 percent; in 1975 it was 30.61 percent; in 1980 it was 23.09 percent; in 1982 it was 21.43 percent."

6.9 In this connection, the witness recalled that before nationalisation, there was no uniform parameter to determine with constitutes the establishment cost. For example, where some banks treated bonus as establishment cost, others did not. The banks, he stated were in private hands and therefore free to spend as much as they liked.

6.10 The Committee find that the overall profits of 28 public sector banks have gone up from Rs. 55.94 crores in 1980 to 77.56 crores in 1982. When asked about the scope for improving the profitability further, a representative of the Ministry of Finance attributed the low income of public sector banks to a variety of factors. He explained that banks had to keep 35 per cent of their deposits in Government securities where the return was low and 8½ per cent with the Reserve Bank of India in the form of Cash Reserve. Out of the remaining, 35 to 40 per cent had to be deployed by Bank in Priority sectors where too the return was low. Deployment of finances on Food Procurement Programme and Export Sector also yields low returns. Interest of only 4 per cent is being charged by Banks on advances under the Differential Rate of Interest Schemes. A non-official organisation has, however, expressed the view that low profits of public sector banks are due to "substantial

increase in expenditure particularly establishment expenses of public sector banks." Analysis of data furnished by Ministry of Finance and evidence led before the Committee has revealed that the establishment cost as percentage of their total expenditure ranges between 25 and 32 per cent in the case of 9 banks. These banks are State Bank of Pikaner & Jaipur (32.12%), State Bank of Hyderabad (30.43%), State Bank of Indore (30.56%), State Bank of Mysore (30.88%), State Bank of Saurashtra (31.02%), Dena Bank (27.0%) Union Bank of India (26.02%) Oriental Bank of Commerce (25.64%) and Vijaya Bank (30.27). The Committee recommended that the establishment expenditure of these banks may be brought down to a reasonable level so as to bring about improvement in the overall profitability of public sector banks.

B. Recovery Performance :

6.11 In 1982, out of total outstanding credit of Rs. 36,128 crores of public sector Banks (State Bank of India and its 7 Subsidiaries and 20 Nationalised Banks the classification according to Security is as under :-

| | Rs. (Crores) |
|--|--------------|
| (i) Debts considered good and fully secured | 28,345 |
| (ii) Debts considered good, secured by the personal liabilities of one or more parties in addition to the personal security of the Debtor. | 4,054 |
| (iii) Debts considered good but having no other security than the Debtor's person security. | 3,729 |

6.12 Ministry of Finance have intimated "Further Classification of these data according to size of Credit limits or age is not available."

6.13 Under Section 34A of the Banking Regulation Act, 1949, banks cannot be compelled to divulge any information relating to (a) any reserves not shown as such in its published balance sheet or (b) any particulars not shown there in respect of provision made for bad and doubtful. Section 13(1) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 provides that except as otherwise required by law, the practices and usages customers amongst bankers, and, in particular, it shall not divulge any information "relating to or to the affairs of its constituents."

6.14 According to the forms of Balance Sheet and Profit and Loss Account prescribed in the Third Schedule to the Banking Regulation Act, 1949, banks have been given statutory protection from disclosing the quantum and particulars of bad and doubtful debts for which provision is made to the satisfaction of their statutory auditors.

6.15 The Committee asked whether the statutory protection given to Banks from disclosing the quantum and particulars of bad and doubtful debts, should not be withdrawn to ensure accountability of public sector banks to Parliament and the people. In reply, the Secretary, Ministry of Finance pleaded that :

“There is a convention of confidentiality of banks accounts and bank details particularly relating to these aspects.....It is a customary practice which is followed. I want the Committee to appreciate that there is a practice which is followed by the banking system.

I submit for your consideration that if you could permit us to await the recommendations of this Committee which is expected to weigh the pros and cons of disclosure visres Continuance of the existing provision, Government will be facilitated in taking a view after considering a view after considering the detailed recommendations that the Ghosh Committee might make. This is a Committee constituted by the Reserve Bank.”

6.16 Reserve Bank of India had appointed in March, 1982, a Committee under the Chairmanship of Shri A. Ghosh, Deputy Governor of the Bank to examine, *inter alia*, the desirability of greater or full disclosure in the published accounts of Banks, having regard to the need for disclosure, public accountability of Banks, requirement of maintenance of confidentiality between banker and customer and the requirements of maintaining the image, reputation and credit worthiness of banks. Earlier, the need for full disclosure was stressed by the Banking Commission under the Chairmanship of Shri Saraiya. The Report of the Ghosh Committee is still awaited.

6.17 Analysis of data furnished by the Ministry of Finance with regard to recovery of direct agricultural advances has shown that during the last 4 years (years ending June, 1978, 1979, 1980 and 1981), the percentage of recovery to demand ranged between 57.0 and 58.5 percent

in respect of short term advances, the percentage range was as low as 41.5 and 46.8 per cent in respect of term loans.

6.18 The witness attributed the poor recovery performance in respect of direct agricultural advance to the following factors :-

- (i) A sizeable portion of overdues relate to the advances granted soon after the nationalisation when banks were new in the area of agricultural lending.
- (ii) Natural calamities such as drought and floods;
- (iii) Defective planning while sanctioning loan proposals particularly in terms of assumptions made with respect to yields, input costs and output prices.
- (iv) Misutilisation of loans and diversion of income-generated out of investments.
- (v) Lack of integrated approach in lending. Credit is only one of the inputs and to be effective, it has to be supported by arrangements for supply of other inputs, technological support, extension services etc.
- (vi) Unsatisfactory marketing arrangements resulting in the borrowers getting lower than the expected prices for their produce.
- (vii) Lack of suitable/adequate staff for efficient supervision and recovery of agricultural loans at branch level.
- (viii) Lack of adequate government support for recovery of overdues.
- (ix) Wilful defaulters.

6.19 The Committee wanted to know how the recovery performance in respect of direct agricultural advances compared with advances to other sectors of economy. In reply, the representative of the ministry of Finance revealed that :-

“RBI has now prescribed a new format for recording recovery of advances to other sectors. When the data starts flowing, an idea will be available all out. Presently, the data reporting

system only gives the recovery figures in respect of direct agricultural advances. This is mentioned by the RBI. The Data Reporting System does not give the figures relating to recovery of advances to the other sectors of the economy. Therefore, it is not, possible to compare the recovery performance in respect of direct agricultural advances, with advances to the other sectors of the economy..."

6.20 The Committee find during the that last 4 years (1978-1981) the percentage of recovery of direct agricultural advances to demand ranged between 57.0 and 58.5 per cent in respect of short term advances and between 41.5 and 46.8 per cent in respect of term loans. Poor recovery performance has been attributed by the Ministry of Finance to a number of factors including (i) lack of experience in agriculture lending (ii) defective processing of loan applications (iii) lack of integrated approach in lending (iv) unsatisfactory marketing arrangements (v) lack of suitable adequate staff for efficient supervision and recovery (vi) natural calamities ; (vii) mis-utilisation of loans etc. The Committee feel that in effecting recoveries, while stern action should be taken against wilful defaulters, recoveries should be put off or rescheduled in the case of farmers whose repaying capacity is adversely affected on account of circumstances beyond their control e.g. national calamities, like droughts, floods, etc. The Committee further feel strongly that for the recovery of loans agricultural land ought not to be attached and sold thereby depriving the farmers or their means of livelihood for ever. Instead of other methods of recovering the loans should be thought of. One such method involving the land could at best be taking temporary possession of it and leasing it out for a few years to adjust the lease amount realised against the outstanding loans.

6.21 The Committee are surprised to learn that the existing data reporting system as devised by the Reserve Bank of India gives statistics of recovery of direct agricultural advances only but not advances granted by Banks to other sectors of economy. A representative of the Ministry of Finance assured the Committee that RBI had since prescribed a new Format and when data about other sectors of economy starts flowing in, a complete picture of recovery performance of banks would become available. The Committee would await this.

6.22 Ministry of Finance have intimated that out of total outstanding credit of Rs. 36,128 crores at the end of 1982 in respect of public sector banks, debts amounting to Rs. 28,345 are fully secured and are

considered good, debts amounting to Rs. 4,054 were considered good but were secured by the personal liabilities of one or more parties in addition to the personal security of the Debtor, but debts amounting to Rs. 3,729 crore have no other security than the Debtor's personal security. The Committee could not have any indication as the amount of "bad and doubtful debts" because banks have claimed statutory protection from divulging such information. The Committee are of the view that as after nationalisation banks have become accountable to Parliament, the amount and broad details of bad and doubtful debts of public sector banks should no longer be kept a secret but should be disclosed in their Annual Reports. The Finance Secretary assured in evidence that the question whether banks should continue to have such a protection was already under examination by a Committee appointed by the Reserve Bank in March, 1982, under the Chairmanship of Shri A. Ghosh Deputy Governor. The Committee will examine, *inter alia*, the desirability of greater or fuller disclosure in the published accounts of Bank's having regard to the need for disclosure, public accountability of bank's requirement of confidentiality between banker and customer and the requirements of maintaining the image, reputation and credit worthiness of banks. The Committee would await a decision on the findings and recommendations of this Committee.

C. Accounts & Audit

6.23 In its 5th Report presented on 11.8.1983, the Rajya Sabha Committee on the Papers laid on the Table, had found that :

- (a) large number of items of accounts in respect of almost all the public sector banks have been left unreconciled, incomplete, unscrutinised and in arrears for several years ;
- (b) A study of the inter-branch outstanding as the end of 1977 during the period 31.12.79 to 30.6.82 reveals that during this stretch of 30 months, a bank had altered the position from 9.6 lakh entries in arrears to 8.9 lakh entries only, a net change of only 8 per cent, another bank had reduced its burden by only 13 per cent. At this rate, it is doubtful whether the arrears at the end of 1977 will be cleared in many banks even by the year 2,000 A.D.
- (c) There is no uniform system of audit among the different groups of public sector banks. Under the guidelines issued by

the RBI to nationalised banks, all branches with advance of more than Rs. 50 lakhs are audited and the other branches by rotation once in three years. In respect of the SBI and its 3 subsidiaries. There has been no guideline and no branch audit. In respect of this SBI which has about 6000 branches and advances over Rs. 7600 crores, the accounts of only 12 main branches and 6 others are audited every year by the statutory auditors and in a SBI Subsidiary Bank with about 500 branches in operation only the accounts of the Head Office are examined by the external audit.

6.24 The Rajya Sabha Committee on Papers Laid observed "The Committee finds no plausible reason why the audit of the public sector banks should not be brought under the Comptroller and Auditor General while a large number of financial and credit institutions including the State Financial Corporations and a Commercial bank in a State are already under his jurisdiction in respect of audit." The Committee has recommended that "early steps may be taken by the Government in this regard either by a change in the procedure adopted or by modifying the existing provisions of the Act, whenever necessary."

6.25 Half-an-Hour Discussion in Lok Sabha on 17 August, 1983 on Bank Frauds had revealed that in some of the banks reconciliation of accounts has been pending since 1973. As far the pending work in respect of savings bank and current accounts was concerned, it had been pending since 1979 in some branches and since 1980 in others. It also transpired that a number of branches of nationalised banks go without external audit for years.

6.26 A representative of a non-official organisation confided during evidence that reconciliation of accounts was left in arrears deliberately. He felt that staff had vested interest in keeping this work in arrears cover up frauds. He indicated that in some of the Branches, employees do not work beyond 2 P.M. and spent their time in recreation centres set up in the Banks premises itself with the result that Banks had to engage retired personnel to attend to this work.

6.27 The Committee wanted to the reaction of Government to this State of affairs was and whether computerisation could help. In reply, the Ministry of Finance have intimated, in a Note that is

- (i) "Government and Reserve Bank of India have been alive to the need for speedier reconciliation of inter-branch and inter-bank accounts. Instructions have already been issued for liquidating the arrears in so far as inter-branch accounts are concerned by drawing up a time-bound programme. Government have also advised banks to set a time frame within which arrears have to be liquidated.
- (ii) Governor, RBI in his meeting with the Chief Executives in February 1983 and Finance Minister, in his meeting with the Chief Executives in April 1983 have asked them to give utmost attention to the problem of inter-branch reconciliation.
- (iii) Most of the banks have set up special cells to monitor the progress of reconciliation.
- (iv) A large number of banks have set up special squads for visiting chronic branches and speed up reconciliation work.
- (v) The boards have also started reviewing regularly the progress of reconciliation.
- (vi) As a result of these steps, there has been improvement in the position of reconciliation. Much more progress will have to be made. Banks are also, therefore, considering introduction of computers in a limited scale for the purpose of reconciliation of inter-branch accounts. There has been an agreement for limited introduction of computers in the recent settlement between the Indian Banks' Association and the Unions representing the employees. The Committee appointed by RBI under the Chairmanship of Dr. Rangarajan would be identifying the type of computers for introduction in banks.
- (vii) Banks have been instructed to enforce punctuality and discipline in their offices/branches. Chairman and other senior executives have been asked to make regular visits to branches to tone up punctuality, discipline etc.

6.28 During an Half-an-Hour Discussion in Lok Sabha on 17 August, 1983, it transpired that in some of the banks reconciliation of accounts had been pending since 1973. As for the pending work in respect of Savings Bank and Current Accounts, it was pending since 1979 in some branches and since 1980 in others. It also transpired that

a number of branches of nationalised banks go without external audit for years. Earlier, in its Report presented on 11 August, 1983, the Rajya Sabha Committee on Papers Laid had pointed-out that a large number of items of accounts in respect of almost all the public sector banks have been left "unreconciled, incomplete, unscrutinised and in arrears for several years." That Committee had observed : "The Committee see no plausible reason why the audit of the public sector banks should not be brought under the Comptroller & Auditor General while a large number of financial and credit institutions including the State Financial Corporation and Commercial bank in a State are already under his jurisdiction in respect of audit." Ministry of Finance, have now intimated, inter alia, that instructions have been issued to Banks for liquidating the arrears in so far as inter-branch accounts are concerned by drawing up a time bound programme and that in pursuance of the recent settlement between the Indian Banks' Association and the Unions representing the Bank Employees, banks are also considering introduction of computers in a limited scale for the purpose of reconciliation of inter-branch accounts. The Committee recommend that the Ministry of Finance should reflect in their Annual Reports the progress made by public sector banks in liquidation of these arrears and also take an early decision on the suggestion for bringing the public sector banks within the purview of C&AG audit.

D. Bank Frauds

6.29 Ministry of Finance have intimated that the total number of bank frauds and the amounts involved therein as reported by 28 public sector banks to the Reserve Bank of India during the years 1978 to 1983 (up to 30-6-1983) were as under :—

| Year | No. of Frauds | Amount involved (Rs./lakhs) |
|----------------|---------------|--------------------------------|
| 1978 | 1422 | 737.71 |
| 1979 | 1400 | 1514.71 |
| 1980 | 1594 | 840.57 |
| 1981 | 1891 | 2034.21 |
| 1982 | 2065 | 1953.67 |
| 1983 | 1169 | 1197.76 |
| (upto 30-6-83) | | |

6.30 In this connection, the Ministry of Finance have clarified that ;

- (i) the amounts involved in these frauds do not necessarily represent the actual losses which the banks might have ultimately to suffer :—
- (ii) the amounts of frauds expressed in foreign currencies have not been included.

6.31 Conceding the possibility of collusion with bank employees, Deputy Finance Minister revealed in Lok Sabha on 17 August, 1983 that :—

- (i) One clerk of Gandhi Nagar in Gujarat defrauded a Bank to the tune of Rs. 3.24 crores;
- (ii) one lady employee of a Bank in Delhi defrauded the bank to the tune of Rs. 1.60 lakh approximately;
- (ii) one senior Bank officer of the Central Bank of India, after his retirement defrauded 10 banks including 4 foreign and national banks to the tune of Rs. 7.30 crores.

6.32. The Committee wanted to know whether public sector banks do have an effective vigilance machinery to guard against the possibility of such frauds. In reply, a representative of the Ministry of Finance stated in evidence :

“the banks do have a vigilance machinery according to which they consider necessary for their requirements. The Government has prescribed that the Chief Vigilance Officers should normally be very senior officers and they are appointed, with the approval of the Chief Vigilance Commission and before the CVC gives its approval the CBI would have already conducted its enquiries into the antecedents of these officers, who are to be appointed as Chief Vigilance Officers under the Chief Vigilance Officers, there are Vigilance Officers at the Headquarters level and also at the regional and zonal levels. This is only one of the mechanism that the banks have for detecting fraud cases. There are corresponding Departments like Inspection Department and the Audit and Accounts Department. Of late, many

banks are having the system of concurrent Audit which throws up cases of irregularities.

6.33 Asked whether the system and procedures in vogue in public sector banks have any loopholes to make frauds being committed at such a large scale, the witness expressed the view that :—

“by and large, the assessment is that these frauds take place because stipulated procedures are not being followed, the implementation defects has been noticed. In the meeting of the Chief Executives of Banks.....one of the reasons given by the Chief Executives was that over the years so much stress has been laid on developmental activities that they they have neglected the house keeping activities of banks like reconciliation of accounts, etc. The Finance Minister laid great stress on this account and said that house keeping activities must be tightened up.....The Reserve Bank of India has once again issued instructions that entries above Rs. 25 thousands should be given priority consideration for the purpose of reconciliation so that major frauds are detected.”

6.34 Replying to a query about the action taken in cases of bank frauds, the witness said “We do not neglect these cases.” He added that “whenever a fraud comes to notice either a report is lodged with the police or, if it is a major case, the report is lodged with the CBI also.” He confided “We have now asked banks that every quarter, these cases of frauds should be reviewed by the Boards so that they ensure that banks are taking proper action in respect of these cases.”

6.35 Asked how many cases had resulted in convictions, the witness gave the following data :—

“Total number frauds that occurred in 1978, 1979 and 1980 was 315 who were found guilty; In 69 cases. Warning & Censure, stoppage of increments in 48 cases; reduction or reversion in ranks in 13 cases; discharged, dismissed or removed in 166 cases, resigned 12, number of persons convicted by courts 7.

6.36 The committee invited attention to the New item titled "Operation Clean up in Banks" which appeared in Economic Times of 10 September, 1983, according to which Government had decided to ask the two Chairman of Syndicate Bank and the Bank of India, to submit their resignations." Asked what were the circumstances which had led the Government to take this step, in reply, the Finance Secretary confided :

"CBI enquiries are in progress in both these cases. In one case (Shri K. Raghupathy of Syndicate Bank) there was allegation of disproportionate assets (Rs. 13 lakhs). He expressed a desire to resign. We said "Yes, but the enquiry being conducted separately will continue". In the second case, there was allegation of grant of irregular advances of Rs. 10 crores. This case relates to Shri B.L. Khurana, Chairman of New Bank of India, (CBI enquiry is going on in this case."

6.37 The Committee cannot but express their grave concern over the alarming rise in bank frauds. The number of bank frauds in public sector banks has gone up from 1422 cases involving a total amount of Rs. 7.38 crores in 1978 to 2065 involving a total amount of as much as Rs. 19.53 crores in 1982. In the first half of 1983 year, 1169 bank frauds involving Rs. 11.97 crores have already taken place and at this rate, the year 1983 may end up with more cases than in any year in the past 5 years. During this entire period from 1978 to 1983 (upto June), there have been a total of 9,541 bank frauds involving an aggregate amount of Rs. 82.79 crores. Government's assessment of the situation is that banks already have a vigilance machinery and adequate procedures but these frauds take place not because there are any loopholes in procedures but because such procedures are not followed. A representative of the Ministry of Finance conceded in evidence that 'over the years so much stress had been laid on developmental activities that they (banks) have neglected their house keeping activities like reconciliation of accounts'. The Committee would urge that vigilance machinery in banks may be strengthened, stipulated procedures tightened, fraud prone areas of banking operations identified, reconciliation of accounts updated, audit arrangements strengthened and proper supervision at all levels undertaken. The Reserve Bank of India should critically study

the *modus-operandi* of fraud cases and forewarn the Banks to be cautious. The Committee trust that whenever bank employees are found guilty of fraud of being in collusion with persons committing such frauds, they should be awarded exemplary punishment to serve as a warning to others.

NEW DELHI

April 28, 1984

Vaisakha 8, 1906 (S)

BANSI LAL

Chairman,

Estimates Committee.

APPENDIX

Statement of Recommendations

| Sl. No. | Para No. | Recommendation/Observation |
|---------|----------|---|
| 1 | 2 | 3 |
| 1 | 1.14 | As early in 1935, Government had set up the Reserve Bank of India. RBI has been acting as the Banker to the Government, bankers' bank regulatory authority, and looking after public debt and currency management. In 1949, the Banking Regulation Act was passed empowering the RBI to control and regulate the functioning of commercial banks. Later, in pursuance of the recommendations of All India Rural Credit Services Committee, the Imperial Bank was converted into the State Bank of India from 1 July, 1955 by the State Bank of India Act 1955. In 1968, Government introduced "Social Control" over banks by which they were directed to provide larger volume of credit to hitherto neglected sectors and make bank credit a more effective instrument of economic development. The progress made in this direction was not found adequate with the result that Government nationalised 14 major scheduled commercial banks in July, 1969, followed by nationalisation of 6 more banks in April, 1980. |
| 2. | 1.15 | The objectives underlying the nationalisation of banks were to "subserve national priorities and objective" and to "serve |

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better the needs of the economy and to promote the welfare of the people". The Committee's examination, however, revealed that despite the fact that the share of the public sector in India's banking has risen to 91 per cent, priority sectors' share in gross bank credit even after 14 years of nationalisation had reached 37.2 per cent as against 14.6 per cent at the time of nationalisation. Out the priority sectors share of 27 percent, the share of weaker sections of society is still quite less i.e. 7 percent. As far as the Committee can see, public sector banks have to go a long way to achieve fully the objectives for which the banks were nationalised.

3.

1.16

-In their 8th Report presented on 11 August, 1983, the Rajya Sabha Committee on Papers Laid on Table have pointed out that despite a clear direction given by the Estimates Committee in their 62nd Report of 1973, Government failed to submit a Consolidated Report on the working of public sector banks regularly. The Estimates Committee would urge Government that the consolidated Report should be brought out annually without fail in future.

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According to the Ministry of Finance, from the year 1980-81 onwards, the credit policy of RBI was aimed at restraining growth of credit without, however, denying to the economy its essential credit requirements for production of goods. Though the basic stance of the credit policy of the Reserve Bank of India had been one of "restraint and caution", changes in this

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policy were made three times during 1982-83 i.e. in April, June and October, 1982. On 30 April, 1983, the Governor of Reserve Bank outlined further measures which the Banks would be pursuing during the first half of the financial year 1983-84. In October, 1983, the credit policy was further liberalised. Defending these changes, the Ministry of Finance have claimed that these were "seasonal measures" and had to be "resounded, retained, revised or re-inforced." While the Committee do concede that the credit policy cannot remain static for all times to come and that it will have to respond and react to emerging trends in the economic scene of the country, they feel that it should be possible for the Reserve Bank of India to atleast ensure that credit policy is not changed too frequently. The Committee feel that it should not be too difficult for the RBI to ensure that the credit policy remains stable for a reasonable time.

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The Committee are of the firm view that if the credit policy of the Reserve Bank of India is to be really effective, it must not be confined to the banking sector alone but should also aim at checking the growth of black money in the country. The Chief Economic Adviser in the Ministry of Finance recalled during evidence that Wanchoo Committee had estimated the black money in 1968 69 to be around Rs. 1400 crores, another estimate had placed it at Rs. 1800 crores, and according to yet another estimate, it could be roughly Rs. 30,000 crores in 1976-77. He pointed out that so far "we do not

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have scientifically acceptable estimate of the black money". He indicated that Government had already requested the National Institute of Public Finance to conduct a study and provide an authoritative view in this matter. The Committee would like to be apprised of the outcome of this study.

6.

3.13

While the Committee note with satisfaction the fact that the branch network of scheduled commercial banks has expanded by more than five times from 8,321 at the time of nationalisation to 42,027 at the end of June, 1983, they would like to draw attention to the wide gap which still exists between population coverage per bank office in Metropolitan/Port towns on the one hand and rural/semi-urban areas on the other. As against population coverage of 65,000 per bank office on an average at the time of nationalisation the population coverage at the end of June, 1983 was 16,000 per bank office. While overall population coverage per bank office in Metropolitan/port towns is 7,000, there is, on an average, one bank office for a population of 19,000 in rural/semi-urban areas. It has been stated that under the Correct Branch Licensing Policy (1982-85) which was formulated in consultation with the Government of India the target is to achieve by March, 1985 a coverage of one bank office for a population of 17,000 in the rural and semi-urban areas as per 1981 census. The Committee recommend that while formulating the new Branch Licensing Policy, for the period beyond 31 March,

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1985, it should be made obligatory on the part of schedule commercial banks to locate a minimum percentage of new Branch offices in rural/semi-urban areas.

7.

3.14

It is indeed surprising that even though a Block Headquarters is a focal point in our developmental Administration, bank branches have been opened in only 292 out of 675 identified unbanked block Headquarters, 9 block headquarters are adequately covered by commercial banks, 134 Block Headquarters do have a commercial bank office within a distance of 3 Kms., 167 block headquarters are served only by a branch of Regional Rural Bank. There are still 73 block headquarters falling beyond 3 Kms. from the nearest bank office which are yet to be covered. The Committee recommend that coverage of block headquarters by Commercial banks, Regional Rural Banks should be speeded up.

A:

3.15

The Committee find that there are wide regional disparities in the matter of population coverage by scheduled commercial banks. As at the end of June, 1983, as against the All India national average of 16,000 per bank office, there is one bank branch office for a population of 30 thousand in Manipur and Assam, and 29 thousand in Sikkim, 23 thousand in Tripura and Bihar, 21 thousand in U.P. and West Bengal, 20 thousand in Orissa and Arunachal Pradesh, and 19 thousand in Madhya Pradesh. The Committee would urge Government/RBI to ensure that

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such inter-state disparities in population coverage are reduced to the minimum.

3.25

The Committee cannot resist the impression that the manner in which Boards of Directors of Nationalised Banks are constituted by the Central Government leaves much to be desired. Under the Nationalised Banks (Management Misc. Provision) Schemes, 1970 and 1980, the Board is to consist among others of three Directors to represent the interests of farmers, workers and artisans and not more than five Directors having practical knowledge or knowledge in respect of one or more matters likely to be useful for the working of the nationalised banks. On receipt of a complaint alleging that one of the non-official Directors on the Board of New Bank of India had mis-used his position by helping the firms/companies in which he was interested as a partner/Director, the Committee called for a factual note. In reply, the Ministry of Finance pleaded *inter-alia*, that "it is not desirable for Government to make a roving enquiry into the affairs of the persons proposed to be appointed as a Director on the Board of a Nationalised bank or his relatives." If this plea of Government is accepted, it would mean that even an undesirable person with a shady past could, without any fear of detection, get into the Board of Directors of any nationalised bank. The Committee recommend that a thorough probe should be made into this case and the result reported. The Committee also suggest that in future the character and antecedents as also the busi-

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ness interests of the person concerned should be ascertained by discreet enquiries so that the conduct and dealings of every person who is appointed as Non-official Director is above board. In any case, persons who are likely to abuse the position to help their relatives and friends or the firm/company in which they have a pecuniary or other interest should be rejected outright.

3.10.

3.26

It transpired during evidence, that even though the term of appointment of a Director is only for 3 years, there are instances where non-official Directors had continued in that capacity for as many as 25 years. A representative of the Ministry of Finance explained that as far as nationalised banks were concerned they had eliminated such cases after 1977 and that such cases were there only in subsidiary banks of the State Bank of India. He pointed out that non-official Directors on the Boards of SBI's subsidiary banks were made by the SBI and not by the Government and that private share holders of these banks were, under the law, free to appoint a Director for more than one term. The Committee feel that as subsidiaries of the State Bank of India are also in the public sector, appointment of Directors should be for a maximum period of two terms. If necessary, the SBI Act should be suitably amended for this purpose.

3.11.

3.29

The Committee find that in 17 out of 28 public sector banks, the officer-clerk ratio ranges between 1 : 2 and 1 : 3 indicat-

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ing that there is large complement of officers in these banks. The Committee are not sure whether this imbalance has arisen due to either shortages in clerical strength or due to the banks having opened more branches in rural and semi-urban areas and each such Branch has to have one Manager. The Committee recommend that the Reserve Bank of India should undertake a review of staffing pattern in the public sector banks and take steps to ensure that administrative set up of any public sector bank does not become top heavy-

12.

3.34

The Committee find that expansion of Branch net-work since nationalisation of major banks in 1969 has led to deterioration in the standards of customers service. According to RBI's review, out of 176 recommendations made by a Working Group on Customer Service, in their Reports submitted in August, 1975 and March, 1977, Government had accepted 136 recommendations. While the State Bank of India and its subsidiary have implemented more than 100 recommendations, 14 nationalised banks are stated to have implemented only 90 recommendations. The Committee can not but deplore the slow pace of implementation of these recommendations. The rest of the recommendations may be implemented by all public sector banks within a year i.e. March 1985 at the latest. In order to ensure that this time limit is adhered to, Boards of Directors of these Banks should review the progress in this direction periodically.

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| 13. | 3.35 | <p>The Finance Secretary assured the Committee in evidence that systems were being improved to provide better customer service and these include computerisation of clearing operations in Metropolitan cities and setting up of regional collection counters. The Committee were given to understand that the Bank of India, Andhra Bank and Central Bank have introduced a "Card System" which enable the customer to draw money upto a maximum of Rs. 1,000 at the time without undergoing the usual formalities. The Committee suggest that other banks should also go in for such a system of avoid long queues of customers at the banks offices.</p> |
| 14. | 3.36 | <p>If introduction of computerisation in a phased manner can bring about greater efficiency and smoother working of banks and customer services, Banks should certainly go in for it but it should be ensured that it does not result in any retrenchment of existing staff and does not affect the employment potential in this sector.</p> |
| 15. | 4.10 | <p>The Ministry of Finance have claimed that the aggregate deposits of scheduled Commercial Banks have increased from Rs. 4,646 crores in June, 1969 (i.e. prior to nationalisation) to Rs. 56,879 crores in 1983 (as on 11.11.83)—an increase of more than 13 times apparently, the rate of this growth in deposit mobilisation does not take into account the appreciation in prices over the years. If the inflation factor is taken into consideration, the rate</p> |

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of growth would work out to be far less. The Committee would, therefore, recommend that Reserve Bank of India should make a realistic assessment so that a comparative picture of deposit mobilisation in real terms over a period becomes available.

16.

4.11

The Committee find that bank deposits had increased to Rs. 26,550.79 crores as at the end of 1978, registering an increase of 24.47 percent over the previous year. But in subsequent years, scheduled commercial banks failed to maintain that tempo of deposits mobilisation. The yearly rate of growth of deposits was 18.50 percent in 1979, 17.28 percent in 1980, 19.57 percent in 1981, and 14.80 percent in 1982. If the progress made in deposit mobilisation upto 11 November, 1983 is any indication, the year 1983 is not expected to end up in a better rate of growth. What has surprised the Committee more is that while during the last 3 years, non-banking companies had been able to attract more deposits, their yearly growth of deposits being 31.0 percent in 1979-80, 21.3% in 1980-81 and 31.3 percent in 1981-82, the growth of bank deposits had been comparatively sluggish. A representative of the Ministry of Finance pointed out in evidence that these non-banking companies, both in public and private sectors, give interest upto 15 percent on deposits as compared to 11 percent by Banks. Non-resident deposits are already being paid 2 percent more by Banks. The Committee recommend that interest in

bank deposits may be suitably raised so that scheduled commercial banks are able to attract larger deposits.

4.20

The Committee agree that if and when the bank deposits grow at a faster rate than anticipated, thereby creating excess liquidity in the banking system, the Cash Reserve Ratio of Banks has to be raised to see that such liquidity does not go to fuel the inflationary tendencies in our economy or result in "counter productive build up of inventories". The Committee, however, find that in the year 1983 the Cash Reserve Ratio was raised by the Reserve Bank of India so frequently and so suddenly on each occasion that even banking circles were taken by surprise. The ratio was enhanced from 7 to 7.5 percent from the week beginning 27 May, 1983 and from 7.5 to 8.0 percent from the 29 July, 1983, thereby impounding Rs. 275 crores at each stage. This was followed by another hike from 8 to 8.5 percent from the week beginning 27 August, 1983, resulting in the impounding again of a like amount. On 8 November, 1983, RBI asked the Banks to maintain, in addition to the present CRR of 8.5, an incremental Cash Reserve Ratio of 10 percent of the increase in net demand and time liability over the level as on 11 November, 1983. The Committee would like the Reserve Bank of India to examine if trends in deposit mobilisation cannot be predicted more accurately to avoid the need for frequent hikes at short intervals in the Cash Reserve Ratio.

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| 18. | 4.21 | <p>The Committee were assured during evidence that hikes in Cash Reserve Ratio would not, in any way, affect the flow of credit to priority sectors and especially to weaker sections of society and small scale industries. The Committee's attention in this connection has been drawn to the guidelines issued by the Reserve Bank of India on 20 October, 1983, exhorting the banks to meet, despite increase of Cash Reserve Ratio, all legitimate credit requirements of productive activity and pay special attention to the needs of small borrowers. Banks have also been asked to use their influence with their clients in the large and medium industries sector to ensure that payments due to suppliers in the small scale industries are not delayed. The Committee urge the Reserve Bank of India to see that these guidelines are implemented by banks in letter and spirit.</p> |
| 19. | • 5.16 | <p>According to the targets set by the Reserve Banks of India, the scheduled commercial Banks were required to ensure that by March, 1985 (i) the share of priority sector advances in the total gross bank credit reaches the level of 40 percent, (ii) advances to weaker sections of society should reach the level of 25 per cent of priority sector advances or 10 percent of total bank credit and (iii) direct finance to agriculture (including allied activities) should reach a level of at least 15 per cent of the total credit. The Committee are disappointed that while the targeted percentage of providing direct finance to agriculture has already been reached by</p> |

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scheduled commercial banks, they are nowhere near the targets as far as flow of credit to priority sectors and weaker sections of society are concerned. The level reached for priority sectors upto June, 1983 is only 35.4 per cent as against the target of 40 percent of total credit. The credit level for weaker sections of society that has been reached by public sector banks upto the end of September, 1983, is 19.3 of priority sector advances and 7.5 percent of total credit as against the targets of 25 percent and 10 percent respectively. What is worse is that some of the leading public sector banks like Oriental Bank of Commerce, Dena Bank, Vijay Bank, Bank of Maharashtra and New Bank have not achieved even these low levels and are lagging far behind. The Committee attach great importance to the flow of credit to priority sectors particularly weaker sections of society because if banks lag behind in this field, the very purpose of nationalisation of banks would be defeated and small borrowers will continue to be at the mercy of private money lenders. The Committee, therefore, strongly recommend that performance of public sector banks in this respect should be closely watched by the Boards of the Banks, the Reserve Bank of India and the Banking Division of the Ministry of Finance to ensure that there is no shortfall whatever in achievement of the national targets set by the Reserve Bank of India.

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5.17

The Sixth Five Year Plan had stipulated that by the terminal year of the Plan i.e. 1984-85, credit to agricultural sector

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would be Rs. 5,415 crores made upto of short term credit of Rs. 4,100 crores (i.e. Rs. 2,500 crores by cooperatives and Rs. 1500 crores by Commercial banks and regional rural banks) and term loan of Rs. 1,415 crores (i.e. Rs. 795 by Cooperatives and Rs. 620 crores by commercial banks and regional rural banks). As far as the scheduled commercial banks are concerned, the direct credit provided by them to agriculture (including allied activities) is hardly 15 per cent. The Committee feel that agricultural sector deserves a much larger share of the total bank credit than what it is getting at present. The Committee hope that claims of this sector would be given due consideration by Government/Reserve Bank of India while fixing new targets for sectoral deployment of credit.

21.

5.18

The Committee cannot help pointing out that not only the flow of credit to weaker sections of society is not adequate but out of whatever is sanctioned to them by banks a substantial portion is pocketed by middlemen. This exploitation of the poor and illiterate people must stop. One way to eliminate this malpractice could be that the Banks concerned should establish direct rapport with the beneficiaries rather than deal with them through intermediaries. A representative of the Ministry of Finance assured the Committee in evidence that they would issue suitable instructions to Banks in this regard.

22.

5.25

From the population group-wise, and region-wise credit deposit ratios made

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available by the Ministry of Finance to show how much of the deposits mobilised in an area were given by way of credit to people of that area, the Committee find that as against the national target of Credit Deposit ratio of 60 percent for rural and semi-urban offices of scheduled commercial banks to be achieved by March, 1979, scheduled Commercial banks were able to reach this target only by December, 1981 in the case of rural branches. They have failed to achieve this target even upto December, 1982 in their semi-urban branches. The Committee urge that the reasons for this slow progress may be analysed and effective steps taken to achieve without further delay the targetted ratio in their semi-urban branches as well.

23.

5.26

Analysis of the Credit Deposit Ratios of scheduled commercial banks in various regions has revealed that at the end of June, 1982, while the Credit Deposit Ratio in rural offices of scheduled Commercial banks was 80.7 percent in the Southern region, it ranged between 49.6 and 56.1 percent in the Northern, Eastern and Western regions and was only 45.8 percent in the North-Eastern Region. In respect of semi-urban offices also, the Southern Region topped the list with the Credit Deposit Ratio of 60.4 percent followed by Northern Region (52.1 percent), Central Region (51.6 percent), Western region (47.8 percent), North Eastern Region (37.6 percent) and Eastern Region 33.5 percent). These ratios not only reveal staggering regional disparities but also strengthen the impression of the Committee that sizeable

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| | | <p>part of deposits received in rural and semi-urban areas of the country are not being ploughed back by scheduled commercial banks in these areas. Such imbalances, to say the least, are deplorable. The Committee would stress the need to see that these imbalances are rectified as early as possible in the interest of balanced development of all regions of our country.</p> |
| 24. | 5.59 | <p>Scheduled Commercial banks have been extending credit support to a number of on-going socio-economic schemes and programmes in the country. This is as it should be. One such programme is the Integrated Rural Development Programme which seeks to improve the lot of the poorest of the poor, small marginal farmers, share croppers, agricultural labourers, rural artisans, scheduled castes/scheduled tribes, fishermen and other weaker sections of society. A representative of the Ministry of Finance indicated during evidence that "there may be about 6 crores of families, which may be under the poverty line." During the first 3 years of the Sixth Five Year Plan i.e. 1980-81 to 1982-83, a total term credit of Rs. 1470.62 crores is stated to have been disbursed, a total subsidy of Rs. 952.09 crores allowed, and 88.75 lakh families assisted under this Programme.</p> |
| 25 | 5.60 | <p>The Committee however, note with concern the fact that though as early as in November, 1981 a high level review of the Integrated Rural Development Programme had disclosed that the programme had run into some "operational problems" and</p> |

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that the progress in disbursal of institutional credit was "not satisfactory". It was only in February, 1983 that instructions were issued by the Reserve Bank of India for the implementation of 20 Point Programme as a whole and not specially IRDP. In February, 1983, a study was conducted by RBI or IRDP on the basis of which instructions were issued on 9 May, 1983. Further instructions were issued on 27 May, 1983. The Sixth Five Year Plan had envisaged that during the plan period 600 families per community block would be assisted per year. The representative of the Ministry of Finance could not give any block-wise figures to show to what extent the block-wise target had been met. It also transpired in evidence that even Government agencies had reported "lack of coordination or cooperation from the banking system." In the circumstances, the Committee recommend that all loopholes or deficiencies in the existing system of implementation and monitoring of this programme should be plugged early and operational problems overcome. The Committee would stress the need to ensure assistance for formulation of bankable schemes, smooth and regular processing of applications throughout the year, proper coordination between bank officials and State Government officials and postlending supervision to ensure proper utilisation of funds.

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5.61

While noting the fact that Public sector banks' aggregate assistance under the 20-Point Programme had gone up from Rs. 2,037 crores (57.72 lakh accounts) at

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| | | <p>the end of December, 1981 to Rs. 2,620 crores (74.84 lakh accounts) by the end of December, 1982, the Committee are amazed to learn that at present no state-wise or district-wise targets of credit support to be extended by the banks under this programme are laid down. The Committee feel that considering the importance of this programme, year-wise targets of credit support expected of banks in the implementation of this programme should be laid down so that the role and performance of banks in making this programme a success can be evaluated.</p> |
| 27. | 5.62 | <p>The Committee note that the banks' lending under the scheme of Differential Rate of Interest has increased from Rs. 192.49 crores (No. of borrowal accounts 25.10 lakhs) at the end of December, 1980 to Rs. 311.50 crores (Rs. 32.69 lakh borrowal accounts) at the end of December, 1982. Advances under this scheme are given at the rate of interest of 4%. Only borrowers who fulfil the land holding and income criteria are eligible for such advances. The Committee understand that after the National Institute of Bank Management had given its Report on the working of this scheme in December, 1982, Government have appointed a Working Group to review the DRI scheme. The Committee would like to be apprised of the outcome of the review.</p> |
| 28. | 5.63 | <p>The Committee find that even though the number of villages "adopted" by the public sector banks has gone up from 47,393 at the end of June, 1977</p> |

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to 1,21,008 at the end of 1981 and the amount outstanding increased from Rs. 221.86 crores to Rs 1227.55 crores, neither any study has been undertaken to assess the impact of the Village Adoption Scheme nor the implementation of this scheme is being monitored at the national level by Government/Reserve Bank of India. A study group of the Committee had made an on the the spot visit to a village in Mahabalipuram adopted by the Indian Overseas Bank and gathered the impression that village had made all round progress. The Committee, therefore, feel that this scheme, if implemented in the true spirit and in accordance with the guidelines issued by the Reserve Bank of India in 1980, could prove a boon to the villages, promote integrated development of the village economy, ensure intensive and schematic lending instead of scattered lending and help in better supervision over credit. The Committee recommend that progress made under this scheme may be monitored at the national level by the Banking Division of the Ministry of Finance.

29.

5.64

The Committee regret to find that though under the Lead Bank Scheme, Lead Banks had prepared the District Credit Plan as well as Annual Action Plans for the years 1980, 1981 and 1982 which provided details of various schemes proposed to be taken up, the number of beneficiaries expected to be covered and the quantum of credit deployment, the Ministry of Finance have reported that "RBI do not have complete data in res-

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pect of the achievements made under the Annual Action Plans, 1980, 1981 and 1982." The Committee feel that the lead bank had to play an effective role in bringing about conditions conducive to development by under-taking socio-economic surveys, identifying schemes and projects and converting them into bankable ones, locating entrepreneurs, and helping them in setting up projects successfully. All this underscores the need to have a perfect information system. The Committee would, therefore, urge Reserve Bank of India to work out a simple but meaningful information system so that progress made from year to year in implementation of this Scheme is available at the District level and a broad consolidated picture at the national level.

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5.65

The Committee find that during the year ending June, 1982, banks identified 435 sick units among large industries 1020 sick units among medium units and 26,973 sick units among small scale sector and after carrying out viability studies, placed 244 medium and large scale units and 1,982 small scales under "nursing programme". The Committee would like to know out of the sick units placed under nursing programme during the year 1982, how many have been rehabilitated so far. The Committee would also like a study to be undertaken to see if the units which continue to be sick despite assistance from Banks had in fact used the assistance for the purpose for which it was meant.

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| 31. | 5.66 | <p>The Committee welcome the launching of a scheme by the Ministry of Industry for providing Self Employment to educated unemployed youth under which the banking system would provide credit of the order of Rs. 325 crores during 1983-84. Each beneficiary is eligible for a composite loan of Rs. 25,000/- which will carry interest at 10 percent in backward areas and 12 per cent in other areas. The Committee have been informed that beneficiaries of the Scheme will be identified by a Task Force at District Industries Centre level. The Committee stress the need to ensure that beneficiaries are selected with due care and caution so that benefits of the scheme reach the persons who really deserve it.</p> |
| 32. | 5.67 | <p>The interest chargeable from borrowers varies from Scheme to Scheme but, whatever be the rate, public sector banks should ensure that the total amount of interest charged on a loan does not exceed the principal.</p> |
| 33. | 6.10 | <p>The Committee find that the overall profits of 28 public sector banks have gone up from Rs. 55.94 crores in 1980 to 77.56 crores in 1982. When asked about the scope for improving the profitability further, a representative of the Ministry of Finance attributed the low income of public sector banks to a variety of factors. He explained that banks had to keep 35 per cent of their deposits in Government securities where the return was low and 8½ per cent with the Reserve Bank of India in the form of Cash Reserve. Out of the</p> |

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remaining, 35 to 40 per cent had to be deployed by Banks in Priority sectors where too the return was low. Deployment of finances on Food Procurement Programme and Export Sector also yields low returns. Interest of only 4 per cent is being charged by Banks on advances under the Differential Rate of Interest Schemes. A non-official organisation has, however, expressed the view that low profits of public sector banks are due to "substantial increase in expenditure particularly establishment expenses of public sector banks." Analysis of data furnished by the Ministry of Finance and evidence led before the Committee has revealed that the establishment cost as percentage of their total expenditure ranges between 25 and 32 per cent in the case of 9 banks. These banks are State Bank of Bikaner & Jaipur (32.12%), State Bank of Hyderabad (30.43%), State Bank of Indore (30.56%), State Bank of Mysore (30.88), State Bank of Saurashtra (31.02%), Dena Bank (27.0%), Union Bank of India (26.02%), Oriental Bank of Commerce (25.64%) and Vijaya Bank (30.27%). The Committee recommend that the establishment expenditure of these banks may be brought down to a reasonable level so as to bring about improvement in the overall profitability of public sector banks.

34.

6.20

The Committee find that during the last 4 years (1978-1981) the percentage of recovery of direct agricultural advances to demand ranged between 57.0 and 58.5 percent in respect of short term advances and between 41.5 and 46.8 per cent in

respect of term loans. Poor recovery performance has been attributed by the Ministry of Finance to a number of factors including (i) lack of experience in agriculture lending; (ii) defective processing of loan applications; (iii) lack of integrated approach in lending; (iv) unsatisfactory marketing arrangements; (v) lack of suitable adequate staff for efficient supervision and recovery; (vi) national calamities; (vii) mis-utilisation of loans etc. The Committee feel that in effecting recoveries, while stern action should be taken against wilful defaulters, recoveries should be put off or rescheduled in the case of farmers whose repaying capacity is adversely affected on account of circumstances beyond their control e.g. national calamities, like droughts, floods, etc. The Committee further feel strongly that for the recovery of loans agricultural land ought not to be attached and sold thereby depriving the farmers of their means of livelihood for ever. Instead other methods of recovering the loans should be thought of. One such method involving the land could at best be taking temporary possession of it and leasing it out for a few years to adjust the lease amount realised against the outstanding loans.

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6.21

The Committee are surprised to learn that the existing data reporting system as devised by the Reserve Bank of India gives statistics of recovery of direct agricultural advances only but not advances granted by Banks to other sectors of economy. A representative of the Ministry of Finance assured the Com-

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mittee that RBI had since prescribed a new Format and when data about other sectors of economy starts flowing in, a complete picture of recovery performance of banks would become available. The Committee would await this.

36.

6.22

Ministry of Finance have intimated that out of total outstanding credit of Rs. 36,128 crores at the end of 1982 in respect of public sector banks, debts amounting to Rs. 28,345 are fully secured and are considered good, debts amounting to Rs. 4,054 were considered good but were secured by the personal liabilities of one or more parties in addition to the personal security of the Debtor, but debts amounting to Rs. 3,729 crore have no other security than the Debtor's personal security. The Committee could not have any indication as to the amount of "bad and doubtful debts" because banks have claimed statutory protection from divulging such information. The Committee are of the view that as after nationalisation banks have become accountable to Parliament, the amount and broad details of bad and doubtful debts of public sector banks should no longer be kept a secret but should be disclosed in their Annual Reports. The Finance Secretary assured in evidence that the question whether banks should continue to have such a protection was already under examination by a Committee appointed by the Reserve Bank in March, 1982, under the Chairmanship of Shri A. Ghosh, Deputy Governor. The Committee will examine, *inter alia*, the desirability of greater or

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fuller disclosure in the published accounts of Banks, having regard to the need for disclosure, public accountability of banks, requirement of confidentiality between banker and customer and the requirements of maintaining the image, reputation and credit worthiness of banks. The Committee would await a decision on the findings and recommendations of this Committee.

37.

6.28

During an Half-an-Hour Discussion in Lok Sabha on 17 August, 1983, it transpired that in some of the banks reconciliation of accounts had been pending since 1973. As for the pending work in respect of Savings Bank and Current Accounts, it was pending since 1979 in some branches and since 1980 in others. It also transpired that a number of branches of nationalised banks go without external audit for years. Earlier, in its Report presented on 11 August, 1983, the Rajya Sabha Committee on Papers laid had pointed out that a large number of items of accounts in respect of almost all the public sector banks have been left "unreconciled, incomplete, unscrutinised and the arrears for several years." That Committee had observed: "The Committee see no plausible reason why the audit of the public sector banks should not be brought under the Comptroller and Auditor General while a large number of financial and credit Institutions including the State Financial Corporation and a Commercial bank in a State are already under his jurisdiction in respect of audit." Ministry of Finance, have now intimated,

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inter alia, that instructions have been issued to Banks for liquidating the arrears in so far as inter-branch accounts are concerned by drawing up a time bound programme and that in pursuance of the recent settlement between the Indian Banks' Association and the Unions representing the Bank Employees, banks are also considering introduction of computers in a limited scale for the purpose of reconciliation of inter-branch accounts. The Committee recommend that the Ministry of Finance should reflect in their Annual Reports the progress made by public sector banks in liquidation of these arrears and also take an early decision on the suggestions for bringing the public sector banks within the purview of C&AG audit.

38.

6.37

The Committee cannot but express their grave concern over the alarming rise in bank frauds. The number of bank frauds in public sector banks has gone up from 1422 cases involving a total amount of Rs. 7.38 crores in 1978 to 2065 cases involving a total amount of as much as Rs. 19.53 crores in 1982. In the first half of 1983 year, 1169 bank frauds involving Rs. 11.97 crores have already taken place and at this rate, the year 1983 may end up with more cases than in any year in the past 5 years. During this entire period from 1978 to 1983 (upto June), there have been a total of 9,541 bank frauds involving an aggregate amount of Rs. 82.79 crores. Government's assessment of the situation is that banks already have a vigilance machinery and adequate procedures but

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these frauds take place not because there are any loopholes in procedures but because such procedures are not followed. A representative of the Ministry of Finance conceded in evidence that "over the years so much stress has been laid on developmental activities that they (banks) have neglected their house keeping activities like reconciliation of accounts". The Committee would urge that vigilance machinery in banks may be strengthened, stipulated procedures tightened, fraud prone areas of banking operations identified, reconciliations of accounts updated, audit arrangements strengthened and proper supervision at all levels undertaken. The Reserve Bank of India should critically study the *modus-operandi* of fraud cases and forewarn the Banks to be cautious. The Committee trust that whenever bank employees are found guilty of fraud or being in collusion with persons committing such frauds, they should be awarded exemplary punishment to serve as a warning to others.

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