Report on Trend and Progress of Banking in India for the year ended June 30, 1981. Submitted to the Central Government in terms of Section 36 (2) of the Banking Regulation Act, 1949.

REPORT ON TREND AND PROGRESS OF BANKING IN INDIA 1980-81

LETTER OF TRANSMITTAL

गवर्नर
GOVERNOR

रिज़र्व बैंक ऑफ इंडिया
केन्द्रिय कार्यालय,
बंबई
RESERVE BANK OF INDIA
CENTRAL OFFICE
BOMBAY
September 7, 1981
Bhadra 16, 1903 (Saka)

The Secretary to the Government of India,
Ministry of Finance,
Department of Economic Affairs,
(Banking Division),
New Delhi.

Dear Sir,

In pursuance of the provisions of Section 36(2) of the Banking Regulation Act, 1949, I transmit herewith two copies of the Report on Trend and Progress of Banking in India for the year ended June 30, 1981.

Yours faithfully,

(I. G. Patel)

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Note : In all the tables, wherever necessary, each figure has been suitably rounded off. Owing to this rounding off, an apparent slight discrepancy may be noted in some cases between the sum of the constituent items and the corresponding total. Rounded figures are given in the running matter. The relative percentages are, however, based on the original figures (i.e., before rounding off).

ABBREVIATIONS

The following abbreviations have been used in the Report.

AAP	—	Annual Action Plan
AFC	—	Agricultural Finance Corporation
ARDC	—	Agricultural Refinance and Development Corporation
BR Act, 1949	—	Banking Regulation Act, 1949
CADP	—	Command Area Development Programme
CAS	—	Credit Authorisation Scheme
CCB	—	Central Co-operative Bank
CRAFICARD	—	Committee to Review the Arrangements for Institutional Credit for Agriculture and Rural Development
CRR	—	Cash Reserve Ratio
DCC	—	District Consultative Committee
DCP	—	District Credit Plan
DICGC	—	Deposit Insurance and Credit Guarantee Corporation
DLRMs	—	District Level Workshops/Review Meetings
DPAP	—	Drought Prone Areas Programme
DRDA	—	District Rural Development Agency
DRI Scheme	—	Differential Rates of Interest Scheme
DTL	—	Demand and Time Liabilities
ECGC	—	Export Credit Guarantee Corporation
FEDAI	—	Foreign Exchange Dealers' Association of India
FSS	—	Farmers' Service Societies
GIC	—	General Insurance Corporation of India
GOI	—	Government of India
HPC	—	High Power Committee
IBA	—	Indian Banks' Association
IBRD	—	International Bank for Reconstruction and Development
ICICI	—	Industrial Credit and Investment Corporation of India
IDA	—	International Development Association
IDBI	—	Industrial Development Bank of India
IFCI	—	Industrial Finance Corporation of India
IRDP	—	Integrated Rural Development Programme
LAMPS	—	Large-sized Adivasi Multipurpose Society/Societies
LDB	—	Land Development Bank
LDOs	—	Lead District Officers
LIC	—	Life Insurance Corporation of India
MLR	—	Minimum Lending Rate
MMTC	—	Minerals and Metals Trading Corporation

NABARD	—	National Bank for Agriculture and Rural Development
NIBM	—	National Institute of Bank Management
PACS	—	Primary Agricultural Credit Societies
PC	—	Participation Certificate
PLDB	—	Primary Land Development Bank
PUCB	—	Primary Urban Co-operative Bank
RBI	—	Reserve Bank of India
REC	—	Rural Electrification Corporation
RRB	—	Regional Rural Bank
SAIL	—	Steel Authority of India Ltd.
SBI	—	State Bank of India
SC/ST	—	Scheduled Caste/Scheduled Tribe
SCB	—	State Co-operative Bank
SEB	—	State Electricity Board
SFC	—	State Financial Corporation
SFDA	—	Small Farmers' Development Agency
SIDC	—	State Industrial Development Corporation
SIIC	—	State Industrial Investment Corporation
SLCC	—	State Level Co-ordination Committee
SLDB	—	State Land Development Bank
SLIIC	—	State Level Inter-Institutional Committee
SLR	—	Statutory Liquidity Ratio
SLRM	—	State Level Review Meeting
SRTC	—	State Road Transport Corporation
SSI	—	Small-Scale Industries
UCB	—	Urban Co-operative Bank
UTI	—	Unit Trust of India
ULIP	—	Unit Linked Insurance Plan
WCTL	—	Working Capital Term Loan

CHAPTER 1

INTRODUCTION

Sharp fluctuations in the resources position of the banking system and changes in the interest rate structure were the main highlights of the banking scene in 1980-81. The modifications made in the monetary and credit policy during the year clearly demonstrated the facility with which it could respond, in the short-run, to the emerging trends in the banking sector. Moreover, these modifications have to be seen in the broader perspective of the fact that containment of inflationary pressures became the overriding objective of economic policy. Notwithstanding the remarkable recovery staged by the economy—real national income is estimated to have risen by about 7 per cent in 1980-81 in sharp contrast to an actual decline of 4.5 per cent witnessed in 1979-80—there appeared to be little abatement of inflation : wholesale prices recorded, on the basis of monthly average, a rise of 18 per cent in 1980-81 closely on the heels of a 17 per cent rise witnessed during the previous year. The overhang of excessive primary money creation in the preceding two years, and the sizeable decline in foreign exchange reserves anticipated for 1980-81, lent a sharper edge to the problem of controlling monetary expansion during the year. The broad strategy of monetary policy therefore continued to be structured around the deceleration of money and credit growth to rates consistent with increases in real income. It was this strategy which alternately required the relaxing of the Cash Reserve Ratio (CRR) in October 1980 and its subsequent tightening in May 1981 and a further tightening of credit policy in July 1981 culminating in the raising of the Bank Rate and the Statutory Liquidity Ratio (SLR). Psychologically, public confidence that a slowing down in money and credit growth will be achieved is also essential to the dampening of inflationary expectations—a factor which itself is critical for eliciting reasonably prompt response to anti-inflationary measures.

1.2 Against this broader setting, the developments in the banking sector during 1980-81 are reviewed in this Report. To begin with liquidity of the banking system, the swings were rather sharp as between broadly the first and the second half of the year (July-June). This swing primarily stemmed from the pace of deposits accretion : the rate of deposits growth during the first half of the year (July-December) at 9.3 per cent was lower than the rate of 9.7 per cent during the corresponding period of the previous year. On the other hand, on the eve of the busy season, the demand for credit from the banking system was expected to be substantially large in view of the anticipated growth of the economy as well as for meeting the requirements of food credit, priority sectors, exports and those for fertiliser imports and distribution, and of petroleum credit. It was thus apparent that the banking system's resources were far from adequate to meet the likely demands and hence to enable banks to use a somewhat larger proportion of their incremental deposits, the Reserve Bank decided to exempt banks from end-October 1980, from maintaining the additional cash reserve of 10 per cent of the incremental demand and time liabilities. This reflected the response of credit policy to the emerging resource constraint of the banking system.

1.3 The trend during the second half of the year presented a sharp contrast as deposits growth picked up after December 1980; the growth during the second half of 1980-81 (January-June) at 10.1 per cent was significantly higher than the rate of 6.1 per cent during the corresponding period of the previous year. This, in its turn, tended to bring about a faster rate of non-food credit expansion. At the same time, the earlier expectations of a slow-down in monetary expansion had not materialised and in fact monetary expansion (M_3) at 18 per cent during the financial year 1980-81 turned out to be marginally higher than in 1979-80. The growth of primary money had also been large in 1980-81, especially when judged in the context of a sizeable decline in foreign exchange reserves. While prices had shown a somewhat slower pace of rise on a point-to-point basis, the rise on the basis of monthly averages was slightly higher in 1980-81 than in 1979-80 (financial year). Monetary correction, therefore, became an imperative necessity. The raising of the Bank Rate from 9 per cent to 10 per cent in July 1981 and also the CRR and SLR by one percentage point each were measures designed to achieve the objective of slowing down monetary expansion.

1.4 For the year as a whole, deposits growth was substantially higher than in 1979-80. The rise in aggregate deposits amounted to Rs. 6,807 crores or 20.4 per cent as compared with an increase of Rs. 4,706 crores or 16.4 per cent recorded in 1979-80. The significantly higher deposits growth is attributable to the relatively higher increase in real national income in 1980-81 and, perhaps to some extent, sizeable primary money creation. The expansion in non-food credit was also much larger during the year at Rs. 4,529 crores or by 23 per cent as compared with Rs. 2,967 crores or by 17.8 per cent in 1979 80.

1.5 Simultaneously with the presentation of the Budget for 1981-82, several changes were made in the interest rate structure. There was an upward adjustment in the rates on bank deposits with maturities of one year and above with effect from March 2, 1981. This represented an attempt to provide adequate incentives to financial savings in an inflationary environment. The changes in the term structure of deposits were also expected to bring about a better balance in the time profile of banks' deposits and lending structures. Some lending rates were also raised and the opportunity was utilised to rationalise the lending rate structure as a whole. In this context, it may be recalled that the maximum rate on advances was raised by three percentage points in September 1979. These measures of raising the cost of credit were designed to buttress the various other measures taken to restrain credit growth.

1.6 In the sphere of deployment of credit, banks have to go a long way towards meeting the national targets. For instance, in March

1981, priority sector advances formed 33.6 per cent of total credit—a level which was only marginally higher than the target of 33.3 per cent set for March 1979 and much below the stipulated target of 40 per cent to be reached by 1985. Similarly, in regard to the other national target, namely, that banks should deploy 60 per cent of their total deposits mobilised from rural and semi-urban areas in the respective areas, the progress so far has been rather slow. By end-December 1980, public sector banks had achieved credit-deposit ratios of 54.8 per cent and 48.9 per cent for their rural and semi-urban branches. Planned efforts to reach progressively the priority sector target by 1985 are, therefore, necessary.

1.7 Turning to the broader area of credit planning, although considerable experience has been gained in this area it is necessary to stress that much progress needs to be made by banks towards translating *macro* targets into *micro* decisions. In this context the Credit Budgets of the individual banks assume greater operational significance. Sustained efforts on the part of banks to improve the quality of these budgets are called for so as to enable banks to achieve the longer-term sectoral and sub-sectoral targets, which have been clearly defined, without infringing the macro guidelines for regulating total credit expansion. Increasing the share of priority sectors in total credit and within the priority sector advances, paying greater attention to the credit needs of the underprivileged sections of the society, most of which have been identified in the 20-Point Programme, necessarily implies detailed planning. This requires focussing on not only the basic strategy of total credit deployment but also on the details of its tactical implementation. Moreover, these inter-sectoral and intra-sectoral targets of credit deployment have to be reached in the over-all framework of credit discipline as envisaged from time to time. In particular, the banks are expected to use the quarterly operating limits for major borrowers as a major instrument of planning the more purposeful use of credit. In all of these areas, in the coming years banks will have to display greater innovative ability and adapt their practices, procedures and techniques of lending to the new tasks.

CHAPTER 2

COMMERCIAL BANKING

I. OVER-ALL REVIEW

2.1 The pace of deposit accretion, which was slow in the first quarter of the year, picked up from October 1980 onwards. Aggregate deposits of scheduled commercial banks increased by 20.4 per cent during 1980-81 (July-June) which was higher than the growth rate of 16.4 per cent recorded in the previous year. A significant rise in real national income in 1980-81, larger credit expansion and sizeable primary money creation are factors which were responsible for bringing about a higher deposits growth.

2.2 Persistence of the inflationary pressures, a high level of liquidity and deteriorating foreign exchange position were the disturbing features of the economy during the year under review. Hence the stance of credit policy had to be one of restraint. At the same time, efforts were made to ensure that the genuine credit requirements for production, and requirements of priority sectors and weaker sections, were fully met. The recommendations of the Working Group on the Modalities of the Implementation of Priority Sector Lending and 20-Point Economic Programme were accepted and conveyed to banks for follow-up action, especially with regard to the achievement of certain targets. Guidelines based on the recommendations of the Working Group to review the system of cash credit were issued to banks.

2.3 The structure of lending rates was rationalised and there was also an upward adjustment in deposit rates. Towards the close of the year it appeared that unless more effective measures were taken the persistence of high degree of liquidity would lead to unbridled credit expansion. A number of measures had therefore to be taken to mop up the excess liquidity from the banking system. The CRR was raised by a percentage point to be phased over two stages. The SLR was also raised from 34 per cent to 35 per cent to be implemented in two stages. Further, the Bank Rate was increased by one percentage point, *i.e.*, from 9 per cent to 10 per cent. These measures were reinforced by changes in Selective Credit Control.

II. TRENDS IN DEPOSITS AND CREDIT

Aggregate Deposits : Growth Trends

2.4 Aggregate deposits of scheduled commercial banks rose by Rs. 6,807 crores (+20.4 per cent) during the year, *i.e.*, end-June 1980 to end-June 1981, which was much higher both in absolute amount and percentage terms than the accretion of Rs. 4,706 crores or 16.4 per cent recorded in the previous year.

2.5 Deposit accretion in the first quarter of the year at Rs. 993 crores (+ 3 per cent) was lower than the accretion of Rs. 1,115 crores (+3.9 per cent) in the same period of the previous year. From October 1980, however, deposit accretion picked up somewhat, and for the six-month period July-December 1980, accretion at Rs. 3,116 crores was larger in amount than that of Rs. 2,792 crores in the corresponding half-year of 1979-80, but the rate of growth was lower at 9.3 per cent, as against 9.7 per cent in the preceding year. In the second half of the year, deposit growth at Rs. 3,691 crores (+10.1 per cent) was substantially larger than the growth of Rs. 1,914 crores (+6.1 per cent) in the corresponding period of the preceding year. The bulk of the increase in January-June 1981, as compared to the preceding year, was the result of a sharp rise in deposits of Rs. 607 crores in January 1981, in contrast to a decline of Rs. 356 crores in January 1980.

Growth of Demand and Time Deposits

2.6 Mention was made in last year's Report of the amendment to the procedure laid down by the RBI for classification by banks of their savings deposits into demand and time deposits for purposes of reporting figures of total demand deposits and total time deposits in the weekly return under Section 42(2) of the RBI Act, 1934. In terms of the new procedure, a substantial portion of savings deposits is now being classified by banks as time deposits and only a small portion as demand deposits. This is in contrast to the old procedure under which a large portion, or even the entire amount of savings deposits in the case of many big banks, was classified as demand deposits and a very small proportion as time deposits. Since this new procedure was adopted by banks on various dates starting from January 1978, the published figures of demand and time deposits for 1980-81 are not comparable with those for 1979-80 and 1978-79; the aggregate deposit figures are, however, not affected by the revised classification. To present comparable data in respect of demand and time deposits, the published figures of demand deposits and time deposits have been adjusted for the changes made by banks in the classification of savings deposits on the assumption that those banks which adopted the new classification in 1978-79, 1979-80 or 1980-81 had done so from June 1978. The adjusted data are thus comparable.

2.7 The table overleaf shows (*i*) the published data and (*ii*) the adjusted data for the years 1978-79, 1979-80 and 1980-81 (July -June).

2.8 It will be seen that according to the adjusted figures in Table 2.1 the accretion to demand deposits of Rs. 1,551 crores (+23.5 per cent) in 1980-81 was larger than in 1979-80 (Rs. 407 crores or + 6.6 per cent) and 1978-79 (Rs. 1,300 crores or +26.6 per cent). The accretion to time deposits in 1980-81 at Rs. 5,256 crores was also larger in amount than in both 1979-80 (Rs. 4,299 crores) and 1978-79 (Rs. 4,058 crores); the rate of growth of 19.6 per cent in 1980-81 though higher than that in 1979-80 (19.1 per cent), was lower than in 1978-79 (22.0 per cent).

TABLE 2.1—GROWTH OF DEMAND AND TIME DEPOSITS : PUBLISHED AND ADJUSTED[1] DATA

(Rs. Crores)

	Outstanding as on the last Friday of				Variations during		
	June 1978	June 1979	June 1980	June 1981*	1978-79	1979-80	1980-81
	1	2	3	4	5	6	7
				PUBLISHED DATA			
Demand deposits	9,219	11,050	10,555	8,148	+1,831 (+19.9%)	—495 (—4.5%)	—2,407 (—22.8%)
Time deposits	14,094	17,621	22,822	32,036	+3,527 (+25.0%)	+5,201 (+29.5%)	+9,214 (+40.4%)
Aggregate deposits	23,313	28,671	33,377	40,184	+5,358 (+23.0%)	+4,706 (+16.4%)	+6,807 (+20.4%)
				ADJUSTED[1]* DATA			
Demand deposits	4,890	6,190	6,597	8,148	+1,300 (+26.6%)	+407 (+6.6%)	+1,551 (+23.5%)
Time deposits	18,423	22,480	26,780	32,036	+4,058 (+22.0%)	+4,299 (+19.1%)	+5,256 (+19.6%)
Aggregate deposits	23,313	28,671	33,377	40,184	+5,358 (+23.0%)	+4,706 (+16.4%)	+6,807 (+20.4%)

Note: Figures in brackets indicate percentage variations.

[1] Data for June 1978, June 1979 and June 1980 are adjusted for changes in the classification of savings deposits on the assumption that those banks which adopted the new classification in 1978-79, 1979-80 or 1980-81 had done so from June 1978. As the new classification was adopted by these banks prior to June 1981, the data for June 1981 are not required to be adjusted.

* Partially revised.

Trends in Credit

2.9 The expansion in total bank credit (*i.e.*, excluding bills rediscounted with the RBI but including credit extended through issue of PCs) during the year at Rs. 4,332 crores (+19.6 per cent) was much larger than the expansion of Rs. 2,381 crores (+12.1 per cent) in 1979-80 (Table 2.2). The expansion in 1980-81 was the net result of a large increase in non-food credit of Rs. 4,529 crores (+23.0 per cent) and a decline of Rs. 197 crores in food credit. In 1979-80 the increase in non-food credit was Rs. 2,967 crores (+17.8 per cent) and was partly offset by a decline of Rs. 586 crores in food credit. The increased credit requirements of petroleum companies in the wake of a substantial rise in international oil prices was responsible for part of the non-food credit expansion.

2.10 In the first four months of 1980-81 (*i.e.*, July to October 1980), non-food credit expansion at Rs. 1,189 crores (+6.0 per cent) was larger in both absolute and percentage terms, than the expansion of Rs. 598 crores (+3.6 per cent) in the first four months of 1979-80. For the 1980 slack season as a whole (*i.e.*, May-October 1980), however, the expansion in non-food credit at Rs. 1,236 crores was only a little larger in amount than the expansion of Rs. 1,158 crores in the 1979 slack season, while the rate of increase was lower at 6.3 per cent as against 7.2 per cent in the

TABLE 2.2—SCHEDULED COMMERCIAL BANKS' DATA

(Rupees Crores)

Items	Outstanding as on			Variations during	
	June 29, 1979	June 27, 1980	June 26, 1981@	1979-80 (2−1)	1980-81@ (3−2)
	1	2	3	4	5
1. **Aggregate Deposits**	**28,671**	**33,377**	**40,184**	**+4,706**	**+6,807**
(a) Demand Deposits $	11,050	10,555	8,148	— 495	—2,407
(b) Time Deposits $	17,621	22,822	32,036	+5,201	+9,214
2. **Total Bank Credit**	**19,687**	**22,068**	**26,400**	**+2,381**	**+4,332**
Of which					
(a) Food procurement advances ..	2,996	2,410	2,213	— 586	— 197
(b) Bank credit excluding food advances	16,691	19,658	24,187	+2,967	+4,529
3. Bills rediscounted with the RBI	71	75	3	+ 4	— 72
4. **Gross Bank Credit (2+3)**	**19,758**	**22,143**	**26,403**	**+2,385**	**+4,260**
5. Investments in Government and other approved securities	9,389	11,824	14,222	+2,435	+2,398
(a) Government securities	6,876	8,461	9,976	+1,585	+1,515
(b) Other approved securities	2,513	3,363	4,246	+ 850	+ 883
6. Cash in hand and balances with the RBI	3,582	4,089	5,453	+ 507	+1,364
7. Borrowings from the RBI	659	488	564	— 171	+ 76
8. Credit-Deposit Ratio	6 .7	66.1	65.7		
9. Gross Credit-Deposit Ratio	68.9	66.3	65.7		
10. Non-food Credit-Deposit Ratio	58 .2	58.9	60.2		
11. Gross non-food Credit-Deposit Ratio ..	58.5	59.1	60.2		
12. Investment-Deposit Ratio	32.7	35.4	35.4		

@ Partially revised.
$ Consequent to the amendment to Regulation 7 of the Reserve Bank of India Scheduled Banks' Regulations, 1951 a number of scheduled commercial banks have classified a larger proportion of their savings deposits as time deposits and a small proportion as demand deposits on various dates and the data are as reported by banks in their returns.

Note : Bank credit figures are inclusive of credit extended through issue of Participation Certificates.

(*Source :* Returns received under Section 42(2) of the RBI Act, 1934.)

1979 slack season. The incremental non-food credit-deposit ratio for the 1980 slack season worked out to 48.1 per cent, as against 41.1 per cent in the 1979 slack season. In the busy season of 1980-81, (November 1980 to April 1981), the expansion in non-food credit at Rs. 3,152 crores or 15.1 per cent was substantially larger than the expansion of Rs. 2,322 crores or 13.4 per cent in the previous busy season. In the first two months of the 1981 slack season, the increase in non-food credit was Rs. 188 crores, as compared with the increase of Rs. 47 crores in the corresponding period in 1980.

RBI Accommodation

2.11 The impact of the tighter credit policy is clearly reflected in the shrinking of the total accommodation provided by RBI to banks. With certain changes in the refinance policy, during the preceding months such as the increase in the base level from Rs. 2,000 crores to Rs. 2,200 crores for calculating food refinance entitlement with effect from April 1980, termination of the refinance facility under 'Small Farmers' Window' with effect from July 1, 1980 and also discretionary refinance being made available only for short periods and under exceptional circumstances, the Reserve Bank's accommodation to banks continued to decline during 1980-81.

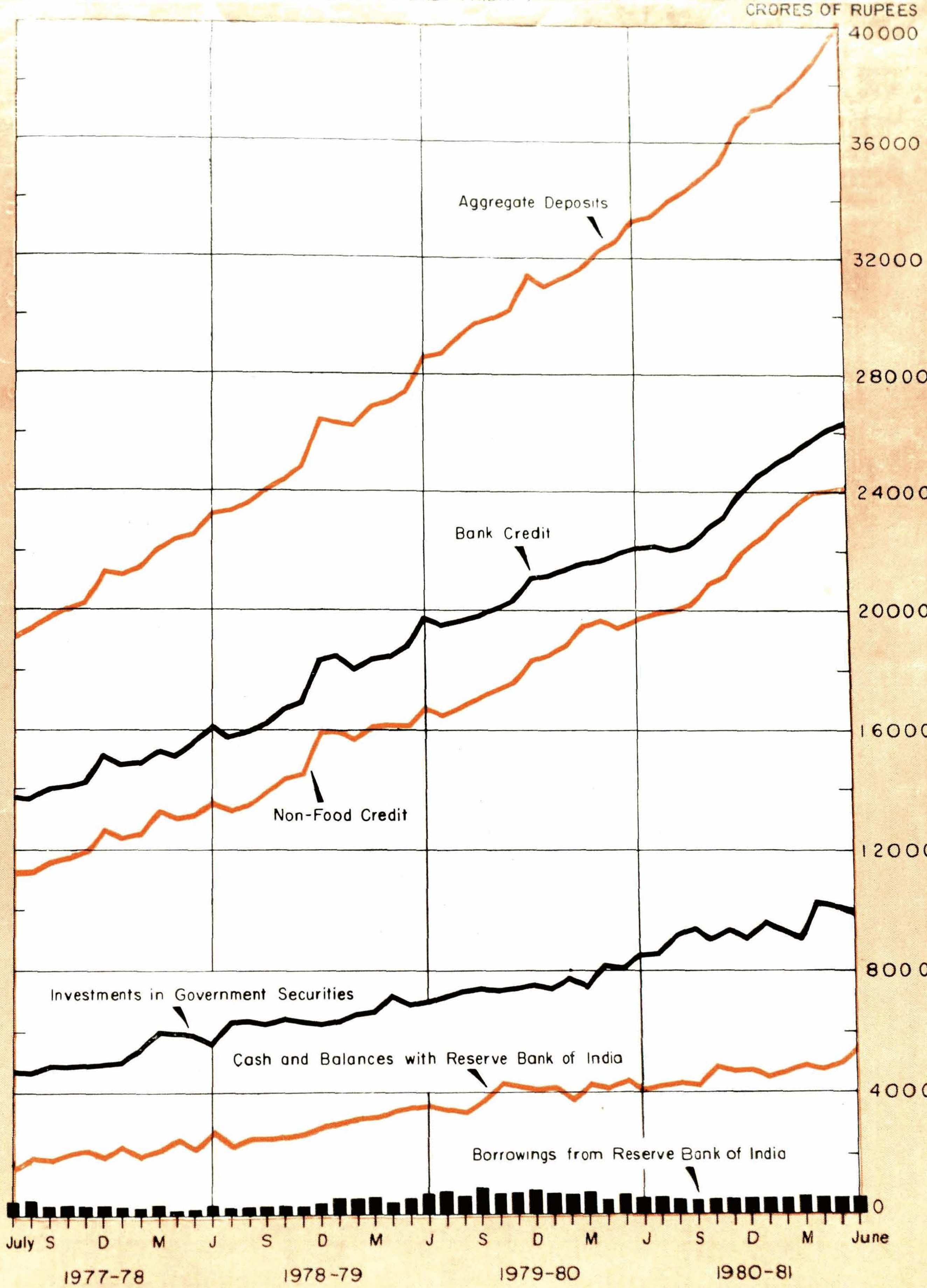
2.12 The refinance limits against food credit at Rs. 62 crores, as at the end of June 1980, declined gradually during the subsequent months and with the fall in food credit below Rs. 2,200 crores banks were not entitled to any refinance limits against food credit for the period end-November 1980 to mid-June 1981. Actually banks did not have any outstanding refinance against food credit between end-August 1980 and end-October 1980, although they were entitled to such refinance during this period.

2.13 Under the refinance against 'Small Farmers' Window' the banks had availed of refinance to the extent of Rs. 21 crores as on the last Friday of June 1980. After the termination of the facility with effect from July 1, 1980, banks were advised to repay the refinance from the RBI against these loans, outstanding as on June 30, 1980, in a phased manner not later than September 30, 1980. Accordingly, the bulk of outstanding refinance was repaid by September 30, 1980, and the balance amount was repaid by October 1980.

2.14 It may be recalled that the special scheme for refinance against loans for import of capital goods was discontinued with effect from July 1, 1980. To avoid any disruption, the refinance facility was phased out gradually. In the first instance, in August 1980, it was indicated to banks that loans sanctioned on or before June 30, 1980 would continue to be eligible for refinance even after July 1, 1980. Subsequently the position was reviewed in November 1980, and in the context of the comfortable resources position, banks were advised to bring down the outstanding refinance under the Scheme so that the entire outstanding refinance was repaid not later than April 30, 1981. However, as some banks had indicated difficulty in repaying the outstanding amount of refinance by the end of April 1981, banks have been allowed further time up to October 31, 1981 to repay the amount of refinance.

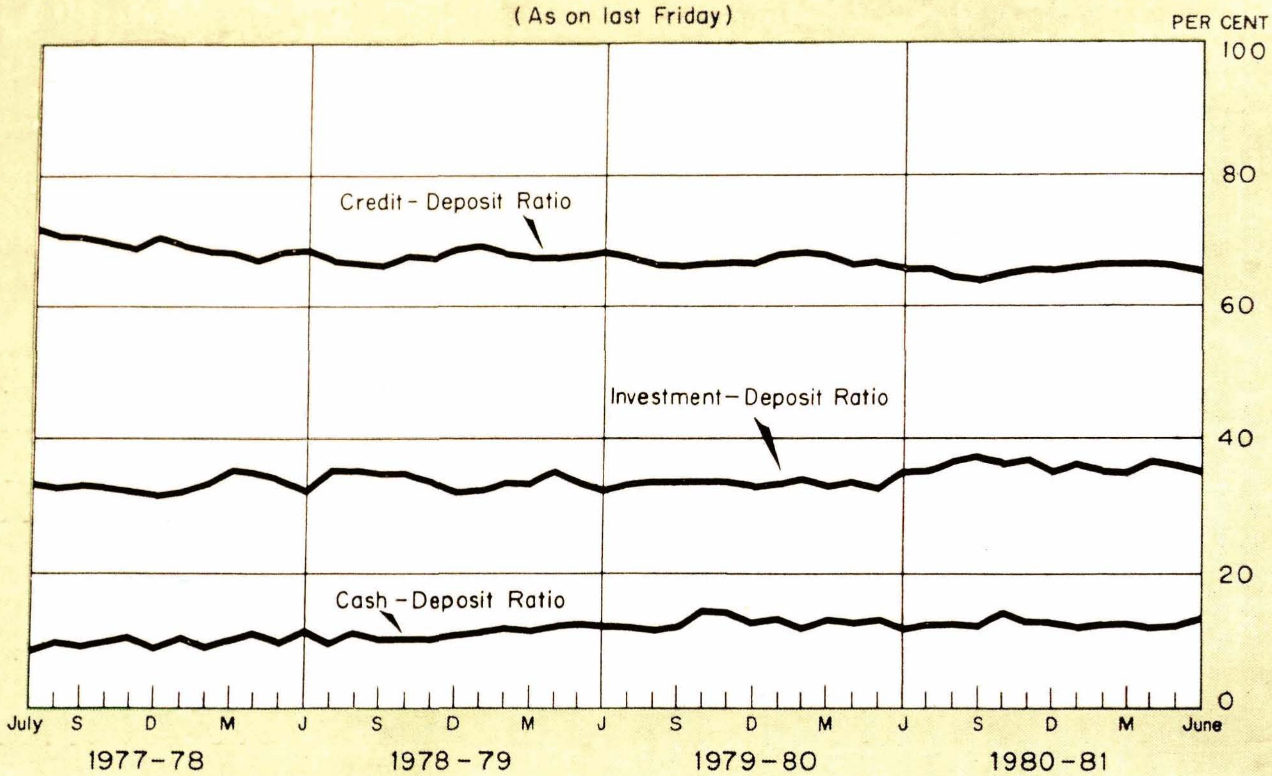
2.15 In the case of refinance against export credit, the refinance limits reached a peak of Rs. 253 crores by the end of April 1981. However, the limits declined to Rs. 175 crores by June 1981 due to a change in the base year from 1978 to 1979 for the computation of the export refinance entitlement, with effect from the last Friday of April 1981. The idea underlying the change in the base year is to make banks provide with

SCHEDULED COMMERCIAL BANKS - SELECTED ITEMS
(AS ON LAST FRIDAY)



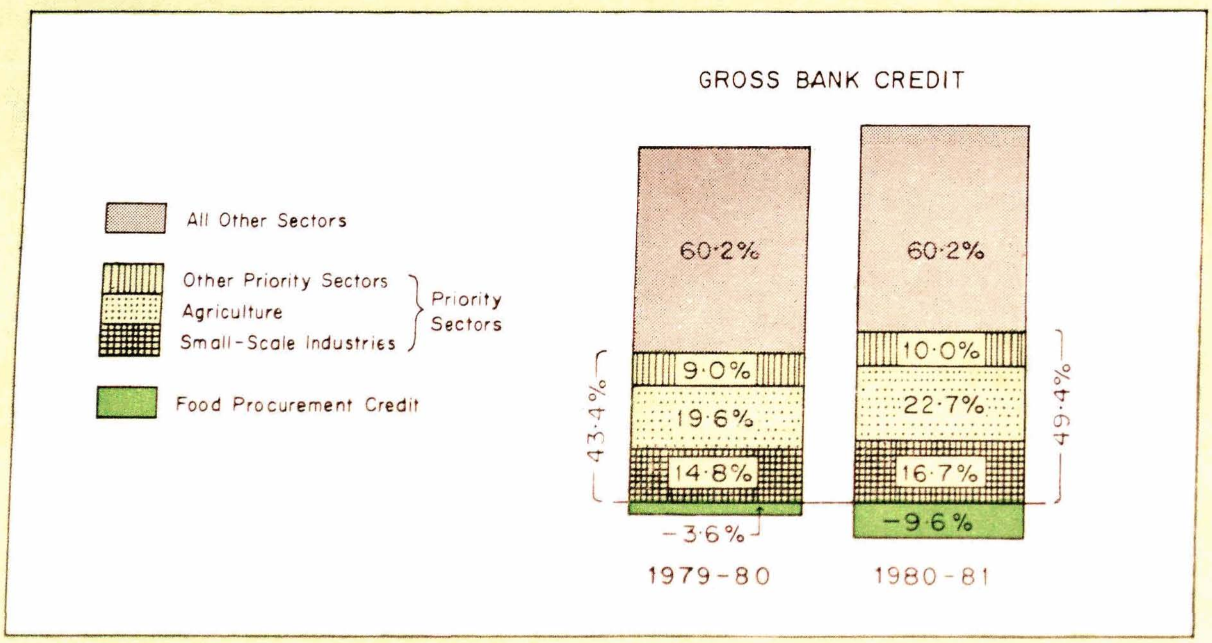
2 SCHEDULED COMMERCIAL BANKS' CASH, INVESTMENTS AND CREDIT-DEPOSIT RATIOS

(As on last Friday)



3 SECTORAL DEPLOYMENT OF GROSS BANK CREDIT VARIATIONS DURING 1979-80 AND 1980-81

(APRIL-MARCH)



their own resources export credit up to the levels of the earlier years and provide the refinance only against their incremental export credit.

2.16 The discretionary refinance limits sanctioned to banks declined from Rs. 43 crores, as on the last Friday of June 1980, to nil, as on the last Friday of June 1981. On an average, the discretionary refinance limits sanctioned in 1980-81 at Rs. 9. crores were much lower than those at Rs. 56 crores sanctioned during the previous year. The discretionary limits were sanctioned to only three banks which were in extremely difficult resource position.

2.17 The limits sanctioned for rediscounting the bills, as on the last Friday of June 1981, stood at Rs. 4 crores as against Rs. 95 crores a year ago. The average bill rediscounting limits sanctioned to banks during the year were much lower at Rs. 7 crores than those at Rs. 131 crores sanctioned during the preceding year. The outstanding amount of bills rediscounted, as on the last Friday of June 1981, was also much lower at Rs. 3 crores than that of Rs. 76 crores on the corresponding date of 1980.

2.18 Taking into account refinance (excluding special refinance against shipping loans, import of capital goods, duty drawback and refinance to RRBs) and rediscount together, total RBI accommodation showed a substantial decline of Rs. 128 crores between end-June 1980 and end-June 1981.

Investments and Cash Balances

2.19 Scheduled commercial banks were able to augment their investment portfolio by Rs. 2,398 crores (+20.3 per cent) in 1980-81 as compared with the rise of Rs. 2,435 crores (+25.9 per cent) in 1979-80. The increase in their cash in hand and balances with the RBI at Rs. 1,364 crores was much larger as compared with Rs. 507 crores in 1979-80. Their borrowings from the RBI rose by Rs. 76 crores, in contrast to a liquidation of their indebtedness to the extent of Rs. 171 crores in 1979-80.

Non-Resident Accounts

2.20 The provisional data on Non-Resident (External) Rupee Accounts and on Foreign Currency (Non-Resident) Accounts are given in Table 2.3. The available data indicate that the amount in the Non-Resident (External) Rupee Accounts rose from Rs. 742 crores at end-June 1980 to Rs. 959 crores at end-June 1981. In the case of Foreign Currency (Non-Resident) Accounts the balances in sterling rose from £ 14.44 million at end-December 1979 to £15.81 million at end-December 1980 while the balances in U.S. dollars declined from $ 148.44 million to $ 147.46 million at end-December 1980.

TABLE 2.3—NUMBER OF ACCOUNTS AND OUTSTANDING BALANCES UNDER NON-RESIDENT (EXTERNAL) RUPEE ACCOUNTS AND FOREIGN CURRENCY (NON-RESIDENT) ACCOUNTS

Non-Resident (External) Rupee Accounts

As at the end of	No. of accounts	Amount (in crores of Rupees)
June 1980	5,45,928	742
June 1981	7,06,326	959

Note : Data are provisional.

(*Source :* Exchange Control Department, RBI)

Foreign Currency (Non-resident) Accounts

As at the end of	Foreign currency	No. of accounts	Amount of deposits('000)
December 1979*	£ Stg.	8,717	1,44,37
December 1980	£ Stg.	9,583	1,58,09
December 1979*	U.S.$	30,131	14,84,39
December 1980	U.S.$	29,127	14,74,57

* Revised.

Note : Data are provisional.

(*Source :* Department of Statistics, RBI)

III. CREDIT POLICY

Over-all Approach

2.21 In the context of the persistence of inflationary pressures, the high level of liquidity in the economy and the deteriorating foreign exchange position, the thrust of monetary and credit policy during 1980-81 continued to be one of caution and restraint. The following measures taken during the year reflect the tighter credit policy pursued.

June 1980 Measures

2.22 Mention was made of the 1980 slack season credit policy measures in last year's Report. The more important of these were : Banks were advised to so plan their resource use that they would be able to meet genuine credit requirements as and when they arose from their own resources and without any significant recourse to refinance from the Reserve Bank. They were also asked to endeavour to keep their non-food credit expansion during the slack season within the limits of their own resources. The existing CRR and the SLR were kept unchanged; also the refinance rates for food credit and export credit and the interest rate charged on discretionary refinance remained, as before, at 9 per cent, 10 per cent and 11 per cent, respectively.

2.23 From July 1, 1980 the interest rate on stand-by facility, mainly intended to assist banks to meet clearing imbalances, was raised from 9 per cent to 11 per cent, as also the rate on rediscounting of bills from 9 per cent to 11 per cent for the first tranche; subsequent tranches were to carry higher rates of interest. Further, from July 1, 1980, refinance to banks at Bank Rate under the Small Farmers' Window was discontinued, and banks were asked to phase out, in due course, the outstanding refinance without dislocating credit facilities provided to small farmers or altering the rates charged to the borrowers. The Reserve Bank decided to discontinue two other refinance facilities, *viz.*, refinance for import of capital goods and refinance against shipping loans—the former was discontinued from July 1, 1980, while the latter was to be discontinued as soon as commitments reached the limit of Rs. 500 crores; banks were allowed to charge higher interest rates to the extent they provided credit outside the existing commitments under these facilities. The banks were also advised that the incidence of the tax on interest income proposed in the Union Budget for 1980-81 was to be passed on by them to borrowers on a *pro rata* basis. Subsequently, on August 7, 1980, the Reserve Bank issued a detailed schedule of revised interest rates (inclusive of interest tax) to be charged by banks from July 1, 1980.

Busy Season Policy, 1980-81

2.24 On the eve of busy season, a review of the monetary and credit situation and the outlook for the rest of the financial year brought out the following features : (1) There would be a sizeable growth in national income during 1980-81 in contrast to a decline recorded in 1979-80. (2) The inflation rate continued to be high, though with the improvement on the agricultural front there were some indications of an abatement in the pressures. (3) Monetary expansion had been slower in the first half of the financial year 1980-81 (April to September 1980) than in the corresponding period of the previous year; and the pace of expansion in 1980-81 as a whole was expected to be lower than in 1979-80. However, the monetary situation continued to be a source of concern as the slower expansion in 1980-81 was largely attributable to the decline in foreign exchange reserves. (4) Creation of primary money during 1980-81, though expected to be less than in the previous two years, was quite large. (5) The expansion of non-food credit during the slack season had been, by and large, in accordance with the broad guidelines issued by the RBI. (6) The rate of growth of bank deposits during April-September 1980 had been perceptibly lower than in the corresponding period of the previous year.

2.25 Against this background the RBI announced that the stance of the credit policy would continue to be one of caution. Banks were advised that since they would be facing the usual seasonal increase in the demand for credit there was need for them to plan their resource use so that they were able to avoid, in the second half of 1980-81, recourse to any additional support from the Bank beyond the refinance facilities already established. While no specific ceilings in respect of incremental ratio or magnitude of credit expansion were stipulated, banks were reminded that they were required to operate within their own resources. Access to the established refinance and rediscount facilities would be only for short periods and subject to the maintenance of the stipulated CRR and the SLR.

2.26 For the busy season of 1980-81 (end-October 1980 to end-April 1981) it was anticipated that the requirements for credit would be large in view of the expected growth in the economy, and the possibility of increased credit requirements for food and for the import and distribution of fertiliser, apart from the need to provide for growth in priority sectors and export credit. In relation to this expected demand for credit, it was felt that the banks' resources position, after the pre-emption of 50 per cent of the incremental resources (for the SLR of 34 per cent, the CRR of 6 per cent and the incremental cash reserve ratio of 10 per cent), would not be totally adequate. In order to allow the banks to use a somewhat larger proportion of their incremental resources for credit purposes, the RBI decided to exempt banks from the requirement of maintaining the additional cash reserve of 10 per cent of the incremental net demand and time liabilities accruing since January 14, 1977. The exemption became applicable, with effect from October 31, 1980, to banks which were maintaining on that date the stipulated CRR and SLR; for defaulting banks, the exemption was to become operative only on their making good the shortfall, for which two weeks' time from October 31, 1980 was given. It was, however, decided that the deposits already so immobilised with the Reserve Bank would not be returned to banks for the time being.

Priority Sector Targets

2.27 Banks were advised about the acceptance of the recommendations of the Working Group on the Modalities of Implementation of the Priority Sector Lending and the 20-Point Economic Programme.[1] The banks were asked to endeavour to attain the following targets :

1. Priority sector advances should constitute 40 per cent of aggregate bank advances by 1985. In achieving the target of 40 per cent of total lending to the priority sector by 1985, banks should aim at ensuring that a minimum of 40 per cent of the additional credit every year flows to the priority sectors. Subject to this minimum, the banks whose ratio is presently below 40 per cent will have to work out the additional amounts to be disbursed in the priority sectors every year so as to progressively reach the target of 40 per cent by 1985.

1. A reference may be made to the last year's Report for the new targets for priority sector financing and related details.

2. Forty per cent of the priority sector advances should be earmarked for agriculture and allied activities. This would mean that the advances to the agricultural sector would be at least 16 per cent of the total advances by 1985.

3. Direct advances to 'Weaker Sections'[1] in agriculture and allied activities should reach a level of at least 50 per cent of the total direct lending to agriculture (including allied activities) by 1983.

4. Advances to 'Weaker Sections'[2] in small-scale industries should constitute 12.5 per cent of total advances to small-scale industries by 1985.

2.28 The need for banks to make a sustained effort for enlarging deposit mobilisation was emphasised and they were instructed to pay close attention to the recovery of loans so that the availability of funds for productive purposes was augmented.

2.29 As the central theme of the 20-Point Economic Programme was to help progressively more people belonging to the weaker sections of the society, banks were urged to associate themselves actively in programmes for improving the conditions of people in slum areas by assisting them in their economic activities and also give attention to other areas of social concern such as assistance to physically handicapped. (The follow-up action taken by the Bank to give effect to the recommendations of the Working Group is dealt with in more detail in Section IX).

Guidelines on Cash Credit

2.30 On December 8, 1980 the RBI communicated to the banks its decision on the recommendations of the Working Group constituted in April 1979 to review the system of cash credit. The more important of the recommendations and the decisions taken on them by the Reserve Bank are dealt with in detail in Section IX.

Changes in Interest Rates Structure

Deposit Rates

2.31 The year 1980-81 witnessed significant changes in the interest rates structure. These changes reflected, in part, a response to the persistent inflationary pressures. Simultaneously with the presentation of the Budget for 1981-82, several changes were announced on February 28, 1981 by the RBI in the deposit and lending rates of commercial banks. It may be recalled that with effect from September 13, 1979,

1. 'Weaker Sections' in agriculture and allied activities comprise (i) small and marginal farmers with land holdings of five acres and less and landless labourers and (ii) persons engaged in allied activities whose borrowal limits for such activities do not exceed Rs. 10,000.

2. All small-scale industries with credit limits up to and inclusive of Rs. 25,000 are treated as 'weaker sections' in this category.

the rates payable by scheduled commercial banks on deposits were increased: the rates on savings deposits and fixed deposits with a maturity of 9 months to one year went up by a half percentage point and those on fixed deposits of one year and over rose by one percentage point. However, with the persistence of inflation, it was felt that the interest rates offered by banks were not adequate to mobilise financial savings to the extent envisaged in Sixth Plan. The Finance Minister in his Budget Speech (1981-82) stated:

> "A second impediment to financial savings is the existence of high rates of inflation. In an inflationary situation it becomes essential to provide adequate incentives to financial savings. Since bank deposits are the most important single mechanism for financial savings, it has been decided to raise the interest rate on maturities from one and up to five years".

2.32 The Bank announced the revision in the interest rates on bank deposits with maturities of one year and above with effect from March 2, 1981 (Table 2.4). The upward readjustment of deposit rates was made without raising the maximum rate which was continued at 10

TABLE 2.4—INTEREST RATES ON DEPOSITS

(Per cent per annum)

Class of Deposits	Effective from June 1, 1977	March 1, 1978	September 13, 1979	March 2, 1981
	1	2	3	4
I. Current Deposits	Nil	Nil	Nil	Nil
II. Savings Deposits	3.00* 5.00* (from 1.7.1977)	4.50	5.00 (from 1.10.1979)	5.00
III. *Fixed Deposits*				
1. Up to 14 days	Nil	Nil	Nil	Nil
2. 15 days to 45 days	3.00	2.50	2.50	2.50
3. 46 days to 90 days	3.50	3.00	3.00	3.00
4. 91 days and above but less than 6 months	4.00	4.00	4.00	4.00
5. 6 months and above but less than 9 months	4.50	4.50	4.50	4.50
6. 9 months and above but less than 1 year	5.00	5.00	5.50	5.50
7. 1 year and above but less than 2 years	6.00@	6.00@	7.00@	7.50
8. 2 years and above but less than 3 years				8.50
9. 3 years and above but less than 5 years	8.00£	7.50£	8.50£	
10. Above 5 years	10.00	9.00	10.00	10.00

* 3 per cent for deposits with cheque facilities and 5 per cent for those without cheque facilities.
@ Deposits for 1 year and above and up to and inclusive of 3 years.
£ Deposits of over 3 years and up to and inclusive of 5 years.

Note : Banks with demand and time liabilities (DTL) of less than Rs. 25 crores, as also RRBs, were allowed to pay a rate higher by 0.25 per cent per annum and 0.50 per cent per annum, respectively, on term deposits up to and inclusive of five years prior to March 2, 1981 and on term deposits of less than 3 years thereafter.
Savings deposits : Banks with DTL of less than Rs. 25 crores, as also RRBs, have been allowed to pay a rate higher by 0.25 per cent per annum and 0.50 per cent per annum, respectively.

per cent. The new deposit rates were not retrospective in effect. The change has mainly been towards providing higher yields for fixed deposits of maturities between one year and three years. The category of deposits with a maturity of one year and above and up to three years (on which interest was paid at 7 per cent) was abolished and in its stead a new category of one year and above but less than two years was given a rate of 7.5 per cent, while for deposits of two years and above but less than three years it was 8.5 per cent. The rate of 10 per cent was made applicable to term deposits with a maturity of three years and above as against term deposits of the maturity of more than five years as stipulated earlier. It was expected that the raising of deposit rates for these maturities would help the deposit mobilisation efforts of banks and the changes in the term structure of deposits would bring about a better balance in the time profile of banks' deposit and lending structures.

Lending Rates

2.33 With effect from September 13, 1979 the maximum rate on advances was raised by three percentage points from 15-16 per cent to 18-19 per cent; this measure of raising the cost of credit was designed to buttress the various other measures then taken to restrain credit expansion. Consequently, after the reimposition of the 7 per cent tax on interest income in 1980-81 Budget, the rates on advances were adjusted upwards to include, on a *pro rata* basis, the tax element, the intention being to pass on the tax burden to the borrower. In the lending interest rates structure then prevalent there was an absence of adequate gradation in the rates charged to various categories of beneficiaries in the priority sector and there was also a plethora of rates. Further, in several categories of interest rates prescribed for the priority sector, only ceiling rates had been indicated. This allowed different banks to charge different rates for the same kind of advances in a particular area, causing considerable difficulties in the field. The upward revision in the deposit rates, in any event, required a certain alteration in the lending rates. All these considerations were kept in view while announcing the new lending rates, effective March 2, 1981.

2.34 The main adjustments related to: (*i*) a reduction in the total number of specified rates and, apart from a few specified exemptions, the prescription of four levels of lending rates, *viz*., 12.5 per cent, 15.0 per cent, 17.5 per cent and 19.5 per cent, (*ii*) prescription of fixed rates instead of *ceiling* rates as followed till then, on a number of categories of advances which also ensured uniformity of rates among banks for the same category of advances, particularly in the case of priority sector, (*iii*) a uniform maximum lending rate for the larger and smaller scheduled commercial banks, (*iv*) a rational categorisation of interest rates for public procurement and distribution agencies, (*v*) correlating the element of concessionality in interest rates with the quantum of advances in the case of priority sectors and (*vi*) bringing about a better alignment between interest rates charged by banks on short-term advances and term loans.

2.35 An important feature in the rates structure on advances prescribed in March 1981 is specification of four distinct categories relating to the procurement/distribution of commodities. These categories are: (*i*) procurement of foodgrains under the full price support scheme, where the sales are at fixed prices through Government approved outlets the rate of interest being 12.5 per cent; (*ii*) advances to Central and State Government agencies entrusted with procurement/distribution of specified essential consumer commodities for sale at fixed prices through Government approved outlets, the commodities being pulses, edible oils, kerosene, salt and sugar, the rate chargeable on these being 15 per cent; (*iii*) advances to Central and State Government agencies entrusted with the procurement and distribution of essential consumer commodities, other than those specified in category (*ii*) above, advances for the procurement of cash crops, *viz.*, jute, etc., where there is an element of price support and procurement and distribution of fertilisers, pesticides and seeds—all these advances have a prescribed rate of 17.5 per cent; (*iv*) in respect of advances to Central and State Government agencies entrusted with the procurement and distribution of commodities for sale on a *commercial basis* the interest rate should not exceed 19.5 per cent, which means that for this category banks could charge up to the maximum rate permissible (Details given in Appendix 1). The lending rates of the RRBs and co-operative banks were also restructured and rationalised so as to bring about a degree of alignment among the various rates charged and with the commercial bank lending rates applicable to comparable categories. The changes in interest rate structure were comprehensive and made applicable to the rates charged by the IDBI also, the details of which are given in Chapter 4.

2.36 When, earlier, there was a prescribed general minimum lending rate (MLR) it was necessary to exempt through notification or otherwise, advances carrying lower rates than the MLR, from the applicability of MLR. This meant that there was a significant area in which rates had to be individually decided upon after discussion with banks. Under the new rates structure, such 'grey' area has been reduced substantially.

2.37 The RBI further clarified on May 2, 1981 that while no rate was stipulated corresponding to the previous minimum lending rate, a broad framework of rates was provided under various categories to enable banks to lay down rates of interest on advances in cases where specific fixed rates had not been indicated. Thus, in the case of short-term advances to small-scale industry, while the ceiling rate for limits above Rs. 25 lakhs would be 19.5 per cent, it should not be less than 17.5 per cent, which is the ceiling for limits between Rs. 2 lakhs and Rs. 25 lakhs. In the case of other industrial advances, while the ceiling rate would be 19.5 per cent the minimum should be so determined as to ensure that the rates applicable to them were not less than 17.5 per cent, which would be the minimum for credit limits over Rs. 25 lakhs for small-scale industries. In respect of all non-priority advances, the interest rate should be not less than 17.5 per cent and not more than 19.5 per cent.

2.38 The penal rate of interest to be charged would range between 1 per cent and 2.5 per cent, subject to the condition that the actual rate applied should not exceed 2 per cent over the ceiling rate prescribed. It was also pointed out that banks could revise interest rates on the existing term loans sanctioned prior to March 2, 1981, provided there was an enabling provision to that effect in the concerned loan agreements. In some cases the rates of interest prescribed by the RBI differed marginally from those specified by the IDBI under their refinance schemes. In such cases, where banks availed of refinance from the IDBI the rate of interest as specified by the IDBI might be charged by the banks to the ultimate borrowers.

March 1981 Measures

2.39 Towards the close of the financial year 1980-81, it appeared that deposit growth for the year as a whole would turn out to be sizeable, the growth rate having gained momentum after December 1980. The increase in non-food credit in 1980-81 was also expected to be larger than in the previous year, owing partly to the large increase in the demand for credit by the petroleum companies. On the monetary front, primary money creation, though markedly lower than in the preceding two years, was nevertheless excessive in the context of a widening balance of payments deficit. A slow-down in the rate of monetary expansion was, therefore, necessary for attaining the basic objective of a deceleration in the pace of inflation. Credit policy for the ensuing financial year, therefore, had to be in consonance with this objective and yet be sufficiently flexible to accommodate the credit requirements of both the agricultural and industrial sectors. Banks were told, that though no specific ceilings were stipulated, they were expected to moderate the pace of credit expansion. Keeping in view the likely increase in demand for food procurement credit up to June 1981, and subsequently the busy season demand for credit, banks were urged to build up their resources sufficiently, so as to avoid, as far as possible, recourse to RBI refinance.

2.40 Banks were urged once again to implement expeditiously the guidelines on cash credit system issued in December 1980. The increase in the ceiling rates on debentures and the continuation of the existing limits on non-banking companies accepting public deposits announced in the budget for 1981-82 should facilitate the implementation of these guidelines. The above-mentioned measures announced by the GOI are intended to enable the corporate sector to mobilise more resources directly and reduce their reliance on the banking system for working capital.

2.41 Banks were also advised that since, with the raising of interest rates of the term lending financial institutions, these institutions would be gearing themselves to meeting increased long-term credit requirements, the banks should avoid undue involvement in term lending and conserve their resources for meeting the demand for short-term credit. With effect from the last Friday of April 1981, the base level for the calculation of refinance entitlement in respect of export credit was shifted to the monthly average for 1979 from the 1978 average earlier (See para 2.15).

May 1981 Measures

2.42 Certain policy measures for the slack season of 1981 and for the financial year 1981-82 were announced at the end of May 1981. The monetary expansion in 1980-81 had turned out to be slightly higher than in 1979-80 and as such the earlier expectations of a slowing down in the pace had not materialised. It was a matter of concern that the growth of primary money in 1980-81 had been large, in the context of a sizeable loss of foreign exchange reserves, and as such there was already a potential for a large monetary expansion in 1981-82. While prices on a year-over-year basis had shown a slower pace of increase, the increase in the monthly average level of prices in 1980-81 was slightly higher than in 1979-80. Thus, these trends pointed to the continued need for monetary correction in 1981-82. The growth of real national income in 1981-82 was expected to be in the range of 4-5 per cent as compared with the increase of about 6.5 per cent in 1980-81. Since a significant reduction in the pace of inflation was a basic policy objective, a slower pace of monetary expansion was an ineluctable necessity. Accordingly, the thrust of credit policy had to be one of continued restraint.

2.43 The expansion of non-food credit in 1980-81 was significantly larger than in 1979-80. Moreover, the pace of expansion in the early weeks of the current financial year (1981-82) had been very large as compared with the expansion in the corresponding period of the previous year. In the context of the need for exercising restraint on expansion of bank credit, banks were required to ensure that the expansion of non-food bank credit in the 1981 slack season was at least marginally lower than in the 1980 slack season. The banks were asked to endeavour to operate within this constraint and conserve their resources for meeting the expected spurt in food credit in June/July 1981, as well as other credit requirements during the next busy season. Again, for the first half of 1981-82 (April-March), as well as for the full financial year 1981-82, the broad guideline was that the expansion of non-food credit should be marginally lower than the expansion in comparable periods of 1980-81.

2.44 Apart from the guidelines on credit expansion, certain measures were announced to reduce the growth of primary liquidity in the system and this would have a direct impact of slowing down the pace of monetary expansion. These measures comprised the raising of the cash reserve ratio from 6 per cent to 7 per cent in two phases—6.5 per cent from the last Friday of July 1981 and 7 per cent from September 11, 1981[1]—and increase in discretionary refinance rate and the rediscounting rate. In order to ensure that discretionary refinance is sought by banks only when there is an urgent and unavoidable need, the minimum interest rate on this facility was raised from 11 per cent to 14 per cent, effective June 1, 1981. Access to this facility would be strictly for short periods and in exceptional circumstances and subject to the satisfactory maintenance, as at present, of the stipulated reserve requirements. Effective June 1, 1981, the rate on rediscounting of bills was raised from 11 per cent to 14 per cent for the first tranche; subsequent tranches, if any, would attract higher rates of interest. The rate for stand-by refinance continued to be 11 per cent, but this facility would be available only against the collateral of Government and trustee securities. With a view to facilitating exports, the interest charged by the Reserve Bank on export credit refinance was reduced from 10 per cent to 9 per cent, effective June 1, 1981. Banks have been urged to expedite extension of credit to exporters and to provide all possible ancillary facilities to them in view of the paramount importance of increasing exports at the present juncture.

2.45 Keeping in view the recent revisions in interest rates and changes in yields on Government securities, the interest paid by the Reserve Bank on the banks' statutory balances maintained with it in excess of the basic minimum of 3 per cent was raised from 6.5 per cent to 7 per cent, effective June 1, 1981.

2.46 Banks were urged (1) to make renewed efforts to extend adequate credit support to the priority sectors as well as to meet the genuine requirements of production and public distribution of essential commodities, (2) to give special attention to the needs of the beneficiaries of the 20-Point Economic Programme and (3) to implement the guidelines issued in December 1980 on the recommendations of the Working Group to review the System of Cash Credit (For details please see Section IX). Banks were also advised that anticipated price increases should not be built into the credit limits sanctioned by banks and, in particular, advances against sensitive commodities should be strictly regulated in accordance with the RBI directives. Their attention was drawn to the vital role that the banking system could play in bringing about a deceleration in the pace of monetary expansion.

July 1981 Measures

2.47 The pace of monetary expansion (M_3) in the financial year 1981-82 (up to June 19, 1981) was 4.4 per cent as against 4 per cent in the corresponding period of the previous year. The growth of non-food credit in the first quarter of 1981-82 financial year (up to June 26, 1981) was Rs. 587 crores (+2.5 per cent)[2] as against Rs. 221 crores (+1.1

1. Subsequently advanced to August 21, 1981 (See Para No. 2.47 on page 20).

2. Provisional

per cent) in the corresponding quarter of the previous year. The liquidity in the banking system continued to persist at a high level and was indicative of the potential for the continuation of the existing pace of credit expansion. The excess liquidity of the banking system needed to be further reduced if the non-food credit expansion for the year 1981-82 was to be contained within the limits indicated in the May 1981 guidelines. The Bank, therefore, took the following measures with a view to help contain the inflationary pressures.

(*i*) With effect from the close of business on July 11, 1981, the Bank Rate was raised by one percentage point, i.e., from 9 per cent to 10 per cent per annum (Table 2.5)

(*ii*) The CRR of scheduled commercial banks had been raised in May 1981 from 6 per cent to 7 per cent of net demand and time liabilities to be implemented in two phases, i.e., 6.5 per cent by July 31, 1981 and 7 per cent by September 11, 1981. The date of the second phase of the increase in the CRR was advanced to August 21, 1981.

(*iii*) The SLR was raised from 34 per cent to 35 per cent of total demand and time liabilities in two phases—34.5 per cent effective September 25, 1981 and 35 per cent effective October 30, 1981.

(*iv*) Some changes were also made in Selective Credit Control on foodgrains: these are discussed later.

TABLE 2.5—PRINCIPAL MONETARY MEASURES TAKEN BY THE RESERVE BANK SINCE 1974

Changed with effect from	Raised/Lowered from (Per cent)
I. Bank Rate	
July 11, 1981	9 to 10
II. Cash Reserve Ratio	
December 14, 1974	5 to 4.5
December 28, 1974	4.5 to 4
September 4, 1976	4 to 5
November 13, 1976	5 to 6
January 14, 1977	Additional CRR of 10 per cent of the incremental net demand and time liabilities accruing since January 14, 1977.
October 31, 1980	Incremental CRR referred to above discontinued.
July 31, 1981	6 to 6.5
August 21, 1981	6.5 to 7
III. Statutory Liquidity Ratio	
December 1, 1978	33 to 34
September 25, 1981	34 to 34.5
October 30, 1981	34.5 to 35

Note : For information on the position existing prior to December 1974 see Table 24 of the Annual Report and Trend and Progress of Banking in India, 1973-74.

(*Source :* Department of Banking Operations & Development, RBI).

2.48 Consequent on the raising of the Bank Rate, the following changes were made in the interest rates on certain refinance facilities provided by the Bank as mentioned below :

(*a*) Food and export refinance rates were raised from 9 per cent to 10 per cent effective July 18, 1981; however, the commercial banks' lending rates for food/export credit would remain unchanged.

(*b*) Refinance rate against shipping loans was raised from 10.5 per cent to 11.5 per cent effective the close of business on July 11, 1981; lending rate of commercial banks was raised from 11 per cent to 12 per cent.

(*c*) Refinance rates against loans for import of capital goods was raised from 9 per cent to 10 per cent effective the close of business on July 11, 1981; lending rate of commercial banks was raised from 11 per cent to 12 per cent. The scheme had already been discontinued with effect from July 1, 1980 and the outstanding refinance is to be repaid by October 31, 1981.

2.49 As the increase in refinance rates and the increase in reserve requirements announced on July 11, 1981 would affect the profitability of banks, they were advised that, within the framework of the interest rate structure, they were free to raise those of their lending rates as were below the prescribed maximum, to the maximum rates prescribed by the RBI.

Credit Budgets

2.50 The commercial banks' credit budgets for 1981-82 have been examined by the RBI and discussions have been completed with each of the major banks. These discussions have enabled the banks to obtain a better perception of deposit growth in 1981-82. The banks have been advised to so modulate their non-food credit expansion during the July-September and October-December 1981 quarters that they do not infringe the guidelines for expansion of non-food credit set out in May 1981. In this context considerable stress has been put on making effective the quarterly operating limits for major borrowers.

SELECTIVE CREDIT CONTROL

2.51 The existing measures to control advances against sensitive commodities continued to operate during the year with certain modifications necessitated by changes in the supply and price situation.

Gur and Khandsari

2.52 In view of the continued rise in the prices of *gur* and *khandsari*, the minimum margin for advances against these commodities was raised from 50 per cent to 65 per cent for the manufacturers of these commodities and from 60 per cent to 75 per cent for others with effect from October 13, 1980. The minimum margin on advances against warehouse receipts was raised from 45 per cent to 55 per cent.

Sugar

2.53 The Bank advised scheduled commercial banks on July 22, 1980 to consider the granting of temporary clean loans to deserving sugar mills to a limited extent, not exceeding Rs. 25 lakhs in the case of each unit, but repayable in instalments by March 31, 1981, without prior reference to the Reserve Bank but subject to certain conditions. This was done to help some of the sugar mills who might find it difficult to meet the expenses necessary for the off-season repairs and other essential purposes.

2.54 The Bank also allowed certain relaxations to sugar mills which, due to certain exceptional circumstances, had not been able to liquidate the clean loans already granted to them in the past. Thus, the banks were asked to consider the request for a fresh loan from sugar mills if they were satisfied that the non-payment was due to circumstances beyond the control of the unit where the arrears of the previous years' loans did not exceed 10 per cent of the loan amount as on May 31, 1980. However, if such arrears exceeded the level of 10 per cent (of the loan amount as on May 31, 1980) the banks should refer the request for such loans to the Reserve Bank for prior approval.

2.55 The GOI accepted the offer made by the Indian Sugar Mills Association and the National Federation of Co-operative Sugar Factories Ltd., of the release of 1.5 lakh tonnes of free-sale sugar during the months of October and November 1980 out of the current year's (1979-80) production as levy sugar. These stocks were to be replenished out of the production of the ensuing season (1980-81). Consequent to the release of free-sale sugar stocks as levy sugar (the former valued at tariff rate and the latter at levy rates), it was possible that, in respect of many of the sugar mill borrowers, accounts would be rendered irregular and that there would be a certain amount of deficiency in margin. In order to meet this contingency and with a view to ensure that the distribution of sugar under public distribution system did not suffer, the Bank advised all scheduled commercial banks on October 14, 1980 that it was agreeable to the reduction in margin in respect of the accounts of sugar mills to the extent it became necessary on account of the above-mentioned arrangement between the Government and sugar mills. However, this relaxation was revoked with effect from December 31, 1980.

2.56 In regard to the stocks of free-sale sugar out of the current season's production still left with the sugar mills, the Bank agreed to the suggestion that the banks should not insist on the deficiency in margin being made good by the excess realisations coming out of such sales. It was accordingly decided that the mills would be allowed to retain such surpluses for meeting essential requirements and other obligations for the coming season. The deficit in margin would be regularised by the mills as and when the sugar production during the ensuing 1980-81 season was made available to the banks as security for the drawings in that season.

2.57 Keeping in view the anticipated higher level of sugar production in the ensuing year, the Reserve Bank advised all scheduled commercial banks on October 22, 1980 that, subject to liquidity/financial position and estimates of sugar production of individual units, they might sanction credit limits for 1980-81 season to sugar mills up to 125 per cent of the maximum amounts availed by them in previous (1979-80) season without prior authorisation. It was also clarified that the system of fixing credit limits in relation to the peak level of stocks would continue, but actual drawals in borrowal accounts would be regulated on the basis of deficit as disclosed in the monthly cash budgets of mills. Where applications for credit limits for the 1980-81 season had been received but were awaiting sanction from the competent authority in any bank or prior authorisation from the RBI, banks might allow drawings in such units up to the maximum amount availed by them in the 1979-80 season so that their production schedule was not upset. Banks should continue the practice of monitoring the payments of dues of sugar mills to cane growers and the system of earmarking of funds out of the advances against pledge/hypothecation of sugar for payment to cane growers as hitherto in consultation with the borrowers.

2.58 In view of the reported upward revision in the prices of sugarcane and the increase in the cost of other inputs of sugar mills, the banks were advised on February 19, 1981 that they might, at their discretion, consider sanctioning for the current season additional *ad hoc* limits to such mills up to 10 per cent of the limits permissible in terms of the stipulation referred to in the paragraph above, without the prior authorisation of the Reserve Bank, subject to a maximum of Rs. 25 lakhs for each unit, only for meeting their urgent requirement for payments to cane growers or for such other emergency purposes.

Hike in Minimum Lending Rates

2.59 Following the re-imposition of tax on interest income of banks in the Union Budget for 1980-81, the banks were advised on August 7, 1980 to raise the minimum lending rates on advances covered by Selective Credit Control, as mentioned below, effective July 1, 1980.

(*a*) On sugar advances to factories in respect of all stocks	16.70 per cent
(*b*) Advances to textile mills in respect of which lower margins of 20 to 25 per cent were prescribed on stocks of cotton and *kapas* of three, four or four and a half months' consumption, as the case may be, and mills in West Bengal under the National Textile Corporation or its authorised agencies for stocks of cotton/*kapas* of four and a half months' consumption ..	18.35 per cent

(c) On the other advances against commodities subject to Selective Credit Control .. .. 19.40 per cent

2.60 As part of the rationalisation of lending rates structure announced on February 28, 1981 the rates of advances against commodities covered by Selective Credit Control were also modified. The minimum lending rates for loans/advances/cash credits/overdrafts against commodities, other than advances to sugar mills, coming under the purview of Selective Credit Control was raised to 19.50 per cent per annum from 19.40 per cent. As regards advances to sugar mills in respect of all stocks, the minimum rate was fixed at 17.50 per cent per annum as against the existing 16.70 per cent and banks could charge them a rate which was between this rate and the general ceiling rate on advances, *i.e.*, 19.50 per cent per annum. The Bank further clarified on May 2, 1981 that unless specific exemptions were allowed under the relative directives, advances rate for sensitive commodities would be 19.50 per cent per annum regardless of the borrower enjoying lower rates of interest for other limits by virtue of his being in the priority sector or enjoying lower credit limits. In view of this the banks were asked to carefully review all cases of advances against sensitive commodities to small-scale industrial units and bring the rates to the prescribed rates, keeping in view their eligibility or otherwise for exemption from Selective Credit Control.

2.61 Further it was also clarified that the concessive rate of interest permissible to cotton textile mills, as mentioned in an earlier paragraph, stood withdrawn as from March 2, 1981. As regards advances against warehouse receipts issued by rural godowns, banks were advised that they might charge interest at 13.5 per cent per annum in respect of small advances up to Rs. 5,000 covering commodities for which support prices have been announced and in respect of which procurement arrangements by Central/State Government agencies exist.

Foodgrains

2.62 After a review of the trends in production, prices and bank credit against the security of sensitive commodities and taking into account reports to the effect that the procurement operations of Government were hampered by speculative hoarding of stocks the minimum margin on advances against stocks of paddy/rice and other foodgrains (including wheat) was raised by 10 percentage points, effective July 13, 1981, with the exception of advances to roller flour mills against wheat. A similar increase was made in the margins prescribed for advances against warehouse receipts covering these commodities. No modifications were, however, made in the minimum margins on advances against pulses (stocks/warehouse receipts). The changes made are indicated overleaf.

Valuation of Securities for SLR

2.63 The SLR required to be maintained by the scheduled commercial banks (excluding the RRBs) remained unchanged during the year under

TABLE 2.6—BASIC MINIMUM MARGINS UNDER SELECTIVE CREDIT CONTROL ON ADVANCES AGAINST FOODGRAINS, EFFECTIVE JULY 13, 1981.

(Percentage)

	Against stocks (minimum)				Against Warehouse receipts			
	Before July 13, 1981		From July 13, 1981		For small advances up to Rs. 5,000 against rural warehouse receipts (Fixed)		For Others (Minimum)	
	Processing Units/Mills	Others	Processing Units/Mills	Others	Before July 13, 1981	From July 13, 1981	Before July 13, 1981	From July 13, 1981
	1.	2.	3.	4.	5.	6.	7.	8.
Paddy	35	50	45	60	20	30	40	50
Rice	50	50	60	60	20	30	40	50
Pulses	45	60	45	60	30	30	50	50
Other Foodgrains (including wheat) ..	35@	50	45@	60	20	30	40	50

@For stocks equivalent to four weeks' consumption; for additional stocks the minimum margin was 50 per cent before July 13, 1981 and 60 per cent subsequently. Advances against wheat to roller flour mills continued to attract a minimum margin of 25 per cent.

(*Source :* Department of Banking Operations and Development, RBI)

review at 34 per cent.[1] Consequent to the upward adjustments made in the yields of Government Securities and the consequent impact on their market prices, scheduled commercial banks were given concession in the form of a partial exemption from the requirement of valuing their securities for the purpose of SLR at prices not exceeding the current market prices, on a temporary basis for a period of seven months from May 1980. Accordingly, in case the percentage of eligible assets maintained by a bank in various forms fell short of the liquidity requirements of 34 per cent by reason of the bank valuing its investments in approved securities at current market prices, that bank was to be deemed to have complied with the SLR requirement of 34 per cent if it had maintained : (*a*) a liquidity ratio of 25 per cent, the securities taken into account for the purpose being valued at prices not higher than current market prices and (*b*) an additional liquidity ratio of 9 per cent, the securities taken into account for the purpose being valued at book value less so much of the provision, if any, made by the bank for depreciation in the value of investments, as was not in excess of the depreciation in the market value of the said securities. The above concession was available to banks from May to November 1980. However, consequent to further upward adjustments in the yields of Government Securities the concession was once again extended to banks in May 1981 on a temporary basis up to October 1981.

1. Subsequently, on July 11, 1981 the SLR was raised to 35 per cent in two phases—34.5 per cent, effective September 25, 1981, and 35 per cent, effective October 30, 1981.

Bank Advances to Physically Handicapped

2.64 The RBI urged public sector banks on October 13, 1980 to initiate measures before the end of the year to ensure that increased assistance was provided to the physically handicapped during 1981, which has been declared as the International Year of the Disabled, particularly under the plans which were being drawn up by various organisations for the welfare and rehabilitation of handicapped persons. The private sector banks were also requested to take appropriate action in this regard.

IV. DEPLOYMENT OF CREDIT

(*a*) OVER-ALL TRENDS

2.65 The over-all trends in credit deployment during the period April 1980 to March 1981 indicate a larger increase in gross non-food credit than in the corresponding period of the previous year due mainly to larger credit extended to large and medium industry and to priority sectors. The advances to priority sectors constituted 33.6 per cent of the total (net) bank credit as against 31.2 per cent a year ago.[1]

Sectoral Deployment of Credit

2.66 Data on sectoral deployment of gross bank credit during the financial year 1980-81 (on last Friday basis) (Table 2.7) show that there was a larger expansion in gross bank credit, in absolute terms, of Rs. 3,554 crores as compared with Rs. 3,088 crores during the financial year 1979-80. This was mainly due to larger expansion in the non-food gross bank credit. Thus, non-food gross bank credit increased by Rs. 3,895 crores during 1980-81 as compared with an increase of Rs. 3,198 crores during 1979-80. Credit to public sector agencies for food procurement operations, however, showed a sharper decline of Rs. 341 crores during the period as compared with a decline of Rs. 110 crores in the previous year. The sharper growth in non-food gross bank credit was on account of larger credit extended to large and medium industry and to priority sectors.

2.67 Advances to priority sectors increased by Rs. 1,756 crores (26.1 per cent) as against Rs. 1,340 crores (24.9 per cent) in the previous year. Advances to agriculture and small-scale industries rose by Rs. 806 crores (29.1 per cent) and Rs. 595 crores (22.6 per cent), respectively, as compared with Rs. 604 crores (27.9 per cent) and Rs. 458 crores (21.0 per cent), respectively, in the previous year. Consequently, as at the end of March 1981, advances to priority sectors constituted 33.6 per cent of the total (net) bank credit as against 31.2 per cent a year ago.[1] The proportion

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1. The data relate to priority sector advances of major banks (which constitute about 95 per cent of gross bank credit) as per cent of bank credit of all scheduled commercial banks, including PCs but exclusive of bills rediscounted. In November 1974, when the target for priority sector advances was set at 33⅓ per cent of aggregate advances to be reached by March 1979, PCs were not included in the figures of bank credit. According to the revised target, banks are now expected to lend 40 per cent of their aggregate advances to the priority sector by March 1985. The ratio of priority sector advances to bank credit works out to 33.8 per cent in March 1981 and 31.9 per cent in March 1980, if PCs are excluded from the figures of bank credit.

TABLE 2.7—SECTORAL DEPLOYMENT OF GROSS BANK CREDIT

(Rs. Crores)

Items	Outstanding as on			Variations during	
	March 30, 1979	March 28, 1980	March 27, 1981@	1979-80 April 1979-March 1980	1980-81 April 1980-March 1981
	1	2	3	4	5
I. Public Food Procurement	2,210	2,100	1,759	— 110	— 341
II. (a) Priority Sectors	5,390	6,730	8,486	+ 1,340 (+ 41.9)	+ 1,756 (+ 45.1)
(i) Agriculture	2,163	2,767	3,573	+ 604 (+ 18.9)	+ 806 (+ 20.7)
(ii) Small-Scale Industries	2,177	2,635	3,230	+ 458 (+ 14.3)	+ 595 (+ 15.3)
(iii) Other Priority Sectors	1,050	1,328	1,683	+ 278 (+ 8.7)	+ 355 (+ 9.1)
(b) Industry (Medium & Large)	7,173	8,269	9,984	+ 1,096 (+ 34.3)	+ 1,715 (+ 44.1)
(c) Wholesale Trade	1,567	1,915	1,994	+ 348 (+ 10.9)	+ 79 (+ 2.0)
(i) Cotton Corporation of India	181	229	260	+ 48 (+ 1.5)	+ 31 (+ 0.8)
(ii) Food Corporation of India (Fertiliser)	208	210	242	+ 2 (+ 0.1)	+ 32 (+ 0.8)
(iii) Jute Corporation of India	28	56	79	+ 28 (+ 0.9)	+ 23 (+ 0.6)
(iv) Others	1,150	1,420	1,413	+ 270 (+ 8.5)	— 7 (— 0.2)
(d) Other Sectors	1,807	2,221	2,566	+ 414 (+ 13.0)	+ 345 (+ 8.9)
III. Non-Food Gross Bank Credit (a+b+c+d)	15,937	19,135	23,030	+ 3,198 (+ 100.0)	+ 3,895 (+ 100.0)
Of which:					
Export Credit	1,500	1,640	1,650	+ 140	+ 10
IV. Gross Bank Credit (I + III)	18,147	21,235	24,789	+ 3,088	+ 3,554

@ Provisional.

Note : 1. Data relate to major banks which account for about 95 per cent of gross bank credit. Further, these data besides taking into account the bills rediscounted with the RBI, include bills rediscounted with the IDBI and other approved institutions and Participation Certificates.

2. Figures in brackets are proportions to non-food incremental credit.

(*Source* : Credit Planning Cell, RBI)

of incremental priority sector credit to the total incremental non-food gross bank credit during 1980-81 was 45.1 per cent as against 41.9 per cent in 1979-80.

2.68 The outstanding credit to medium and large-scale industries at the end of March 1981 stood at Rs. 9,984 crores and formed 40.3 per cent of the gross bank credit as compared with Rs. 8,269 crores (38.9 per cent) at the end of March 1980. Incremental advances to medium and large-scale industries during 1980-81 were Rs. 1,715 crores as against Rs. 1,096 crores in the previous year.

2.69 Total bank credit to industry (large, medium and small-scale industries) increased by Rs. 2,310 crores during the financial year 1980-81 as compared with Rs. 1,554 crores during 1979-80. Major industries which accounted for the increase were petroleum (Rs. 450 crores), chemicals (Rs. 287 crores), engineering (Rs. 218 crores), cotton textiles (Rs. 115 crores), other textiles (Rs. 164 crores) and iron and steel (Rs. 125 crores) (Table 2.8).

2.70 There was an increase of only Rs. 79 crores in advances to wholesale trade (other than food procurement) during the year 1980-81 as compared with an increase of Rs. 348 crores during 1979-80.

2.71 Credit to 'other sectors' which represent residual sectors and include personal loans, advances to financial institutions, hire purchase agencies, etc., increased by Rs. 345 crores during April 1980-March 1981 compared to a rise of Rs. 414 crores in the previous year.

Regional and Rural/Urban Pattern of Credit Deployment

2.72 Apart from regional imbalances in banking development expressed in terms of population per bank office, which the branch expansion policy has, over the years, sought to reduce, there are two other features of imbalances, namely, (*i*) varying credit-deposit ratios and (*ii*) rural/semi-urban *versus* urban/metropolitan flow of banking sector's resources.

2.73 The limitations of using the credit-deposit ratio as the sole indicator are, however, to be noted. The credit-deposit ratios may not necessarily depict the true picture of the extent to which resources mobilised by banks in a particular region/State are utilised in that region/State. First, the ratios do not take into account investment of bank funds in securities of State Governments, debentures of State-level institutions, etc., which contribute to the financing of development projects and infrastructural facilities. Secondly, in some cases the ratios may be high due to the relatively lower magnitude of deposits on the basis of which the ratios are worked out. Thirdly, allowance has to be made for what is called the 'migration of credit', *i.e.*, loans sanctioned by a bank in its offices in a given area may not necessarily represent the financing of activities located in that area. For instance, credit sanctioned at head offices

TABLE 2.8: INDUSTRY-WISE DEPLOYMENT OF GROSS BANK CREDIT

(Rs. Crores)

	Outstanding as on			Variations during	
	March 30, 1979	March 28, 1980	March 27, 1981 @	1979-80 April 1979- March 1980	1980-81 April 1980- March 1981
	1	2	3	4	5
Industry (Total of Small-Scale, Medium & Large-Scale Industries)	9,350	10,904	13,214	+1,554	+2,310
1. Coal	65	65	64	—	— 1
2. Iron and Steel	487	615	740	+ 128	+ 125
3. Other Metals & Metal Products	313	388	456	+ 75	+ 68
4. All Engineering	2,515	2,996	3,214	+ 481	+ 218
5. Electricity	70	91	184	+ 21	+ 93
6. Cotton Textiles	1,008	1,032	1,147	+ 24	+ 115
7. Jute Textiles	135	135	162	—	+ 27
8. Other Textiles	484	564	728	+ 80	+ 164
9. Sugar	358	303	342	— 55	+ 39
10. Tea	159	184	233	+ 25	+ 49
11. Vegetable Oils (Including Vanaspati)	150	144	183	— 6	+ 39
12. Tobacco & Tobacco Products	88	101	144	+ 13	+ 43
13. Paper & Paper Products	194	236	278	+ 42	+ 42
14. Rubber & Rubber Products	181	225	252	+ 44	+ 27
15. Chemicals, Dyes, Paints, etc.	983	1,220	1,507	+ 237	+ 287
Of which Fertiliser	(167)	(196)	(279)	(+ 29)	(+ 83)
16. Cement	59	81	119	+ 22	+ 38
17. Leather & Leather Products	145	171	221	+ 26	+ 50
18. Construction	99	105	125	+ 6	+ 20
19. Petroleum	—	273	723	+ 273	+ 450
20. SAFAUNS *	246	258	300	+ 12	+ 42
21. Residual	1,611	1,717	2,092	+ 106	+ 375

@ Provisional.

* Ships Acquired From Abroad Under New Scheme.

(*Source:* Credit Planning Cell RBI)

of certain banks may actually be utilised in States other than the State where the head office is located.

State-wise Credit-Deposit Ratios

2.74 Data are presented in Table 2.9 on State-wise credit-deposit ratios, according to sanction and utilisation of credit. The all-India credit-deposit ratio, according to sanction, stood at 67.2 per cent at the end of June 1980. Chandigarh and Delhi in the Northern Region, Maharashtra and Dadra and Nagar Haveli in the Western Region and Andhra Pradesh, Karnataka, Tamil Nadu and Kerala in the Southern Region had credit-deposit ratios above the all-India level. On the other hand, apart from the other States/Union Territories in the above-mentioned Regions, all the States in the North-Eastern, Eastern and Central Regions had ratios below the all-India average. Sikkim, Mizoram and Arunachal Pradesh had credit-deposit ratios as low as 2.7 per cent, 6.0 per cent and 9.2 per cent, respectively. The shortcomings of the credit-deposit ratio as a yardstick to measure the deployment of credit in a given area could, to some extent, be overcome by using the data on credit-deposit ratios based on utilisation of credit (Table 2.9). According to these data, the North-Eastern Region had, as at end-June 1980, a credit-deposit ratio of 49.2 per cent, according to utilisation, whereas it stood at 35.6 per cent, according to sanction. On the other hand, the credit-deposit ratio of Chandigarh, in terms of utilisation of credit, worked out to only 49.4 per cent whereas it was as high as 250.2 per cent, according to sanction.

Rural/Urban Pattern of Credit Deployment

2.75 Another area of concern in banking development is the low credit-deposit ratio in certain rural areas which gave rise to the apprehension that rural branches might become the conduit for the flow of resources from rural to urban areas. Hence public sector banks were advised that by March 1979 the rural and semi-urban branches separately should achieve a credit-deposit ratio of at least 60 per cent.[1] Though this was a national target banks were asked to ensure against wide disparities in the ratios between different States and Regions. The progress made till June 1979 was reviewed in the last year's Report. Data for December 1980 are presented in Table 2.10 For the banking system as a whole the all-India credit-deposit ratios for rural and semi-urban branches were 57.2 per cent and 48.9 per cent, respectively. This was higher than the ratios of 54.4 per cent and 47.2 per cent, respectively, recorded at the end of June 1979. The performance of private sector banks was better than that of public sector banks in this regard. At the all-India level the credit-deposit ratios of rural and semi-urban offices of private sector banks were 79.1 per cent and 49.7 per cent, respectively, as against 54.8 per cent and 48.9 per cent, respectively, for public sector banks. The credit-deposit ratio of public sector banks was 60 per cent or more

1. The private sector banks were told to reach the target within a specified time.

TABLE 2.9—REGION-WISE AND STATE-WISE CREDIT-DEPOSIT RATIOS BASED ON SANCTION AND UTILISATION OF CREDIT

(As on the last Friday)

Region/State/ Union Territory	JUNE 1975		JUNE 1978		JUNE 1979		JUNE 1980	
	Credit-Deposit Ratio		Credit-Deposit Ratio		Credit-Deposit Ratio		Credit-Deposit Ratio	
	As per sanction	As per utilisation	As per sanction	As per utilisation	As per sanction	As per utilisation	As per sanction	As per utilisation
	1	2	3	4	5	6	7	8
Northern Region	**69.5**	**65.6**	**88.6**	**90.3**	**84.6**	**84.2**	**76.1**	**75.3**
Haryana	66.6	122.9	60.8	90.8	63.9	108.7	66.1	98.3
Himachal Pradesh	20.8	21.2	24.2	24.9	27.1	27.9	28.6	29.0
Jammu & Kashmir	32.7	31.9	23.0	19.9	37.1	30.5	31.5	27.2
Punjab	35.4	62.6	36.1	78.0	37.9	70.5	38.6	65.6
Rajasthan	66.9	71.6	59.2	65.1	66.7	72.8	65.9	70.9
Chandigarh	308.3	45.1	349.6	39.6	318.2	46.1	250.2	49.4
Delhi	77.7	63.6	116.8	115.5	104.9	99.6	93.1	87.1
North-Eastern Region	**39.8**	**73.1**	**38.4**	**54.4**	**36.5**	**53.4**	**35.6**	**49.2**
Assam	48.1	92.0	43.1	63.9	41.2	63.0	40.6	58.7
Manipur	34.8	35.5	34.9	35.1	23.8	27.9	25.1	29.0
Meghalaya	14.6	15.2	19.2	21.1	18.2	18.9	14.1	14.9
Nagaland	23.9	25.1	28.6	31.8	28.3	37.0	23.7	28.9
Sikkim	—	—	6.1	6.3	2.5	2.5	2.7	2.7
Tripura	16.3	24.1	40.4	43.2	48.7	55.8	51.3	54.1
Arunachal Pradesh	7.3	53.7	6.5	21.4	9.6	23.2	9.2	20.9
Mizoram	4.1	0.8	6.6	6.3	7.5	10.0	6.0	9.7
Eastern Region	**63.3**	**63.5**	**58.5**	**57.5**	**55.6**	**54.8**	**56.1**	**55.5**
Bihar	44.8	63.5	41.2	53.4	39.2	49.6	41.8	47.2
Orissa	57.8	69.6	60.8	70.0	64.2	73.0	61.1	67.3
West Bengal	70.0	63.1	64.2	58.1	60.6	55.2	61.0	57.5
	(85.3)	(44.9)	(80.3)	(43.8)	(74.9)	(40.8)	(77.6)	(35.9)
Andaman & Nicobar Islands	23.5	23.9	21.2	24.1	25.5	36.0	25.1	29.8
Central Region	**56.5**	**63.8**	**48.0**	**51.4**	**49.8**	**54.1**	**45.7**	**49.2**
Madhya Pradesh	63.5	67.5	53.6	55.8	54.4	57.9	52.0	54.7
Uttar Pradesh	54.3	62.6	46.2	50.0	48.2	52.9	43.5	47.3
Western Region	**74.2**	**71.0**	**67.0**	**63.6**	**69.0**	**65.9**	**70.5**	**68.4**
Gujarat	60.4	67.4	51.1	54.9	52.1	55.9	51.9	55.4
Maharashtra	80.2	73.1	73.8	67.5	76.4	70.6	79.2	74.4
	(86.0)	(64.5)	(78.9)	(60.7)	(83.0)	(63.9)	(88.8)	(71.7)
Dadra & Nagar Haveli	103.6	146.4	85.7	111.7	63.5	93.3	116.5	144.9
Goa, Daman & Diu	45.0	49.1	39.3	42.6	38.5	42.4	37.2	45.3
Southern Region	**91.2**	**93.6**	**78.6**	**79.4**	**78.0**	**79.3**	**77.6**	**78.5**
Andhra Pradesh	79.6	84.1	70.0	72.3	70.4	72.5	71.5	72.9
Karnataka	95.6	101.1	80.0	82.4	77.7	79.7	77.8	79.3
Kerala	68.7	72.2	62.1	60.7	65.8	67.8	67.5	69.0
Tamil Nadu	105.7	103.9	93.4	92.8	91.2	90.8	88.0	87.7
	(117.7)	(82.2)	(113.1)	(80.7)	(109.0)	(76.8)	(102.7)	(79.5)
Lakshadweep	7.3	19.5	6.6	6.6	8.3	8.3	7.4	7.4
Pondicherry	90.2	109.7	70.5	78.9	65.8	74.2	61.6	68.1
All-India	**72.2**	**72.2**	**69.8**	**69.8**	**69.1**	**69.1**	**67.2**	**67.2**

Note : Data are provisional.

Figures in brackets relate to Metropolitan Centres only.

(*Source :* Basic Statistical Returns)

TABLE 2.10 :—STATE-WISE CREDIT-DEPOSIT RATIOS OF OFFICES OF PUBLIC AND PRIVATE SECTOR SCHEDULED COMMERCIAL BANKS@ ACCORDING TO POPULATION GROUP

(As on the last Friday of December 1980)

Region/State/Union Territory	Rural			Semi-Urban			Urban/Metropolitan			Total		
	Public*	Private	Total	Public*	Private	Total	Public*	Private	Total	Public*	Private	Total
I. Northern Region	**47.6**	**47.9**	**47.6**	**53.5**	**50.0**	**53.3**	**83.5**	**53.1**	**80.4**	**73.1**	**52.1**	**71.2**
Haryana	81.1	75.7	80.7	69.5	56.7	69.2	67.7	143.1	69.7	71.5	78.7	71.8
Himachal Pradesh	32.4	40.9	32.7	36.0	18.6	35.0	—	—	—	33.8	29.1	33.6
Jammu & Kashmir	43.5	24.5	32.9	44.4	50.2	46.7	28.9	28.0	28.5	33.0	29.0	31.2
Punjab	35.0	12.0	34.2	45.7	46.1	45.7	47.3	58.5	47.8	43.4	41.1	43.3
Rajasthan	75.0	115.9	80.8	60.0	53.9	59.2	71.3	46.3	68.0	68.3	62.4	67.6
Chandigarh	58.9	—	58.9	14.4	—	14.4	224.5	50.5	221.9	219.4	50.5	216.9
Delhi	91.0	25.2	83.2	—	—	—	84.5	61.8	82.4	84.5	61.7	82.4
II. North-Eastern Region	**33.7**	**111.2**	**37.4**	**34.6**	**40.8**	**34.8**	**53.1**	**59.6**	**53.7**	**39.1**	**60.6**	**40.4**
Assam	36.7	74.3	38.0	41.6	44.6	41.8	55.8	59.6	56.1	45.3	56.1	46.0
Manipur	59.8	—	59.8	25.0	—	25.1	30.7	—	30.7	35.2	—	35.2
Meghalaya	25.5	—	25.5	15.2	17.9	15.4	—	—	—	16.4	17.9	16.5
Nagaland	16.4	—	16.4	28.5	29.2	28.5	—	—	—	25.3	29.2	25.6
Sikkim	—	—	—	4.6	—	4.6	—	—	—	4.6	—	4.6
Tripura	52.0	149.8	77.9	41.4	77.0	42.6	—	—	—	43.5	129.9	51.3
Arunachal Pradesh	11.7	—	11.7	—	—	—	—	—	—	11.7	—	11.7
Mizoram	4.3	—	4.4	10.7	—	10.7	—	—	—	9.7	—	9.7
III. Eastern Region	**41.4**	**126.5**	**47.0**	**31.2**	**34.8**	**31.3**	**64.8**	**68.3**	**65.3**	**53.7**	**71.0**	**55.4**
Bihar	48.0	108.4	51.8	35.4	36.8	35.4	42.3	44.3	42.3	40.2	72.9	40.9
Orissa	69.3	261.3	89.9	56.4	63.0	56.6	46.9	33.9	46.6	54.3	171.3	59.0
West Bengal	27.0	61.9	28.9	21.0	28.0	21.2	70.9	69.1	70.7	59.5	67.5	60.5
Andaman & Nicobar Islands	31.5	—	31.5	24.1	—	24.2	—	—	—	25.5	—	25.6
IV. Central Region	**48.3**	**61.2**	**49.4**	**44.1**	**32.1**	**43.3**	**44.6**	**60.7**	**45.3**	**45.2**	**52.4**	**45.6**
Madhya Pradesh	62.1	137.8	65.5	52.1	46.0	52.0	54.3	95.2	54.7	54.9	98.1	55.7
Uttar Pradesh	44.4	51.6	45.1	41.2	30.9	40.4	41.1	58.7	42.1	41.8	48.5	42.2
V. Western Region	**50.9**	**68.3**	**51.4**	**48.0**	**53.5**	**48.2**	**78.2**	**101.1**	**80.1**	**70.4**	**95.3**	**72.1**
Gujarat	46.5	47.2	46.5	45.9	86.4	45.9	69.5	86.0	69.7	58.0	82.8	58.1
Maharashtra	70.4	69.2	70.3	50.9	49.4	50.8	80.2	101.3	82.3	77.0	95.4	78.8
Dadra & Nagar Haveli	112.1	—	111.6	—	—	—	—	—	—	112.1	—	111.6
Goa, Daman & Diu	21.1	80.0	21.2	48.2	102.4	49.5	—	—	—	38.8	102.0	39.8
VI. Southern Region	**83.3**	**92.4**	**85.0**	**63.7**	**53.7**	**61.9**	**88.3**	**82.7**	**87.7**	**80.4**	**73.3**	**79.4**
Andhra Pradesh	102.1	202.0	110.8	69.2	50.0	68.3	67.9	55.8	67.3	73.4	89.2	74.3
Karnataka	73.4	92.8	75.7	69.1	45.2	66.2	78.7	70.4	78.0	75.8	67.7	75.0
Kerala	58.5	68.1	62.2	48.9	56.9	51.2	97.2	97.0	97.2	67.4	67.9	67.6
Tamil Nadu	90.5	78.5	88.2	69.8	52.4	66.6	108.5	88.8	105.6	97.2	77.3	94.1
Lakshadweep	6.6	—	6.2	—	—	—	—	—	—	6.6	—	6.2
Pondicherry	92.4	69.4	91.2	37.0	9.4	35.8	54.8	61.4	55.1	5.7	56.0	57.0
ALL INDIA	**54.8**	**79.1**	**57.2**	**48.9**	**49.7**	**48.9**	**75.1**	**76.0**	**75.2**	**66.4**	**71.1**	**66.9**

@ Including Regional Rural Banks.

* Public Sector Banks include State Bank of India, 7 Associate Banks of SBI and 20 nationalised Commercial Banks.

Note: The data are provisional.

Source: Monthly Return on Aggregate Deposits and Gross Bank Credit) in 11 States/Union Territories in respect of rural branches and 5 States/ Union Territories in respect of semi-urban branches. The relative number of States for private sector banks was 15 and 4, respectively. The ratio was much below 60 per cent in many States/Union Territories. It is also worth noting that the credit-deposit ratios of rural and semi-urban branches were generally high in those States where the ratio for all branches (*i.e.*, rural/semi-urban/urban/metropolitan) was also high.

2.76 Further analysis could be made from the frequency distribution of districts based on credit-deposit ratios for rural and semi-urban branches of banks. The data are presented in Tables 2.11 and 2.12. At the end of December 1980 the rural offices achieved a credit-deposit ratio above 60 per cent in 173 out of 400 districts as against 161 out of 399 at the end of June 1980 and 164 out of 392 districts at the end of June 1979. The semi-urban branches recorded a credit-deposit ratio above 60 per cent in 105 out of 355 districts at the end of December 1980 in contrast to 86 districts out of 354 districts at the end of June 1980 and 98 out of 347 districts at the end of June 1979. Only 43 per cent of districts covered by rural branches and 30 per cent of districts covered by semi-urban branches had a credit-deposit ratio over 60 per cent at the end of December 1980. More intensive efforts will have to be made by banks if the inter-regional imbalances in this regard are to be eliminated.

TABLE 2.11 : FREQUENCY DISTRIBUTION OF DISTRICTS BASED ON CREDIT-DEPOSIT RATIOS FOR RURAL OFFICES OF ALL SCHEDULED COMMERCIAL BANKS

(As on the last Friday)

(Rupees in Crores)

Credit-Deposit Ratio	June 1979			June 1980			December 1980		
	No. of districts	Deposits@	Advances	No. of districts	Deposits@	Advances	No. of districts	Deposits@	Advances
	1	2	3	4	5	6	7	8	9
Up to 20%	48	422 (9)	50	48	563 (12)	76	40	592 (15)	82
20% - 30%	52	598 (12)	148	49	683 (14)	171	37	591 (16)	150
30% - 40%	45	317 (7)	111	43	533 (12)	193	55	738 (13)	257
40% - 50%	48	333 (7)	150	54	594 (11)	271	56	641 (11)	290
50% - 60%	35	325 (9)	176	44	361 (8)	200	39	380 (10)	210
Above 60%	164 (41.8)+	1,069 (7)	1,032	161 (40.4)+	1,320 (8)	1,271	173 (43.2)+	1,657 (10)	1,640
Total	**392**	**3,064**	**1,667**	**399**	**4,054**	**2,182**	**400**	**4,599**	**2,629**

@ Figures in brackets represent amount of deposits per district under each size class (in crores of Rupees).
+ As percentage of total number of districts.
Note : (1) The data are provisional.
(2) The data for December 1979 are not available.
(*Source :* Returns on Aggregate Deposits and Gross Bank Credit).

TABLE 2.12 : FREQUENCY DISTRIBUTION OF DISTRICTS BASED ON CREDIT-DEPOSIT RATIOS FOR SEMI-URBAN OFFICES OF ALL SCHEDULED COMMERCIAL BANKS

(As on the last Friday)

(Rupees in Crores)

Credit-Deposit Ratio	June 1979			June 1980			December 1980		
	No. of districts	Deposits@	Advances	No. of districts	Deposits@	Advances	No. of districts	Deposits@	Advances
	1	2	3	4	5	6	7	8	9
Up to 20%	28	530 (19)	82	32	797 (25)	131	27	725 (28)	115
20% - 30%	56	1,129 (20)	267	49	946 (19)	238	50	1,051 (21)	261
30% - 40%	54	1,173 (22)	418	72	1,719 (24)	602	63	1,528 (24)	529
40% - 50%	52	1,059 (20)	480	64	1,364 (21)	606	66	1,729 (26)	762
50% - 60%	59	1,041 (18)	575	51	1,127 (22)	612	44	1,136 (26)	610
Above 60%	98 (28.2)+	1,511 (15)	1,218	86 (24.3)+	1,779 (21)	1,416	105 (29.6)+	2,429 (23)	1,930
Total	**347**	**6,443**	**3,040**	**354**	**7,732**	**3,605**	**355**	**8,598**	**4,207**

@ Figures in brackets represent amount of deposits per district under each size class (in crores of Rupees).

+ As percentage of total number of districts.

Note: (1) The data are provisional.
(2) The data for December 1979 are not available.

(Source: Returns on Aggregate Deposits and Gross Bank Credit).

2.77 In Tables 2.13 and 2.14 data on State-wise frequency distribution of districts according to credit-deposit ratios of rural and semi-urban branches at the end of December 1980 are presented. Rural branches achieved a credit-deposit ratio above 60 per cent in 173 districts, as mentioned in the previous para, of which 27 were in Madhya Pradesh, 21 in Andhra Pradesh, 16 each in Maharashtra and Rajasthan, 14 each in Karnataka and Tamil Nadu and 10 each in Uttar Pradesh, Orissa and Haryana. Seen in relation to the total number of districts in the State it is evident that in Andhra Pradesh, Haryana, Karnataka, Tamil Nadu and Orissa most of the districts reported a credit-deposit ratio above 60 per cent for the rural offices of banks.

2.78 Out of 105 districts where semi-urban branches had a credit-deposit ratio over 60 per cent 15 districts were in Andhra Pradesh, 11 in Rajasthan and 10 each in Karnataka and Tamil Nadu.

TABLE 2.13—STATE-WISE FREQUENCY DISTRIBUTION OF DISTRICTS BASED ON CREDIT-DEPOSIT RATIOS OF OFFICES OF SCHEDULED COMMERCIAL BANKS IN RURAL CENTRES

(As on the last Friday of December 1980)

(Amount in lakhs of rupees)

Region/State/Union Territory	Frequency (Credit-Deposit Ratio)								
	Up to 20%			20% - 30%			30% - 40%		
	No. of Dis-tricts	Depo-sits	Ad-vances	No. of Dis-tricts	Depo-sits	Ad-vances	No. of Dis-tricts	Depo-sits	Ad-vances
	1	2	3	4	5	6	7	8	9
I. Northern Region	**10**	**284,91**	**40,15**	**8**	**142,53**	**41,15**	**12**	**183,38**	**64,31**
Haryana	—	—	—	—	—	—	—	—	—
Himachal Pradesh	4	54,61	9,05	2	12,89	3,51	4	42,28	14,36
Jammu and Kashmir ..	3	9,51	1,22	4	18,99	4,72	2	22,87	6,87
Punjab	2	220,04	29,73	2	110,65	32,92	3	109,77	39,99
Rajasthan	1	75	15	—	—	—	3	8,46	3,09
Chandigarh	—	—	—	—	—	—	—	—	—
Delhi	—	—	—	—	—	—	—	—	—
II. North-Eastern Region ..	**14**	**16,23**	**1,29**	**7**	**23,20**	**5,61**	**6**	**27,26**	**9,25**
Assam	1	2,99	11	3	16,56	4,10	2	25,61	8,67
Manipur	1	51	7	—	—	—	2	69	22
Meghalaya	1	14	2	3	4,87	1,13	—	—	—
Nagaland	4	3,62	32	—	—	—	2	96	36
Sikkim	—	—	—	—	—	—	—	—	—
Tripura	—	—	—	—	—	—	—	—	—
Arunachal Pradesh	4	7,58	71	1	1,77	38	—	—	—
Mizoram	3	1,39	6	—	—	—	—	—	—
III. Eastern Region	**6**	**121,59**	**17,72**	**9**	**121,32**	**29,15**	**11**	**159,78**	**53,18**
Bihar	2	32,20	4,16	7	55,22	14,46	8	92,45	31,18
Orissa	—	—	—	—	—	—	1	8,49	3,01
West Bengal	4	89,39	13,56	1	65,00	14,45	2	58,84	18,99
Andaman & Nicobar Islands ..	—	—	—	1	1,10	24	—	—	—
IV. Central Region	**5**	**61,05**	**10,34**	**7**	**103,66**	**24,84**	**17**	**168,31**	**59,12**
Madhya Pradesh	—	—	—	1	10,22	2,41	6	37,53	13,85
Uttar Pradesh	5	61,05	10,34	6	93,44	22,43	11	130,78	45,27
V. Western Region	**4**	**106,95**	**12,22**	**5**	**198,22**	**48,52**	**7**	**165,26**	**60,59**
Gujarat	2	64,90	5,85	4	94,85	25,84	5	111,70	40,07
Maharashtra	1	35,39	5,76	—	—	—	2	53,56	20,52
Dadra & Nagar Haveli ..	—	—	—	—	—	—	—	—	—
Goa, Daman & Diu	1	6,66	61	1	103,37	22,68	—	—	—
VI. Southern Region	**1**	**1,22**	**8**	**1**	**1,69**	**43**	**2**	**34,32**	**10,58**
Andhra Pradesh	—	—	—	—	—	—	—	—	—
Karnataka	—	—	—	—	—	—	—	—	—
Kerala	—	—	—	—	—	—	1	33,34	10,24
Tamil Nadu	—	—	—	—	—	—	—	—	—
Lakshadweep	1	1,22	8	—	—	—	—	—	—
Pondicherry	—	—	—	1	1,69	43	1	98	34
ALL-INDIA	**40**	**591,95**	**81,75**	**37**	**590,62**	**149,70**	**55**	**738,31**	**257,03**

Note: The data are provisional.

(Source: Returns on Aggregate Deposits and Gross Bank Credit).

TABLE 2.13—STATE-WISE FREQUENCY DISTRIBUTION OF DISTRICTS BASED ON CREDIT-DEPOSIT RATIOS OF OFFICES OF SCHEDULED COMMERCIAL BANKS IN RURAL CENTRES (*Concld.*)

(As on the last Friday of December 1980)

(Amount in lakhs of rupees)

Region/State/Union Territory	Frequency (Credit-Deposit Ratio)											
	40% - 50%			50% - 60%			Above 60%			Total		
	No. of Districts	Deposits	Advances	No. of Districts	Deposits	Advances	No. of Districts	Deposits	Advances	No. of Districts	Deposits	Advances
	10	11	12	13	14	15	16	17	18	19	20	21
I. Northern Region	**8**	**42,41**	**19,07**	**5**	**34,62**	**18,59**	**35**	**357,33**	**314,10**	**78**	**1045,18**	**497,37**
Haryana	—	—	—	2	21,17	11,02	10	120,48	103,24	12	141,65	114,26
Himachal Pradesh	—	—	—	—	—	—	2	15,16	13,91	12	124,94	40,83
Jammu and Kashmir ..	3	16,65	7,33	1	3,47	1,93	1	3,17	2,50	14	74,66	24,57
Punjab	—	—	—	—	—	—	5	97,08	80,93	12	537,54	183,57
Rajasthan	5	25,76	11,74	1	7,28	4,05	16	110,66	104,57	26	152,91	123,60
Chandigarh	—	—	—	1	2,70	1,59	—	—	—	1	2,70	1,59
Delhi	—	—	—	—	—	—	1	10,78	8,95	1	10,78	8,95
II. North-Eastern Region ..	**2**	**14,30**	**6,55**	**4**	**1,40**	**76**	**6**	**15,80**	**13,26**	**39**	**98,19**	**36,72**
Assam	2	14,30	6,55	1	56	32	1	5,97	5,35	10	65,99	25,10
Manipur	—	—	—	1	21	10	2	1,13	1,13	6	2,54	1,52
Meghalaya	—	—	—	1	44	24	—	—	—	5	5,45	1,39
Nagaland	—	—	—	1	19	10	—	—	—	7	4,77	78
Sikkim	—	—	—	—	—	—	—	—	—	—	—	—
Tripura	—	—	—	—	—	—	3	8,70	6,78	3	8,70	6,78
Arunachal Pradesh ..	—	—	—	—	—	—	—	—	—	5	9,35	1,09
Mizoram	—	—	—	—	—	—	—	—	—	3	1,39	6
III. Eastern Region	**11**	**101,11**	**46,04**	**5**	**27,01**	**14,95**	**19**	**123,40**	**146,63**	**61**	**654,21**	**307,67**
Bihar	5	38,97	18,00	2	8,16	4,87	7	44,23	67,75	31	271,23	140,42
Orissa	1	5,19	2,35	1	8,17	4,57	10	70,74	73,35	13	92,59	83,28
West Bengal	5	56,95	25,69	1	10,13	5,23	2	8,43	5,53	15	288,74	83,45
Andaman & Nicobar Islands	—	—	—	1	55	28	—	—	—	2	1,65	52
IV. Central Region	**21**	**199,52**	**87,85**	**14**	**172,91**	**95,25**	**37**	**228,11**	**183,43**	**101**	**933,56**	**460,83**
Madhya Pradesh	10	40,27	17,43	1	8,38	4,66	27	99,01	89,56	45	195,41	127,92
Uttar Pradesh	11	159,25	70,42	13	164,53	90,59	10	129,10	93,86	56	738,15	332,91
V. Western Region	**7**	**80,74**	**36,07**	**5**	**55,49**	**31,25**	**19**	**169,93**	**210,59**	**47**	**776,59**	**399,24**
Gujarat	4	50,52	23,30	2	26,88	14,65	2	42,09	71,92	19	390,94	181,63
Maharashtra	3	30,22	12,77	3	28,61	16,60	16	126,52	137,19	25	274,30	192,84
Dadra & Nagar Haveli ..	—	—	—	—	—	—	1	1,32	1,48	1	1,32	1,48
Goa, Daman & Diu ..	—	—	—	—	—	—	—	—	—	2	110,03	23,29
VI. Southern Region	**7**	**203,52**	**94,50**	**6**	**88,10**	**49,02**	**57**	**762,05**	**772,19**	**74**	**1090,90**	**926,80**
Andhra Pradesh	—	—	—	2	17,86	9,99	21	269,86	308,91	23	287,72	318,90
Karnataka	2	107,46	51,12	3	50,23	28,85	14	164,75	164,17	19	322,44	244,14
Kerala	3	78,78	35,37	1	20,01	10,18	7	96,84	86,63	12	228,97	142,42
Tamil Nadu	1	16,30	7,55	—	—	—	14	227,09	207,18	15	243,39	214,73
Lakshadweep	—	—	—	—	—	—	—	—	—	1	1,22	8
Pondicherry	1	98	46	—	—	—	1	3,51	5,30	4	7,16	6,53
ALL-INDIA	**56**	**641,60**	**290,08**	**39**	**379,53**	**209,82**	**173**	**1656,62**	**1640,25**	**400**	**4598,63**	**2628,63**

TABLE 2.14—STATE-WISE FREQUENCY DISTRIBUTION OF DISTRICTS BASED ON CREDIT-DEPOSIT RATIOS OF OFFICES OF SCHEDULED COMMERCIAL BANKS IN SEMI-URBAN CENTRES

(As on the last Friday of December 1980)

(Amount in lakhs of rupees)

Region/State/Union Territory	Frequency (Credit-Deposit Ratio)								
	Up to 20%			20% - 30%			30% - 40%		
	No. of Districts	Deposits	Advances	No. of Districts	Deposits	Advances	No. of Districts	Deposits	Advances
	1	2	3	4	5	6	7	8	9
I. Northern Region	**6**	**115,18**	**18,63**	**8**	**222,31**	**58,04**	**9**	**171,39**	**59,16**
Haryana	—	—	—	—	—	—	—	—	—
Himachal Pradesh	1	7,67	1,35	1	3,35	86	3	62,99	22,52
Jammu and Kashmir	1	2,63	21	—	—	—	2	21,16	6,97
Punjab	1	96,79	15,80	3	167,64	44,32	1	50,39	16,39
Rajasthan	2	3,79	65	4	51,32	12,86	3	36,85	13,28
Chandigarh	1	4,30	62	—	—	—	—	—	—
Delhi	—	—	—	—	—	—	—	—	—
II. North-Eastern Region	**5**	**57,87**	**7,60**	**8**	**85,30**	**21,58**	**2**	**28,54**	**9,24**
Assam	1	1,98	20	5	69,64	17,14	1	26,34	8,51
Manipur	—	—	—	1	80	20	—	—	—
Meghalaya	2	43,27	6,35	—	—	—	—	—	—
Nagaland	—	—	—	2	14,86	4,24	—	—	—
Sikkim	1	4,97	23	—	—	—	—	—	—
Tripura	—	—	—	—	—	—	1	2,20	73
Arunachal Pradesh	—	—	—	—	—	—	—	—	—
Mizoram	1	7,65	82	—	—	—	—	—	—
III. Eastern Region	**9**	**402,93**	**63,57**	**12**	**343,79**	**84,49**	**16**	**442,87**	**152,33**
Bihar	2	33,85	4,78	5	143,14	35,54	11	404,83	138,70
Orissa	1	1,98	24	—	—	—	4	22,86	8,56
West Bengal	6	367,10	58,55	6	193,48	47,22	1	15,18	5,07
Andaman & Nicobar Islands	—	—	—	1	7,17	1,73	—	—	—
IV. Central Region	**5**	**44,73**	**8,07**	**17**	**230,64**	**58,30**	**23**	**362,42**	**127,27**
Madhya Pradesh	—	—	—	5	30,95	7,86	9	53,39	18,82
Uttar Pradesh	5	44,73	8,07	12	199,69	50,44	14	309,03	108,45
V. Western Region	**1**	**103,63**	**16,66**	**3**	**55,39**	**12,27**	**9**	**397,05**	**136,96**
Gujarat	1	103,63	16,66	2	51,28	11,36	3	164,20	57,69
Maharashtra	—	—	—	—	—	—	6	232,85	79,27
Dadra & Nagar Haveli	—	—	—	—	—	—	—	—	—
Goa, Daman & Diu	—	—	—	1	4,11	91	—	—	—
VI. Southern Region	**1**	**94**	**8**	**2**	**113,13**	**25,94**	**4**	**125,25**	**44,62**
Andhra Pradesh	1	94	8	—	—	—	1	21,56	7,59
Karnataka	—	—	—	—	—	—	1	30,47	11,94
Kerala	—	—	—	1	112,86	25,88	—	—	—
Tamil Nadu	—	—	—	—	—	—	1	65,87	22,42
Lakshadweep	—	—	—	—	—	—	—	—	—
Pondicherry	—	—	—	1	27	6	1	7,35	2,67
ALL-INDIA	**27**	**725,28**	**114,61**	**50**	**1050,56**	**260,62**	**63**	**1527,52**	**529,58**

Note: The data are provisional.

(Source: Returns on Aggregate Deposits and Gross Bank Credit)

TABLE 2.14—STATE-WISE FREQUENCY DISTRIBUTION OF DISTRICTS BASED ON CREDIT-DEPOSIT RATIOS OF OFFICES OF SCHEDULED COMMERCIAL BANKS IN SEMI-URBAN CENTRES (*Concld.*)

(As on the last Friday of December 1980)

(Amount in lakhs of rupees)

Region/State/Union Territory	Frequency (Credit-Deposit Ratio)											
	40% - 50%			50% - 60%			Above 60%			Total		
	No. of Districts	Deposits	Advances	No. of Districts	Deposits	Advances	No. of Districts	Deposits	Advances	No. of Districts	Deposits	Advances
	10	11	12	13	14	15	16	17	18	19	20	21
I. Northern Region	**6**	**187,14**	**82,12**	**8**	**123,89**	**68,57**	**28**	**628,24**	**485,77**	**65**	**1448,75**	**772,29**
Haryana	—	—	—	3	91,08	51,19	9	265,99	195,74	12	357,07	246,93
Himachal Pradesh	—	—	—	1	7,08	3,65	—	—	—	6	81,09	28,38
Jammu & Kashmir	1	7,91	3,70	—	—	—	4	4,92	6,23	8	36,62	17,11
Punjab	3	162,03	70,93	—	—	—	4	226,38	174,00	12	703,23	321,44
Rajasthan	2	17,80	7,49	4	25,73	13,73	11	130,95	109,80	26	266,44	157,81
Chandigarh	—	—	—	—	—	—	—	—	—	1	4,30	62
Delhi	—	—	—	—	—	—	—	—	—	—	—	—
II. North-Eastern Region	**4**	**30,19**	**13,33**	—	—	—	**1**	**54,45**	**37,54**	**20**	**256,35**	**89,29**
Assam	1	5,11	2,41	—	—	—	1	54,45	37,54	9	157,52	65,80
Manipur	—	—	—	—	—	—	—	—	—	1	80	20
Meghalaya	1	93	44	—	—	—	—	—	—	3	44,20	6,79
Nagaland	—	—	—	—	—	—	—	—	—	2	14,86	4,24
Sikkim	—	—	—	—	—	—	—	—	—	1	4,97	23
Tripura	2	24,15	10,48	—	—	—	—	—	—	3	26,35	11,21
Arunachal Pradesh	—	—	—	—	—	—	—	—	—	—	—	—
Mizoram	—	—	—	—	—	—	—	—	—	1	7,65	82
III. Eastern Region	**8**	**72,95**	**32,15**	**3**	**52,29**	**28,26**	**10**	**122,03**	**88,57**	**58**	**1436,86**	**449,37**
Bihar	5	44,78	19,67	1	5,79	3,00	6	58,80	43,35	30	691,19	245,04
Orissa	3	28,17	12,48	1	14,34	7,43	4	63,23	45,22	13	130,58	73,93
West Bengal	—	—	—	1	32,16	17,83	—	—	—	14	607,92	128,67
Andaman & Nicobar Islands	—	—	—	—	—	—	—	—	—	1	7,17	1,73
IV. Central Region	**25**	**373,14**	**163,66**	**11**	**144,19**	**77,10**	**15**	**153,34**	**133,01**	**96**	**1308,46**	**567,41**
Madhya Pradesh	13	120,17	54,32	6	48,18	26,87	11	81,04	65,57	44	333,73	173,44
Uttar Pradesh	12	252,97	109,34	5	96,01	50,23	4	72,30	67,44	52	974,73	393,97
V. Western Region	**13**	**561,13**	**248,60**	**8**	**335,34**	**175,60**	**11**	**299,97**	**255,21**	**45**	**1752,51**	**845,30**
Gujarat	7	430,33	189,28	1	12,45	7,25	4	104,25	115,58	18	866,14	397,82
Maharashtra	6	130,80	59,32	6	114,53	64,12	7	195,72	139,63	25	673,90	342,34
Dadra & Nagar Haveli	—	—	—	—	—	—	—	—	—	—	—	—
Goa, Daman & Diu	—	—	—	1	208,36	104,23	—	—	—	2	212,47	105,14
VI. Southern Region	**10**	**503,71**	**222,25**	**14**	**480,77**	**260,39**	**40**	**1171,44**	**929,77**	**71**	**2395,24**	**1483,05**
Andhra Pradesh	2	77,30	35,38	4	107,49	60,33	15	341,64	271,29	23	548,93	374,67
Karnataka	4	110,35	52,82	4	99,04	53,78	10	195,89	169,80	19	435,75	288,34
Kerala	3	282,05	119,30	3	164,57	86,81	5	204,76	159,63	12	764,24	391,62
Tamil Nadu	1	34,01	14,75	3	109,67	59,47	10	429,15	329,05	15	638,70	425,69
Lakshadweep	—	—	—	—	—	—	—	—	—	—	—	—
Pondicherry	—	—	—	—	—	—	—	—	—	2	7,62	2,73
ALL-INDIA	**66**	**1728,86**	**762,11**	**44**	**1136,48**	**609,92**	**105**	**2429,47**	**1929,87**	**355**	**8598,17**	**4206,71**

Regional Rural Banks

Establishment of RRBs during the year

2.79 Twenty nine new RRBs were set up during the year—12 in Uttar Pradesh, three each in Bihar, Madhya Pradesh and West Bengal, two each in Assam and Orissa and one each in Andhra Pradesh, Jammu and Kashmir, Manipur and Rajasthan. With the setting up an RRB in Manipur, it becomes the eighteenth State in the country where RRBs have so far been established. The total number of the RRBs functioning in the country was 102 covering 172 districts spread over 18 States, as at the end of June 1981, as against 73 RRBs covering 130 districts in 17 States, as at the end of June 1980 (Table 2.15). The RRBs now cover six out of 10 districts of Assam, 14 out of 16 districts in West Bengal, 10 out of 13 districts in Orissa, 25 out of 32 districts in Bihar and 30 out of 56 districts in Uttar Pradesh.

TABLE 2.15—STATE-WISE OFFICES OF REGIONAL RURAL BANKS

(As on June 30, 1981)

States	No. of RRBs	No. of Branches	No. of Districts
	1	2	3
1. Andhra Pradesh	5	349	10
2. Assam	3	63	6
3. Bihar	17	730	25
4. Gujarat	2	47	2
5. Haryana	2	106	5
6. Himachal Pradesh	1	31	3
7. Jammu & Kashmir	3	78	10
8. Karnataka	4	283	7
9. Kerala	2	185	4
10. Madhya Pradesh	12	305	21
11. Maharashtra	1	100	4
12. Manipur	1	—	6
13. Orissa	8	249	10
14. Rajasthan	5	245	10
15. Tamil Nadu	1	85	2
16. Tripura	1	31	3
17. Uttar Pradesh	27	514	30
18. West Bengal	7	197	14
Total	102	3,598	172

(*Source*: Rural Planning and Credit Cell, RBI).

2.80 The programme under the Sixth Five Year Plan is to have 170 RRBs covering 270 districts by March 1985.

Branch Expansion

2.81 As at the end of June 1981, the number of branches stood at 3,598 as against 2,678 a year before. Ninety per cent of the offices of RRBs have been opened in rural areas and unbanked centres. The RBI continued to give priority to the RRBs in the matter of opening of branches in rural areas.

Progress in lending

2.82 The deposits and advances of 84 reporting RRBs aggregated Rs. 223 crores and Rs. 274 crores, respectively, as on the last Friday of March 1981, as against Rs. 140 crores and Rs. 168 crores, respectively, reported by 65 RRBs as on the last Friday of March 1980. Advances to small/marginal farmers, landless labourers and rural artisans amounted to Rs. 157 crores, as at end-December 1980, and formed 69.2 per cent of the total advances as against Rs. 115 crores or 68.6 per cent, at the end of June 1980.

Refinance Facilities

2.83 The RRBs continued to avail of the refinance facility from the RBI introduced on October 1, 1976. During 1980-81 (July-June), limits aggregating Rs. 120 crores were sanctioned to 52 RRBs. The amounts drawn against these limits and outstanding as on the last Friday of June 1981 amounted to Rs. 111 crores.

2.84 Earlier, the share of the RRB, the RBI and the Sponsor Bank in the total lendings was fixed in the ratio of 15:50:35. The policy of refinance in respect of the RRBs for the year 1981-82 was reviewed during the year. Since some of the RRBs have shown their ability to mobilise sufficient resources, it has been decided that, while the ratio of RBI refinance would continue as before, *i.e.*, not exceeding 50 per cent of eligible loans of RRBs, the involvement of the RRBs should increase, at least in the case of such of those as have mobilised substantial resources. Accordingly, the RRBs which have deposits of Rs. 5 crores and above, as at the end of March 1981, should maintain their own involvement at not less than 25 per cent of their outstanding loans and advances while other RRBs may continue to maintain the persent level of 15 per cent. The RRBs have been advised to frame their projected lending programmes according to the allocations made in District Credit Plans. Further the RRBs have to make every effort for availing maximum refinance from (*a*) the ARDC on account of lower cost of funds charged by the latter and their project discipline and (*b*) the IDBI in view of the Automatic Refinance Facility available in respect of the financing of rural artisans and small/cottage industrial units.

2.85 The RRBs were advised in August 1980 to follow a flexible policy as before and consider requests for fresh loans from borrowers who are unable to pay their short-term agricultural loans for reasons beyond their control (besides natural calamities). Small and marginal farmers, who are the beneficiaries under the scheme, are also eligible for conversion facilities and the guarantee cover of the DICGC subject to certain stipulations. The RRBs were asked to sanction direct loans for non-agricultural purposes provided the pre-investment income of the prospective borrower did not exceed Rs. 4,000. As this limit was a major hurdle to provision or expansion of credit for non-agricultural purposes, particularly to the village and cottage industries sector, the GOI raised the limit to Rs. 6,500 with effect from June 1981.

2.86 The cash reserve ratio to be maintained by each RRB continues to be three per cent of its total demand and time liabilities for one more year commencing from October 2, 1980.

2.87 In the context of the need for the RRBs to attain viability as early as possible, they were advised that they should increase the availment of the ARDC refinance which will also enable them to take a schematic approach to lending. The RBI has also advised the sponsor banks to extend necessary technical assistance to the RRBs sponsored by them in the matter of preparation of bankable schemes for the purpose. The practice obtaining in the RRBs in levying service and other charges on loans granted to the weaker sections comprising small/marginal farmers, agricultural labourers, rural artisans, and the like was reviewed in consultation with the Steering Committee on RRBs and it was decided to allow the RRBs to recover/levy service and other charges in the manner indicated below.

1. Stamp Duty and Registration Fee on documents as required under State Laws.

2. Legal Charges (concerned with documentation)—actual legal charges but not exceeding Rs. 20 per loan case.

3. Once-for-all-service charges—Rupee one per account on loans exceeding Rs. 500

4. Other charges—Expenses connected with recovery proceedings.

However (*a*) cost of photographs of illiterate persons borrowing up to Rs. 5,000 and (*b*) inspection charges connected with pre- and post-sanction of loan cases should be borne by the RRBs.

2.88 The Steering Committee on RRBs constituted in the RBI continued to play its role in monitoring the progress of RRBs and guiding the RRBs on important policy matters by making suitable recommendations to the Government. During the year under review, three meetings of the Steering Committee were held. Apart from identifying districts for the establishment of RRBs during the first year of the VI Plan, the Committee deliberated on the ways and means for improving the viability of RRBs, coordination of the operations of the RRBs, particularly in dealing with staff problems on a State-wise basis, and on the special effort to be made by the RRBs in implementing the 20-Point Economic Programme. Action on the lines recommended by the Committee is being pursued.

State Level Coordination Committee for Regional Rural Banks

2.89 With a view to bringing about uniformity in certain matters and ensuring that administrative and staff problems of the RRBs located in a State are sorted out by internal consultations, the GOI have decided, in consultation with the Steering Committee, to set up State-level coordination committees for the RRBs located in each State. The Committee would, among other matters, consider and make recommendations to the Central Government on staff matters such as service rules, pay scales and extension of facilities, allowances, etc., available to the corresponding cadres of the State Government to the employees of the RRBs.

Differential Rates of Interest Scheme—Implementation through RRBs

2.90 With a view to helping the RRBs increase their loan business and to cater to the credit needs of the smallest among small borrowers, such as landless agricultural labourers, rural artisans, cottage and rural industries and beneficiaries of schemes for SCs/STs the RRBs have been permitted to grant loans to eligible borrowers at four per cent under the DRI Scheme. The Sponsor Bank would provide refinance to the RRB on the basis of the outstanding amount at two per cent per annum. The amount of advances to be disbursed through the RRB would be decided by the sponsor bank and the RRB at the beginning of each year.

Viability of RRBs

2.91 Mention was made in the last year's Report about the Study on Viability of Regional Rural Banks conducted by RBI. The study concludes that, on an average an RRB would require about six years and a network of 70 branches to become viable. For this it is necessary that it reaches an outstanding loan business level of Rs. 8 crores and also has a margin of about 5 per cent between its borrowing and lending rates. The emphasis on the RRBs' role in the IRDP to increase its over-all loan business, permission given to the RRBs to undertake other banking services, the recent upward revision in lending rates and the stress on utmost economy in all spheres of their expenditure are important steps in this direction of achieving viability.

2.92 With a view to making qualitative assessment of the performance of RRBs, the RBI has undertaken a study in respect of 11 Banks.

Credit Authorisation Scheme (CAS)

2.93 The CAS, which has been in operation since 1965, continued to play a significant role as an effective instrument of credit regulation in consonance with the Plan priorities, particularly against the background of the RBI's policy of keeping inflationary pressures under check. In view of the presistent inflationary pressures, the emphasis of the credit policy was on control over credit flow to the larger borrowers.

2.94 In examining cash credit and other working capital requirements, there was a need to improve the procedures of banks. On July 1, 1980, banks were asked to comply fully with the requirement of annual review of all credit limits as it was not being undertaken in several cases. In respect of credit limits of Rs. 1 crore and over (subsequently lowered to Rs. 50 lakhs and over), banks should determine the likely drawals for each ensuing quarter on the basis of the quarterly operating and funds flow statements to be obtained from borrowing units.

Working of CAS

2.95 During the period July 1980 to June 1981 the number of parties covered under the CAS rose from 1,093 to 1,177. These figures are inclusive of 199 public sector undertakings as against 192 as at the end of June 1980. Total limits in force relating to parties covered under the scheme were Rs. 14,427 crores at the end of June 1981 which showed an increase of Rs. 1,401 crores during the period. The share of public sector undertakings at Rs. 7,690 crores, (53.3 per cent of total) showed an increase of Rs. 564 crores and that of private sector at Rs. 6,732 crores by Rs. 837 crores.

2.96 The pattern of purpose-wise distribution of the total limits in force, as at the end of June 1981, remained more or less unchanged, 88.7 per cent being for working capital purposes including packing credit and bills (Rs. 12,798 crores), 8.6 per cent for term finance (Rs. 1,239 crores) and 2.7 per cent for sale of machinery on deferred payment basis (Rs. 390 crores).

2.97 Activity-wise, of the total limits, engineering, manufacture of chemicals/chemical products and cotton textiles claimed Rs. 2,371 crores (16.4 per cent), Rs. 1,133 crores (7.9 per cent) and Rs. 930 crores (6.5 per cent), respectively. Industry as a whole accounted for Rs. 8,759 crores or 60.7 per cent of the total limits. Of the total limits in force of Rs. 7,695 crores relating to the public sector, trading accounted for 53.1 per cent (the share of food procurement being 34.3 per cent and fertiliser distribution 8.0 per cent in the total), engineering 9.7 per cent, generation and distribution of electricity 5.5 per cent and petroleum industry 7.6 per cent.

Additional Credit Facilities and Gujarat Situation

2.98 As a result of civil disturbances in Gujarat, the functioning of clearing house in Ahmedabad and in certain other centres in the State was disrupted. With a view to mitigating the difficulties likely to be faced by the industrial firms, especially small-scale units, in realising cheques, drafts, etc., and ensuring that their normal manufacturing and trading activities were not hampered, banks were advised by the RBI on February 19, 1981, to consider sanctioning an *ad hoc* increase up to 10 per cent of the existing limits enjoyed by them, subject to a maximum of Rs. 25 lakhs per individual concern on merits for meeting their working capital requirements. In the case of parties covered under the CAS, banks were exempted from seeking prior authorisation of the RBI in respect of such *ad hoc* increase in limits but were required to report them to the Bank.

2.99 Following the representations from the Government of Gujarat as well as some representative bodies of trade and industry for sanction of additional *ad hoc* credit facilities, banks were advised again on March 25, 1981 to consider granting further *ad hoc* credit limits for the aforesaid purpose on merits, wherever required, to meet the situation, arising out of uncleared drafts and cheques, accumulation of finished goods, etc. In the case of parties covered under the CAS, banks were asked to expeditiously process the applications for such additional accommodation (that is to say, additional to the *ad hoc* limits up to the maximum of Rs. 25 lakhs as indicated earlier) and send the relative proposals for prior authorisation. The RBI agreed to deal with such applications on a priority basis. Consequent upon the restoration of normalcy in the operation of clearing houses, the additional *ad hoc* credit facilities were discontinued and banks were advised to take necessary steps to recover such *ad hoc* credit.

Term Lending by Commercial Banks

2.100 Data on term lending of commercial banks are given in Table 2.16. The total number of term loan accounts rose from 374 thousands at the end of June 1979 to 462 thousands at the end of June 1980. The percentage of term loan accounts to total number of all accounts increased from 35.7 at the end of June 1979 to 38.4 at the end of June 1980. During the same period, total credit limits went up from Rs. 3,879 crores to Rs. 4,849 crores. The outstanding term loans rose from Rs. 3,142 crores, at the end of June 1979, to Rs. 3,928 crores, at the end of June 1980, recording an increase of Rs. 25.0 per cent over the year. Outstanding term loans at the end of June 1980 constituted 21.3 per cent of total bank credit as against 18.7 per cent a year ago.

Commercial Banks' Participation in ARDC Programmes

2.101 The lending of commercial banks through the schemes/projects for which refinance was available from the ARDC increased further

TABLE 2.16—SCHEDULED COMMERCIAL BANKS' TERM LOANS (OUTSTANDING), 1976-80

(Rupees Crores)

As on last Friday	No. of Accounts		Credit Limit		Amount outstanding		Total Bank credit (outstanding) excluding food procurement advances
	Term Loans	Total of all accounts	Term Loans	Total Bank Credit	Term Loans	Total Bank Credit	
	1	2	3	4	5	6	7
December 1976	220,148 (31.6)	696,927	2,205 (12.5)	17,701	1,765 (15.1)	11,721	9,555 (18.5)
June 1977	237,278 (32.3)	733,578	2,337 (12.6)	18,503	1,964 (16.3)	12,064	9,528 (20.6)
December 1977	271,610 (33.8)	803,602	2,611 (12.9)	20,163	2,171 (16.1)	13,456	11,100 (19.6)
June 1978*	302,244 (34.8)	869,280	3,194 (14.6)	21,914	2,516 (17.8)	14,145	11,620 (21.7)
December 1978*	332,732 (34.3)	970,053	3,490 (15.8)	22,164	2,765 (17.8)	15,505	13,121 (21.1)
June 1979*	373,794 (35.7)	1047,325	3,879 (15.8)	24,487	3,142 (18.7)	16,826	13,830 (22.7)
December 1979*	420,848 (37.0)	1138,517	4,428 (17.3)	25,639	3,640 (20.4)	17,854	15,155 (24.0)
June 1980*	461,923 (38.4)	1201,912	4,849 (18.0)	26,952	3,928 (21.3)	18,426	16,016 (24.5)

* Provisional.

Note : 1. Data relate to accounts with credit limit over Rs. 10,000.
2. Figures in brackets given under cols. 1, 3 and 5 indicate percentages of term loans to totals reported in cols. 2, 4 and 6, respectively.
3. Figures in brackets under Col. 7 indicate percentage of term loans under col. 5 to total in Col. 7.

(*Source:* Basic Statistical Returns)

during the period under review. As on March 31, 1981, the ARDC sanctioned 10,534 schemes to commercial banks (inclusive of 169 schemes to the RRBs) involving a total financial assistance of Rs. 2,171 crores (inclusive of Rs. 48 crores for the RRBs). Of this the ARDC's commitment was to the extent of Rs. 1,745 crores (inclusive of Rs. 41 crores for the RRBs). The disbursements made by the ARDC to commercial banks up to March 31, 1981 amounted to Rs. 886 crores (inclusive of Rs. 16 crores to the RRBs). Minor irrigation and farm mechanisation schemes continued to account for a major share in the schemes implemented with ARDC assistance by commercial banks. The number of schemes refinanced and amounts disbursed thereunder to commercial banks were 4,930 and Rs. 584 crores, respectively, at the end of March 1981.

Recovery of Direct Agricultural Advances

2.102 The all-India percentage of recovery to demand in respect of direct agricultural advances granted by the public sector banks which was 50.2 per cent, as at the end of June 1978, improved marginally to 52.2 per cent, as at the end of June 1979. Similarly, the proportion of recoveries to demand of all Indian scheduled commercial banks also went up from 51.2 per cent, as at the end of June 1978, to 53.1 per cent at the end of June 1979.

(b) SPECIAL CREDIT SCHEMES/FACILITIES

(1) *Differential Rates of Interest (DRI) Scheme*

2.103 Lending under DRI Scheme by public sector banks made further progress during the period July 1979 to June 1980. While the number of borrowal accounts rose by 396 thousands from 1834 thousands to 2230 thousands, the amount of loans outstanding in these accounts went up by Rs. 41 crores from Rs. 114 crores to Rs. 155 crores.[1] The average amount of loan per account also increased from Rs. 619 at the end of June 1979 to Rs. 695 at the end of June 1980. There was also an improvement in the coverage of SC/ST borrowers under the Scheme. Thus, the number of borrowal accounts, which stood at 754 thousands, at the end of June 1979, went up to 961 thousands at the end of June 1980. Correspondingly, the amount of loan outstanding also rose from Rs. 47 crores to Rs. 69 crores. The percentage of DRI advances outstanding, at the end of June 1980, to total advances, at the end of December 1979, constituted 0.8 per cent as against the target of 1 per cent. The percentage of outstanding advances to SCs/STs to total advances under the Scheme increased from 42 in June 1979 to 44 in June 1980 (as against the target of 40 per cent).

2.104 Advances under the Scheme made by banks in private sector (excluding 6 newly nationalised banks) under 10,364 borrowal accounts amounted to Rs. 89 lakhs as at the end of June 1980, of which an amount of Rs. 35 lakhs under 3,917 borrowal accounts was issued to members of SC/ST, constituting 39 per cent of the total as against the stipulated target of 40 per cent.

2.105 The DRI Scheme was modified to allow sponsor banks to route the DRI advances through RRBs on refinance basis also, in addition to routing of such advances on agency basis. The refinance to RRBs would carry a rate of interest at 2 per cent per annum and the amount of refinance so provided could be taken into account by sponsoring banks for the purpose of the target of 1 per cent of the lendings under the Scheme.

2.106 The maximum amount of loan under the Scheme does not exceed Rs. 1,500 for working capital and Rs. 5,000 for term loans and the rate of interest to be charged by banks is 4 per cent. Recently, the GOI have agreed that in the case of small-scale industries, village artisans

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1. These are exclusive of the data for six banks nationalised on April 15, 1980. If the figures for these banks are also included the number of accounts was 2253 thousands and the amount of loan outstanding Rs. 158 crores, as on the last Friday of June 1980.

etc., in the decentralised sector advances under the Scheme may be granted up to Rs. 6,500 by way of composite loan without making any further distinction between working capital and term loan. The GOI have asked the NIBM to undertake a study of the DRI Scheme.

(2) *Sick Industrial Undertakings*

2.107 The Sick Industrial Undertakings Cell in the RBI continued to monitor the banks' performance in identifying sick units and taking remedial action. Besides, it continued to co-ordinate the efforts of banks, financial institutions, Government and other agencies in the rehabilitation of sick units. It also convened meetings of banks and financial institutions to discuss the problems of specific sick units.

2.108 The problems relating to the rehabilitation of sick industrial units were discussed with the Union Deputy Finance Minister at a meeting held on January 10, 1981 and an action programme was chalked out on matters relating to (*i*) legal and taxation difficulties faced by banks and financial institutions in their efforts to revive sick units, (*ii*) periodical returns from small borrowers which would help in diagnosing incipient sickness, (*iii*) exchange of information on borrowers, (*iv*) setting up of a high-level forum to consider cases of sick units and (*v*) strengthening of the organisational set-up in banks and financial institutions for handling sick accounts. Follow-up action for setting up Committees and Groups for examining the above issues further has been taken by the RBI, IDBI and IBA.

2.109 As stated in the last Report, State Level Inter-Institutional Committees (SLIICs) have been constituted at all centres where the Department of Banking Operations and Development (DBOD) of the RBI has regional offices. The Committees, besides providing a useful forum for exchange of information and discussion on the problems faced by the small-scale and medium-scale industrial units and small entrepreneurs, would, *inter alia*, deal with the problems relating to (*i*) co-ordination between banks and financial institutions, (*ii*) provision of adequate infrastructural facilities to industrial units and (*iii*) general problems relating to grant of credit to such units. With the setting up of the SLIICs, the RBI has requested the concerned State Governments to wind up the State Level Co-ordination Committees (SLCCs) which were set up by them and also to abolish the Sub-Committees, if set up, for rehabilitation of sick and closed small units in each DIC headquarters.

2.110 The Standing Co-ordination Committee set up to secure on-going co-ordination between banks and term lending institutions took certain decisions on September 15, 1980 regarding the rehabilitation of sick units. According to these decisions, a unit can be considered as viable if it is in a position to service its debts in about 8 to 10 years; the rate of interest charged could be concessional but not below the minimum lending rate prescribed by the RBI and in no case below the cost of funds to banks. Cash losses may be determined before charging depreciation as also interest due to banks and term lending institutions. In case where the IDBI's involvement is considered necessary by banks for the rehabilitation of a unit, the cash losses incurred by the unit before the rehabilitation move was initiated, as well as the losses incurred up to a period of six months or so from the date of reference to IDBI for preparation of rehabilitation programme, should continue to be financed by banks; cash losses subsequent to this period should form part of the rehabilitation package prepared by the IDBI. The interest on fresh term loan, interest on fresh working capital borrowings and the interest on the existing working capital finance (excluding the irregular portion funded) will have to be treated on an equal footing and given priority for repayment over the interest on current term loan and the funded portion of existing working capital finance. As security for the funded portion of interest on cash credit account, banks may be given a second charge on fixed assets. In respect of the irregular portion of cash credit account transferred to a separate term loan account and the term loans given to cover cash losses during the period of rehabilitation, as also the existing term loans, *pari passu* first charge on fixed assets may be given to banks.

2.111 The statement (for the quarter ended December 1979) submitted by banks on sick units enjoying bank credit limits of Rs. 1 crore and above from the banking system revealed that the number of sick units in this category was 378 involving aggregate bank credit of Rs. 1,158 crores as compared to 345 units with an outstanding amount of Rs. 1,102 crores, as at the end of June 1979.

2.112 In pursuance of the decisions of the High Power Committee (1978), banks are required to submit to the Reserve Bank quarterly progress reports giving aggregate information on all sick units, with data on sick SSI units being given separately. According to this information for the quarter ended June 1980, 22,355 small-scale units involving aggregate bank finance of Rs. 295 crores have been identified as sick. Out of these, 4,883 units are considered by banks as viable and 10,964 units as non-viable. Out of 4,883 viable sick SSI units, 2,082 units have been put under nursing programmes.

(3) *Credit Facilities to Scheduled Castes/Scheduled Tribes*

2.113 In the Sixth Plan and in special programmes like the IRDP emphasis has been laid on the welfare of the SCs/STs. In this context, banks were advised in April 1981 to ensure that their credit planning takes into account the needs of these communities and that special bankable schemes suited to them drawn up. Banks have also to take the following additional measures for ensuring a larger flow of credit to these communities.

(*a*) Loan proposals of SC/ST should be considered with utmost sympathy and understanding and disposed of expeditiously.

(*b*) While "adopting" villages for intensive lending, villages with sizeable population of SC/ST may be specially chosen or, in the alternative, banks may consider adopting specific localities (*basties*) in the concerned villages which have a concentration of these communities.

(*c*) Special efforts to evolve suitable bankable schemes for weaker sections, including members of these communities should be made and

(*d*) A periodical review of the credit extended to these communities, on the basis of returns and other data received from branches, should be undertaken.

(4) *Credit for Petroleum Industry*

2.114 An important development during the year was the emergence of oil industry as a major user of bank credit. The comfortable surplus funds position enjoyed by the oil industry prior to 1978 was upset by a sea change occurring in the international oil market mainly due to two factors, *viz.*, (*i*) continuing hike in the price of crude oil and petroleum products made by oil producing countries and (*ii*) gradual cutting down of the period of credit from 180 days to just 30 days by the suppliers. As a result, not only have the entire funds of oil companies been wiped off but their requirements of credit have also been rising steeply. The RBI has been holding meetings from time to time with the representatives of oil companies and bankers in order to assess the requirements of the former and the extent of availability of credit. In accordance with the decisions taken at these meetings proposals for finance have been authorised by the RBI under the CAS from time to time. The outstanding level of petroleum credit reached a peak of Rs. 916 crores in April 1981 as compared to the peak of Rs. 405 crores in April 1980. The outstanding petroleum credit stood at Rs. 687 crores as on June 26, 1981 as against Rs. 378 crores a year ago.

(5) *Bank Advances for Fertiliser Distribution*

2.115 Following the increase in the prices of fertilisers by about 38 per cent made by the GOI with effect from June 8, 1980, suitable guidelines were issued to banks on July 15, 1980, for examining the requests of the fertiliser distribution agencies for increase in credit limits in order to ensure that their activities continued uninterruptedly. The guidelines lay emphasis, *inter alia*, on specific aspects, *viz.*, increased cash generation consequent on the rise in selling prices of fertilisers, credit terms for sales and purchases, period of stocking before the actual sales, end-use of credit, interchangeability in limits, etc., to be kept in view by them while examining the requests of agencies. The banks were also asked to deal with the applications expeditiously in order to ensure the timely availability of fertilisers to farmers.

(6) *Additional Credit to Jute Industry*

2.116 With a view to conforming to the orders of the Jute Commissioner directing the jute mills to raise raw jute inventory, banks were permitted in October 1980 to make available credit facilities to jute mills to carry inventory of raw jute equivalent to : (*a*) 10 weeks' consumption through normal purchases in terms of Tandon Committee norms; (*b*) four weeks' consumption through exclusive purchases from the Jute Corporation of India; and (*c*) additional two weeks' consumption through normal purchases for a period till end-January 1981. After discussions with the Jute Corporation of India, credit facilities in respect of item (*b*) were initially allowed till the end of December 1980 and subsequently till the end of September 1981.

(7) *Rural Electrification Schemes for Energisation of Pump-Sets*

2.117 The position in regard to planned participation by banks in the Rural Electrification Schemes for the energisation of pump-sets was reviewed in the light of their performance during the last two years. It is expected that during April 1981-March 1982 schemes with financial outlay to the extent of about Rs. 120 crores [*i.e.*, Rs. 40 crores from each of the three participating agencies—banks, the ARDC and Rural Electrification Corporation (REC)] would be implemented and the cumulative disbursements for each of these three agencies would be around Rs. 50 crores. The banks were advised on August 8, 1980, to make adequate provision for this purpose in their annual credit budgets.

(8) *Advances to Small-Scale Industrial Units*

2.118 The GOI increased the limit of investment in plant and machinery in the case of

(*i*) tiny units from Rs. 1 lakh to Rs. 2 lakhs

(*ii*) small-scale units from Rs. 10 lakhs to Rs. 20 lakhs and

(*iii*) ancillaries from Rs. 15 lakhs to Rs. 25 lakhs. Accordingly, banks were advised in February 1981 that all advances to small-scale units, coming under the new definition, will be treated as 'priority sector' advances. However, for the purpose of monitoring the performance in this behalf, banks were advised to maintain and report, separately, the information relating to the advances to units with investment in plant and machinery above Rs. 10 lakhs to Rs. 20 lakhs (above Rs. 15 lakhs to Rs. 25 lakhs in the case of ancillaries).

(9) *Housing Finance*

2.119 The over-all quantum of funds for housing finance activities to be provided by the banking system during 1981 is estimated at Rs. 100 crores constituting approximately 0.43 per cent of total advances of all scheduled commercial banks as at the end of 1980. The individual banks should assess their own involvement based on an over-all assessment in extending finance for 'housing' purposes. Within the amount stipulated, the banks have been asked to earmark (*i*) Rs. 75 crores for subscription to the *guaranteed* bonds and debentures of HUDCO and State Housing Boards, (*ii*) Rs. 15 crores for advancing to individuals/groups of individuals belonging to SCs/STs and economically weaker sections of the community, and (*iii*) Rs. 10 crores for providing either direct finance to borrowers of other categories or for providing funds (not exceeding Rs. 5 crores) to Housing Development Finance Corporation Ltd., (HDFC) for on-lending to middle income borrowers. The funds lent to HDFC are to be utilised for implementing specific schemes where the quantum of loan per borrower does not exceed Rs. 50,000 and bank finance does not exceed 50 per cent of the cost of the house.

Rate of interest

2.120 The rates of interest to be charged on advances for housing finance are given in Appendix 1.

Margin

2.121 For direct loans to SCs/STs, economically weaker sections and low income groups, banks should continue to provide housing finance up to 80 per cent of the total cost, provided the loan amount does not exceed Rs. 5,000. In other cases (including loans routed through HDFC) housing finance provided by banks should not normally exceed 50 per cent of the total cost of the project.

Priority Sector Advances and Housing Finance

2.122 The banks were advised that housing finance falling under the following categories could be treated as priority sector lending :

(*a*) *Direct Finance :* Loans up to Rs. 5,000 each for construction of houses granted to SCs/STs and other weaker sections of the society irrespective of whether they are covered by DICGC or not.

(*b*) *Indirect Finance :* (*i*) Assistance given to any Governmental agency for the purpose of constructing houses exclusively for the benefit of SCs/STs and low-income groups and where loan component does not exceed Rs. 5,000 per unit, (*ii*) Assistance to any Governmental agency for slum clearance and rehabilitation of slum dwellers subject to other conditions specified above.

(10) *Assistance by Banks to People affected by Natural Calamities, Disturbances, etc.*

2.123 It was stated in the last Report that the GOI/IBA had issued model guidelines to banks for relief measures to be taken in case of natural calamities like floods, droughts, etc. During the period under review, following disturbances and damage to life/property in Tripura and Jammu and Kashmir and Moradabad/Aligarh/Allahabad in Uttar Pradesh, banks operating in these States were advised to follow broadly the afore-mentioned guidelines for extending rehabilitation assistance to the affected persons.

(11) *T. T. Discounting Facility*

2.124 The telegraphic transfer discounting facility to the scheduled commercial banks under the revised arrangement which came into force effective November 1, 1975, has been extended for a further period of one year, i.e., upto the end of October 1981 (For details see Appendix 2). The number of scheduled commercial banks, which have been sanctioned telegraphic transfer discounting limits, under the relative scheme, stands at 42.

(12) *Village Adoption Scheme*

2.125 The Village Adoption Scheme was reviewed during the year with a view to removing certain misconceptions observed in the implementation of the Scheme and necessary clarifications issued to banks. Banks were advised that the adoption of villages by a bank shall only mean that it has declared its intention to do intensive lending in the area and this does not preclude other banks from financing in that area. It is for the bank adopting the village to take special interest in the development of the village in coordination with other lending agencies functioning in that area. The spirit behind the multi-agency approach was once again emphasised.

2.126 As at the end of June 1980, banks had adopted 101,725 villages and financed 3.08 million accounts involving an amount of Rs. 731 crores (outstanding) as against 89,242 villages and 2.7 million accounts involving Rs. 640 crores, as at the end of December 1979.

(13) *Lead Bank Scheme*

2.127 The High Power Committee (HPC) on the working of the Lead Bank Scheme which met twice during the year considered, *inter alia*, the following issues.

Second Round of Training Programme for Government Officials and Bank Executives

2.128 It may be recalled that the lead banks/State level convenor banks were advised to complete the first round of district/State level workshops for bringing about an understanding of the aims and objectives of the Lead Bank Scheme among the bank executives and government functionaries by the end of December 1979. The first round of district/State level workshops has since been completed. Training and motivation have to be a continuous process in developmental strategies such as the Lead Bank Scheme. As decided by the HPC, the lead banks have been advised to organise the second round of two-day District Level Workshops/Review Meetings (DLRMs). The focus in the second round of the training programme will be on identifying the problems in implementation of the DCPs and fixing the responsibilities for resolving the problems. The follow-up action taken on the decisions in the first round of the workshops will also be reviewed in the second round of the workshops (review meetings). The banks have been asked to take early steps to ensure that the DLRMs are held in all the lead districts by the end of September 1981.

2.129 Similar two-day workshops/review meetings will be organised at State Level by the convenors of the State Level Bankers' Committees. The State Level Review Meetings (SLRMs) will be held soon after the DLRMs are held in all or most of the districts in the State so that the feedback from the DLRMs could also be considered at the SLRMs. The entire programme of SLRMs is to be concluded by the close of the year 1981.

Improving the technical content of the DCPs—Seminars

2.130 The HPC also reviewed the question of preparation of the DCPs to identify the existing gaps and lacunae in the methodology and data in order to make district credit planning more realistic. In the light of the discussions, seminars on a regional basis were held in April-June 1981 to discuss the question of improving the technical content of the DCPs. The NIBM will consolidate the conclusions of these regional seminars so that the various State Governments may have the benefit of the issues thrown up in all the seminars. The consolidated report will be then discussed in a meeting of the economists of the lead banks and thereafter it will be considered in separate State level meetings for finalisation of district manuals relevant for each of the States. These manuals would be useful for the preparation of DCPs for the next round, i.e., from 1983 onwards.

Information System under the Lead Bank Scheme

2.131 The new information system proposed by the Sub-Committee was approved by the HPC in its meeting held in December 1979 and the new formats were put into use with effect from the quarter ended March 1980. Subsequently the RBI appointed two Working Groups, one to examine and report on the modalities of implementation of the Priority Sector Lending and the 20-Point Programme by banks and the other to review the system of data collection for monitoring banks' advances to priority sectors and 20-Point Programme. The latter Working Group slightly modified the formats devised earlier by the HPC, taking into consideration the concepts regarding priority sector and weaker sections thereof according to the recommendations of the former Working Group. Formats for monitoring the performance of banks under 20-Point Programme were also devised. The recommendations of the former Working Group have been accepted and conveyed to the banks for implementation; the formats as modified or newly devised by the latter Working Group have been introduced with effect from the quarter ended December 1980. The detailed guidelines on the various items appearing in the formats have also been circulated to all the participating credit institutions.

Involvement of Top Management

2.132 The Bank has been streamlining the procedures under the Lead Bank Scheme from time to time by issue of circulars in the light of the decisions of the HPC. Involvement of the top management of banks in the implementation of the Scheme is important. It was, therefore, felt that it might be desirable to discuss the relevant issues with bankers particularly to ensure that the information system stabilises soon. The Bank held discussions with the Chairmen of banks and the Senior Executives concerned with the Lead Bank Scheme in two meetings convened for the purpose.

Lead District Officers

2.133 With the allotment of four to five districts each to the officers of the RBI designated as Lead District Officers (LDOs), who are entrusted with the task of monitoring the preparation and implementation of DCPs and the over-all developmental activities in the district allotted to them, a second round of seminar was organised at Bombay, Calcutta, Madras and New Delhi in November and December 1980, for the purpose of getting a first-hand account of their experiences and problems in the various districts. Various important issues raised by the participants in the meetings regarding their functioning at the field level were duly clarified.

Lead Bank Scheme for Sikkim

2.134 Lead Bank Scheme has been extended to the State of Sikkim and State Bank of Sikkim has been designated as the lead bank in respect of all the four districts of the State. United Commercial Bank (which has been associated with State Bank of Sikkim, since its inception and holds at present 24.6 per cent of its share capital) and State Bank of India have agreed to extend all necessary assistance to the lead bank to enable it to take over this new responsibility.

2.135 The Government of Kerala have formed a new district, *viz.*, Wynad, comprising North Wynad and South Wynad Taluks of Kozhikode District with effect from November 1, 1980. The lead responsibility in respect of the Wynad district has been assigned to Canara Bank.

2.136 The lead responsibility of the 14 Districts in Jammu and Kashmir was with State Bank of India. It has since been decided that, from

January 1981, the Jammu and Kashmir Bank Ltd. will be the lead bank in respect of four districts, *viz.*, Rajouri, Poonch, Kupwara and Baramulla, in the State. Government of Arunachal Pradesh have re-organised the five existing districts of the Union Territory into nine districts with effect from June 1, 1980. The names of re-organised districts are West Kameng, East Kameng, Lower Subansiri, Upper Subansiri, West Sieng, East Sieng, Lohit, Dilbarg Valley and Tirap. It has been decided that State Bank of India which had the lead responsibility in the Union Territory will continue to be the lead bank in respect of the newly formed districts.

Allocation of Shares of Credit in the Credit Plans/Annual Action Plans

2.137 In the light of experience gained in the preparation and implementation of the DCP 1980-82/AAP 1980, certain clarifications were issued to the banks in January 1981 as mentioned below.

2.138. It was advised that shares in the Credit Plans/Annual Action Plans allocated in the DCC meeting convened for the purpose would represent the shares allocated and accepted by the respective banks and it would be open to the bank concerned to distribute the share to its branches in the district keeping in view the potential for lending in respect of different schemes and for different purposes as also the location-specific nature of the schemes required to be implemented. While doing so, the banks should bear in mind the need to have a reasonably even spread of the shares in the Credit Plan among their branches in the rural and semi-urban areas to the extent possible so that the regional imbalances in credit deployment are corrected.

2.139 A suggestion to integrate the shares in the Annual Action Plan allocated to a branch into its performance budget was made to banks in order that the branch managers may not have to pursue two sets of targets to be achieved during a given period. Certain banks expressed difficulties in integrating the shares in the credit plans with branch budgets as the former is in terms of disbursements (in the case of loans) and the latter in terms of outstandings. The view that emerged after discussions with certain bankers was that it would be possible for banks to arrive at the year-end outstanding figures for the branch performance budget by adding up the balance outstanding at the beginning of the budgeting period, new disbursements to be made during the period covered by the budget and interest to be debited and outstanding during the relevant period and by deducting the aggregate of recoveries expected to be made from this total. While this would be the approach in the case of loan accounts, as regards the cash credit limits, banks would know from experience to what extent such limits in force are likely to be drawn by the borrowers.

Role of District Authorities

2.140 The RBI has been continuously watching the performance of the DCCs and issuing instructions from time to time, for improving their functioning. The various aspects of the functioning of the DCCs on which instructions were issued to banks were brought to the notice of the State Governments for their guidance in March 1981. It was emphasised that the effectiveness of the DCC depends considerably on the role of the District Collector/Magistrate and the co-operation extended by the district functionaries. The State Governments were requested to issue suitable instructions to the District Collectors/Magistrates.

Feedback at DCC Meetings

2.141 The credit plan prepared for each district spells out the role to be played by the district authorities, as also by the banks, if the implementation of the DCP has to be successful. A system has already been evolved whereby banks are reporting the action taken by them to the DCC. All the State Governments were advised in January 1981 that it would be useful if district authorities also commenced reporting to the DCC every quarter about the steps taken by them, *e. g.*, to provide infrastructural facilities and inputs, extension services, assistance in recovery of advances, etc. Such a periodic feedback to all the DCCs will facilitate better co-ordination of activities of the development agencies and the credit institutions. The State Governments have been requested to advise all the District Collectors/Magistrates suitably in the matter.

Organisational set up at the District Level

2.142 Though non-lead banks had been advised to designate District Co-ordinators for each district, it was found that the progress in the matter was tardy; even where District Co-ordinators had been designated, they were not able to play an effective role due to inadequate staff support, their preoccupation with day-to-day duties at the branch and certain administrative bottlenecks. In the circumstances, non-lead banks particularly, those having a larger number of branches, *i.e.*, say five or more branches, were advised to create a Lead Bank Cell under the charge of the District Co-ordinator and attend to all matters arising out of the Lead Bank Scheme. Further, adequate staff, including technical staff, and other facilities for an individual branch or on a pool basis depending upon the circumstances, should be provided to the Cell to enable it to function effectively.

District Credit Plans

2.143 District Credit Plans (DCPs) and Annual Action Plans 1980 (AAPs) were formulated in 390 districts. The DCPs and AAPs 1980 could not be formulated for 7 districts in the North-Eastern Region due to factors beyond the control of the lead banks.

2.144 The deficiencies noticed in the preparation of DCP 1980-82 and AAP 1980 were pointed out to banks with a view to ensuring non-recurrence of these in AAP 1981. In the implementation of District

Credit Plans, banks are facing basic problems like lack of infrastructural facilities in the districts. This hampers the efforts of banks to increase their lendings to the weaker sections of the population. This problem is being constantly discussed at DCC meetings where the District Collector is the presiding authority and efforts are being made to overcome the difficulties. Banks are also facing staff constraints at the branch level, particularly the field staff. This problem persists partly due to the slow pace of recruitment by the Regional Recruitment Boards. The other operational difficulties in the implementation of schemes arise in matters relating to disbursal of subsidies, provision of supportive activities and identification of borrowers. The problem of recovery of advances has been yet another major constraint in the lending operations of banks in the rural areas; in particular the position of District Co-operative Banks and Land Development Banks has been adversely affected.

2.145 While DCP 1980-82 serves as a broad framework of the credit programme for the three-year period, the AAP is expected to delineate concrete credit schemes to be taken up for implementation. Pointing this out the RBI advised the lead banks that unless specific action-oriented plans are drawn up, it would be difficult to pinpoint the responsibility for non-fulfilment of the goals.

2.146 Following the recommendations of the Working Group on the Modalities of Implementation of Priority Sector Lending and the 20-Point Economic Programme by Banks, the banks were advised to make adequate provision for financial assistance in the DCPs as well as in the AAPs 1981 and 1982 for the beneficiaries under the 20-Point Programme and the lead banks were asked to formulate viable credit schemes in consultation with the State development departments/agencies for them.

2.147 With the extension of the IRDP to all the blocks in the country since October 1980, the GOI decided to merge the existing SFDA and DPAP agencies and reconstitute it as a District Rural Development Agency (DRDA). A new DRDA would be set up where SFDA and DPAP do not now exist. This Agency has been entrusted with the responsibility of monitoring the formulation and implementation of IRD Programmes in the district. The lead banks were asked to take the initiative in the preparation of banking plans, in line with the guidelines of the ARDC, for implementation of the IRD Programmes. They are to be drawn up covering all activities to be undertaken under the IRD Programme during the calendar years 1981 and 1982. The various schemes covered in such plans are to be included in the AAPs for the respective years with the outlay earmarked for the Programme shown separately. These banking plans will be finalised by the Standing Committee of the DCC and approved by the latter.

2.148 The banking plan of each block should clearly specify the schemes under each sector so that the purposes eligible for refinance can be straightaway taken up by ARDC for sanction. The ARDC will treat the banking plan itself as the scheme and sanction refinance to the participating banks in respect of loans given for agriculture and allied activities. The Regional Office of the ARDC would also be invited to attend the meetings of both the Standing Committee and the DCC where the banking plan for the IRD Programme is being considered.

2.149 Presently, the lead banks are engaged in the work relating to the preparation/implementation of AAP 1981. According to the information received as at the end of May 1981 from 23 lead banks, which have been assigned the lead responsibility of 299 districts, AAPs for 1981 have been prepared and approved by the Standing Committee/DCC in respect of 252 districts out of 397 districts and of them, 224 AAPs 1981 have already been launched for implementation.

V. BRANCH EXPANSION—POLICY AND PROGRESS

Objectives and Progress

2.150 The branch licensing policy formulated in September 1978 for the three-year period 1979-81 covered the period under review. The focus of the policy was on the expansion of banking facilities in deficit areas, *i.e.*, areas with population per bank office higher than the national average of 20,000 as at the end of June 1978, and the reduction of inter-State and inter-district disparities in this regard. The process of allotment of rural and semi-urban centres identified by the various State Governments for locating the additional branches to be opened continued during the year. Since January 1, 1979 till June 30, 1981 authorisations for opening 8,990 offices in rural and semi-urban areas were issued to banks. The relatively underbanked States like Assam, Uttar Pradesh, Bihar, Madhya Pradesh, Orissa, Rajasthan and West Bengal continued to receive special attention. Out of the total authorisations issued for opening offices in rural and semi-urban areas, referred to above, 5,754 authorisations, forming 64.0 per cent of the total, were in respect of these States. As of June 30, 1981, banks were holding authorisations for opening offices at 5,366 centres. Instructions were issued to the banks to ensure that arrangements for opening offices at all the rural and semi-urban centres for which they were holding authorisations were finalised positively before the end of June 1981 so that any carry-over beyond 1981 would be avoided.

2.151 During the calendar year 1980, commercial banks opened 3,033 offices as compared with 2,058 in the previous year. The national average per bank office which was 65,000 at the end of June 1969 and 20,000 as at the end of June 1980, declined further to 19,000 at the end of June 1981 (Table 2.17).

2.152 During the period July 1980 to June 1981, the total number of offices of commercial banks rose from 32,419 to 35,706. During 1980-81 the banks opened 3,291 offices as against 2,224 offices in the previous year, *i.e.*, from July 1979 to June 1980 (Table 2.17). Of the 3,291 new offices

TABLE 2.17—STATE-WISE DISTRIBUTION OF BANK OFFICES AS AT THE END OF JUNE 1969, JUNE 1980 AND JUNE 1981

State/Union Territory	No. of offices as at the end of June 1969	No. of offices as at the end of June 1980	No. of offices as at the end of June 1981	Opened during 1979-80 (July 1979 to June 1980)	Of which at un-banked centres	Opened during 1980-81 (July 1980 to June 1981)	Of which at un-banked centres	Population per bank office (in thousands) as at the end of June 1969	Population per bank office (in thousands) as at the end of June 1980	Population per bank office (in thousands) as at the end of June 1981
	1	2	3	4	5	6	7	8	9	10
Andhra Pradesh	567	2,477	2,762	112	91	287	216	75	21	19
Assam	74	466	507	20	12	41	33	198	43	39
Bihar	273	1,907	2,394	313	282	487	429	207	35	29
Gujarat	752	2,243	2,363	82	67	120	64	34	15	14
Haryana	172	746	810	27	21	64	45	57	16	16
Himachal Pradesh	42	324	369	12	9	45	36	80	13	11
Jammu & Kashmir	35	394	459	23	19	65	52	114	15	13
Karnataka	756	2,636	2,792	106	74	158	97	38	13	13
Kerala	601	2,191	2,340	93	74	149	101	35	12	11
Madhya Pradesh	343	1,842	2,177	216	176	335	303	116	28	24
Maharashtra	1,118	3,320	3,631	207	134	311	230	44	18	17
Manipur	2	35	37	—	—	2	1	497	41	39
Meghalaya	7	55	59	2	1	4	3	147	24	23
Nagaland	2	35	40	2	2	5	4	205	20	19
Orissa	100	815	968	97	84	153	129	212	33	27
Punjab	346	1,544	1,592	75	59	48	22	42	11	10
Rajasthan	364	1,471	1,638	154	108	167	106	70	22	21
Sikkim*	..	..	2	—	—	2	1	..	..	158
Tamil Nadu	1,060	2,814	3,016	141	104	202	142	37	17	16
Tripura	5	77	85	8	5	8	2	276	27	24
Uttar Pradesh	747	3,740	4,128	370	313	388	264	119	28	27
West Bengal	504	2,040	2,233	131	85	193	149	87	27	24
Andaman & Nicobar Islands ..	1	12	12	—	—	—	—	82	16	16
Arunachal Pradesh	—	19	22	2	2	3	3	—	33	29
Chandigarh	20	78	80	1	1	2	—	7	6	6
Dadra & Nagar Haveli ..	—	4	6	—	—	2	1	—	26	17
Delhi	274	837	872	18	3	35	18	10	7	7
Goa, Daman & Diu	85	232	244	7	5	12	8	8	5	4
Lakshadweep	—	5	5	—	—	—	—	—	8	8
Mizoram	—	12	12	—	—	—	—	—	41	41
Pondicherry	12	48	51	5	4	3	2	31	13	12
TOTAL	**8,262**	**32,419**	**35,706**	**2,224**	**1,735**	**3,291**	**2,461**	**65**	**20**	**19**

Note: 1. 7 offices were closed during the period July 1979 to June 1980.
2. 4 offices were closed during the period July 1980 to June 1981.
3. The average population per bank office is based on (i) 1961 census for June 1969, (ii) estimates of mid-year population for June 1980 except in the case of Union Territories for which it is based on 1981 census and (iii) 1981 census for June 1981.

* Sikkim became a full-fledged State of the Indian Union with effect from April 26, 1975.
.. Not available.

opened during the period, 577 offices were opened by SBI and its associate banks, 1,532 by 20 nationalised banks, 259 by private sector banks, three by foreign banks and 920 by RRBs (Table 2.18).

TABLE 2.18—BANK GROUP-WISE DISTRIBUTION OF OFFICES OPENED DURING 1979-80 AND 1980-81

Bank Group	New Offices opened by commercial banks						Bank offices as on			No. of banks as on		
	1979-80			1980-81								
	July-Dec. 1979	Jan.-June 1980	July-June 1979-80	July-Dec. 1980	Jan.-June 1981	July-June-1980-81	June 30, 1980	Dec. 31, 1980	June 30, 1981	June 30, 1980	Dec. 31, 1980	June 30, 1981
	1	2	3	4	5	6	7	8	9	10	11	12
1. State Bank of India ..	117 (77)	125 (77)	242 (154)	280 (171)	127 (77)	407 (248)	5,293	5,572	5699	1	1	1
2. Associate Banks of State Bank of India	66 (36)	46 (21)	112 (57)	116 (63)	54 (32)	170 (95)	2,447	2,563	2,616	7	7	7
3. 14 Nationalised Banks ..	531 (420)	296 (235)	827 (655)	973 (765)	412 (328)	1,385 (1,093)	15,356	16,329	16,739	14	14	14
4. 6 Banks Nationalised on 15-4-1980	80 (65)	41 (26)	121 (91)	94 (51)	53 (36)	147 (87)	2,726	2,820	2,872	6	6	6
5. Regional Rural Banks ..	432 (392)	281 (253)	713 (645)	517 (454)	403 (364)	920 (818)	2,678	3,195	3,598	73	85	102
6. Other Scheduled Commercial Banks $	133 (88)	72 (42)	205 (130)	184 (91)	74 (28)	258 (119)	3,724	3,949	4,023	33	34	34
7. Foreign Banks	—	—	—	3 (—)	—	3 (—)	129	132	132	14	17	17
8. All Scheduled Commercial Banks	1,359 (1,078)	861 (654)	2,220 (1,732)	2,167 (1,595)	1,123 (865)	3,290 (2,460)	32,353	34,560	35,679	148	164	181
9. Non-Scheduled Commercial Banks	—	4 (3)	4 (3)	1 (1)	—	1 (1)	66	27@	27@	5	4	4
10. All Commercial Banks .	1,359 (1,078)	865 (657)	2,224 (1,735)	2,168 (1,596)	1,123 (865)	3,291 (2,461)	32,419	34,587	35,706	153	168	185

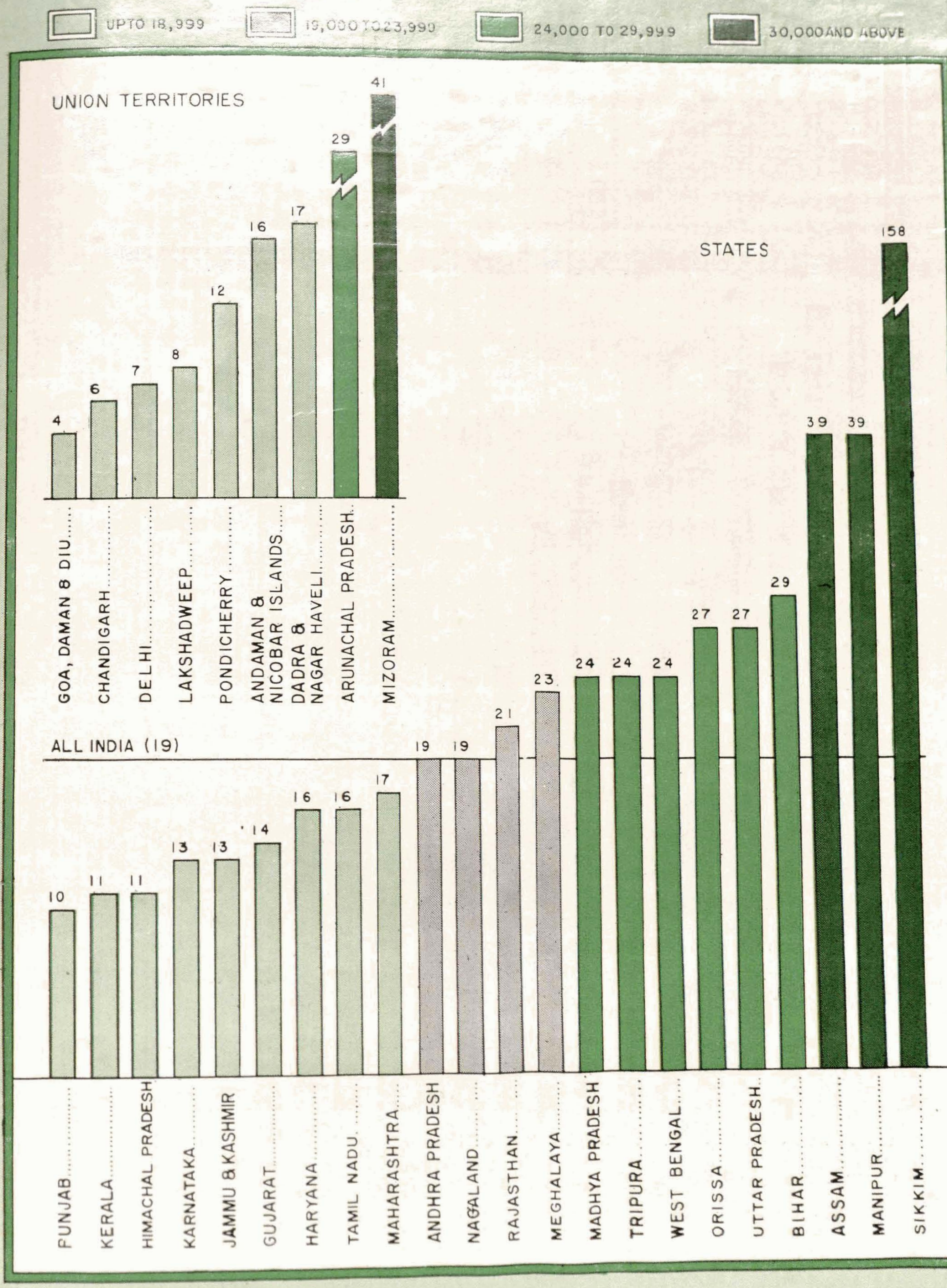
$ 6 banks nationalised on April 15, 1980 have been shown separately.

@ One bank has since been declared as a scheduled bank.

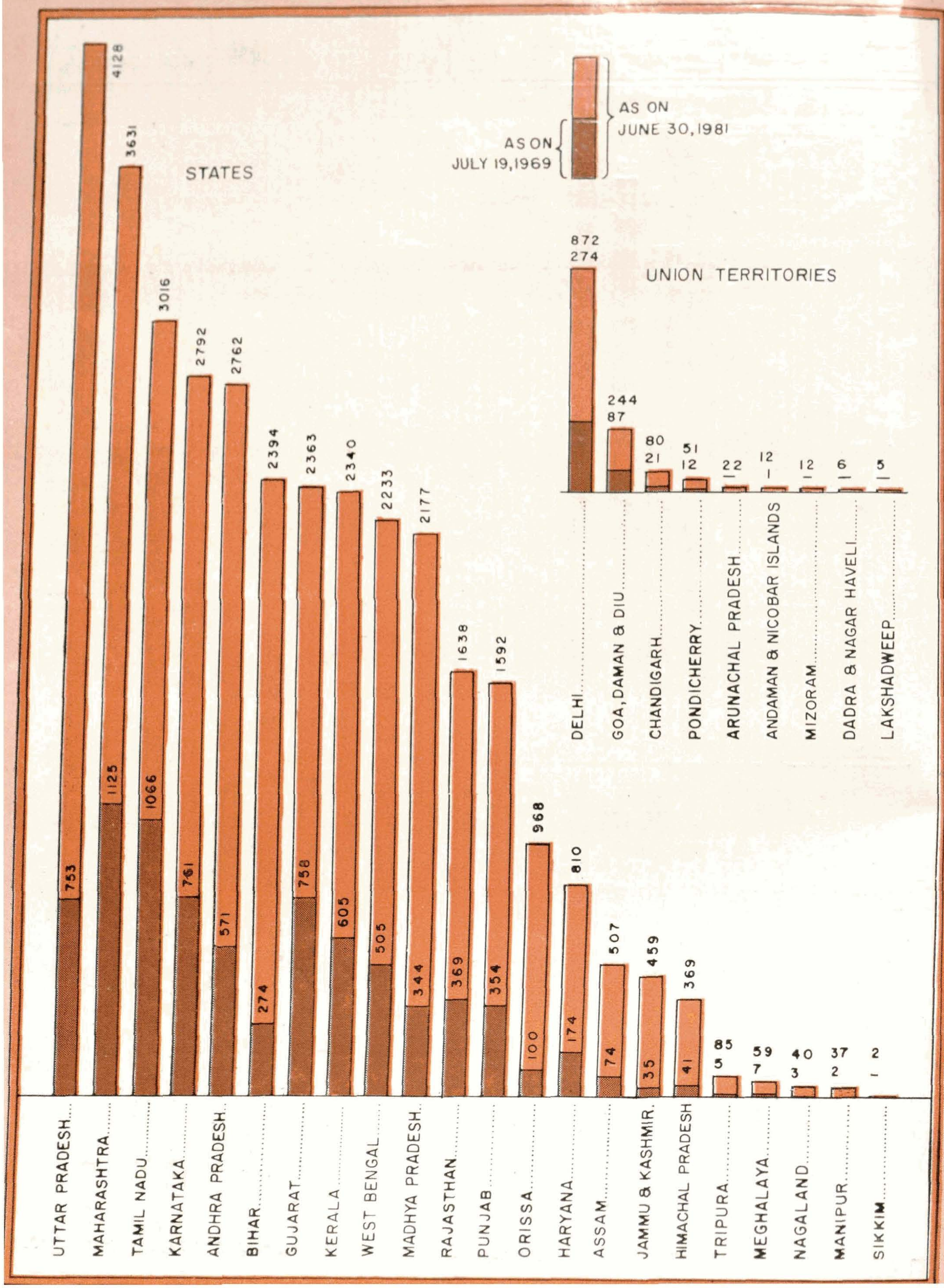
Note : Figures in brackets are numbers of unbanked centres in which offices were opened.

(*Source :* Department of Banking Operations & Development, RBI).

AVE... ...ATION PER COMMERCIAL BANK OFFICE
AS ON JUNE 30, 1981
(FIGURES ARE IN THOUSANDS)
DATA BASED ON 1981 CENSUS



NUMBER OF OFFICES OF COMMERCIAL BANKS



2.153 Unbanked centres accounted for 2,461 offices or 74.8 per cent of the total number of new branches. Thus, of the 27,389 offices opened since the nationalisation of 14 major banks (*i.e.*, from 19th July 1969) up to June 1981, 15,639 (57.1 per cent) were in unbanked centres.

Rural Branch Expansion

2.154 Data regarding the spread of commercial bank offices according to population groups are given in Table 2.18. The proportion of bank offices in rural areas to the total, which was 46.6 per cent at the end of June 1980, increased to 49.4 per cent at the end of June 1981.

2.155 Top priority was continued to be given to ensure the presence of bank branches in all the community development block headquarters in the country. Of the 669 centres identified as unbanked community development block headquarters in the country, 554 block headquarters were covered by branches of commercial banks/RRBs as at the end of June 1981. Of the remaining 115 block headquarters, licences in respect of 99 block headquarters were pending with the banks. In regard to the remaining 16 block headquarters, applications for issue of the necessary licences in respect of four block headquarters are being called for from the allottee banks while in respect of 12 block headquarters banks expressed difficulties in opening offices mainly on account of lack of infrastructural facilities. The question of opening of offices at the above-mentioned 115 unbanked block headquarters, of which 84 fall in the backward areas of the North-Eastern Region, continues to be pursued with the concerned banks/State Governments.

Branch Licensing Policy for 1982-85

2.156 The present branch licensing policy would come to an end at the end of December 1981. A new branch licensing policy covering a longer period of 39 months from January 1982 to March 1985, that is, the end of the Sixth Plan, is being finalised by the RBI in consultation with the GOI, State Governments and banks. The new policy will continue to emphasise opening of offices in rural and semi-urban centres; special stress would be laid on the opening of offices in unbanked pockets in the less accessible areas of different States. While selecting such centres for branch expansion, factors such as potential for mobilisation of deposits and grant of advances, availability of banking facilities nearby and other special features of the regions will also be taken into account. The State Governments are being consulted regarding the location of bank offices in rural and semi-urban areas, as also on the types of bank offices, *i.e.*, whether they should be opened by the RRBs, other commercial banks or co-operatives. Priority will be given to the RRBs for opening branches in districts where they have been set up or are proposed to be set up.

TABLE 2.19—POPULATION GROUP-WISE DISTRIBUTION OF COMMERCIAL BANKS' OFFICES

(Number of offices as at the end of the month)

	June 1977	% to total	December 1977	% to total	June 1978	% to total	December 1978	% to total	June 1979	% to total
	1	2	3	4	5	6	7	8	9	10
Rural	9,532	38.4	11,092	41.0	11,802	42.1	12,806	43.4	13,333	44.1
Semi-urban	7,211	29.1	7,493	27.8	7,586	27.1	7,778	26.4	7,845	26.0
Urban	4,263	17.2	4,445	16.5	4,452	16.2	4,668	15.8	4,717	15.6
Metropolitan/Port Town ..	3,796	15.3	3,966	14.7	4,086	14.6	4,252	14.4	4,307	14.3
Total	**24,802**	**100.0**	**26,996**	**100.0**	**28,016**	**100.0**	**29,504**	**100.0**	**30,202**	**100.0**

	December 1979	% to total	June 1980	% to total	December 1980	% to total	June 1981	% to total
	11	12	13	14	15	16	17	18
Rural	14,444	45.8	15,101	46.6	16,744	48.4	17,652	49.4
Semi-urban	7,960	25.2	8,078	24.9	8,328	24.1	8,423	23.6
Urban	4,803	15.2	4,856	15.0	5,050	14.6	5,126	14.4
Metropolitan/Port Town ..	4,350	13.8	4,384	13.5	4,465	12.9	4,505	12.6
Total	**31,557**	**100.0**	**32,419**	**100.0**	**34,587**	**100.0**	**35,706**	**100.0**

Note : 1. Rural centres : places with population up to 10,000. Semi-urban centres: places with population over 10,000 and up to 1,00,000. Urban centres: places with population over 1,00,000 and up to 10,00,000. Metropolitan centres: places with population over 10,00,000.

2. The data are based on 1971 census; the data based on 1981 census are not yet available.

(*Source :* Department of Banking Operations and Development, RBI)

Offices of Indian Commercial Banks in Foreign Countries

2.157 The branch expansion programme of Indian banks abroad continued to be mainly dictated by factors like earning of foreign exchange, furtherance of India's foreign trade with other countries and assistance to Indian entrepreneurs in the setting up of joint ventures abroad. Priority in the opening of offices was given to countries having potential for absorption of Indian exports and technical know-how and to international financial centres having regard to their capacity to serve as reservoirs of funds for branches.

2.158 The number of Indian bank offices abroad [excluding non-functioning offices in Pakistan (17) and Bangladesh (22)] which had risen from 121 at the end of 1978 to 127 at the end of 1979, increased further to 133 at the end of 1980.

2.159 During the period under review (July 1980 to June 1981), four Indian banks opened five branches in foreign countries increasing the total number of offices to 135 as at the end of June 1981. In addition, a Deposit Taking Company on a joint venture basis was set up in Hong Kong jointly by Indian Bank, Bank of Baroda and Union Bank of India.

Foreign Banks in India

2.160 In accordance with the present policy regarding licensing of branches of foreign banks, three new banks, *viz.*, Bank of Oman Ltd., Dubai (UAE), Banque de l'Indochine et de Suez (INDOSUEZ) (France) and Bank of Ceylon (Sri Lanka) were granted licences to open a branch each at Bombay. Of the above, Bank of Oman Ltd., Dubai (UAE) has opened a branch in December 1980.

VI. WORKING RESULTS OF SCHEDULED COMMERCIAL BANKS

2.161 The data on the working results of scheduled commercial banks for the calendar year 1980 are available for 67 banks. These comprise 25 public sector banks, 12 foreign banks and 30 other Indian banks. As mentioned in the last year's Report the banks continued to follow different accounting procedures in regard to the recording/payment of bonus to staff in their Profit and Loss Account. While some banks treated bonus as part of their establishment expenditure comprising salaries, wages, etc., the others showed it under contingency reserves. As contingency reserves include provisions for other purposes also the actual bonus paid would be lower than the amount shown as contingency reserves. As the details in this regard are not available the entire contingency reserves have been treated, for the purpose of this analysis, as representing bonus payments.

2.162 The banks earned a profit of Rs. 52 crores during 1980 after providing for taxation and bonus/ex-gratia payments to staff. While the banks could, in absolute amounts, maintain an increase in their profits of Rs. 9 crores in 1980 comparable to that of the previous year, there was deceleration in the growth rate of profits—from 21.7 per cent in 1979 to 20.0 per cent in 1980. The growth rate of the profits of the State Bank Group and the 14 nationalised banks at 18.1 and 23.6, respectively, during 1980 was higher than that of 15.2 and 21.6, respectively, in the previous year; the percentage growth in the profits of the remaining bank groups during 1980 was, however, lower than in the earlier year (Table 2.20).

2.163 The total earnings of the banks rose by Rs. 871 crores (+26.8 per cent) during 1980 as compared with an increase of Rs. 639 crores (+24.5 per cent) in the previous year. Reflecting partly the impact of upward revision in the lending rates structure in September 1979, the interest and discount earned rose by Rs. 799 crores (+28 per cent) as against an increase of Rs. 578 crores (+25.4 per cent) in the previous year. The increase in expenditure during 1980 of Rs. 862 crores (+26.9 per cent) was larger than that in the previous year of Rs. 631 crores (+24.5 per cent). The rise of Rs. 610 crores (+29.9 per cent) in interest paid on deposits, borrowings, etc., during 1980 was higher than that of Rs. 417 crores (+25.7 per cent) in the earlier year. The larger outgo under this head could partly be attributed to the hike in 1979 of the interest rates on deposits. The establishment expenses rose by Rs. 170 crores (+20.5 per cent) as against Rs. 162 crores (+24.3 per cent) in the previous year.

VII. EXPORT FINANCE

2.164 In the context of the deteriorating foreign exchange position the importance of exports need hardly be emphasised. The RBI has taken steps from time to time to accelerate the flow of export credit. The measures taken during the year are indicated in the subsequent paragraphs. During 1980-81 (till March 1981) outstanding export credit is estimated to have reached a peak level of Rs. 1,677 crores,[1] as on the last Friday of February 1981, as against the peaks of Rs. 1,640 crores and Rs. 1,500 crores (in March) in 1979-80 and 1978-79, respectively.

2.165 A bill was introduced in Parliament during the year for establishing an Export Import Bank of India. Its objects are to provide financial assistance to exporters and importers and to function as the principal financial institution for coordinating the working of institutions engaged in financing export and import of goods and services with a view to promoting the country's international trade and for matters connected therewith and incidental thereto.

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1. These data are based on Sectoral Deployment Returns. See foot note No. 1 to Table No. 2.7 on page 27.

TABLE 2.20—WORKING RESULTS OF SCHEDULED COMMERCIAL BANKS

(Rupees Crores)

	State Bank Group			14 Nationalised Banks			Six Banks Nationalised on April 15, 1980		
	1978	1979	1980	1978	1979	1980	1978	1979	1980
Number of reporting banks	8	8	8	14	14	14	3	3	3
I. Total Earnings ..	**801.55 (18.7)**	**1,008.17 (25.8)**	**1,323.37 (31.3)**	**1,442.56 (14.2)**	**1,789.70 (24.1)**	**2,250.59 (25.8)**	**101.16 (23.4)**	**129.91 (28.4)**	**161.14 (24.0)**
Of which : Interest & discount ..	668.30 (18.6)	841.89 (26.0)	1,118.10 (32.8)	1,299.68 (14.7)	1,626.59 (25.2)	2,061.16 (26.7)	90.07 (29.7)	117.08 (30.0)	146.42 (25.1)
II. Total Expenditure ..	791.88 (18.8)	997.03 (25.9)	1,310.21 (31.4)	1,426.70 (14.3)	1,770.42 (24.1)	2,226.77 (25.8)	99.24 (23.5)	127.67 (28.7)	158.76 (24.4)
Of which : (a) Interest paid on deposits, borrowings, etc.	490.88 (19.8)	622.41 (26.8)	842.16 (35.3)	938.25 (13.1)	1,177.07 (25.5)	1,512.97 (28.5)	62.85 (25.1)	81.71 (30.0)	102.82 (25.8)
(b) Salaries, allowances, provident fund and bonus/ex-gratia payment to staff ..	226.43 (15.4)	285.68 (26.2)	347.43 (21.6)	351.10 (16.6)	432.83 (23.3)	519.72 (20.1)	23.44 (23.0)	30.65 (30.8)	38.19 (24.6)
III. Profits after provision for taxation and bonus/ ex-gratia payment to staff	9.67 (9.1)	11.14 (15.2)	13.16 (18.1)	15.86 (3.7)	19.28 (21.6)	23.82 (23.6)	1.92 (16.4)	2.24 (16.7)	2.38 (6.3)

	Other Indian Scheduled Commercial Banks @			Foreign Banks			Total		
	1978	1979	1980	1978	1979	1980	1978	1979	1980
	30	30	30	12	12	12	67	67	67
I. Total Earnings ..	127.14 (20.1)	158.60 (24.7)	202.47 (27.7)	138.13 (6.1)	163.33 (18.2)	182.98 (12.0)	2,610.54 (15.7)	3,249.71 (24.5)	4,120.55 (26.8)
Of which : Interest and discount ..	111.55 (19.7)	140.55 (26.0)	182.39 (29.8)	107.51 (6.0)	128.64 (19.7)	145.97 (13.5)	2,277.11 (16.2)	2,854.75 (25.4)	3,654.04 (28.0)
II. Total Expenditure ..	125.02 (19.6)	156.03 (24.8)	199.71 (28.0)	132.35 (4.3)	155.53 (17.5)	173.47 (11.5)	2,575.19 (15.7)	3,206.68 (24.5)	4,068.92 (26.9)
Of which : (a) Interest paid on deposits, borrowings, etc.	72.40 (22.4)	90.48 (25.0)	116.64 (28.9)	61.21 (8.1)	70.86 (15.8)	77.94 (10.0)	1,625.59 (15.6)	2,042.53 (25.7)	2,652.53 (29.9)
(b) Salaries, allowances, provident fund and bonus/ex-gratia payment to staff ..	35.50 (20.5)	44.98 (26.7)	56.07 (24.7)	28.62 (2.3)	32.74 (14.4)	35.03 (7.0)	665.09 (15.9)	826.88 (24.3)	996.44 (20.5)
III. Profits after provision for taxation and bonus/ ex-gratia payment to staff	2.12 (60.6)	2.57 (21.2)	2.76 (7.4)	5.78 (75.7)	7.80 (35.0)	9.51 (21.9)	35.35 (16.2)	43.03 (21.7)	51.63 (20.0)

Note : Figures in brackets represent percentage changes over the previous year.
@ Figures relate to 30 comparable other Indian Scheduled Commercial Banks in private sector with deposits of Rs. 10 crores and over as at end-December 1980.

(*Source :* Profit and Loss Accounts of banks)

Duty Drawback Credit Scheme, 1976

2.166 The Scheme is intended to benefit exporters who can avail of interest-free finance from banks up to 90 days against shipping bills provisionally certified by the Customs Authorities towards refund of duty. The financing banks, in turn, are eligible to avail of interest-free refinance from the RBI pending final settlement of duty drawback claims of the exporters. During the period November 1, 1980 to June 30, 1981, limits aggregating Rs. 17 crores were sanctioned to 28 banks. These banks had availed of refinance to the extent of Rs. 15 crores with an outstanding balance of Rs. 6 crores as on June 30, 1981.

Export Credit (Interest Subsidy) Scheme, 1968.

2.167 As in the previous year, the RBI disbursed interest subsidy at 1.5 per cent per annum from the Marketing Development Assistance Fund of the GOI (Ministry of Commerce) to commercial banks and certain eligible co-operative banks on the export credit extended by them for specific periods to exporters. Besides, a special subsidy at 3 per cent and 1.5 per cent per annum was also paid on behalf of the Ministry of External Affairs to the IDBI, United Commercial Bank, United Bank of India and Punjab National Bank in respect of certain special lines of credit made available to Bangladesh for its imports from India. This was in addition to the subsidy at 1.5 per cent paid from the Marketing Development Assistance Fund. The particulars of subsidy paid during the period July 1, 1980 to June 30, 1981 are as under :

		(*In lakhs of rupees*)
1.	Special subsidy at 3% and $1\frac{1}{2}$%	61
2.	General subsidy at $1\frac{1}{2}$%	15,01

Standing Committee on Export Finance

2.168 During the period under review, the Committee discussed the following matters.

(*i*) *Sharing of Commission on Bid Bonds and Guarantees by Banks and ECGC in the Proportion of Risks shared*

2.169 With a view to affording some relief to exporters in respect of the cost of raising export finance, it was decided to charge lower composite rates covering bank's commission and ECGC premium. Accordingly, the approval of the RBI for amendment to Rule 16-II(7) of Foreign Exchange Dealers' Association of India (FEDAI) Rules was conveyed to the FEDAI. The details of the composite rates are as under :

	Existing composite cost	*Revised composite cost*
75 *per cent cover*		
Up to Rs. 1 crore	1.50%	1.35%
Over Rs. 1 crore	1.20%	1.10%
90 *per cent cover*		
Up to Rs. 1 crore	1.58%	1.40%
Over Rs. 1 crore	1.33%	1.20%

(*ii*) *Export Credit* (*Interest Subsidy*) *Scheme, 1968—Proposed Amendments*

2.170 The scheme was amended so as to cover Buyers' Credit offered on or after September 15, 1980.

2.171 Under the scheme, certain concessions were granted to State Bank of India in regard to audit requirements. The question whether similar concessions could be granted to nationalised banks and other banks was considered and it was decided to extend certain relaxations to nationalised banks.

(*iii*) *Opening of Foreign Currency Accounts abroad by Diamond Exporters for financing Diamond Trade for Exports*

2.172 It was decided in principle to allow diamond exporters to maintain foreign currency accounts abroad. However, certain related issues are being examined by the RBI in consultation with Government. The various issues involved have been discussed with the representatives of the Gem and Jewellery Export Promotion Council and certain banks. The scheme for maintaining foreign currency accounts by diamond exporters may involve borrowing overseas but presently the ECGC cover is not available to banks which will be required to issue guarantees for overseas borrowings of diamond exporters. This issue is being further examined.

(*iv*) *Enhancement of the Period of Pre-Shipment Credit to 180 days*

2.173 It was represented that due to constraints arising out of transport difficulties, power shedding, congestion in ports, etc., the period of pre-shipment credit at concessive rates of interest allowed was inadequate. The matter was examined in consultation with the GOI and, keeping in view the nature of products, their export potential, time taken for manufacture, impact of various constraints experienced by exporters and other relevant factors, it was decided to increase the period of pre-shipment credit of 135 days (initial period of 90 days and additional 45 days where necessary) at ceiling rates of interest to 180 days, in respect of certain categories of goods. Any extension in the period beyond 180 days would be at normal rate of interest and interest subsidy would not be payable for such extension. Government had agreed to provide interest subsidy of 1.5 per cent to banks for the enhanced period of 180 days.

(*v*) *Delegation of Power of Clearance*

2.174 The authorised dealers were authorised to approve proposals for overseas civil engineering construction contracts up to the limit of Rs. 1 crore subject to the fulfilment of certain minimum conditions as in the case of export of engineering goods on deferred payment basis and turnkey projects.

VIII. BANKING LEGISLATION/REGULATION

Banking Laws (Amendment) Bill

2.175 It was mentioned in the last Report that the Banking Laws (Amendment) Bill, 1978, could not be considered as the Lok Sabha had been dissolved. During the year, some more amendments to the BR Act, 1949, and the RBI Act, 1934, were suggested by the Bank to the GOI and were accepted by them. The Bill, as finalised by the Finance Ministry, now awaits reintroduction in Parliament.

Indo-Pak Banking Agreement, 1949

2.176 During the year, the procedure for settlement of the claims of the Court deposit holders who migrated to India during the Partition disturbances was finalised and all banks designated for the purpose have been asked to take necessary action. Besides, in pursuance of the Punjab Government's decision to settle the claims of the foodgrain dealers, who kept security deposits with banks in Pakistan for the purchase of foodgrains under the Monopoly Procurement Scheme in operation in the erstwhile Punjab Province, the Bank prepared the draft scheme to settle the claims.

Banking Laws Committee's Report

2.177 During the year, the Cell established in the Bank to process the recommendations of the Committee examined the two Reports, viz., Documents of Title to Goods, 1978 and Indigenous Negotiable Instruments (*Hundis*), 1978. As regards the first Report, the Cell finalised its views on the recommendations of the Banking Laws Committee, after they were considered by the Study Group composed of a representative each from the RBI, IBA, etc. The Report on *Hundis* was examined and found not acceptable by the Group mainly on grounds of the policy not to encourage the *hundi* system but instead encourage modern banking practices.

Committee for Enlargement of Statutory Auditors' Panel

2.178 The Committee for Enlargement of Statutory Auditors' Panel for the Public Sector Banks, constituted in October 1978, to evolve norms and guidelines for empanelment of auditors submitted its Report on December 31, 1980. The recommendations made by the Committee were examined and considered to be generally acceptable. The matter was referred to the GOI for their views. The question of constituting a Standing Advisory Committee on Bank Audit, to which the different matters connected with bank audit could be referred to, is under the Bank's consideration.

IX. COMMITTEES AND WORKING GROUPS: APPOINTMENT, RECOMMENDATIONS AND FOLLOW-UP

A. Appointment

1. *Committee on Financing of Tea Industry*

2.179 The RBI constituted on October 3, 1980 a Committee to examine the problems relating to the financing of the tea industry. The terms of reference were: (*i*) To review the existing norms for providing working capital to the tea industry recommended by the RBI to scheduled commercial banks in March 1972 on the basis of the Report of the Study Group under the Chairmanship of Shri B. K. Dutt and to suggest suitable modifications in the present changed circumstances; (*ii*) To examine the credit requirements of the tea industry (both working capital and term loans) in the wider context of the need to expand output to meet the sustained rise in domestic consumption without impinging on the exportable surplus; (*iii*) To enquire into the problems faced by the industry in obtaining finance (both working capital and term loans) from commercial banks, other financial institutions and the Tea Board; (*iv*) To consider other problems faced by the commercial banks in providing credit to the tea industry; and (*v*) To make recommendations on these and any other related matter which the Committee may consider germane to the subject. The Committee has completed its deliberations and submitted the report. The Report is under consideration.

2. *Working Group to Review the Accounting System at Bank Branches*

2.180 The RBI constituted, on July 11, 1981, a Working Group to review the accounting system at bank branches in the context of generation of data for various statutory returns as also other returns relating to deployment of credit, particularly data relating to priority sector lending. The terms of reference of the Working Group are: (*a*) to look into the existing systems of maintenance of accounts at branch level including maintenance of the main books of accounts like General Ledgers, Loan Ledgers, etc., as also the various systems of maintenance of sub-day/supplementary books, loan balancing and other records, more particularly at the rural and semi-urban branches and suggest changes which would facilitate the (*i*) generation of summary data regarding deployment of funds and lendings to various categories of priority sectors, (*ii*) generation of data for compilation of the returns and schedules prescribed by the RBI and for furnishing information required by the RBI, Central and State Governments, returns required by the head office/controlling offices of banks for control and supervision as well as for statistical purposes, (*b*) to review the Information System introduced by the RBI and examine the feasibility of the integration of the system with the control/statistical returns, required by banks, (*c*) to suggest any other measures necessary to ensure availability of data on a regular basis and without delay and (*d*) any other matters which are incidental or related to the above terms of reference.

2.181 The Group may appoint Study Groups comprising bank officers having sufficient operational experience which may be assigned specific tasks. If necessary it may also carry out sample studies of the existing system of accounting in a few banks, and such studies may be entrusted to individual banks/NIBM. The Group is expected to submit its report within a period of nine months.

B. *Follow-up*

1. *Working Group on the Modalities of Implementation of the Priority Sector Lending and 20-Point Economic Programme by Banks*

2.182 The Working Group constituted by the RBI on priority sector lending and 20-Point Economic Programme, to which a reference was made in the earlier paras, submitted its report and its recommendations were generally accepted by Government and the RBI. The Group, which identified the beneficiaries requiring assistance from the banking system in pursuance of the 20-Point Programme, spelt out the ways and means whereby such assistance could be rendered. As most of the beneficiaries under the Programme fall in the relatively under-privileged groups within the priority sector, the Group suggested certain changes in the approach to the priority sector lending including refinement in the definition of 'priority sector'. In particular, it introduced the concept of 'weaker sections' within the priority sector and recommended separate sub-targets for lending to such weaker sections in the two main categories of priority sectors, namely agriculture and small-scale industries, within the total enhanced target of 40 per cent for lending to priority sector to be reached by the end of the Sixth Plan period. Consumption loans and housing loans for the poor were also brought within the ambit of priority sector lending. The need for making a schematic and integrated approach to the assistance to the beneficiaries, in consultation with State development agencies, was emphasised. At the field level, the DCP's prepared by banks would have to explicitly provide for allocation of credit to the beneficiaries under the 20-Point Programme. To cope with the large number of borrowers involved, routing of credit to the weaker sections through State-sponsored Corporations/agencies (besides functional co-operatives) specifically set up for the benefit of such persons, has been recommended by the Group.

2.183 Based on the recommendations made by the Group, the RBI issued in October 1980 detailed instructions to all commercial banks for their implementation. In particular, the various targets for lending to the weaker sections and priority sector which have been placed before the banks are (*i*) The over-all assistance to the priority sector should constitute 40 per cent of total advances by March 1985; (*ii*) At least 40 per cent of the advances to the priority sector should be extended for agriculture and allied activities; in other words this sector would account for at least 16 per cent of total advances by 1985; (*iii*) Direct advances to 'weaker sections' in agriculture and allied activities should constitute at least 50 per cent of total direct lending to agriculture (including allied activities) by March 1983. 'Weaker Sections' in this sector would comprise small and marginal farmers and landless labourers. Persons engaged in allied activities whose borrowing limits do not exceed Rs. 10,000 are also included in the 'weaker sections'; (*iv*) Advances to 'weaker sections' in small-scale industries, *i.e.*, those with credit limits up to and inclusive of Rs. 25,000, should constitute 12.5 per cent of total advances to small-scale industries by 1985.

2.184 The State Governments were separately advised by the RBI indicating the vital role they have to play in facilitating banks' assistance under the 20-Point Programme. The main areas where supportive action from the State Government is required relate to identification of beneficiaries, provision of infrastructural and technical facilities, input supply and marketing, training support and assistance for recovery of loans.

2.185 A new information system for monitoring the implementation of the District Credit Plan and financing of 20-Point Programme at the district and State level was introduced by the RBI in January 1981 on the basis of the recommendations of the Working Group on Monitoring System for Bank Advances for Priority Sectors and 20-Point Programme.

2.186 In pursuance of the guidelines issued by the RBI, commercial banks have taken various measures for implementation of the recommendations for assisting the beneficiaries of the Programme. These include arranging seminars for Branch Managers/Staff for impressing on them the importance of the Programme, discussions and lectures at Training Centres, setting up of special cells for monitoring performance, arranging credit camps, mass loaning programme and coordinating the activities with the Governmental agencies at district and State level for integrated action.

2. *Committee oj Direction*

2.187 The Committee of Direction was constituted by the RBI in 1975 to consider and advise, on an on-going basis, on problems arising out of implementation of the recommendations of Tandon Study Group on Follow-up of Bank Credit and other related matters. During the period the Committee held one meeting in which the following matters were considered.

(1) Problems in fixing norms for consumable spares in respect of certain industries, particularly the fertiliser industry, where the level of holding is high, for the purpose of assessment of working capital requirements.

(2) Format in which information may be obtained by banks for appraisal of credit proposals relating to road transport operators and

(3) A uniform format for submitting loan proposals by banks to their Boards.

3. *Working Group to review the System of Cash Credit*

2.188 The Report of the Working Group, which was submitted in September 1979, was accepted by the Bank with certain modifications and commercial banks were advised on December 8, 1980 to implement the accepted recommendations.

2.189 The major decisions taken by the Reserve Bank on the recommendations made by the Working Group are as under:

(*i*) *Enhancement of Borrowers' Contribution*

2.190 The contribution from borrowers towards working capital out of their long-term sources should hereafter be not less than 25 per cent of the current assets required for the estimated level of production which would mean a minimum current ratio of 1.33:1 (as against 25 per cent of working capital gap, i.e., total current assets minus current liabilities other than bank borrowings). In case a borrower is not in a position to comply with this requirement immediately, the existing need-based credit limits already enjoyed by the borrower should not be curtailed; the excess over the credit limits permissible to the borrower, should be segregated and treated as working capital term loan (WCTL) which would be made repayable in half-yearly instalments within a definite period which should not exceed five years. The WCTL should carry a rate of interest which should in no case be less than the rate charged for the relative cash credit and banks may, at their discretion, charge even a higher rate of interest not exceeding the ceiling. In addition, suitable provision should be made for the charging of penal rate of interest in the event of any defaults in the timely repayment of WCTL.

2.191 In respect of such borrowers, if additional limits become necessary on account of increased production, banks have been asked to ensure that the WCTL component is not enhanced and additional limits are allowed on the basis of an incremental current ratio of 1.33:1.

(*ii*) *Separate limit for Peak Level and Non-Peak Level*

2.192 Separate limits should be fixed, wherever feasible, for peak level and non-peak level credit requirements indicating the periods during which the relative limits would be utilised by borrowers.

(*iii*) *Ad hoc or Temporary Limits*

2.193 Banks should consider very carefully requests from borrowers for *ad hoc* or temporary limits in excess of the sanctioned limits which should be allowed only for a pre-determined short duration and given through separate demand loan or non-operable cash credit account. As such additional accommodation would put the bank's credit planning out of gear, banks should charge additional interest of one per cent per annum over the normal rate. However, under exceptional circumstances, e.g., natural calamities, the banks may not charge any additional interest.

(*iv*) *Drawal of Funds to be regulated through Quarterly Operative Limits*

2.194 The borrowers should indicate before the commencement of each quarter the requirements of funds during the quarter, *i.e.*, the operative limit which should be within the limit sanctioned for peak level/ non-peak level periods. The quarterly statements should form the basis for a quarterly review of the account and the operative limit indicated by the borrower should eventually set the level of drawings in that quarter subject to a tolerance of 10 per cent either way. Excess or under-utilisation of the operative limit beyond the tolerance level should be considered as an irregularity in the account and banks should initiate necessary corrective steps, including dialogues with the borrowers, to prevent recurrence of such irregularities.

2.195 If a borrower does not submit the returns within the prescribed time limit, banks may charge penal interest of one per cent per annum on the total outstandings for the period of default in the submission of quarterly returns. In case the default persists, banks should review the position and where they are satisfied that deterrent action is necessary the accounts of such borrowers may be frozen.

2.196 The measures suggested under items (*i*) to (*iv*) above are applicable to all borrowers without exemption having aggregate working capital limits of Rs. 50 lakhs and above from the banking system.

2.197 Sick units under nursing programme, or where rehabilitation measures are under the active consideration of banks, would not be covered by the measures indicated as items (*i*) and (*iii*) above.

(*v*) *Encouragement of Bill Finance*

2.198 Banks have been advised to discourage the sanction of cash credit against book debts and take steps to review all such accounts and convert such cash credit limits into bill limits wherever possible.

(*vi*) *Drawee Bill System*

2.199 In respect of borrowers having an aggregate working capital limits of Rs. 50 lakhs and over from the banking system, banks are required to extend at least 50 per cent of the cash credit limit against raw material inventory to manufacturing units, whether in public or private sector, by way of drawee bills.

(*vii*) *Dues of Public Sector Undertakings to Small-Scale Units*

2.200 Banks should insist on public sector undertakings and large borrowers to maintain control accounts in their books to give precise data regarding their dues to small units and furnish such data in their quarterly information system. This would enable banks to take suitable measures for ensuring payment to small units without delay.

4. *Working Group to study the Problems of Bank Credit in the North-Eastern Region*

2.201 Major banks operating in the North-Eastern Region were advised in December 1980 to take immediate steps for strengthening their existing set-up in the region, so as to enable them to undertake, besides conventional functions, a certain amount of developmental banking to supplement the efforts of Central and State Governments. Such developmental banking would imply not only granting of term loans more liberally, but also assisting in project identification, formulation and appraisal.

5. *Expert Group on State Enactments having a bearing on Commercial Banks' Lending to Agriculture (Talwar Committee)*

2.202 As mentioned in the last year's Report 16 States have enacted necessary leglisation for giving effect to the recommendations of the Talwar Committee. The Bank is pursuing the matter with the States/Union Territories which are yet to pass the necessary Acts. The progress in the implementation by the State Governments of the administrative measures recommended by the Group such as relief to farmers and agriculturists in respect of stamp duty, registration fees, etc., is also reviewed from time to time.

6. *Working Group on Customer Service in Banks*

2.203 During the year, the Small Group set up by the GOI to examine the recommendations of the above-mentioned Group with a view to implementing them expeditiously assessed the appraisal notes prepared by the Bank, examined and took the following decisions.

(*a*) All banks should ensure that the customer should not be asked to go from counter to counter and as far as possible the waiting time should be curtailed;

(*b*) All public sector banks should take steps to introduce suitable arrangements to encash travellers' cheques issued by any public sector bank;

(*c*) Banker's cheques issued by public sector banks should be freely used for making local inter-bank payments and these should be given the same status as cash for purposes of accounting.

2.204 The RBI advised the banks to take necessary action on these matters. The performance of banks in the public sector was reviewed in respect of all the recommendations of the Working Group (133 in all), including those recommendations contained in the Interim Report of the Group which public sector banks were asked by Government in 1975 to implement. The review revealed that 85 recommendations had been implemented by more than 75 per cent (17 banks) of the public sector banks (excluding recently nationalised banks).

X. INSPECTION, MERGER, LIQUIDATION AND LICENSING OF BANKS

Inspection of Banks

2.205 In terms of the powers vested in the Bank, inspection of commercial banks, including the RRBs, under Section 35 of the Banking Regulation Act, 1949, are being carried out at periodical intervals. As mentioned in the last year's Report, in addition to financial type of inspections, public sector banks are also subjected to Annual Appraisals.

A. Financial Inspection

2.206 During the period under review Financial Inspection of 46 scheduled commercial banks (including nine public sector banks and 24 RRBs) and two non-scheduled commercial banks was either taken up or completed.

B. Annual Appraisal

2.207 Since the system of Annual Appraisal of banks was introduced, reports/notes in respect of the first round of such inspections of all the public sector banks (including the six newly nationalised banks) have been sent to the GOI, as also to the concerned banks. Thirteen public sector banks were taken up for the second round of Annual Appraisal and, in the case of nine of them, their financial inspection was also taken up concurrently. The reports on five of these banks have so far been sent to the Government/banks. In respect of one other bank, the Appraisal of which was taken up under the second round during the last year and completed during the period under review, the inspection report was sent to the GOI/bank.

C. Others

2.208 Inspection of seven overseas offices of Indian banks in Sri Lanka, Bangladesh, Fiji and Maldive Islands and Hongkong was also taken up and completed.

2.209 In addition to inspection of banks, the Bank also carried out scrutiny of a number of issues, the more important of which are given below:

(*i*) verification of the subsidies claimed by the banks under the Expor Credit (Interest Subsidy) Scheme 1968;

(*ii*) verification of claims paid/applications in respect of small borrowers, as also test check inspection of advances to small-scale industries covered under guarantees issued by the DICGC; and

(*iii*) investigation into various complaints/frauds/allegations against banks and/or their employees.

Bank Mergers and Liquidation

2.210 The efforts made to consolidate the banking system in the country through the scrutiny of progress in the transfer of liabilities and assets of the concerned banks were continued.

Amalgamation

2.211 The GOI had earlier sanctioned schemes of amalgamation under Section 45 of the BR Act, 1949 in respect of 49 banks. In terms of the provisions of the relative schemes, the transferee banks were required to make final valuation of the assets of the transferor banks after a period of 6/12 years or such earlier period as might be sanctioned by the GOI in consultation with the RBI. The final valuation of the assets of 31 banks as provided in the relative schemes was completed while in the case of 12 banks the reports were under consideration. Of the remaining six banks the matter regarding the final valuation of assets in respect of four banks was being pursued.

Liquidation

2.212 During the period under review, two banks were dissolved.

Licensing of Commercial Banks

2.213 During the period under review licences under Section 22 of the BR Act, 1949 were issued to three foreign banks, *viz.*, Bank of Oman Ltd,. Banque de l'Indochine et de Suez (INDOSUEZ) and Bank of Ceylon to commence banking business in India by opening their first branches in Bombay. With these, the number of licensed commercial banks stood at 49 (including the National Bank of Pakistan which is under the Custodian of Enemy Property). The public sector banks, now numbering 28, (after nationalisation of six more banks with effect from April 15, 1980) do not require a licence to carry on banking business in India. As on June 30, 1981, the number of private sector commercial banks functioning without a licence under Section 22 of the BR Act, 1949 stood at seven (including a foreign scheduled bank, *viz.*, Habib Bank Ltd., which is under the Custodian of Enemy Property).

2.214 Out of the five foreign banks licensed under Section 22 of the BR Act, 1949 during the years 1979, 1980 and 1981 three, *viz.*, European Asian Bank, Bank of Oman Ltd., and Emirates Commercial Bank Ltd., have commenced banking business in India by opening their first offices at Bombay during the period under review and have been included in the Second Schedule to the Reserve Bank of India Act, 1934. Thus, the total number of scheduled commercial banks (excluding RRBs) now stands at 79 including two Pakistani banks, *viz.*, National Bank of Pakistan and Habib Bank Ltd., which are under the Custodian of Enemy Property.

XI. USE OF HINDI IN PUBLIC SECTOR BANKS

2.215 During the period under review, the Bank continued its efforts for the progressive use of Hindi in its working as well as in the public sector banks. The Official Languages Implementation Committee, set up in the RBI for the purpose, held four meetings during the year. During the discussions at these meetings, emphasis was laid on the implementation of the provisions of the Official Languages Act, 1963 and the rules framed thereunder.

2.216 With a view to watching the progressive use of Hindi by the public sector banks, quarterly progress reports, annual assessment reports and copies of the proceedings of Official Languages Implementation Committees constituted by the banks were continued to be obtained by the RBI and the GOI were kept informed.

2.217 The first conference of Hindi Officers of all Public Sector Banks was convened in September 1980 at Pune.

2.218 The Bank continued to reply in Hindi to letters received in Hindi and issue all its circulars and general orders meant for Bank's employees in Classes III and IV bilingually. Further, the Bank continued to organise Hindi Adhyayan Mandals (Classes) under the Compulsory Hindi Teaching Scheme for its employees in its premises.

APPENDIX 1

INTEREST RATE STRUCTURE EFFECTIVE FROM MARCH 2, 1981*

Category of advances	Rate of interest (inclusive of interest tax) per cent per annum
(1)	(2)
I. Public Procurement and Distribution Agencies	
1. FCI, State Governments/agencies acting as agencies of FCI for procurement of foodgrains under full price support scheme, where the sales are at fixed prices through Government approved outlets	12.50
2. Advances to Central and State Government agencies entrusted with procurement/distribution of specified essential consumer commodities for sale at fixed prices through Government approved outlets, the commodities being pulses, edible oils, kerosene, salt and sugar	15.00
3. (i) Advances to Central and State Government agencies entrusted with the procurement and distribution of essential consumer commodities other than those specified in category (2) above	17.50
(ii) Advances to Central and State Government agencies entrusted with the procurement of cash crops viz., jute, cotton@, etc. where there is an element of price support	17.50
(iii) Advances to Central and State Government agencies entrusted with the procurement and distribution of fertilizers, pesticides and seeds	17.50
4. Advances to Central and State Government agencies entrusted with the procurement and distribution of commodities for sale on a commercial basis	Not exceeding 19.50
II. Minimum Lending Rate	
(for commodities coming within the purview of Selective Credit Control)	
(i) Loans/advances/cash credit/overdrafts against commodities subject to Selective Credit Control	19.50
(ii) Sugar Mills in respect of all stocks	17.50
III. Exports	
1. **Pre-shipment Credit**	
(a) Specified medium and heavy engineering goods and construction contracts	
up to (i) 180 days	12.50
(ii) beyond 180 days and up to 270 days	15.00
(b) Other specified goods (e.g., carpets, leather manufactures, coir, cashew, tobacco, etc,) up to 180 days	12.50
(c) Other goods and consultancy services	
(i) up to 90 days	12.50
(ii) beyond 90 days & up to 135 days	15.00
(d) Against cash incentives, etc., covered by ECGC guarantee (up to 90 days)	12.50
2. **Post-shipment credit**	
(i) Demand bills—for transit period (as specified by FEDAI)	12.50
(ii) Usance bills—up to 180 days comprising usance period of the export bills, transit period as specified by FEDAI and grace period wherever applicable	12.50
(iii) Cash incentives, duty draw-back, etc., receivable, covered by Export Production Finance Guarantee of ECGC (up to 90 days)	12.50
(iv) Undrawn balances (up to 90 days)	12.50
(v) Against retention money (for supplies portion only) payable within one year from the date of shipment (up to 90 days)	12.50

* Incorporating modifications/clarifications issued subsequently.

@ Since operations of CCI are on commercial basis, the rate of interest on advances to CCI was fixed at 19.50 per cent (advised to banks on June 17, 1981).

Category of advances	Rate of interest (inclusive of interest tax) per cent per annum
(1)	(2)
3. **Deferred Credit**	
Deferred credit for period beyond one year	8.65
4. **Duty Draw-back Credit Scheme, 1976**	
Against duty draw-back as provisionally certified by the Customs Authorities (up to 90 days)	Free of interest
5. **Export credit not otherwise specified**	Not exceeding 17.50
IV. **Agriculture (Direct finance)**	
Short-term loans to farmers	
(a) up to Rs. 5,000	12.50
(b) over Rs. 5,000 and up to Rs. 25,000	Not exceeding 15.00
(c) Above Rs. 25,000	Not exceeding 17.50
Agriculture (Indirect loans)@ (given through PACS/FSS/LAMPS)	
(a) up to Rs. 5,000	Not exceeding 10.00
(b) Over Rs. 5,000 and up to Rs. 25,000	Not exceeding 12.50
(c) Above Rs. 25,000	Not exceeding 15.00
V. **Small-scale Industry**	
1. Composite loans up to Rs. 25,000	
(a) Backward areas	10.25
(b) Other areas	12.50
2. Short-term advances, limits of:	
(a) Up to and inclusive of Rs. 2 lakhs	Not exceeding 15.00
(b) Over Rs. 2 lakhs and up to Rs. 25 lakhs	Not exceeding 17.50
(c) Above Rs. 25 lakhs	Not exceeding 19.50
VI. **Other categories**	
1. DRI advances	4.00
2. Retail trade advances	
(a) Limits up to and inclusive of Rs. 5,000	12.50
(b) Over Rs. 5,000 and up to Rs. 25,000	Not exceeding 15.00
(c) Above Rs. 25,000	Not exceeding 19.50
3. Educational advances*	
(a) Indigent students for purposes of higher education in India	No less than Bank Rate
(b) Other educational advances	15.00—17.50
4. Priority sector not otherwise specified	Not exceeding 17.50
5. All other advances	Not exceeding 19.50

* Effective from May 19, 1981.

@ Effective June 11, 1981. Applicable for loans from banks to societies. The rates to be charged by the societies to the ultimate borrower, in the same order, are :

(a) Not exceeding 12.50.

(b) Same rate as charged by co-operatives in the area but not exceeding 15.00.

(c) Same rate as charged by co-operatives in the area but not exceeding 17.50.

Category of advance	Rate of interest (inclusive of interest tax) per cent per annum
(1)	(2)
VII. Term Loans	
1. **Small-scale Industry**	
(i) Units as in the new definition of SSI	
(a) Backward areas£	12.50
(b) Other areas	13.50
2. (A) **Agriculture** (Direct finance)	
(i) Minor irrigation and land development	10.25
(ii) Other purposes	
(a) Small farmers	10.25
(b) Other farmers	12.50
(B) **Agriculture (Indirect finance)**‡ (given through PACS/FSS/LAMPS)	
(i) Minor irrigation and land development	8.75
(ii) Diversified purposes (As defined by ARDC)	
(a) To small farmers	8.75
(b) To other farmers	11.00
3. **Housing**	
(i) SC/ST up to and inclusive of Rs. 5,000	4.00
(ii) Others up to and inclusive of Rs. 5,000	12.50
(iii) Over Rs. 5,000 and up to Rs. 50,000	13.50
(iv) Above Rs. 50,000	15.00
4. **Road Transport Operators**	
(i) Single vehicle	12.50
(ii) Two or more vehicles	15.00
5. **All other term loans**	15.00

£ Applicable only in respect of new units set up in backward areas and not in respect of expansion/diversification of existing units for which the rate of interest of 13.5 per cent would be applicable.

‡ Effective June 11, 1981. Applicable for loans from banks to societies. The rate to be charged by societies to the ultimate borrower are the same as in the case of Agriculture (Direct Finance).

APPENDIX 2

RATES FOR TELEGRAPHIC TRANSFERS, BANK DRAFTS AND MAIL TRANSFERS UNDER THE RESERVE BANK'S REMITTANCE FACILITIES SCHEME

I. For General Public@;

Up to Rs. 5,000/- .. .. 12P%+
Over Rs. 5,000/- .. .. 6P% (min. Rs. 6.00)
+ Minimum Exchange for amounts up to Rs. 5,000/-:
Telegraphic transfers Re. 1.00
Drafts and mail transfers Re. 0.25
Telegram charges will be charged in addition in respect of Telegraphic Transfers
@ Including indigenous bankers.

II. For Scheduled Banks:

A scheduled bank may remit funds by telegraphic transfers, mail transfers or drafts through offices of the Banks and agencies, as detailed below:

	Whether at par or at premium	Limits on amounts	Frequency of remittances	Remarks
	1	2	3	4
1. Between accounts at Reserve Bank offices	At par	In multiples of Rs. 10,000 subject to a minimum of Rs. 50,000.	No limit	—
2. (i) From an agency office to an account maintained with the Reserve Bank.	At par	In multiples of Rs. 5,000 subject to a minimum of Rs. 25,000.	Four times a week	Remittances are permitted to each of the scheduled bank offices, branches, sub-offices or pay offices, subject to the conditions specified in the preceding columns.
(ii) From an account with Reserve Bank to an agency office.	At par	do.	Fifteen times a week	—
3. Other remittances to its account with Reserve Bank from an agency office.	At premium—2P% minimum Re. 1/-	No limit.	No limit	—
4. All other remittances favouring—				
(a) Themselves or a commercial or co-operative bank or a co-operative society.	Up to Rs. 5,000—3P% minimum Re. 1/-‡ Over Rs. 5,000—2P% minimum Rs. 1.50	do.	do.	—
(b) Other parties ..	Up to Rs. 5,000—6P% minimum Re. 1/-‡ Over Rs. 5,000—3P% minimum Rs. 2/-	do.	do.	—

‡ Drafts for small amounts at 12P% minimum Re. 0.25.

Note: (i) 'Week' means the period commencing from a Saturday and ending with the succeeding Friday.
(ii) Where remittances are sent by telegraphic transfer, telegram charges are payable in addition to exchange charges.
(iii) Remittances under item (4) above can also be made to or from treasury agencies.

III. For Non-Scheduled Banks :

A non-scheduled bank may remit funds by telegraphic transfers, mail transfers or drafts through offices of the Bank and agencies as detailed below:

	Whether at par or at premium 1	Limits on amounts 2	Frequency of remittances 3	Remarks 4
1. Between accounts at Reserve Bank offices.	At par	In multiples of Rs. 5,000—subject to a minimum of Rs. 20,000.	No limit	—
2. (i) From an agency office to an account maintained with the Reserve Bank	At par	In multiples of Rs. 5,000—subject to a minimum of Rs. 10,000.	Four times a week	Remittances are permitted to each of the non-scheduled bank offices, branches, sub-offices or pay offices, subject to the conditions specified in the preceding columns.
(ii) From an account with the Reserve Bank to an agency office.	At par	In multiples of Rs. 5,000 subject to a minimum of Rs. 10,000.	Fifteen times a week	—
3. Other remittances favouring:				
(a) themselves	At premium	Up to Rs. 5,000—3P% minimum Re. 1/-* Over Rs. 5,000—2P% minimum Rs. 1.50	—	—
(b) third parties	At premium	Up to Rs. 5,000—6P% minimum Re. 1/-* Over Rs. 5,000—3P% minimum Rs. 3/-	—	—

* Drafts for small amounts at 12P% minimum Re. 0.25.

Note: (i) 'Week' means the period commencing from a Saturday and ending with the succeeding Friday.
(ii) Where remittances are sent by telegraphic transfer, telegram charges are payable in addition to exchange charges.
(iii) Remittances under item (4) above can also be made to or from treasury agencies.

IV. For State Co-operative Banks :

A State Co-operative Bank may remit funds by telegraphic transfers, mail transfers or drafts from offices of the Bank and agencies, as detailed below:

	Whether at par or at premium 1	Limits on amounts 2	Frequency of remittances 3	Remarks 4
1. Between accounts at Reserve Bank offices.	At par	In multiples of Rs. 10,000—subject to a minimum of Rs. 50,000.	No limit	Remittances are also allowed between accounts of any two State Co-operative Banks.
2. (i) From an agency office: (a) to an account maintained with Reserve Bank .. (b) to the head office account of the State Co-operative Bank maintained with an agency office	At par	In multiples of Rs. 5,000—subject to a minimum of Rs. 25,000.	Four times a week	Central and industrial co-operative banks are treated as branches of State Co-operative Banks to which they are affiliated for the purposes of these facilities.

	1	2	3	4
(ii) From an account with Reserve Bank to an agency office.	At par	In multiples of Rs. 5,000 —subject to a minimum of Rs. 25,000.	Fifteen times a week	A State Co-operative Bank can make only 15 remittances in all in a week to any of its branches at upcountry centres and not 15 remittances to each of its branches.
3. Other remittances to an account which it maintains with the Reserve Bank from an agency office.	At premium	2P% minimum Re. 1/-	No limit	—
4. All other remittances favouring:				
(a) themselves	At premium	Up to Rs. 5,000—3P% minimum Re. 0.25; Over Rs. 5,000—2P% minimum Rs. 1.50	No limit	(i) Central and industrial co-operative banks affiliated to a State Co-operative Bank are treated as branches of the latter. (ii) Remittances will be issued to a State Co-operative Bank or society in its own favour on any centre at the instance of the State Co-operative Bank irrespective of whether it has an office at that centre or not.
(b) third parties	At premium	Up to Rs. 5,000—6P% minimum Re. 0.25; Over Rs. 5,000—3P% minimum Rs. 3/-	No limit	—

Note: (i) State Co-operative Banks, which are scheduled banks, will be able to avail themselves of remittance facilities only under this clause and not under item II.
(ii) 'Week' means the period commencing from a Saturday and ending with the succeeding Friday.
(iii) Where remittances are sent by telegraphic transfer, telegram charges are payable in addition to the exchange charges.
(iv) Remittances under item (4) above can also be made to or from treasury agencies.
(v) Co-operative banks/Societies which are not affiliated to any State Co-operative Bank are also entitled to remittance facilities as in item (4) above.

(*Source:* Department of Government and Bank Accounts, RBI and "Reserve Bank of India Remittance Facility Scheme, 1975", Booklet).

CHAPTER 3

CO-OPERATIVE BANKING

3.1 During 1980-81, efforts towards the strengthening of institutional arrangements for facilitating the larger flow of credit to the agricultural and other rural sectors were stepped up. With this end in view measures were taken as in the previous years for strengthening the co-operative banking structure, safeguarding the interests of the weaker sections and minimising the disparities in the flow of credit to various regions.

3.2 During 1979-80 deposits with SCBs, CCBs and PACS increased by 14.4 per cent, 17.9 per cent and 8.3 per cent, respectively, as against 22.1 per cent, 21.2 per cent and 30.9 per cent, respectively, in the previous year.

3.3 Preliminary steps for the establishment of the National Bank for Agriculture and Rural Development (NABARD) were initiated.

I. PROGRESS OF CREDIT CO-OPERATIVES

Overview

3.4 The progress of co-operatives at the three levels of the co-operative credit structure during 1977-78 to 1979-80 is indicated in Table 3.1. Deposits with SCBs and CCBs rose from Rs. 1,226 crores and Rs. 1,669 crores, respectively, at the end of June 1979 to Rs. 1,402 crores, and Rs. 1,968 crores at the end of June 1980; those with the PACS increased from Rs. 216 crores to Rs. 234 crores. However, there was a deceleration in the growth rates of deposits of SCBs, CCBs and PACS during 1979-80; these were lower at 14.4 per cent, 17.9 per cent and 8.3 per cent, respectively, as against 22.1 per cent, 21.2 per cent and 30.9 per cent, respectively, during 1978-79. The growth in membership of PACS was also lower, membership increasing by 15 lakhs to 541 lakhs in 1979-80 showing a rise of 2.9 per cent only as against an increase of 47 lakhs or 9.8 per cent during 1978-79. The total loans issued by PACS during 1979-80 amounted to Rs. 1,536 crores as against Rs. 1,458 crores in 1978-79, showing a growth rate of 5.3 per cent in contrast to 14.5 per cent witnessed in 1978-79. The deceleration in growth rates of deposits and loan operations could be ascribed to the drought conditions prevailing in large parts of the country during 1979-80, which affected agricultural operations and incomes.

3.5 There was further deterioration in the recovery performance of co-operatives at the apex and central levels. In the case of SCBs, the percentage of overdues to outstanding credit rose from 7.2 per cent at the end of 1977-78 to 8.9 per cent a year later and further to 11.9 per cent at the end of 1979-80; the corresponding rise in the CCBs was from 35.7 per cent to 35.9 per cent and then to 36.7 per cent. In contrast,

TABLE 3.1—PROGRESS OF CO-OPERATIVE CREDIT MOVEMENT IN INDIA

(Rupees Crores)

Type of Institutions	Co-operative year (July-June) 1977-78	1978-79P	1979-80P
	1	2	3
(a) State Co-operative Banks			
(i) Number	26+	27	26+
(ii) Owned Funds	214	249	290
(iii) Deposits	1,004	1,226	1,402
(iv) Borrowings from the RBI	470	374	355
Of which Short-term Agricultural Purposes	289	252	184
(v) Working Capital	1,822	2,037	2,259
(vi) Loans Issued	2,023	2,284	2,133
(vii) Loans Outstanding	1,338	1,420	1,271
(viii) Loans overdue	96	127	151
(b) Central Co-operative Banks			
(i) Number	338£	338	337
(ii) Owned Funds	484	546	591
(iii) Deposits	1,377	1,669	1,968
(iv) Borrowings from the RBI/Apex banks	784	806	872
(v) Working Capital	2,954	3,376	3,817
(vi) Loans Issued	2,116	2,432	3,320
(vii) Loans Outstanding	2,115	2,328	2,591
(viii) Loans Overdue	754	835	951
(c) State/Central Land Development Banks			
(i) Number	19	19	..
(ii) Owned Funds	213	235	..
(iii) Debentures Outstanding	1,691	1,765	..
(iv) Working Capital	2,082	2,196	..
(v) Loans Issued	239	249	..
(vi) Loans Outstanding	1,305	1,392	..
(vii) Loans Overdue	127	166	..
(viii) Loans to Individuals by CLDBs/PLDBs			
(a) Issued	238	240	..
(b) Outstanding	1,276	1,334	..
(c) Overdue	135	177	..
(d) Primary Agricultural Credit Societies			
(i) Number (in thousands)	116	96	95
(ii) Membership (in thousands)	478,60	525,69	541,40
(iii) Owned Funds	555	618	644
(iv) Deposits	165	216	234
(v) Borrowings	1,616	1,831	1,978
(vi) Total Loans Issued	1,273	1,458	1,536
(vii) Total Loans for Agricultural Purposes	1,207	1,383	..
Of which Medium-term Loans & Long-term Loans	149	179	..
(viii) Total Loans Outstanding	1,798	2,049	2,192
(ix) Total Loans Overdue	809	927	972

P Provisional Data.
£ Excluding six banks in Assam which were under process of amalgamation and later merged with the Assam Co-operative Apex Bank Ltd.
+ Excludes Arunachal Pradesh State Co-operative Bank.
.. Not Available.
(*Source* : Agricultural Credit Department, RBI).

the overdues of PACS registered a marginal fall to 44.3 per cent at the end of 1979-80 from the preceding two years' level of 45 per cent.

Deposit Rates

3.6 In the context of the need to step up the mobilisation of financial savings, interest rates payable by co-operative banks on term deposits and cumulative deposits were revised in line with those payable by the commercial banks, with effect from March 2, 1981 as indicated in Table 3.2.

TABLE 3.2—CHANGES IN INTEREST RATES ON DEPOSITS IN CO-OPERATIVE BANKS

(Per cent per annum)

	Effective from	
	13-9-1979	2-3-1981
	1	2
(a) For deposits of one year and above but less than two years	7.0	7.5
(b) For deposits of two years and above but less than three years		8.5
(c) For deposits of three years and above but less than five years	8.5	
(d) For deposits above five years	10.0	10.0

(*Source* : Agricultural Credit Department, RBI).

However, the discretion to pay additional rate of interest on deposits upto 0.25 per cent, 0.50 per cent and 1 per cent, continued to be available to SCBs, CCBs and PCBs, respectively.

Lending Rates

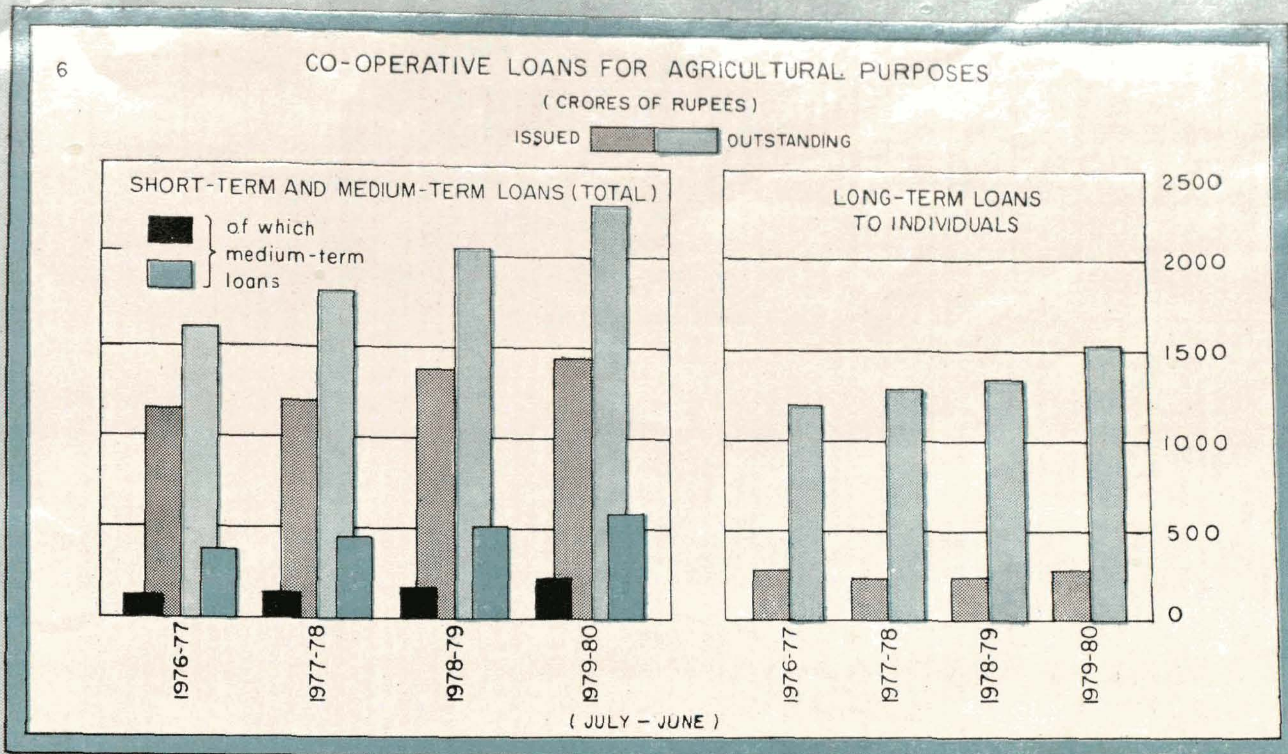
3.7 The lending rates were modified with effect from July 1, 1980. These rates were revised further on March 2, 1981, as a result of changes in interest rates on deposits. The revised rates continue to maintain proper alignment between those charged on short-term advances and term loans (Tables 3.3, 3.4 and 3.5).

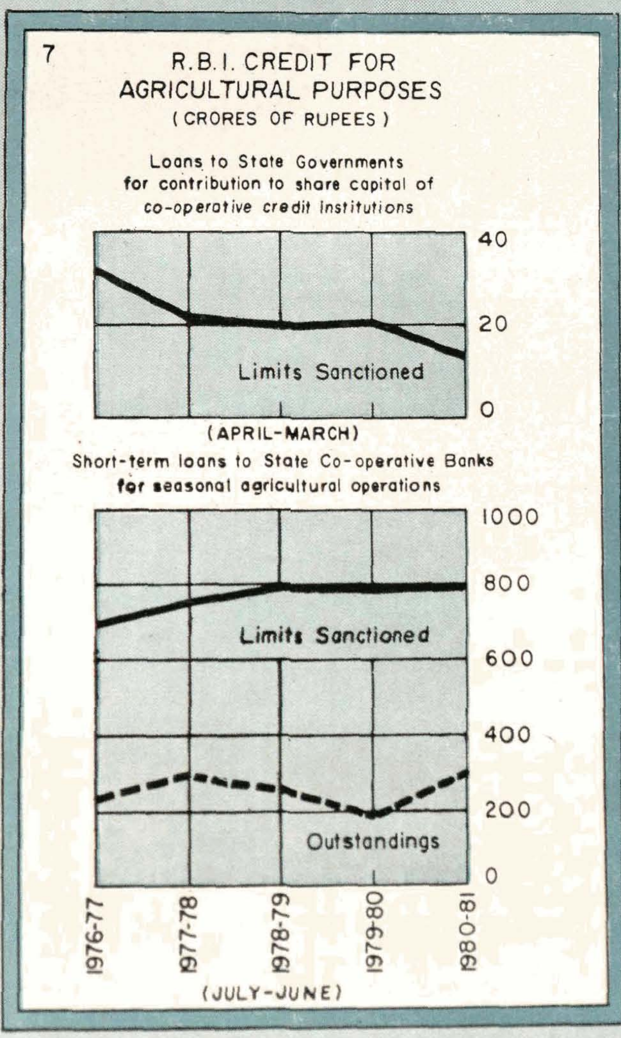
II. AGRICULTURAL CREDIT

A. Short-Term Credit

(a) Short-Term Credit Limits for Financing Seasonal Agricultural Operations

3.8 The facilities provided by the RBI to the co-operatives along with rates of interest on refinance are presented in Table 3.6. The RBI continued to sanction to SCBs short-term credit limits for financing


6
CO-OPERATIVE LOANS FOR AGRICULTURAL PURPOSES
(CRORES OF RUPEES)
ISSUED
OUTSTANDING
SHORT-TERM AND MEDIUM-TERM LOANS (TOTAL)
of which medium-term loans
LONG-TERM LOANS TO INDIVIDUALS
2500
2000
1500
1000
500
0
1976-77
1977-78
1978-79
1979-80
(JULY – JUNE)


7
R.B.I. CREDIT FOR AGRICULTURAL PURPOSES
(CRORES OF RUPEES)
Loans to State Governments for contribution to share capital of co-operative credit institutions
40
20
0
Limits Sanctioned
(APRIL-MARCH)
Short-term loans to State Co-operative Banks for seasonal agricultural operations
1000
800
600
400
200
0
Limits Sanctioned
Outstandings
1976-77
1977-78
1978-79
1979-80
1980-81
(JULY-JUNE)

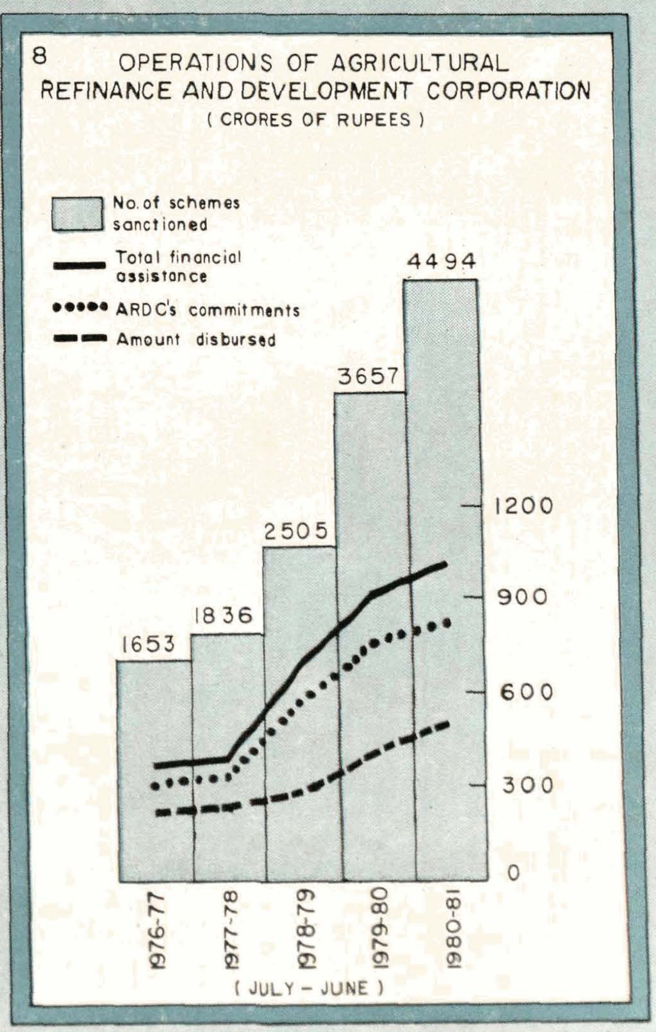

8
OPERATIONS OF AGRICULTURAL REFINANCE AND DEVELOPMENT CORPORATION
(CRORES OF RUPEES)
No. of schemes sanctioned
Total financial assistance
ARDC's commitments
Amount disbursed
1653
1836
2505
3657
4494
1200
900
600
300
0
1976-77
1977-78
1978-79
1979-80
1980-81
(JULY – JUNE)

TABLE 3.3—RATES OF INTEREST CHARGED AT VARIOUS LEVELS OF CO-OPERATIVE STRUCTURE (SHORT-TERM LOANS)

(Per cent per annum)

States/Union Territories	Apex Banks	Central Co-operative Banks	Primary Agricultural Credit Societies	Effective from
	1	2	3	4
Andhra Pradesh	6.00 to 7.00	6.50 to 9.25	7.00 to 11.25	1-1-1979
Assam	10.50	@	12.50 (12.00)	2-3-1981
Bihar	6.75 (6.75)	8.75 (8.75)	12.25 (11.85)	..
Gujarat	6.00 to 6.50	7.00 to 11.00	8.50 to 13.50	31-3-1979
Haryana	6.50	9.50	12.50	2-3-1981
Himachal Pradesh	6.30	10.00	12.50	..
Jammu & Kashmir	6.50	8.50	11.00	1-7-1979
Karnataka	7.15 (6.75)	9.85 (9.20)	13.00 (11.85)	2-3-1981
Kerala	6.75	8.75	12.00	1-7-1981
Madhya Pradesh	7.00 (6.50)	10.00 (8.50)	13.50 (11.00)	..
Maharashtra	6.25	8.00	11.00	30-6-1979
Orissa	7.00	9.50	12.00	1-4-1981
Punjab	6.50	8.00	10.50	..
Rajasthan	8.60 (7.00)	12.00 (9.75)	15.00 (12.50)	2-3-1981
Tamil Nadu	6.66 (6.66)	9.50 (8.00)	12.00 (10.50)	..
Uttar Pradesh	6.50 (6.50)	8.75 (8.75)	14.00 (12.00)	..
West Bengal	6.90 (6.90)	9.20 (9.20)	13.00 (11.00)	..
Manipur	11.00 (10.00)	@	15.00 (12.50)	2-3-1981
Meghalaya	10.25	@	11.75	2-3-1981
Nagaland	9.50	@	11.75	..
Tripura	9.75	@	12.50	2-3-1981
Union Territories				
Andaman & Nicobar	9.35	@	11.35	..
Chandigarh	12.00	@	13.00 to 13.50	..
Delhi	13.00 (10.50)	@	15.00 (12.50)	2-3-1981
Goa, Daman & Diu	7.00	@	9.00	1-3-1978
Pondicherry	8.75 (8.50)	@	11.50 (11.00)	2-3-1981

Note : 1. Arunachal Pradesh has yet to start loaning operations.
2. Figures in brackets indicate rates charged to small farmers.
@ There are no CCBs in these areas.
.. Not available.
(*Source :* Agricultural Credit Department, RBI).

TABLE 3.4—RATES OF INTEREST CHARGED AT VARIOUS LEVELS OF THE CO-OPERATIVE STRUCTURE (MEDIUM-TERM LOANS)

(Per cent per annum)

States/Union Territories	Apex Banks	Central Co-operative Banks	Primary Agricultural Credit Societies	Effective from
	1	2	3	4
Andhra Pradesh	6.75 (6.75)	9.25 (9.25)	10.50 to 12.50 (11.00)	1-1-1979
Assam	9.00 to 10.50 (10.00)	@	10.50 to 12.50 (11.50)	2-3-1981
Bihar	6.75	8.75	11.50	..
Gujarat	6.50	7.75 to 12.00	9.00 to 14.50	..
Haryana	7.00	8.50	10.50 to 11.50	2-3-1981
Himachal Pradesh	6.30	10.50	13.00	..
Jammu & Kashmir	6.50	8.50	11.00	1-7-1979
Karnataka	6.50 to 6.75 (6.50)	8.25 to 9.25 (8.50)	10.50 to 12.50 (11.00)	1-1-1979
Kerala	6.50 to 6.75	8.00 to 8.50	10.50 to 11.50	1-7-1981
Madhya Pradesh	6.50	9.50	12.50	..
Maharashtra	6.25	8.00	11.00	..
Orissa	6.50 to 7.00	8.50 to 9.50	10.50 to 12.00	1-4-1981
Punjab	6.50	8.00	10.50	..
Rajasthan	6.50 to 8.60 (6.75)	8.50 to 12.00 (9.25)	10.50 to 15.00 (11.50)	2-3-1981
Tamil Nadu	7.00 to 7.25 (7.00 to 7.25)	9.00 to 9.50 (9.00)	9.50 to 12.50 (9.50 to 10.50)	..
Uttar Pradesh	6.50 (6.50)	8.50 to 9.00 (9.00)	10.50 to 12.50 (11.00)	1-4-1981
West Bengal	6.75 to 6.90 (6.75 to 6.90)	8.50 to 9.50 (8.75 to 9.20)	10.50 to 13.00 (11.00)	..
Manipur	8.50 to 10.50 (9.50)	@	10.50 to 12.50 (11.50)	2-3-1981
Meghalaya	9.00 to 10.50 (9.50)	@	10.50 to 12.50 (11.50)	2-3-1981
Nagaland	9.50 to 11.00 (9.25)	@	10.50 to 12.50 (11.00)	2-3-1981
Tripura	9.00 to 10.50 (9.00)	@	10.50 to 12.50 (11.50)	2-3-1981
Union Territories				
Andaman & Nicobar	12.00 to 14.00 (12.00)	@	14.00 to 16.00 (14.00)	..
Chandigarh	12.00	@	13.00 to 13.50	..
Delhi	10.00 to 10.50 (10.00)	@	11.50 (11.50)	2-3-1981
Goa, Daman & Diu	9.00	@	11.00	1-3-1979
Pondicherry	8.50	@	10.50	2-3-1981

Note: 1. Figures in brackets indicate rates charged to small farmers.
@ There are no CCBs in these areas.
.. Not available.
(*Source:* Agricultural Credit Department, RBI).

TABLE 3.5—MAXIMUM LENDING RATES CHARGED BY PACS AND LDBs TO ULTIMATE BORROWERS

(Effective March 2, 1981)

(Per cent per annum)

Short-term agricultural loans	
(a) Small farmers	Not exceeding 12.5 for loans up to Rs. 5,000
(b) Others	Not exceeding 15.0*
Medium-term agricultural loans	
(a) Minor irrigation and land development	10.50
(b) Diversified purposes	11.50
(c) Other than diversified purposes:	
(i) to small farmers	11.50
(ii) to others	12.50
Long-term agricultural loans	
(a) Minor irrigation and land development	10.25
(b) Diversified purposes:	
(i) Small farmers	10.25
(ii) Others	12.50

* Not exceeding 12.5 in those States where the present rate for those other than small farmers is 11.85.
(*Source* : Agricultural Credit Department, RBI).

seasonal agricultural operations at three per cent below the Bank Rate[1]. As in previous years, the facility of full concessional rate of interest was linked with efforts made for deposit mobilisation under a scheme evolved for the purpose. The number of banks covered under the scheme was 297 (six SCBs and 291 CCBs) during 1979-80. During the year 1979-80, only 11 CCBs did not get full benefit of the concessional rate of interest under the scheme as against 20 CCBs in 1978-79.

3.9 The short-term credit limits sanctioned by the Bank to SCBs during 1980-81 for financing seasonal agricultural operations amounted to Rs. 798 crores as against Rs. 783 crores in 1979-80.

3.10 Out of the total limit of Rs. 798 crores, supplementary short-term credit limits aggregating Rs. 98 crores were sanctioned to 10 SCBs on behalf of 124 CCBs for financing *rabi* crops during 1980-81.

3.11 The SCBs were advised to enhance the scale of finance for different crops in view of the average hike of 38 per cent in fertiliser costs, so that cultivators could get adequate credit to use fertilisers. The RBI also indicated its willingness to sanction additional short-term credit limits, if necessitated by the revision of scales of finance.

1. Bank Rate was raised from 9 per cent to 10 per cent with effect from the close of business on July 11, 1981.

TABLE 3.6—RESERVE BANK CREDIT TO CO-OPERATIVES, STATE GOVERNMENTS AND ARDC DURING 1979-80 AND 1980-81

(Rupees Crores)

Section of the RBI Act, 1934	Term-wise/Purpose-wise Finance	Period for which limits are sanctioned	1979-80				1980-81			
			Limits sanctioned	Drawals	Repayments	Outstandings	Limits sanctioned	Drawals	Repayments	Outstandings
			1	2	3	4	5	6	7	8
	I. Short-term	....	**945**	**999**	**1,054**	**222**	**950**	**1,276**	**1,120**	**378**
17(2)(b) read with 17(4) (c)/ Section 17 (4)(c)	(i) Seasonal agricultural operations (at 3% below Bank Rate from March 1978)*	July-June	783	935	1,003	184	798	966£	855£	295£
— do —	(ii) Marketing of crops other than cotton and kapas (at Bank Rate from June 1978)	July-June	57	—	—	—	18	—	—	—
17(4) (c)	(iii) Marketing of cotton and kapas including monopoly procurement of cotton (at Bank Rate from June 1978)	July-June								
— do —	(iv) Purchase and distribution of fertilisers (at 1% above Bank Rate from June 1978)	January-December +	7	3	2	2	4	4	4	2
17(2) (bb) read with 17(4) (c)	(v) Production and marketing of handloom products (at 2½% below Bank Rate from March 1978) ..	April-March	57	42	31	27	75	235	200	62
— do —	(vi) Financing of other cottage and small-scale industries (at 2½% below Bank Rate from March 1978)@ ..	April-March	25	18	18	8	39	70	60	18
17(4) (c)	(vii) Purchase and sale of yarn (at Bank Rate)	April-March	5	1	—	1	6	1	1	1
— do —	(viii) Against pledge of sugar (at 3% above Bank Rate)	July-June	—	—	—	—	—	—	—	—
17(4E)	(ix) Loans to ARDC (at Bank Rate)	July-June	10	—	—	—	10	—	—	—
	II. Medium-term		**149**	**109**	**70**	**158**	**90**	**55**	**81**	**132**
17(4AA) read with 46A(2)(b)	(i) Agricultural purposes (at 3% below Bank Rate from January 1, 1979) ..	January-December +	32	21	13	36	30	17	16	37
17(4AA) read with 46B(2)	(ii) Conversion of short-term loans into medium-term loans in scarcity affected areas including rephasement and reschedulement (at 3% below Bank Rate from January 1979) ..	July-June	117	88	57	122	60	38	65	95
17 (4AA) as determined under Section 46A(2)(B)	(iii) Purchase of shares in co-operative sugar factories/ processing societies (at Bank Rate)	January-December +	—	—	—	—	—	—	—	—
	III. Long-term		**105**	**100**	**45**	**435**	**108**	**112**	**56**	**494**
17(4AA) as determined under Section 46A(2)(a)	(i) Loans to State Governments for contribution to share capital of co-operative credit institutions (at 6% per annum)	April-March	20	15	11	124	13	17	13	128
17(4AA) read with Section 46A(2)(e)	(ii) Loans to ARDC (at 6% per annum)	July-June	85	85	34	315	95	95	43	366
	TOTAL CREDIT (I+II+III) ..		**1,199**	**1,208**	**1,169**	**819**	**1,148**	**1,443**	**1,257**	**1,004**

* Subject to recovery of an additional interest of 1½ per cent as per linking scheme.
— Nil or Negligible. + Data for 1979 and 1980.
@ Including small amounts relating to advances to artisans and weavers at 3% below Bank Rate.
£ In the case of one State Co-operative Bank, data were available as on February 28, 1981.
(*Source* : Agricultural Credit Department, RBI).

3.12 The seasonality discipline in lending operations of co-operatives continued during the year. From April 1, 1981, the SCBs, were not permitted to make drawals on the credit limits sanctioned by the RBI on behalf of the CCBs unless the concerned CCB had recovered and remitted to the apex bank by March 31, 1981 at least 40 per cent of the current *kharif* demand under short-term agricultural loans or 30 per cent of the total demand under short-term agricultural loans, as on March 31, 1981. From July 1, 1981, the drawals are permitted only on behalf of such CCBs which remit to the apex bank an amount equivalent to at least 40 per cent of the total demand in respect of short-term agricultural advances for the year 1980-81. In the case of Tamil Nadu, the seasonality discipline was relaxed at the request of the State Government, as the poor recovery performance of CCBs was due to the prolonged agitation of farmers in the State.

(*b*) *Financing of Non-defaulting and New Members of PACS*

3.13 During the year, the Registrars of Co-operative Societies were advised to relax the norms for minimum recovery performance so as to enable the PACS to finance new and non-defaulting members. With a view to ensuring the uninterrupted flow of credit to agriculturists, the SCBs were advised to provide necessary financial assistance out of their own resources to CCBs whose overdues exceeded 60 per cent of the demand and were consequently not eligible for credit limits from the RBI in the normal course.

(*c*) *Short-Term Credit Limits for Financing Marketing of Crops and Selective Credit Control*

3.14 The credit limit sanctioned for financing the marketing of crops during 1980-81 aggregated Rs. 18 crores, including the limit sanctioned for marketing of cotton and *kapas*, as against Rs. 57 crores during 1979-80. The sharp decline was possibly due to the availability of adequate resources with the SCBs and the CCBs and, to some extent, the operational inefficiency of marketing societies to link credit with marketing in the recovery of production credit out of marketing finance.

3.15 In view of the steep rise in prices of *gur* and *khandsari*, the minimum margin requirements for advances against these commodities were increased from 50 per cent to 65 per cent in the case of co-operative societies engaged in the manufacture of these commodities and from 60 per cent to 75 per cent for others, effective November 10, 1980. In the case of advances against the receipts of Central and State Warehousing Corporations or rural godowns, the minimum margin was raised to 55 per cent from 25 per cent. These revised margins were also made applicable to PUCBs in Gujarat, Karnataka and Maharashtra.

3.16 The minimum lending rates against commodities subject to selective credit control have been enhanced for SCBs and CCBs in the country and for PUCBs of Gujarat, Maharashtra and Karnataka from July 1 ,1980 so as to maintain parity with lending rates for such advances by commercial banks[1]. In respect of certain special categories of advances/borrowers, the rates were further revised from March 2, 1981.

(d) Advances against Receipts of Rural Warehouses

3.17 As a sequel to the acceptance of recommendation of the Working Group on Additional Storage Facilities in Rural Areas, co-operative banks have been permitted to grant advances against warehouse receipts issued by rural warehouses on lines similar to those against Central/State Warehousing Corporation receipts in the case of commodities covered under selective credit control measures. Further, for such small advances up to Rs. 5,000 against commodities for which support prices have been announced and procurement arrangements exist, certain relaxations in margin requirements and lending rates have been granted.

(e) Distribution of Fertilisers

3.18 Where commercial banks were not in a position to provide financial accommodation, the RBI continued to sanction credit limits to the SCBs on behalf of marketing societies and federations during 1980 and 1981 at one per cent above the Bank Rate. The credit limits sanctioned for this purpose during 1980 aggregated Rs. 4 crores against Rs. 7 crores sanctioned during 1979.

(f) Dairy Co-operatives

3.19 The RBI has decided to provide a separate line of credit, at Bank Rate, by way of refinance facility to the SCBs on bahalf of the CCBs for financing the marketing and processing activities of dairy co-operatives. The decision is a sequel to the recommendation made by the Agricultural Credit Board. The refinance limits will be sanctioned with reference to a co-operative year (July-June) and each drawal will be confined to 90 days. The margin to be maintained by dairies in respect of loans from co-operative banks is 40 per cent of eligible book debts. In the case of stocks (valued at cost price), the margin will be 25 per cent for pledge and 40 per cent for hypothecation of stocks. If the valuation is done at ex-factory price, an additional margin of 10 per cent may be insisted upon.

B. Medium-Term Credit

3.20 For the calendar year 1981, the RBI made an allocation of Rs. 45 crores from the National Agricultural Credit (Long-Term Operations) [NAC(LTO)] Fund for medium-term loans. Out of the provision of Rs. 45 crores, credit limits of Rs. 18 crores were sanctioned till June 1981 as against Rs. 24 crores during the half-year ended June 1980. To become eligible for this facility of medium-term credit limits, the overdues of CCBs should be less than 60 per cent of the demand made on the primary societies, as on June 30, 1980.

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[1] An option was, however, given to SCBs/CCBs and PUCBs to raise the rates from September 4, 1980 and October 7, 1980, respectively.

Medium-Term Conversion Loans

3.21 The Bank continued to sanction medium-term conversion limits from the NAC (Stabilisation) Fund for enabling the SCBs/CCBs to convert the short-term agricultural loans of the farmers into medium-term loans due to natural calamities. Medium-term conversion limits aggregating Rs. 60 crores were sanctioned to the SCBs during the year 1980-81 as against Rs. 117 crores in 1979-80. As some SCBs had not adopted themselves to the procedural requirements and State Governments were also required to streamline their administrative arrangements in this regard, the grace period of three months granted to the SCBs for the repayment of their borrowings from the RBI to avail themselves of facilities for the conversion of short-term agricultural loans into medium-term loans was further extended by two years up to June 30, 1982.

C. *Long-Term Credit : Loans from NAC (LTO) Fund*

(*a*) *Loans for Share Capital Contribution*

3.22 Considering the difficulties experienced by the PACS in investing higher amounts in the shares of CCBs than share capital collected from their members, it was decided to reduce the ratios of shares to borrowings as between societies and the CCBs for short-term production credit as follows :

TABLE 3.7—PROPORTION OF SHARE HOLDINGS TO BORROWINGS IN CO-OPERATIVES

(In per cent)

Type of borrower	As between Members & PACS	As between PACS & CCBs	As between CCBs & SCBs
	1	2	3
1. Small/Marginal farmers and economically weaker sections	5	5**	5
2. Other farmers	10*	10	5

*Discretion is given to PACS/SCBs to collect additional share capital up to 20 per cent.
** As against 10 per cent earlier.
(*Source* : Agricultural Credit Department, RBI).

Consequently, the facility of providing loans from NAC (LTO) Fund to State Governments for additional share capital contribution to PACS for making good the deficit in their share capital collected from members, introduced in 1979-80, is being discontinued from 1981-82.

3.23 During 1980-81, loans amounting to Rs. 13 crores were sanctioned from NAC (LTO) Fund to 17 State Governments for contributing to the share capital of 5,284 co-operative credit institutions as compared with Rs. 20 crores to 16 State Governments for 8,104 co-operative credit institutions in 1979-80. The amount of loans sanctioned and the number of co-operative credit institutions during 1980-81 are lower than those during the previous year due to reorganisation of PACS and large number of institutions being ineligible for share capital contribution.

(b) Loans to ARDC

3.24 The Bank sanctioned out of the NAC (LTO) Fund a loan of Rs. 95 crores (Rs. 85 crores for 10 years and Rs. 10 crores for 15 years) to the ARDC for the year 1980-81 as against Rs. 85 crores sanctioned during 1979-80. The loan was fully drawn by the Corporation as at end-June 1981.

(c) Regulation of Advances

3.25 The norms regulating advances by the State Land Development Banks (SLDBs) to Primary Land Development Banks (PLDBs)/branches of SLDBs based on their recovery performance continued to be operative with certain modifications. The PLDBs/branches of the SLDBs having overdues above 55 per cent of demand were permitted to grant supplementary term credit on a very limited scale.

3.26 PLDBs/branches of the SLDBs with restricted eligibility for refinance are now permitted full drawal of reimbursement from the SLDB for the disbursement of second and subsequent instalments in the case of composite loans sanctioned for wells and electric motors though the borrower might have completed the well prior to the last financial year, but could not avail of the loan instalment for purchase of electric motors on account of the non-availability of electric connection. This is expected to help borrowers to derive optimum benefit from their investments.

3.27 In order to encourage larger flow of credit to small/marginal farmers, PLDBs/branches of the SLDBs having restricted eligibility for refinance have been permitted to draw funds from SLDBs to the full extent, both under normal programme and ARDC refinanced schemes/programme for the purpose of financing families identified as such under IRDP.

(d) Resources of LDBs

3.28 The total lending programme of SLDBs for the financial year 1980-81 both under normal and ARDC refinance schemes was fixed at Rs. 439 crores (Table 3.8).

3.29 As against the ordinary debenture programme of Rs. 115 crores, the debentures floated by the banks aggregated Rs. 96 crores. The support expected to be received from various institutions under ordinary debenture programme for the financial year 1981-82 is given in Table 3.9.

(e) Floatation of Rural Debentures

3.30 The rate of interest on Rural Debentures continued to be 12 per cent. None of the SLDBs in the country, however, floated Rural Debentures during the financial year 1980-81.

TABLE 3.8—LAND DEVELOPMENT BANKS (DEBENTURE PROGRAMME)

(Rupees Crores)

	1979-80	1980-81	1981-82 (Provisional)
	1	2	3
1. Total Resources	434	439	408
Of which to be raised through			
(a) ARDC special debentures	298	314	301
(b) Ordinary debentures and internal sources ..	136	125	107
2. Of 1(b) to be raised through			
(a) Internal sources	11	10	7
(b) Ordinary debentures	125	115	100
3. Actual Floatations out of 2(b)	92	96	

(*Source* : Agricultural Credit Department, RBI).

TABLE 3.9—CONTRIBUTIONS TO ORDINARY DEBENTURE PROGRAMME OF SLDBs

(Rupees Crores)

	1980-81		1981-82
	Target	Achievement	Target
	1	2	3
1. Central and State Governments	12.0	12.6	8.0
2. Life Insurance Corporation of India	45.0	45.0	45.0
3. Commercial Banks (through IBA)	10.0	10.0	10.0
4. State Bank of India Group	10.0	10.0	10.0
5. Mutual support and self help	38.0	18.2	27.0
Total	**115.0**	**95.8**	**100.0**

(*Source* : Agricultural Credit Department, RBI).

(*f*) *Perspective on Lending Operations*

3.31 On the basis of resources expected to be available to the co-operative credit system during the Sixth Plan period (1980-81 to 1984-85) the short-term production credit disbursements are estimated to rise to Rs. 2,500 crores in 1984-85. Disbursements of medium-term loans during the VI Plan period are estimated at Rs. 950 crores; and the aggregate long-term credit disbursements are estimated at Rs. 2,150 crores.

III NON-AGRICULTURAL CREDIT

(*a*) *Spreads and Rates of Interest for Loans to Industrial Units*

3.32 With effect from July 1, 1980, the primary (urban) co-operative banks were allowed to retain a spread of 2 1/2 per cent instead of 2 per cent on their advances to approved industrial units in respect of financial accommodation provided to them under Section 17(2)(*bb*) read with Section 17(4)(*c*) of the RBI Act, 1934. Consequently, the spreads to be maintained at various levels and the rates of interest to be charged to the ultimate borrowers were fixed as under :

TABLE 3.10—SPREADS AND RATES OF INTEREST FOR LOANS TO INDUSTRIAL UNITS

(Per cent)

Category of banks	Spread to be retained 1	Rate of interest to be charged 2
I. State Co-operative Banks' lending to :		
(a) Central Co-operative Banks	½	7
(b) Primary Urban Co-operative Banks	1	7½
II. Central Co-operative Banks' lending to Primary Urban Co-operative Banks	1	8
III. Primary Urban Co-operative Banks' lending to individuals/units engaged in cottage and small-scale industrial activities	2½	10-10½

(*Source* : Agricultural Credit Department, RBI).

(*b*) *Finance for Weavers' Societies*

3.33 The refinance at 2 1/2 per cent below Bank Rate granted by the RBI to SCBs for financing production and marketing of polyester cloth by primary handloom weavers' co-operative societies was extended for the financial year 1980-81.

3.34 Loans and advances made by the SCBs and the CCBs to apex/regional handloom and powerloom weavers' co-operative societies on a secured basis have been exempted from the purview of the RBI's Credit Authorisation Scheme as applicable to co-operative banks. No prior authorisation of the RBI is now needed for sanctioning credit limits for financing the production and marketing activities of handloom and powerloom weavers' co-operative societies. Advances granted by the CCBs to weavers' co-operative societies using powerlooms not approved by the Textile Commissioner are, however, not eligible for refinance from the RBI.

3.35 During the year 1980-81, the credit limit sanctioned by the RBI for production and marketing of handloom products aggregated Rs. 75 crores against Rs. 57 crores sanctioned during 1979-80. During the financial year 1981-82 (up to June 30, 1981), an amount of Rs. 49 crores was sanctioned for the purpose.

3.36 During the financial year 1980-81, short-term credit limits aggregating Rs. 39 crores were sanctioned to 43 CCBs and 63 PCBs under section 17(2)(*bb*) read with Section 17(4)(*c*) of the RBI Act, 1934, for financing industrial co-operatives (other than weavers' societies but including coir societies) and industrial units, as also rural artisans through PACS/FSS/LAMPS engaged in any of the activities covered under the 22 broad groups of cottage and small-scale industries approved by the RBI, at a concessional rate of interest. Further, short-term credit limits aggregating Rs. 25 crores were sanctioned for the aforesaid purpose during the period April to June 1981, to one SCB on behalf of 26 PCBs.

(*c*) *Limit on Advances against Shares*

3.37 With a view to discouraging the use of co-operative bank finance for speculative purposes and preventing the concentration of advances in the hands of a few borrowers, a ceiling was imposed on financial assistance against the securities of shares of joint stock companies.

TABLE 3.11—CEILING ON ADVANCES AGAINST SHARES

Category of borrowers	Limits in the case of primary co-operative banks whose total demand and time liabilities are	
	less than Rs. 1 lakh	Rs. 1 lakh and above
	1	2
1. Advances to any single party	Rs. 5,000	5% of DTL or Rs. 50,000 whichever is lower
2. Total advances against shares of all the companies put together	20% of paid-up share capital and reserves of the bank	20% of paid-up share capital and reserves of the bank
3. Total advances against shares of any one company	4% of paid-up share capital and reserves of the bank	4% of paid-up share capital and reserves of the bank

(*Source* : Agricultural Credit Department, RBI).

IV. STRENGTHENING OF CO-OPERATIVE STRUCTURE

(*a*) *Reorganisation of PACS*

3.38 The programme of reorganisation of the base level structure through the amalgamation of societies is more or less complete in Andhra Pradesh, Assam, Bihar, Haryana, Karnataka, Kerala, Madhya Pradesh, Punjab, Rajasthan, Uttar Pradesh, Manipur, Tripura and Meghalaya. However, in some States like Maharashtra, Jammu and Kashmir and Himachal Pradesh, steps have not been taken so far to implement the programme. In Gujarat, the progress made in implementing the reorganisation programme, which was drawn up as far back as 1976, was tardy. The reorganisation of PACS was in progress in Kerala and Tamil Nadu.

3.39 As at the end of June 1980 the number of primary societies, including FSS and LAMPS declined to 95,187 from 1,17,549 as on June 30, 1978.

3.40 To evaluate the impact of the reorganisation on the performance of PACS, a pilot study was conducted by the Bank in six States. The study revealed that the reorganised societies had recorded considerable expansion of credit and significant improvement in the coverage of small and marginal farmer households and in recoveries of loans. There was, however, scope for improving their non-credit activities.

(*b*) *Rehabilitation of CCBs/SCBs*

3.41 In view of their improvement in financial and operational efficiency, 24 CCBs were deleted from the list of weak banks, while 16 CCBs were brought under the programme of rehabilitation, as on June 30, 1979[1]. Thus, the number of weak CCBs under rehabilitation declined from 106, as on June 30, 1978, to 96 as on June 30, 1979. The number of SCBs under rehabilitation in areas served by the two-tier credit structure, however, rose from seven as on June 30, 1978 to nine as on June 30, 1979.

(*c*) *Rehabilitation of SLDBs*

3.42 The overdues of the LDBs in States like Bihar, Gujarat, Karnataka, Maharashtra and Tamil Nadu persistently showed a steep rise over the last few years. The IDA had shown unwillingness to permit participation of banks, having overdues exceeding 55 per cent of the demand, in the World Bank-assisted ARDC-III Project unless a time-bound rehabilitation programme was implemented to improve their working. On the basis of proposals submitted by the SLDBs for the extension of total demand aggregating Rs. 70 crores and recommendations made by the joint study team of the RBI/ARDC, these SLDBs have been allowed relief through deferment of repayment of amounts due on account of debentures held by the GOI, State Government and the ARDC to the tune of Rs. 55 crores, i. e., Rs. 25 crores under the ARDC schemes and Rs. 30 crores under the normal programmes.

3.43 The Bank received proposals from the LDBs of six States for the postponement of total demand aggregating Rs. 30 crores in drought-affected areas during the year 1979-80. The RBI agreed to the postponement of demand in the case of LDBs in Haryana, Rajasthan, Uttar Pradesh and West Bengal. The proposal of Orissa has been cleared while the proposal of Madhya Pradesh was cleared subject to the condition that if GOI for any reason is not in a position to postpone redemption of ordinary debentures, the State Government should, in addition to the postponement of redemption of debentures held by them, provide financial assistance to the bank, to bridge the gap that may arise between the inflow of funds and the commitments required to be met.

V. OTHER DEVELOPMENTS

(*a*) *Credit Authorisation Scheme*

3.44 During 1980-81 eight SCBs and 11 CCBs approached the RBI for authorisation in respect of 67 proposals for block capital finance on

1. In addition, two CCBs were deleted from the list of weak banks due to amalgamation with other banks

behalf of 52 manufacturing/processing units. Authorisation was granted to five SCBs and six CCBs for an aggregate amount of Rs. 20 crores in respect of 25 units. For granting working capital finance during the same period, 13 SCBs and 38 CCBs submitted 440 proposals on behalf of 200 units. Authorisation was granted to 12 SCBs and 36 CCBs for an aggregate amount of Rs. 698 crores on behalf of 177 units.

(*b*) *Financing of Societies by Commercial Banks*

3.45 As on June 30, 1980, the scheme of financing of PACS by commercial banks introduced in June 1970 was operating in 127 districts of 13 States where 743 branches of 25 commercial banks had adopted 2,966 societies. The average number of societies per branch continued to be four as against the norm of 10 societies per branch as envisaged for the operational viability of the scheme and optimum utilisation of field staff at branch level. During 1979-80, the commercial banks financed 1,866 societies forming 63 per cent of total number of societies adopted by them, and provided short-term agricultural loans of Rs. 23 crores which worked out to an average of Rs. 1.2 lakhs per society financed, as against the corresponding figures of Rs. 26 crores and Rs. 1.2 lakhs, respectively, during 1978-79. Medium-term loans disbursed during the period (1979-80) for investment purposes amounted to Rs. 6 crores as against Rs. 5 crores in 1978-79. The total overdues of the societies declined marginally from Rs. 36.3 crores, as at the end of June 1979, to Rs. 36 crores as on June 30, 1980.

3.46 Since the introduction of the scheme about six lakh new members had been admitted to the societies taken over by commercial banks till the end of 1979-80. The average increase in membership per society after its adoption by commercial banks worked out to 212. The total membership of all the societies taken over stood at 18.3 lakhs as on June 30, 1980. The borrowing membership of seven lakhs as on June 30, 1980 represented 37 per cent of the total membership and was higher by one lakh over the year.

(*c*) *Credit Guarantee Scheme for Small-Scale Industries*

3.47 As on March 31, 1981, 11 SCBs, 97 CCBs and 87 primary (urban) co-operative banks had joined the credit guarantee scheme for small-scale industries by executing the necessary agreements.

(*d*) *Crop Insurance*

3.48 The Pilot Crop Insurance Scheme initiated by the General Insurance Corporation (GIC) in 1979 was in operation in Gujarat, Tamil Nadu and West Bengal. To limit the financial liability under the scheme, a ceiling of Rs. 2,000 per farmer was fixed for crop insurance. During 1980-81 the limit of business for Tamil Nadu and West Bengal was raised by the GIC at the instance of the GOI from Rs. 1 crore to Rs. 2 crores each. Also during the year, an area of about 16,660 hectares was insured for over Rs. one crore in the three States. The number of farmers covered under the scheme was 20,443. The Government of Maharashtra issued orders for taking up the scheme on a mandatory basis in selected areas for small and marginal farmers.

(e) Banking Regulation

3.49 With the issue of licences to eight CCBs and 54 existing PCBs and 13 new PCBs during July 1980 to June 1981, the number of licenced co-operative banks rose to 304 as on June 30, 1981, from 230 as on June 30, 1980, The number of licenced SCBs, CCBs and PCBs as at the end of June 1981, stood at 7, 25 and 272, respectively.

3.50 During 1980-81, 180 licences were issued to SCBs and PCBs for opening new places of business under Section 23 of the Banking Regulation Act, 1949, as against 113 licences issued during 1979-80.

3.51 The Committee on Urban Co-operative Banks had recommended that the existing salary earners' societies should not be permitted to accept deposits from non-members and such of these societies which accepted such deposits and were classified as PCBs should be asked to go out of the purview of the Banking Regulation Act, 1949. The RBI, on receipt of representations in this regard, decided that the existing salary earners' societies classified as PCBs might continue to function as banks, provided they complied with the provisions of the BR Act, 1949. The rest of the societies will have to go out of the purview of the BR Act by refunding deposits of non-members. Moreover, the Bank directed that, in future, no salary earners' society accepting deposits from non-members should be registered by the Registrars of Co-operative Societies.

(f) Deposit Insurance Scheme

3.52 With the extension of the Deposit Insurance Scheme to cover co-operative banks in Tamil Nadu, the number of States and Union Territories coming under the purview of the scheme stood at 13* and 3**, respectively, as at the end of June 1981.

(g) Permission for Foreign Exchange Business

3.53 As on June 30, 1981, the number of urban co-operative banks authorised to deal in foreign exchange was two—the same as it was a year ago. During the year, the Kerala SCB was permitted to accept only Rupee Term Deposits of non-residents, i. e. to open and maintain ordinary non-resident rupee fixed deposit accounts.

VI. AGRICULTURAL REFINANCE AND DEVELOPMENT CORPORATION (ARDC)

3.54 As an apex development bank for agriculture, the ARDC has been playing an active role in promoting viable investments in agriculture and allied activities in different States.

*Andhra Pradesh, Gujarat, Jammu & Kashmir, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Rajasthan, Tamil Nadu, Tripura, Uttar Pradesh and West Bengal.
**Delhi, Goa, Daman and Diu and Pondicherry.

Operations

3.55 Since its inception in 1963 till end-June 1981, the ARDC's commitments aggregated Rs. 3,860 crores and disbursements Rs. 2,223 crores (excluding short-term finance of Rs. 15 crores). During the year the ARDC sanctioned 4,494 schemes involving commitments of Rs. 819 crores and made disbursements of Rs. 499 crores. During the previous year it had sanctioned 3,657 schemes, with commitments of Rs. 757 crores and made disbursements of Rs. 412 crores. The share of schemes for diversified purposes, i. e., other than minor irrigation, with commitments of Rs. 385 crores formed 55 per cent of the total number of sanctioned schemes and 47 per cent of the total commitments during the year which is lower by eight percentage points in number and by three percentage points in commitments when compared with the position in the previous year. Agency-wise, the share of SCBs and RRBs in total ARDC finance remained unchanged at the previous year's level of two per cent each while the share of SLDBs increased marginally from 40 per cent to 42 per cent with a corresponding fall in the share of commercial banks from 56 per cent to 54 per cent.

3.56 Region-wise, the share of the Northern Region in the total disbursements during the year at 28 per cent was marginally higher as compared to 27 per cent during the previous year. However, the share of the Eastern Region at 11 per cent had registered a marginal decline of one percentage point over that of the previous year. In the case of Southern, Western, Central and North-Eastern Regions, their shares at 23 per cent, 15 per cent, 22 per cent and one per cent, respectively, remained the same as in the previous year.

3.57 The Corporation continued its efforts in reducing inter-regional imbalances by stepping up its scheme formulation efforts in the less-developed States. The refinance disbursed in these States increased from Rs. 164 crores in 1979-80 to Rs. 192 crores in 1980-81 (Table 3.12). The number of blocks to be covered by one type of ARDC scheme or the other in the less-developed areas also narrowed down to 121 as against 185 in the previous year. Among the less developed States, all States except Bihar, Manipur and Tripura improved their performance as compared with the previous year with Meghalaya availing of ARDC refinance for the first time. The cumulative position of schemes sanctioned in the less developed States, at the end of June 1981, stood at 7,448 with commitments and disbursements thereof at Rs. 1,781 crores and Rs. 875 crores, respectively.

3.58 State-wise, Uttar Pradesh availed of the largest share of refinance (Rs. 72 crores), followed by Andhra Pradesh (Rs. 71 crores), Punjab (Rs. 68 crores), Maharashtra (Rs. 52 crores) and Haryana (Rs. 49 crores).

3.59 The ARDC pursued its objective of benefitting the maximum number of small farmers[1] under its schemes. Thus, even after the

1. According to the ARDC, a farmer cultivating land providing a pre-developmental net return not exceeding Rs. 2,000 per annum at 1972 prices, is classified as a small farmer. The equivalent of the above amount based on 1979-80 prices is now worked out at Rs. 3,500 per annum. Similarly, the income ceiling for the medium farmer is revised from Rs. 3,500 to Rs. 6,100.

TABLE 3.12—DISBURSEMENTS BY ARDC TO LESS-DEVELOPED AND/OR UNDER-BANKED STATES

(Rupees Lakhs)

States	1976-77	1977-78	1978-79	1979-80	1980-81
	1	2	3	4	5
1. Uttar Pradesh	37,20	43,17	48,77	56,60	72,49
2. Madhya Pradesh	26,10	16,70	16,66	36,47	38,01
3. Bihar	16,96	18,64	22,53	24,68	24,46
4. Orissa	5,65	8,16	8,75	13,15	19,79
5. West Bengal	5,90	9,96	10,45	9,81	9,84
6. Andaman & Nicobar	—	—	—	1	1
7. Assam & Other North-Eastern States	83	3,09	2,79	3,07	6,30
8. Rajasthan	7,87	13,12	16,16	18,15	18,90
9. Jammu & Kashmir	6	15	14	12	59
10. Himachal Pradesh	2	23	50	1,85	1,94
11. Total Disbursements (1 to 10)	100,59 (45.6)	113,22 (48.3)	126,75 (44.5)	163,91 (39.8)	192,33 (38.5)
12. Total Disbursements (All India)	220,82	234,30	284,87	412,23	498,79

Figures in brackets indicate percentages of row 11 to row 12.
(*Source :* Agricultural Refinance and Development Corporation.)

upward revision of interest rates from March 2, 1981, the ARDC continued the facility of concessional rate of interest of 10.25 per cent to small farmers, as against 12.50 per cent to others, under its schemes for diversified purposes. With the intensive efforts made by ARDC, the share of small farmers in ARDC disbursements increased from 35 per cent in 1975-76 to 55 per cent in 1979-80 and further to 60 per cent in 1980-81.

3.60 The IRDP launched in 1978-79 with a view to assisting small and marginal farmers, share croppers, agricultural labourers, scheduled castes and scheduled tribes was extended by the GOI in October 1980 to all the 5,004 blocks in the country. The ARDC is actively involved in the formulation of banking plans under this programme. During the year, banking plans covering 867 more blocks with commitments of Rs. 86 crores were sanctioned by the Corporation, thus bringing the cumulative position of blocks with approved banking plans to 1,538 with commitments and disbursements of Rs. 146 crores and Rs. 17 crores, respectively. The poor drawals were due to the disbursements of loans under DRI Scheme being not eligible for refinance from the ARDC, delay on the part of banks in claiming reimbursement and procedural delays in release of subsidy by State Governments.

3.61 The implementation of the Third ARDC Credit Project launched in January 1980 (to be completed in December 1981) has been satisfactory so far, and up to the end of June 1981 the ARDC disbursements amounted to Rs. 377 crores which qualified for a drawal of about $219 million of IDA credit. Two IDA-assisted projects, *viz.*, Multi-State Cashew Projects covering Andhra Pradesh, Karnataka, Kerala and Orissa and a Sericulture Project in Karnataka, approved in 1979-80 with credit of $ 22 million and $ 54 million, respectively, were taken up for implementation in September and December 1980, respectively. Also, during 1980-81, Sunderban Development Project involving an assistance equivalent to SDR 13.35 million was sanctioned by the International Fund for Agricultural Development (IFAD) out of which assistance equivalent to SDR 0.99 million is to be routed through the ARDC. In all, the World Bank Group has sanctioned 40 projects involving credit of $1,200 million to be routed through ARDC. Of these, 14 projects have been fully implemented so far.

3.62 In addition, agreements signed with the USAID, UK, KFW, CIDA and Netherlands during the year involve credit equivalent to the tune of $ 158 million. Under the on-going credits, amounts equivalent to $166.5 million have been utilised during the year.

Policy Decisions

3.63 The more important among the policy decisions of the ARDC during 1980-81 were those related to the revision of interest rates, enhancement of maturity period of loans for pump-sets, provision of refinance in respect of loans for the replacement of certain equipment and extension of refinance facilities for installation of Janata-type biogas plants which are dealt with below.

3.64 Following the GOI's decision to revive the tax on interest income earnings of scheduled commercial banks in 1980-81, the ARDC revised (effective July 1, 1980) the interest rates to be charged for its schemes routed through commercial banks and SLDBs/SCBs. Although the latter agencies are exempted from the payment of tax on interest earned, the revised rates were made applicable to them so as to maintain uniformity in the rates structure applicable to the ultimate borrowers. Those rates were further revised effective from March 2, 1981 (Table 3.13) in line with the revision of interest rates structure referred to in Chapter 2. However, the interest rates on ARDC refinance to the financing institutions remained unchanged.

TABLE 3.13—CHANGES IN INTEREST RATES TO BE CHARGED TO ULTIMATE BORROWERS UNDER ARDC SCHEMES

(Per cent per annum)

	With effect from		
	15-3-1979	1-7-1980	2-3-1981
1. Minor Irrigation and Land Development	9.50	10.25	10.25
2. Diversified Purposes			
(a) Small Farmers	9.50	10.25	10.25
(b) Others	10.50	11.35	12.50

(*Source* : Agricultural Refinance and Development Corporation).

3.65 The ARDC decided to enhance the maturity period of loans for pump-sets, disbursed from October 1, 1980, from seven years to nine years. In the case of composite loans to small farmers the maximum period continued to be 15 years with repayment period of loan for pump-set increased to nine years.

3.66 The ARDC agreed in principle to refinance, subject to certain conditions, the banks in respect of loans issued by them for the replacement of major parts/components or additions to equipment in mechanised fishing vessels, lift irrigation units, milk processing plants, etc., so as to save on capital costs and ensure better utilisation of the existing assets.

3.67 The ARDC decided to extend its refinance facilities for implementation of schemes for setting up of Janata-type biogas (gobar gas) plants subject to certain terms and conditions in addition to the existing facility of refinance for installation of Khadi and Village Industries Commission (KVIC)-type gobar gas plants.

VII. STUDY TEAMS

(a) *Report of the Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD)*

3.68 The Committee submitted its final Report to the RBI in March 1981. As mentioned in the last Report the Committee has suggested the setting up of a new apex bank, *viz.*, National Bank for Agriculture and Rural Development (NABARD), as an organisational device for providing undivided attention, forceful direction and pointed focus to the credit problems arising out of integrated rural development. According to the recommendations of the Committee the new bank would take over from the RBI the overseeing of the entire rural credit system and the statutory inspection of co-operative banks and RRBs, on an agency basis, while the RBI would continue to retain its essential controls. The NABARD would be linked organically with the RBI by the latter contributing half of its share capital (the other half being contributed by the GOI) and nominating three of its Central Board Directors on the Board of the NABARD, besides a Deputy Governor of the RBI being appointed as Chairman. The authorised share capital of the NABARD would be Rs. 500 crores and paid up capital Rs. 100 crores to be contributed equally by the RBI and the Government of India. In terms of the recommendations of the Committee the National Agricultural Credit (Long Term Operations) Fund would stand transferred to NABARD to form part of its National Rural Credit (Long Term Operations) Fund which would be used for providing term loans. It would have access to GOI/market also for raising resources. As regards short-term credit/working capital loans, the NABARD would draw on the assistance from RBI.

3.69 The Final Report of the Committee was under consideration but preliminary steps for the establishment of the NABARD were initiated.

The Draft Bill submitted by the CRAFICARD for the establishment of NABARD was considered by the RBI and a revised version sent to the GOI for consideration. The Committee has probed deeply into the problem of agricultural credit and has come out with views and recommendations on different aspects of the problem. The important among them are summarised below.

Co-operative Credit System

3.70 The Committee has expressed the view that while the three-tier short term co-operative structure could remain as the general pattern for bigger States, the two-tier structure may be continued in smaller States, and Union Territories. There, however, is a need for quick analysis of weak CCBs, and if their rehabilitation is not possible, the SCBs may sponsor RRBs instead.

3.71 The Committee has rejected any dogmatic approach to force integration of short-term and long-term wings of the co-operative structure. A beginning, however, may be made at the primary level by the PACS acting as agents of the LDBs in the matter of dispensing long-term credit. While the short-term credit structure may be permitted to lend term loans for periods up to seven years, the long-term structure may be allowed to provide loans for periods of three years and above. The LDBs should be allowed to handle short-term credit as part of project lending.

3.72 The Committee has suggested a speedy reorganisation of PACS and their conversion into multi-purpose service institutions. The PACS should have two categories of membership—one exclusively reserved for the weaker sections distinguished by the lower rate of share capital prescribed for them and the other earmarked for those contributing share capital at the usual rate.

3.73 The existing long-term co-operative credit structure (federal in some States, unitary in others) may be continued. However, State Governments should take measures for the rehabilitation of LDBs within a time span of one or two years. The State Governments can help the LDBs in respect of overdues by purchasing the mortgaged land brought for sale in settlement of claims of LDBs.

3.74 State Governments should introduce a system of regular checks to detect refusal of loans to the weaker sections. The financing bank should also consider denial of credit facilities to the offending societies.

3.75 Wilful default in repayment of co-operative loans should be treated as a criminal offence, attracting deterrent punishment under the criminal law of the country.

Commercial Banks and RRBs

3.76 The Committee has underlined the need for a better spread of commercial bank branches in rural and semi-urban areas. The scheme of ceding PACS to commercial banks need not be extended but may be continued wherever it has worked well. The functional co-operatives should be permitted to seek credit facilities from commercial banks. The Committee has recognised the RRBs as the suitable institutions to take banking to the rural households and ensure more effective supervision over the end-use of loans. Preference should, therefore, be shown to the RRBs in regard to the licensing of branches in rural areas. In addition, the sponsor commercial banks should be encouraged to transfer the eligible business of their rural branches to the RRBs, wherever possible. The sponsor banks themselves may draw up a programme of transfer of business on a mutually agreed basis to enable the RBI to take the necessary steps to facilitate the transfer. The RRBs should continue to concentrate on catering to the credit needs of the target groups.

(*b*) *Study Teams on Agricultural Credit Institutions in Jammu and Kashmir/Himachal Pradesh/Orissa*

3.77 The Reports of the Study Teams on Agricultural Credit Institutions in Jammu and Kashmir and Himachal Pradesh contain recommendations, *inter alia*, on the reorganisation of the PACS in the States on a viable basis, rehabilitation of DCCBs and a programme for the rehabilitation of non-wilful defaulters. These recommendations have, by and large, been accepted by the RBI and have already been forwarded to the concerned State Governments for implementation. The work of the Study Team on Agricultural Credit Institutions in Orissa was nearing completion.

(*c*) *Study Teams on Agricultural Credit Institutions in Manipur/Karnataka*

3.78 At the instance of the Government of Manipur and in consultation with the GOI, the Study Team on Agricultural Credit Institutions in Manipur was set up by the Reserve Bank in June 1981 to undertake an in-depth study of the working of agricultural credit sector in Manipur with a view to suggesting remedial measures.

3.79 The RBI has constituted a Study Team to examine the factors inhibiting the growth of co-operative credit institutions in Karnataka and to suggest suitable measures to ensure adequate credit facilities to agriculture in the State.

(*d*) *Working Group on Institutional Credit Arrangements for Jute Growers*

3.80 In pursuance of the recommendations made in the 33rd Report of the Committee on Public Undertakings in regard to assessment of credit requirements of jute growers and preparation of comprehensive time-bound programme for the provision of institutional credit to such growers, the GOI, in consultation with the RBI, constituted a Working Group.

3.81 The Group will assess the total credit requirements of jute growers for the next five years and suggest a programme for introduction of institutional credit, measures for effectively linking the co-operative credit and marketing structures and steps for providing crop insurance cover to jute growers. The work of the Working Group was in progress.

(*e*) *Study Group on Deployment of Resources by Co-operative Banks*

3.82 The RBI has set up a Study Group for making an in-depth study of the problem of surplus resources faced by co-operative banks with a view to finding out its causes and effects as also its magnitude and suggesting avenues for profitable investment.

CHAPTER 4

OTHER FINANCIAL INSTITUTIONS

4.1 A review is presented in this Chapter of the assistance extended by the RBI in the industrial sphere and the activities of other financial institutions, *viz.*, Industrial Development Bank of India (IDBI), State Financial Corporations (SFCs), Deposit Insurance and Credit Guarantee Corporation (DICGC) and Unit Trust of India (UTI). Further strides were made during the year in the provision of industrial finance, particularly to the small-scale sector. The term-lending institutions are, however, beginning to face some resource constraint in meeting the increased demand for long-term credit.

I. RBI ASSISTANCE TO TERM LENDING INSTITUTIONS

4.2 Under the provisions of the RBI Act, 1934, the Bank provides long-term loans and short-term credit facilities to financial institutions engaged in industrial finance. During 1980-81 (July-June), the RBI sanctioned a loan of Rs. 270 crores to the IDBI out of the National Industrial Credit (Long-Term Operations) Fund (LTO Fund) as against Rs. 220 crores in the previous year. Of this, Rs. 20 crores was sanctioned in adjustment of the undrawn amount sanctioned on June 30, 1980 and Rs. 30 crores as an advance drawing from the 1981-82 (July-June) allocations. The outstanding amount of the IDBI's borrowings from the LTO Fund stood at Rs. 1,323 crores, as on June 30, 1981. Besides, a short-term borrowing limit of Rs. 100 crores was also sanctioned to the IDBI during the year against the security of eligible bills rediscounted by it. There were no outstandings against these limits, as on June 30, 1981. The RBI renewed the borrowing limit of Rs. 3 crores sanctioned to the Industrial Finance Corporation of India (IFCI) for a further period of one year (*i.e.*, up to December 31, 1981). The Industrial Credit and Investment Corporation of India (ICICI), which has been notified by the Central Government as a financial institution eligible to borrow from the Bank, was sanctioned a short-term credit limit of Rs. 10 crores for one year against the security of *ad hoc* bonds in March 1981. The ICICI availed of the entire limit and the amount of Rs. 10 crores was outstanding as on June 30, 1981. During the period 1980-81, the Bank sanctioned fresh borrowing limits aggregating Rs. 12 crores to five SFCs against the security of their *ad hoc* bonds and also extended the period of borrowing limits amounting to Rs. 12 crores due to expire during the year in respect of five SFCs. The total borrowing limits in force, as at the end of June 1981, amounted to Rs. 17 crores in respect of eight SFCs. The outstanding amount stood at Rs. 5 crores as on May 25, 1981. Besides, the GOI approved during 1980-81 (April-March) the market borrowing programmes of 13 SFCs for an aggregate amount of Rs. 44 crores (notified) as against Rs. 40 crores in the previous year.

II. INDUSTRIAL DEVELOPMENT BANK OF INDIA

Operations—An Overview

4.3 Aggregate financial assistance sanctioned (excluding guarantees) by the IDBI in various forms during the year 1980-81 (July-June) at Rs. 1,754 crores covering 62,696 applications was higher by 32.9 per cent as compared with Rs. 1,320 crores sanctioned to 55,519 applicants during 1979-80. The increase was mainly on account of higher sanctions of loans under the Project Finance Scheme. The total disbursements during the same period at Rs. 1,118 crores were 33.9 per cent higher than the amount of Rs. 835 crores disbursed during 1979-80. The cumulative amount of assistance sanctioned and disbursed since inception of the IDBI stood at Rs. 7,088 crores and Rs. 4,730 crores, respectively, as at the end of 1980-81 (Table 4.1). The amount outstanding as at the end of June 1981 was Rs. 3,214 crores. Scheme-wise details of operations are given below.

4.4 The total project assistance and export finance (sanctioned) formed 93.4 per cent and 6.6 per cent, respectively, of the total assistance provided by the IDBI during 1980-81 as compared to 94.4 per cent and 5.6 per cent, respectively, during the previous year. The share of (*i*) direct industrial assistance, (*ii*) rediscounting of bills and (*iii*) subscriptions to shares and bonds of financial institutions at 37.3 per cent, 13.4 per cent and 3.2 per cent, respectively, were higher during the period as compared to 31.5 per cent, 13.2 per cent and 3.1 per cent, respectively, during the previous year. The share of refinance of industrial loans in the total assistance sanctioned at 39.4 per cent was, however, lower than that of 46.5 per cent in the previous year.

Project Finance Scheme

4.5 Sanctions under Project Finance Scheme, comprising loans and underwriting and/or direct subscriptions, during 1980-81 aggregated Rs. 566 crores, which is 82.0 per cent higher than the amount of Rs. 311 crores sanctioned in 1979-80. Disbursements at Rs. 258 crores were also substantially higher by 75.5 per cent as compared with Rs. 147 crores in 1979-80.

4.6 An amount of Rs. 369 crores (65.2 per cent of the total project finance assistance of Rs. 566 crores) was sanctioned to 84 new projects, Rs. 86 crores (15.2 per cent) for expansion and diversification of 28 existing units and Rs. 53 crores (9.4 per cent) for rehabilitation and modernisation programmes of 14 units. The balance of Rs. 58 crores (10.2 per cent) was sanctioned to 32 projects to meet overruns in project costs (Table 4.2).

4.7 Assistance of Rs. 401 crores (70.8 per cent of the total project finance) was sanctioned for 105 projects located or to be located in specified backward districts. An industry-wise distribution of sanctions shows

TABLE 4.1—ASSISTANCE SANCTIONED BY THE IDBI AND UTILISED BY THE ASSISTED CONCERNS DURING 1979-80 AND 1980-81 (JULY-JUNE) AND SINCE INCEPTION

(Amount in Rupees Crores)

Type of Assistance	Sanctions (effective)						Disbursements		
	1979-80 (July-June)		1980-81 (July-June)		Cumulative since inception upto end-June 1981		1979-80 (July-June)	1980-81 (July-June)	Cumulative disbursements since inception up to end-June 1981
	No. of applications	Amount	No. of applications	Amount	No. of applications	Amount	Amount	Amount	
	1	2	3	4	5	6	7	8	9
1. Direct Industrial Assistance	**291**	**415.9 (31.5)**	**365**	**653.5 (37.3)**	**2042**	**2433.7 (34.3)**	**217.3 (26.0)**	**353.6 (31.6)**	**1406.4 (29.7)**
(a) Direct loans to industrial concerns (other than for exports)	**242**	**377.9**	**300**	**582.9**	**1505**	**2197.9**	**209.6**	**349.4**	**1328.8**
(i) Normal	101	273.4	163	495.7	958	1813.1	138.9	253.3	1110.9
(ii) Soft loan assistance	75	93.1	62	73.2	315	347.6	62.5	85.0	192.0
(iii) Technical Development Fund	66	11.4	75	14.0	232	37.2	8.2	11.1	25.9
(b) Underwriting of and direct subscriptions to shares and debentures of industrial concerns	49	38.0	65	70.6	537	235.8	7.7	4.2	77.6
2. Refinance of industrial loans.. ..	54060	614.1 (46.5)	60915	691.1 (39.4)	189595	2561.9 (36.1)	410.3 (49.1)	482.7 (43.2)	1785.2 (37.7)
3. Rediscounting of bills	1074	174.6 (13.2)	1311	235.1 (13.4)	4667	1330.2 (18.8)	131.5 (15.8)	176.2 (15.8)	1029.5 (21.8)
4. Subscriptions to shares and bonds of financial institutions	20	40.2 (3.1)	24	56.7 (3.2)	35	251.3 (3.6)	41.9 (5.0)	53.2 (4.8)	246.5 (5.2)
5. Seed capital through SIDCs ..	35	1.4 (0.1)	44	2.0 (0.1)	137	5.5 (0.1)	0.9 (0.1)	1.2 (0.1)	2.8 (0.1)
Total Project Assistance (1 to 5)	**55480**	**1246.2 (94.4)**	**62659**	**1638.4 (93.4)**	**196476**	**6582.6 (92.9)**	**801.9 (96.0)**	**1066.9 (95.5)**	**4470.4 (94.5)**
6. Export finance	**39**	**73.6 (5.6)**	**37**	**116.0 (6.6)**	**328**	**505.8 (7.1)**	**33.1 (4.0)**	**50.9 (4.5)**	**259.1 (5.5)**
(a) Direct loans for exports	6	18.1	10	13.8	120	163.8	13.3	18.1	126.7
(b) Refinance of export credit ..	16	6.2	17	10.2	157	84.4	2.9	12.2	69.3
(c) Overseas buyers' credit	—	—	1	54.1	10	78.7	4.3	4.1	19.5
(d) Foreign lines of credit	5	41.0	3	34.0	22	164.0	11.9	12.4	38.7
(e) Overseas investment finance ..	8	6.9	5	2.9	14	12.5	0.7	3.2	3.9
(f) Pre-shipment credit	4	1.4	1	1.0	5	2.4	—	1.0	1.0
Total (1 to 6)	**55519**	**1319.8 (100.0)**	**62696**	**1754.4 (100.0)**	**196804**	**7088.4 (100.0)**	**835.0 (100.0)**	**1117.8 (100.0)**	**4729.5 (100.0)**
7. Guarantees for loans and deferred payments	—	—	2	3.1	17	29.8	—	—	19.5*
8. Export guarantees	103	100.1	104	144.4	381	406.0	94.6*	138.1*	374.5*

* Guarantees executed.

Notes: 1. The number of applications in respect of rediscounting of bills (item 3) relates to the number of purchaser-users and in the case of subscriptions to shares and bonds of financial institutions (item 4) to the number of financial institutions.

2. In the case of rediscounting of bills, amount sanctioned represents face value of bills rediscounted and amount disbursed indicates the net disbursement after deduction of rediscount charges from the face value.

3. Figures in brackets represent percentages to totals.

(*Source:* Industrial Development Bank of India).

TABLE 4.2—PURPOSE-WISE CLASSIFICATION OF ASSISTANCE SANCTIONED BY THE IDBI DURING 1980-81 (JULY-JUNE)

(Amount in Rupees Crores)

Schemes	PURPOSE									
	New Projects		Expansion/ Diversification		Modernisation/ Rehabilitation		Supplementary Assistance*		Total	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
	1	2	3	4	5	6	7	8	9	10
1. Project Finance Scheme @	84	369	28	86	14	53	32	58	158	566
2. Rediscounting of Bills ..	33	1	—	—	1280	234	—	—	1311	235
TOTAL	**117**	**370**	**28**	**86**	**1294**	**287**	**32**	**58**	**1469**	**801**

* That is, assistance for (i) meeting overruns in project costs arising from delays in implementation, rise in cost of machinery and building materials, shortfall in estimated cash resources, etc., (ii) relieving strain on cash resources of companies which had earlier utilised working capital funds for acquisition of fixed assets, (iii)financial re-organisation, etc.

@ Comprising project loans and underwriting assistance.

Note : Number in respect of item 1 represent number of projects and in respect of item 2 number of purchaser-users.

(*Source :* Industrial Development Bank of India)

that Rs. 376 crores (66.4 per cent) was in respect of high priority industries, viz., textiles (including jute) Rs. 51 crores (9.0 per cent),— cement Rs. 83 crores (14.7 per cent),—paper Rs. 174 crores (30.7 per cent),—sugar Rs. 41 crores (7.2 per cent),— fertilisers Rs. 8 crores (1.4 per cent) and power generation Rs. 19 crores (3.4 per cent).

4.8 These sanctions are likely to catalyse investment of the order of Rs. 1,484 crores and the projects, when completed, will provide employment to about 60,000 persons.

Soft Loan Scheme

4.9 In continuation of trend observed during 1979-80, there was further deceleration in the flow of applications under the Soft Loan Scheme during 1980-81. As a result, assistance sanctioned by the IDBI under the Scheme for modernisation of units in the five selected industries, viz., cotton textiles, jute, cement, sugar and certain specified engineering industries, declined by 21.4 per cent from Rs. 93 crores in 1979-80 (July-June) to Rs. 73 crores during 1980-81 (July-June). Disbursement of assistance, however, went up by 36 per cent to Rs. 85 crores from Rs. 63 crores in 1979-80. Textile industry was the major beneficiary claiming Rs. 38 crores or 52.1 per cent of the sanctions, though this was significantly lower than Rs. 67 crores sanctioned to this industry in the preceding year. In the case of sugar and engineering industries, the assistance sanctioned during the year amounted to Rs. 6 crores and Rs. 21 crores, respectively, as against Rs. 10 crores and Rs. 18 crores in 1979-80.

Technical Development Fund (TDF) Scheme

4.10 Sanctions and disbursements under Technical Development Fund Scheme during 1980-81 aggregated Rs. 14 crores (75 units) and Rs.11 crores, respectively, as compared to Rs. 11 crores (66 units) and Rs. 8 crores, respectively, during 1979-80.

Refinance of Industrial Loans

4.11 Sanctions and disbursements under the refinance of industrial loans scheme during 1980-81 at Rs. 691 crores (60,915 applications) and Rs. 483 crores were higher by 12.5 per cent and 17.6 per cent, respectively, over the year. Sanctions under the Automatic Refinance Scheme aggregated Rs. 363 crores in respect of 56,742 applications. About 68 per cent (or Rs. 469 crores) of the total refinance assistance was due to loans sanctioned to the small-scale sector (including small road transport operators). During the year 1980-81, the IDBI sanctioned assistance of Rs. 5 crores to 5,647 units under the composite loan scheme to meet both fixed and working capital requirements of village and cottage industries in the tiny sector.

Bills Rediscounting Scheme

4.12 Under the Bills Rediscounting Scheme, during 1980-81 (July-June) sanctions amounted to Rs. 235 crores in respect of 1,311 purchaser-users of machinery and disbursements to Rs. 176 crores—34.7 per cent and 34.0 per cent higher than the respective amounts for 1979-80. Purchaser-users in small-scale sector and in public sector utilities like State Electricity Boards (SEBs) and State Road Transport Corporations availed of bills rediscounting assistance of Rs. 44 crores and Rs. 33 crores, respectively, during 1980-81.

Subscriptions to Shares and Bonds of Financial Institutions

4.13 During the year under review, the IDBI subscribed Rs. 37 crores to the bonds issues of the IFCI (Rs. 20 crores) and the ICICI (Rs. 17 crores) to provide resource support to these two institutions for their participation in the soft loan scheme. A sum of Rs. 125 lakhs was subscribed to the share capital of the IFCI representing the IDBI's share in the total share capital of Rs. 250 lakhs raised by the IFCI. The IDBI also subscribed a sum of Rs. 15 crores towards the share capital of 17 SFCs and Rs. 5 lakhs to the share capital of four Technical Consultancy Organisations. Thus, during 1980-81 the IDBI subscribed Rs. 53 crores to the shares and bonds of financial institutions raising the total of such subscriptions to Rs. 247 crores as at the end of June 1981.

Seed Capital Assistance

4.14 The IDBI has been operating two seed capital schemes in order to assist new entrepreneurs who have other abilities but lack finance to put in the required promoters' contribution. The first scheme is operated by the SFCs and the IDBI plays an indirect role through contribution to the special share capital of the SFCs out of which seed capital assistance is provided to entrepreneurs in the small-scale sector. By the end of March 1981, the SFCs had raised special share capital of Rs. 9 crores and amounts of assistance sanctioned and disbursed by the IDBI stood at Rs. 4 crores and Rs. 2 crores, respectively. Under the second scheme operated by the IDBI through the SIDCs for the benefit of new and technician entrepreneurs, certain liberalisations were effected during 1980-81. With a view to facilitating flow of seed capital assistance to small-scale industrial units, the scheme will hereafter be operated also through the SFCs besides the SIDCs. This is in addition to the special capital scheme operated by the SFCs. Sanctions under the scheme during 1980-81 amounted to Rs. 197 lakhs covering 44 applications, the assistance disbursed being Rs. 117 lakhs.

Export Finance Assistance

4.15 Total assistance sanctioned under the Export Finance Schemes (excluding guarantees) increased by 57.6 per cent to Rs. 116 crores (37 applicants) during the year under review from Rs. 74 crores (39 applicants) during 1979-80. The maximum sanction of assistance at Rs. 54 crores was under the overseas buyers' credit—a new credit line of Rs. 52 crores to Indonesia and an enhancement of existing line of credit to Tanzania by Rs. 2 crores. Under the foreign lines of credit, three new lines of credit were sanctioned during the year to Sudan, Thailand and Seychelles for Rs. 12 crores, Rs. 10 crores and Rs. 5 crores, respectively. In addition, an earlier credit line sanctioned to Mozambique was enhanced by Rs. 7 crores. Assistance of Rs. 14 crores sanctioned under the direct loans for exports was for facilitating export of buses, tractors, two-wheeler scooters, transmission line tower, bicycles, textile machinery, etc., to Arab Republic of Egypt (ARE), Uganda, Tanzania, Indonesia and Libya. In order to facilitate the setting up of joint ventures abroad by Indian promoters, an assistance of Rs. 3 crores was sanctioned under the Overseas Investment Finance Scheme. Aggregate disbursements under the export finance schemes at Rs. 51 crores were 54.5 per cent higher than the amount of Rs. 33 crores disbursed during 1979-80.

4.16 During the year, 104 export guarantees were approved for overseas construction jobs and for supply and financing contracts secured by Indian exporters/contractors involving a commitment of Rs. 144 crores as compared with 103 guarantees for Rs. 100 crores in the preceding year. Guarantee obligations actually issued/executed during 1980-81 amounted to Rs. 138 crores as against Rs. 95 crores during 1979-80.

Assistance to Backward Districts

4.17 During 1980-81, the IDBI's sanctions and disbursements of financial assistance to industrial units in the specified backward districts aggregated Rs. 745 crores and Rs. 416 crores, respectively. Sanctions increased by 29.0 per cent and disbursements by 34.9 per cent over the year. Assistance to backward districts constituted 47.1 per cent and 41.1 per cent, of total assistance sanctioned and disbursed, respectively, by the IDBI during 1980-81 (Table 4.3).

TABLE 4.3—ASSISTANCE SANCTIONED (EFFECTIVE) AND DISBURSED BY IDBI TO UNITS IN THE SPECIFIED BACKWARD DISTRICTS @

(Rupees in Crores)

Year (July-June)	Assistance Sanctioned			Assistance Disbursed		
	Total	Backward districts	% of Col. 3 to Col. 2	Total	Backward districts	% of Col. 6 to Col. 5
1	2	3	4	5	6	7
1964-70	298.6	44.7	15.0	250.1	36.1	14.4
1970-71	87.0	21.0	24.1	54.2	9.4	17.3
1971-72	134.8	44.9	33.3	73.8	15.2	20.6
1972-73	121.6	40.7	33.5	97.6	23.6	24.2
1973-74	164.4	58.4	35.5	143.0	49.4	34.5
1974-75	266.1	93.1	35.0	186.8	68.8	36.8
1975-76	380.0	169.4	44.6	249.6	98.7	39.5
1976-77	597.0	314.8	52.7	351.5	145.3	41.3
1977-78	601.0	284.1	47.3	426.4	220.2	51.6
1978-79	917.7	361.4	39.4	616.5	313.5	50.9
1979-80	1204.6	577.3	47.9	759.1	308.4	40.6
1980-81	1582.7	744.8	47.1	1012.5	416.1	41.1
TOTAL	6355.5	2754.6	43.3	4221.1	1704.8	40.4

@ Comprising project loans, underwriting, soft loans, technical development fund, refinance of industrial loans and rediscounting of bills.

Foreign Lines of Credit for Imports

4.18 During 1980-81, sanctions and disbursements under the US $ 40 million World Bank loan for on-lending to the SFCs totalled Rs. 14 crores and Rs. 13 crores, respectively. Total disbursements under this credit line up to the end of June 1981 amounted to Rs. 38 crores. Under the US $ 25 million World Bank credit for State, public and joint sector projects, sanctions by the IDBI amounted to Rs. 7 crores, bringing the total sanctions up to the end of June 1981 to Rs. 20 crores. Under the IDA fertiliser line of credit, the IDBI sanctioned assistance of Rs. 6 crores during 1980-81, while disbursements amounted to Rs. 12 crores. Cumulative sanctions and disbursements, as at the end of June 1981, aggregated Rs. 27 crores and Rs. 19 crores, respectively. Under the IDA line of credit of US$ 9.5 million for Karnataka Sericulture Project, which became effective in December 1980, the IDBI sanctioned loan of Rs. 11 crores for the filature and spun silk components of the project. Another loan of Rs. 2 crores for the weaving factory component of the project has also been sanctioned out of the World Bank loan for State, public and joint sector projects.

Interest Rates

4.19 The rates of interest charged by the IDBI on assistance extended under various schemes underwent changes twice during the period under review. First, following the levy of interest tax on the IDBI and other all-India term-lending institutions, the rates were revised upward with effect from July 1, 1980. The lending rates were again raised, with effect from March 2, 1981 having regard to the increasing cost of funds to be mobilised by the IDBI during the Sixth Plan period and the need for a better alignment in the interest rates structure. The structure of interest rates of the IDBI is presented in Tables 4.4 and 4.5.

TABLE 4.4—STRUCTURE OF IDBI's INTEREST RATES

(Per cent per annum)

	Old Rate		Revised Rate from 1-7-1980			
	IDBI Rate	Ceiling on Primary Lenders' Rate	IDBI Rate: Direct Lending	IDBI Rate: Indirect Lending: Banks	IDBI Rate: Indirect Lending: SFCs/SIDCs	Ceiling on Primary Lenders' Rate
	1	2	3	4	5	6
1. **Direct loans to industrial concerns (other than for exports)**						
(a) Normal	11.00	—	11.85	—	—	—
(b) Concessional rate to units in specified backward districts	9.50	—	10.25	—	—	—
(c) Soft Loan	7.50	—	8.10	—	—	—
(d) Technical Development Fund :						
(i) Normal	11.00	—	11.85	—	—	—
(ii) Concessional rate to backward area units	10.00	—	—	—	—	—
2. **Refinance of industrial loans**						
(a) Normal	9.00	12.50	—	9.00	10.00	13.50
(b) Special rates						
(i) Units in specified backward districts	6.00	9.50	—	6.00	6.75	10.25
(ii) Small-scale industries (SSI) covered under the Credit Guarantee Scheme (CGS) and Technician Entrepreneurs Scheme (TES) and loans up to Rs. 5 lakhs to fishing units	7.50	11.00	—	7.50	8.35	11.85
(iii) Single truck operators covered by the guarantee of DICGC	8.00	11.50	—	8.00	8.90	12.40
(iv) SRF 1978 :						
(a) Loans for amounts up to Rs. 25,000 (Service charge)	1.00	2.00	—	—	—	—
(b) Loans for amounts exceeding Rs. 25,000	6.00	7.50	—	—	—	—
(v) Units promoted by persons belonging to Scheduled Caste/Tribes (up to Rs. 25,000 per unit)	6.00	9.50	—	6.00	6.75	10.25
(c) Under World Bank Credit						
(i) Loans to SSI covered under the CGS/TES and to projects in specified backward areas	8.00	11.50	—	—	8.60	12.10
(ii) Other cases	8.75	12.00	—	—	9.45	12.70

(*Contd.*)

TABLE 4.4—STRUCTURE OF IDBI's INTEREST RATES—(*Concld.*)

(Per cent per annum)

	Old Rate		Revised Rate from 1-7-1980			
	IDBI Rate	Ceiling on Primary Lenders' Rate	IDBI Rate			Ceiling on Primary Lenders' Rate
			Direct Lending	Indirect Lending		
				Banks	SFCs/ SIDCs	
	1	2	3	4	5	6
3. **Rediscounting of machinery bills: unexpired usance of bills/promissory notes**						
A. Normal						
(a) 6 months to 36 months	9.50	11.50	—	9.50	—	11.30
(b) Over 36 months and up to 84 months	9.00	10.00	—	9.00	—	10.75
B. Small-scale sector (seller and/or purchaser)						
(a) 6 months to 36 months	8.75	10.00	—	8.75	—	10.75
(b) Over 36 months and up to 84 months	8.25	9.50	—	8.25	—	10.25
C. SEBs and SRTCs in Himalayan Hill Regions* and to West Bengal State Electricity Board for use in the hill district of Darjeeling						
(a) 6 months to 36 months	7.25	8.25	—	7.25	—	9.00
(b) Over 36 months and up to 84 months ..	6.75	7.75	—	6.75	—	8.50
4. **Export Credit**						
(a) Refinance against medium-term export credit	6.50	8.00	—	6.50	—	8.65
(b) Overseas investment finance	11.00	—	11.85	—	—	—
(c) Pre-shipment credit	11.00	—	11.85	—	—	—
(d) Participation export credit	The rate on IDBI's portion of the credit is such that after taking into account the participating bank's rate, the average rate payable by the exporter on the entire credit is generally 7.50 per cent.		The rate of IDBI's portion of the credit is such that after taking into account the participating bank's rate, the average rate payable by the exporter on the entire credit is generally 8.10 per cent.			

*Comprises States of Assam, Manipur, Meghalaya, Nagaland, Tripura, Jammu and Kashmir, Sikkim and Himachal Pradesh and Union Territories of Arunachal Pradesh and Mizoram. These rates will also apply to the Uttar Pradesh SRTC in respect of purchases of chassis/machinery for the operation in the districts of Almora, Chamoli, Dehradun, Nainital, Pithoragarh, Pauri Garhwal, Tehri Garhwal and Uttar Kashi.

(*Source:* Industrial Development Bank of India).

TABLE 4.5—STRUCTURE OF IDBI'S INTEREST RATES

(Revised Rates from March 2, 1981)

(Per cent per annum)

	Direct lending	Indirect lending		Ceiling on Primary Lenders' Rate
		Banks	SFCs/ SIDCs	
	1	2	3	4
A. Direct Loans				
1. Basic lending rate ..	14.00	—	—	—
2. Concessional rate				
(a) to new units in specified backward areas (upto Rs. 2 crores to a unit in the aggregate*)..	12.50	—	—	—
(b) on soft component under the soft loan scheme ..	12.50	—	—	-
3. Bridging loans				
(a) normal loans..	15.00	—	—	—
(b) to new units in specified backward areas (upto Rs. 2 crores to a unit in the aggregate*)..	13.50	—	—	—
(c) on soft component under the soft loan scheme ..	13.50	—	—	—
4. Foreign currency loans				
(a) normal	14.00	—	—	—
(b) to new units in specified backward areas (upto Rs. 2 crores to a unit in the aggregate*)..	12.50	—	—	—
B. Rates under IDBI's Refinance Scheme				
1. Basic lending rate ..	—	10.00	10.50	14.00
2. Concessional rates for units located in specified backward areas				
(a) composite loans upto Rs. 25,000/ per unit	—	6.00	6.75	10.25
(b) small-scale units	—	8.50	9.00	12.50
(c) other units (excluding road transport operators)	—	8.50	9.00	12.50
3. Concessional rates in non-backward areas				
(a) composite loans upto Rs. 25,000/ per unit	—	8.25	9.00	12.50
(b) small-scale units	—	9.50	10.00	13.50
4. Rates for road transport operators				
(a) single vehicle owners	—	8.50	9.00	12.50
(b) others ..	—	11.00	11.50	15.00
5. Concessional rate for units promoted by persons belonging to SC/ST (upto Rs. 25,000/ per unit)	—	6.00	6.75	10.25

(*Contd.*)

TABLE 4.5—STRUCTURE OF IDBI'S INTEREST RATES—(*Concld.*)

(Revised Rates from March 2, 1981)

(Per cent per annum)

	Direct lending	Indirect lending: Banks	Indirect lending: SFCs/SIDCs	Ceiling on Primary Lenders' Rate
	1	2	3	4
6. Foreign currency loans (IBRD/IDA credit)				
(a) loans to small-scale units				
(i) in specified backward areas	—	—	9.00	12.50
(ii) in other areas	—	—	10.00	13.50
(b) others				
(i) in specified backward areas	—	—	9.00	12.50
(ii) in other areas	—	—	10.50	14.00
7. Mini steel units	—	8.50	9.00	12.50
C. IDBI's Machinery Bills Rediscounting				
Unexpired usance of bills/promissory notes				
(a) normal				
(i) 6 months to 36 months	—	10.75	—	12.50
(ii) over 36 months and up to 84 months	—	10.25	—	12.00
(b) small-scale sector (seller and/or purchaser)				
(i) 6 months to 36 months	—	9.50	—	11.50
(ii) over 36 months and up to 84 months	—	9.00	—	11.00
(c) SEBs and SRTCs in North Eastern and Himalayan Hill Regions@ and SEB in the State of West Bengal for use in hill district of Darjeeling				
(i) 6 months to 36 months	—	7.75	—	9.50
(ii) over 36 months and up to 84 months	—	7.25	—	9.00
D. Rates on IDBI's Export Finance Schemes				
(a) refinance against medium term export credits	—	6.50	—	8.65
(b) overseas investment finance	—	—	—	12.50
(c) pre-shipment credit	—	—	—	12.50
(d) participation export credit	The rate on IDBI's portion of the credit is such that after taking into account the participating bank's rate, the average rate payable by the exporter on the entire credit is generally 7.75 per cent			

* Inclusive of new units set up by existing companies but excludes expansion/diversification projects in their existing units

@ Comprises States of Assam, Manipur, Meghalaya, Nagaland, Tripura, Jammu & Kashmir, Sikkim and Himachal Pradesh and Union Territories of Arunachal Pradesh and Mizoram. These rates will also apply to the Uttar Pradesh SRTC in respect of purchases of chassis/machinery for the operation in the districts of Almora, Chamoli, Dehradun, Nainital, Pithoragarh, Pauri Garhwal, Tehri Garhwal and Uttar Kashi.

III. OPERATIONS OF STATE FINANCIAL CORPORATIONS

4.20 The SFCs which cater to the long-term finanical needs of small and medium-scale industries showed a marked improvement in the assistance sanctioned and disbursed during 1980-81 (April-March). The total assistance in various forms at Rs. 382 crores sanctioned by the 18 SFCs (including Tamil Nadu Industrial Investment Corporation Ltd.) during 1980-81 was about 50 per cent higher than Rs. 255 crores sanctioned during 1979-80. The amount of assistance disbursed during the year also rose by 32.2 per cent to Rs. 245 crores from Rs. 186 crores in 1979-80. Total loans outstanding as at the end of March 1981 stood at Rs. 955 crores as compared with Rs. 789 crores at the end of March 1980 (Table 4.6).

TABLE 4.6—OPERATIONS OF STATE FINANCIAL CORPORATIONS

(Amount in Rupees Crores)

	1979-80 (April-March)	1980-81@ (April-March)
1. Assistance sanctioned (effective)	255.0	382.1
2. Assistance disbursed	185.5	245.3
3. Loans outstanding as at the end of March..	789.1	954.9

@ Provisional.

(*Source* : Industrial Development Bank of India)

4.21 The assistance provided by the SFCs has increased significantly during the recent years, but a disquieting feature of their operations has been the deteriorating overdues position. The overdues of SFCs have steadily increased from Rs. 92 crores, as on March 31, 1977, to Rs. 253 crores, at the end of March 1981. The overdues reckoned as proportion of loans outstanding showed a marginal decline, *i.e.*, from 27.1 per cent at the end of March 1980 to 26.5 per cent at the end of March 1981, but it was due to higher disbursements during the year. The increasing overdues, which are largely on account of delays in implementation of projects and industrial sickness, have considerably cut into the resources available to SFCs for recycling.

IV. PROGRESS OF CREDIT GUARANTEE SCHEME

4.22 A credit guarantee scheme for small-scale industries, which was sponsored and formulated by the GOI in July 1960, was administered by the RBI as agent of the Central Government under Section 17(11A) of the RBI Act, 1934. Following Government's decision to integrate all credit guarantee schemes under one organisation with a view to facilitating effective coordination and operational flexibility, this scheme ceased to operate from April 1, 1981. In its place, the Deposit Insurance and Credit Guarantee Corporation (DICGC) introduced with effect from April 1, 1981 a credit guarantee scheme of their own for covering advances to small-scale industries (for details see para 4.38).

4.23 The number of credit institutions eligible for facilities under the earlier scheme operated by the RBI increased from 763 as at the end of March 1980 to 845 at the end of March 1981. While the number of institutions participating in the scheme increased by 15 to 328, the amount of outstanding guarantees rose to Rs. 3,705 crores from Rs. 3,289 crores at the end of last year (Table 4.7). As at the end of March 1981, the defaulting units numbered 28, 655 and involved Rs. 203 crores as compared with 24, 974 defaulting units, involving Rs. 172 crores as at the end of March 1980.

TABLE 4.7—PROGRESS OF CREDIT GUARANTEE SCHEME FOR SMALL-SCALE INDUSTRIES

(Amount in Rupees Crores)

As at the end of	Guarantees outstanding	Advances under default		Claims paid on account of invocation of guarantee		Guarantee Organisation's share of recoveries in respect of claims (Amount)
	(Amount)	No. of units	Amount	No. of units	Amount	
	1	2	3	4	5	6
June 1976	1949.8	12,439	60.0	1,201	1.7	0.3
June 1977	2195.1	16,275	91.4	2,239	2.5	0.4
June 1978	2526.4	19,887	125.8	2,711	3.3	0.6
March 1979	2874.0	22,443	150.0	3,955	4.9	0.8
March 1980	3289.1	24,974	171.9	6,129	8.1	1.2
March 1981	3704.9	28 ,655	203.0	8,864	14.6	1.9

(*Source :* Deposit Insurance and Credit Guarantee Corporation).

4.24 The claims paid during the period April 1980 to March 1981 amounted to Rs. 7 crores in respect of 2,735 units. Out of the aggregate amount of Rs. 15 crores paid as claims to 8,864 units since inception of the scheme in 1960 upto end-March 1981, a sum of Rs. 2 crores has since been recovered under subrogation rights. Thus, the net amount of claims paid till the end of March 1981 stood at Rs. 13 crores.

4.25 Effective April 1, 1981, the Government increased the guarantee fee from ¼ to ½ of one per cent per annum in respect of advances up to Rs. 25,000 and from ½ to ¾ of one per cent per annum for advances exceeding Rs. 25,000 per unit per institution. During the year, a sum of Rs. 17 crores was received as guarantee fee as against Rs. 15 crores received during the preceding year.

V. DEPOSIT INSURANCE & CREDIT GUARANTEE CORPORATION

4.26 The DICGC provides protection to depositors, particularly the small depositors, from the risk of loss of their deposits in the event of an insured bank's inability to meet its liabilities and also provides cover to eligible credit institutions in respect of credit facilities extended by them to certain specified categories of borrowers belonging to the weaker sections of the community.

Deposit Insurance Function

4.27 The number of insured banks increased from 1,412 at the end of June 1980 to 1,619 by end-June 1981 and comprised 81 commercial banks (excluding RRBs), 101 RRBs and 1,437 co-operative banks. The increase was mainly brought about by the extension of the Deposit Insurance Scheme to 145 co-operative banks in the State of Tamil Nadu from July 1, 1980. By the end of June 1981, the Scheme covered co-operative banks in 13 States, viz., Andhra Pradesh, Gujarat, Jammu and Kashmir, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Rajasthan, Tamil Nadu, Tripura, Uttar Pradesh and West Bengal and three Union Territories of (*i*) Delhi, (*ii*) Goa, Daman and Diu and (*iii*) Pondicherry. Five other States, *viz*., Bihar, Himachal Pradesh, Manipur, Nagaland and Punjab are taking steps to amend their Co-operative Societies Acts to facilitate the extension of deposit insurance to their States, which account for a total of 66 co-operative banks. The co-operative banks in the remaining four States number 27 only.

4.28 With a view to improving the protection afforded to the depositors, the limit of insurance cover per depositor (in the same right and capacity) per bank was raised from Rs. 20,000 in force since 1976 to Rs. 30,000 with effect from July 1, 1980. The rate of premium at four paise per Rs. 100 per annum, however, remained unchanged. The amount of assessable deposits increased from Rs. 26,743 crores as at the end of 1979, to Rs. 32,570 crores, as at the end of 1980, bringing about a rise of 20.5 per cent in the premium income from Rs. 12,35 lakhs in 1979 to Rs. 14,88 lakhs. Consequently, the Deposit Insurance Fund increased over the year from Rs. 92,56 lakhs to Rs. 109,63 lakhs. The Fund constitutes 0.34 per cent and 0.45 per cent of assessable deposits and insured deposits, respectively.

4.29 As at the end of June 1980, fully protected accounts formed 99.1 per cent of the total number of insured accounts and insured deposits 74.4 per cent of the total value of assessable deposits. In the case of banks with deposits of less than Rs. 1 crore forming 49.7 per cent of the reporting insured banks, the respective percentages stood at 99.9 and 74.4 for commercial banks and 99.8 and 92.4 for co-operative banks.

4.30 The total amount of deposit insurance claims paid or provided for as at end-June 1981 in respect of 14 commercial banks and nine co-operative banks aggregated Rs. 1,13 lakhs and Rs. 97 lakhs, respectively. The Corporation has received from the transferee banks/liquidators Rs. 78 lakhs and Rs. 10 lakhs, respectively.

Credit Guarantee Function

4.31 At the end of June 1981, all the 75 functioning commercial banks (excluding RRBs) and 68 RRBs were participating in the Small Loans Guarantee Scheme. This Scheme accounts for 99.6 per cent of the total advances guaranteed by the Corporation. The number of institutions participating in the Financial Corporations Guarantee Scheme remained unchanged at 18. Ninety-four commercial banks (including 33 RRBs) and 37 co-operative banks have joined the Small Loans (Service Co-operative Societies) Guarantee Scheme. Effective April 1981, the Corporation is providing guarantee support to all commercial banks, SFCs, eligible co-operative banks and certain Industrial Development Corporations in respect of their advances to small-scale industries. The credit institutions have been given time till July 1981 to intimate their willingness to join the scheme introduced for the purpose.

4.32 The total advances covered by the three guarantee schemes, viz., the Small Loans Guarantee Scheme, the Small Loans Financial Corporations Guarantee Scheme and the Small Loans Service Co-operative Societies Guarantee Scheme increased from Rs. 2,165 crores, as at the end of June 1979 to Rs. 3,152 crores as at the end of June 1981 recording a rise of 45 per cent (Table 4.8). Advances to farmers and agriculturists continued to constitute a major portion (64.6 per cent) of the guaranteed advances, followed by credit to transport operators (13.1 per cent), retail traders (11.4 per cent) and professional and self-employed persons (4.5 per cent).

4.33 Guarantee claims numbering 83,557 for Rs. 15 crores were received during the year 1980 which far exceeded the claims received in any of the earlier years. During the six-month period ended June 1981, a record number of 36,838 claims for about Rs. 6 crores were received. Claims received since inception of the Scheme up to June 1981 numbered 2,08,493 and were for Rs. 48 crores.

4.34 During 1980, 47,481 claims for Rs. 7 crores were disposed of and 18,320 more claims were scrutinised; certain clarifications/additional information have been sought from the claimants. During January - June 1981, 35,373 claims for an amount Rs. 4 crores were disposed of. The total claims disposed of since the inception of the Corporation's guarantee schemes up to June 1981 numbered 1,35,626 and were for Rs. 25 crores.

4.35 The Credit Guarantee Fund representing the surplus of the guarantee fee realised over guarantee claims paid and meant to meet further claims stood at Rs. 44 crores, as on December 31, 1980, as against Rs. 34 crores a year before. As against this, claims pending settlement, amounts to Rs. 21

TABLE 4.8—SECTOR-WISE DETAILS OF DICGC's GUARANTEED ADVANCES

(Rupees in Crores)

Scheme/Category of Borrowers	As on the last Friday of June					
	1972	1977	1978	1979	1980	1981
A. Small Loans Guarantee Scheme, 1971	205.71 (98.7)	1,322.80 (99.4)	1,706.29 (99.5)	2,154.45 (99.5)	2,789.13 (99.6)	3,141.00 (99.6)
1. Farmers and agriculturists	134.67 (64.6)	845.64 (63.6)	1,057.04 (61.6)	1,345.80 (62.2)	1,796.10 (64.2)	2,028.30 (64.6)
2. Transport Operators	28.29 (13.6)	202.25 (15.2)	282.66 (16.5)	310.54 (14.4)	368.50 (13.2)	410.70 (13.1)
3. Retail Traders	28.34 (13.6)	138.00 (10.4)	178.92 (10.4)	257.39 (11.9)	316.65 (11.3)	357.03 (11.4)
4. Professional & Self-employed persons	9.14 (4.4)	69.72 (5.2)	87.96 (5.1)	108.11 (5.0)	127.09 (4.5)	142.73 (4.5)
5. Business Enterprises	5.27 (2.5)	46.83 (5.5)	68.07 (4.0)	92.18 (4.3)	116.64 (4.2)	128.40 (4.1)
6. Residual category of borrowers under the Differential Rates of Interest Scheme	—	20.36 (1.5)	31.64 (1.8)	40.43 (1.9)	64.15 (2.3)	73.64 (2.3)
B. Financial Corporations Guarantee Scheme, 1971	2.56 (1.2)	7.57 (0.6)	8.66 (0.5)	9.38 (0.4)	10.23 (0 4)	9.76 (0.3)
1. Transport Operators	2.35 (1.1)	6.95 (0.5)	7.97 (0.5)	8.69 (0.4)	9.58 (0.3)	9.15 (93.7)
2. Business Enterprises	0.21 (0.1)	0.62 (0.1)	0.69 —	0.69 —	0.65 —	0.61 (6.3)
C. Service Co-operative Societies Guarantee Scheme, 1971						
Service Co-operative Societies ..	0.12 (0.1)	0.34 —	0.22 —	0.89 —	0.36 —	1.51 (0.1)
Total (A+B+C)	**208.39 (100.0)**	**1,330.71 (100.0)**	**1,715.17 (100.0)**	**2,164.72 (100.0)**	**2,799.72 (100.0)**	**3,152.27 (100.0)**

Note: Figures in brackets are percentages to total. — Negligible.

(*Source:* Deposit Insurance and Credit Guarantee Corporation).

crores. The surplus in the fund, which is in the nature of a reserve for future claims, constitute 0.8 per cent of the guaranteed advances.

4.36 A major step taken in the direction of ensuring that the benefits under the guarantee schemes accrue to the intended category of borrowers, namely the small borrowers, is the introduction of a graduated scale of guarantee fee weighted in favour of small borrowers, coming into effect from July 1, 1980. For this purpose, borrowers covered under the guarantee schemes have been classified into two categories and a borrower who is provided eligible credit facilities not exceeding Rs. 25,000 in the aggregate is considered a 'Small Borrower' and in their case, the existing rate of guarantee fee, i.e., 0.50 per cent per annum continues to remain in force. In all other cases of eligible borrowers the rate of guarantee fee is higher, i.e., 0.75 per cent per annum.

4.37 A Working Group constituted by the Corporation to consider the question of extension of the guarantee cover for credit to co-operative credit institutions also has, *inter alia*, recommended extension of the credit guarantee support to agricultural credit societies and land development banks at the primary level but in a phased manner. The recommendations of the Group are under examination.

4.38 The Credit Guarantee Scheme for small-scale industries sponsored and formulated by the Central Government and administered by the Credit Guarantee Organisation (RBI) has been in operation since July 1960. It was decided that all the credit guarantee schemes should be integrated under one organisation, viz., the Corporation. With a view to facilitating effective coordination and operational flexibility, the GOI have cancelled its credit guarantee scheme for small-scale industries with effect from April 1, 1981 and at their request the Corporation will act as agent and discharge the obligations of the Government arising out of, or accruing under, the cancelled scheme up to the date of cancellation. The Corporation has simultaneously introduced, effective April 1, 1981, a credit guarantee scheme of its own, for covering advances to small-scale industries. With a view to ensuring continuity in the credit guarantee cover, the new Scheme provides guarantee support for all credit facilities which will cease to be covered by the old scheme consequest upon its cancellation. The terms and conditions of the new scheme have been designed to ensure that the guarantee support under the scheme is weighted in favour of the weakest of the weaker sections of the society and to make it worthwhile for credit institutions to lend to this class of borrowers.

4.39 Thus in the case of borrowers to whom credit facilities not exceeding Rs. 25,000 in the aggregate has been granted, guarantee coverage is to the extent of 90 per cent as against 75 per cent for those having credit facilities over Rs. 25,000 but not exceeding Rs. 2 lakhs and 50 per cent for those having credit facilities over Rs. 2 lakhs. Besides, a two-tier system of guarantee fee has been introduced here too in terms of which guarantee fee payable in respect of advances not exceeding Rs. 25,000 granted to a borrower is 0.50 per cent as against the rate of 0.75 per cent per annum applicable in respect of other borrowers.

4.40 Till the cancellation of old credit guarantee scheme, as on March, 31, 1981, 17,822 claims for a total amount of Rs. 98 crores were pending with the erstwhile credit guarantee organisation and have been transferred to the Corporation. During the quarter ended June 1981, 1,725 more claims for Rs. 6 crores were received while 858 claims for Rs. 2 crores were disposed of during the quarter. With a view to expedite the disposal of claims, several measures including revision of claim forms were taken up.

4.41 The Corporation has opened branches, one each at Bombay, Calcutta, Madras and New Delhi since April 1, 1981.

VI. UNIT TRUST OF INDIA

4.42 The setback suffered by the UTI in the sales of units in 1979-80 persisted during 1980-81 (July-June). During the year, sales of units under the Unit Scheme 1964 and the Unit Scheme 1971 (Unit Linked Insurance Plan-ULIP) of the UTI aggregated Rs. 52 crores, 9.9 per cent lower than the sales at Rs. 58 crores during 1979-80 (Table 4.9). Moreover, the repurchases of units during the year being higher at Rs. 18 crores, as compared to Rs. 14 crores in 1979-80, the net sales of units aggregated Rs. 35 crores and were substantially lower than Rs. 43 crores during the previous year. Factors which have considerably cut into the attractiveness of units include upward revision of interest rates on bank deposits, raising of ceiling on interest rates on secured public debentures, introduction of National Savings Certificates carrying an interest rate of 12 per cent and the entry of public sector companies in the field of deposit mobilisation. Sales under the Unit Scheme 1964 declined from Rs. 49 crores during 1979-80 to Rs. 40 crores in 1980-81. The sales of units under the ULIP Scheme, however, increased from Rs. 9 crores to Rs. 12 crores. The increase represents sales on account of contributions from new members, renewal contributions from existing members and dividend payable to them.

TABLE 4.9—SCHEME-WISE SALES AND REPURCHASES

(Amount in Rupees Crores)

Schemes	Sales		Repurchases		Outstanding as on June 30, 1981
	1979-80	1980-81	1979-80	1980-81	
	1	2	3	4	5
Unit Scheme 1964	48.93	39.67	13.76	15.29	389.85
Unit Scheme 1971	8.92*	12.44*	0.20	0.41	31.16
Unit Scheme 1976	@	@	0.45	1.87	4.41
TOTAL	**57.85**	**52.10**	**14.41**	**17.57**	**425.42**

@ Sales suspended since April 1976.

* Represents sales from contributions from new members, renewal contributions from existing members and from dividend payable to existing members.

(*Source :* Unit Trust of India)

4.43 The increase in repurchases of units during the year was influenced by two factors. First, some of the investors might have withdrawn their funds from units on completion of the stipulated period of three years for availing of capital gains tax exemption which was in force earlier. Secondly, many investors started to sell back their units following the announcement in March 1981 by the UTI that the Unit Scheme 1976 will be terminated on June 30, 1981. This Scheme (popularly known as the Capital Units

Scheme) was introduced on January 1, 1976 and the UTI had then hoped to double the unit holders' investment in five years' time. The sales under this Scheme, however, remained open only till April 21, 1976, and were suspended thereafter. The repurchase price of capital units (face value of Rs. 100) had reached Rs. 200.10 by November 1980, thus doubling the unit holders' investment in less than five years.

4.44 The UTI intensified its sales promotion and publicity efforts with a view to arresting the declining trend in the sales of units. For the first time in its history, the Trust has branched out to State-level centres. The Trust opened its State-level sub-offices at Trichur in Kerala and at Ludhiana in Punjab with a view to reaching out to the rural districts and providing prompt and personalised services to its unit holders.

4.45 As on June 30, 1981, units sold and outstanding with the public under all schemes of the Trust aggregated Rs. 425 crores (unit holding accounts being 10.5 lakhs), of which about Rs. 390 crores were under Unit Scheme 1964 (unit holding accounts being 9.1 lakhs).

4.46 The Trust stepped up the rate of dividend for the year 1980-81 to 11.5 per cent from 10.0 per cent for the unit holders under the Unit Scheme 1964 and to 8.75 per cent from 8.50 per cent for the unit holders under the Unit Scheme 1971.

4.47 As on May 31, 1981, total investible funds of the Trust amounted to Rs. 523 crores. Of this, equity shares accounted for Rs. 130 crores (24.9 per cent); preference shares Rs. 16 crores (3.0 per cent) and debentures Rs. 138 crores (26.4 per cent). The remaining amount of Rs. 240 crores was mainly invested in call deposits with banks (Rs. 111 crores), advance deposits with companies against investment commitments (Rs. 58 crores), fixed deposits (Rs. 67 crores) and other investments in corporate sector, viz., bridge finance, application money, etc, (Rs. 4 crores).