REPORT ON TREND AND PROGRESS OF BANKING IN INDIA 1981-82

RESERVE BANK OF INDIA

Report on Trend and Progress of Banking in India for the year ended June 30, 1982. Submitted to the Central Government in terms of Section 36 (2) of the Banking Regulation Act, 1949.

LETTER OF TRANSMITTAL

गवर्नर
GOVERNOR

भारतीय रिज़र्व बैंक
केन्द्रीय कार्यालय
बंबई
RESERVE BANK OF INDIA
CENTRAL OFFICE
BOMBAY

November 6, 1982
Kartika 15, 1904 (Saka)

The Secretary to the Government of India,
Ministry of Finance,
Department of Economic Affairs,
(Banking Division)
New Delhi, 110 001.

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, 1982.

Yours faithfully,

Manmohan Singh

(Manmohan Singh)
Governor

CONTENTS

INDEX TO TABLES

CHAPTER 2

Appendix Table

CHAPTER 3

CHAPTER 4

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
ACB	—	Agricultural Credit Board
ACD	—	Agricultural Credit Department
AFC	—	Agricultural Finance Corporation
ARDC	—	Agricultural Refinance and Development Corporation
BR Act, 1949	—	Banking Regulation Act, 1949
CAS	—	Credit Authorisation Scheme
CCB	—	Central Co-operative Bank
CIDA	—	Canadian International Development Agency
CLDB	—	Central Land Development Bank
CRAFICARD	—	Committee to Review the Arrangements for Institutional Credit for Agriculture and Rural Development
CRR	—	Cash Reserve Ratio
CRTS, 1981	—	Scheme for Charitable and Religious Trusts and Registered Societies
DBOD	—	Department of Banking Operations and Development
DCC	—	District Consultative Committee
DCP	—	District Credit Plan
DDA	—	District Development Authority
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 Rate of Interest Scheme
DSACS	—	Department of Statistical Analysis and Computer Services
ECGC	—	Export Credit Guarantee Corporation
Exim Bank	—	Export-Import Bank of India
FCNR Scheme	—	Foreign Currency Non-Resident Accounts Scheme
FSS	—	Farmers' Service Societies
GIC	—	General Insurance Corporation
GOI	—	Government of India
HPC	—	High Power Committee
ICICI	—	Industrial Credit and Investment Corporation of India
IDA	—	International Development Association
IDBI	—	Industrial Development Bank of India
IFCI	—	Industrial Finance Corporation of India
IRCI	—	Industrial Reconstruction 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
NABARD	—	National Bank for Agriculture and Rural Development
NAC (LTO) Fund	—	National Agricultural Credit (Long-Term Operations) Fund

NAC (Stabilisation) Fund	—	National Agricultural Credit (Stabilisation) Fund
NIBM	—	National Institute of Bank Management
NRE Scheme	—	Non-Resident External Rupee Accounts Scheme
OLIC	—	Official Language Implementation Committee
PACS	—	Primary Agricultural Credit Societies
PC	—	Participation Certificate
PCB	—	Primary Co-operative Bank
PLDB	—	Primary Land Development Bank
PUCB	—	Primary Urban Co-operative Bank
R & D Fund	—	Research and Development Fund
RBI	—	Reserve Bank of India
REC	—	Rural Electrification Corporation
RRB	—	Regional Rural Bank
SBI	—	State Bank of India
SC/ST	—	Scheduled Caste/Scheduled Tribe
SCB	—	State Co-operative Bank
SCC	—	Standing Co-ordination Committee
SEB	—	State Electricity Board
SFC	—	State Financial Corporation
SFDA	—	Small Farmers' Development Agency
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
SPA Scheme	—	Special Project Agriculture Scheme
SIDC	—	State Industrial Development Corporation
SRTC	—	State Road Transport Corporation
SSI	—	Small-Scale Industries
UCB	—	Urban Co-operative Bank
UTI	—	Unit Trust of India
ULIP	—	Unit Linked Insurance Plan

CHAPTER I

INTRODUCTION

The developments in the banking sector during the period July 1981 to June 1982 reviewed in this Report occurred against a background of overall improvement in the economy with higher levels of agricultural and industrial production which, combined with a marked deceleration in the addition to liquidity, contributed to abatement in the pace of price increase. At the same time, the situation did not permit any relaxation of the control over monetary expansion. Credit policy, therefore, continued to be restrictive, but it was administered with a considerable degree of flexibility especially in view of the sharp fluctuations in the resources position of commercial banks. During the year, commercial banks made good progress towards achieving the goals set for them in regard to priority sector lending, while the new branch licensing policy renewed the emphasis on rural expansion. An important development during the year was the enlargement of the institutional structure of banking with the establishment of the National Bank for Agriculture and Rural Development and the Export-Import Bank of India.

1.2 During the slack season of 1981 (end-April to end-October), commercial banks experienced a sharp spurt in deposits, the increase in aggregate deposits being higher both in absolute and percentage terms, than the increase in the previous slack season. Following from this, there was a large expansion in non-food credit, which trend was out of tune with the guideline given to commercial banks in May 1981, to keep their non-food credit expansion both in the slack season of 1981 and in the full financial year 1981-82 at a marginally lower level than the expansion in the previous year. In this situation, the cash reserve ratio was raised in October 1981 from 7 to 8 per cent; the increase was to be effective in four stages in slabs of 0.25 percentage point each, with the last slab to be effective from February 26, 1982. The impact of this measure coincided with a slackening in the pace of deposit growth and banks found it difficult to meet the busy season demands of credit and several banks resorted to across-the-board cuts in credit limits. There were also sizeable and widespread defaults in the statutory requirements in respect of cash reserve ratio and the statutory liquidity ratio.

1.3 The financial year 1981-82 was thus marked by disproportionate distribution of non-food credit expansion, with a large expansion in the first seven months of the year coinciding with the slack season and a marked slow down in the latter part. Over the financial year as a whole, non-food credit expansion of Rs. 3,903 crores was marginally lower than the increase in 1980-81 of Rs. 4,175 cores. However, if the credit flow to a single industry—the petroleum industry—is excluded, the non-food credit expansion in 1981-82 amounted to Rs. 4,195 crores as against the lower expansion of Rs. 3,725 crores in 1980-81.

1.4 In view of the persistent slackness in deposits, the last phase of increase in cash reserve ratio, which would have taken the ratio to 8 per cent with effect from February 26, 1982, was first postponed to April 30, 1982 and later rescinded. As the resources bind was affecting the flow of credit to some vital sectors, the Reserve Bank provided substantial discretionary refinance in the period February-April 1982. Although this was done on a selective, case-by-case basis, the amount so provided was fairly substantial, exceeding Rs. 200 crores by early April. Further pressure on bank resources was expected on account of the increased requirements of rabi foodgrains procurement operations. In April 1982, certain policy changes were effected to accommodate these requirements and also ensure the return of stability in banking operations. The policy changes introduced included a reduction in the cash reserve ratio by 0.50 percentage point to 7.25 per cent. The special treatment accorded to the Foreign Currency Non-Resident Deposit Accounts with the application of only the minimum cash reserve requirement of 3 per cent, was extended to the Non-Resident External Rupee Deposit Accounts. There was also some liberalization of the food refinance formula. The emphasis of policy at this stage was on the restoration of normalcy in banking operations, with strict observance of the reserve requirements. Banks were directed to rectify the defaults in respect of the cash reserve ratio by the end of April 1982 and the statutory liquidity ratio defaults by the end of June 1982. Drastic across-the-board cuts in credit limits, wherever introduced by banks, were to be restored and avoided in future.

1.5 A feature of commercial banking that has caused some concern during the year was the slackness in deposit growth. Even during the period July-December 1981, deposits had shown a lower growth rate at 8.1 per cent as against 10.6 per cent recorded in July-December 1980. In the first eight weeks of 1982, deposits recorded an absolute sharp decline of over Rs. 650 crores. Though the decline was halted thereafter, a clear uptrend did not emerge and deposits showed alternate bouts of rise and decline. In June 1982, the cash reserve ratio was further reduced to 7 per cent. In the last week of June, deposits showed a sharp rise of over Rs 1,100 crores, but there was considerable volatility in the behaviour of non-food credit, which recorded a decline in the quarter April-June 1982. The situation thus presented potential for further expansion in liquidity. At the same time, it was necessary that there should be a certain degree of relaxation in the flow of bank credit so as to discourage the emergence of a recessionary psychology.

1.6 While there was no further relaxation in credit policy, a guideline was given to banks in July 1982 in regard to the limits of non-food credit expansion in the financial year 1982-83. It was indicated that this expansion could be at the same percentage rate as attained in 1981-82 i.e., 16.8 per cent. In absolute terms, this would amount to around Rs. 4,600 crores which would be adequate for production requirements in the current situation.

1.7 In the sphere of deployment of credit, two national targets have been set for commercial banks. These are firstly that, their advances to priority sectors should constitute 40 per cent of outstanding bank credit by March 1985 and secondly, that 60 per cent of the deposits mobilised from rural and semi-urban areas should be deployed in the respective areas. The progress made during the year in regard to the first target was indeed very satisfactory. The data available relating to 50 major banks accounting for 96 per cent of gross bank credit of all banks show that priority sector advances at the end of March 1982 formed 37.7 per cent of their total net bank credit as against 35.0 per cent in March 1981. As regards the second national target, the latest available data relate to June 1981, and these show that the all-India credit-deposit ratio for rural and semi-urban areas worked out only fractionally higher at 57.7 per cent and 49.1 per cent respectively, as against 57.2 per cent and 48.9 per cent in December 1980. In terms of the number of individual districts in which the targeted ratio has been attained, however, the progress is more striking. At the end of June 1981, rural offices of scheduled commercial banks achieved a ratio of over 60 per cent in 188 out of 400 districts (*i.e.* in 47.0 per cent of the districts), as against in 161 out of 399 districts (*i.e.* in 40.4 per cent of the districts) at the end of June 1980. Similarly, semi-urban offices achieved over 60 per cent ratio in 112 out of 357 districts (*i.e.* in 31.4 per cent of the districts) in June 1981, as against in 86 out of 354 districts (i.e. 24.3 per cent of the districts) in June 1980.

1.8 The branch licensing policy which came into effect in January 1979 terminated in March 1982 and a new Branch Licensing Policy for the three-year period April 1982 to March 1985 has been formulated in consultation with the Government of India. Emphasis continues to be placed on increasing banking facilities in rural and semi-urban areas and on reducing inter-regional disparities in the spread of banking facilities. The policy's aim is to achieve by end-March 1985 one bank office on an average for a population of 17,000 in the rural and semi-urban areas on the basis of the 1981 census. To attain this, about 8,000 offices would have to be opened during the three-year period.

1.9 During the year commercial banks opened 3,484 offices, of which 2,719 were in unbanked centres. The total number of commercial bank offices in India at the end of June 1982 was 39,180; the number of offices at the end of June 1969 was 8,262. The proportion of bank offices in rural areas to total number of bank offices doubled from 22.2 per cent in June 1969 to 44.1 per cent in June 1979 and rose further to 52.1 per cent by June 1982.

1.10 In the field of institutional credit for agriculture and rural development, a significant development was the establishment of the National Bank for Agriculture and Rural Development (NABARD) on July 12, 1982. Conceived as an exercise in decentralisation of the Reserve Bank's functions in the sphere of rural credit, the NABARD has taken over the entire undertaking of the Agricultural Refinance and Development

Corporation. Also the refinancing functions in relation to State co-operative banks and Regional Rural Banks have been taken over from the Reserve Bank by the new institution. The NABARD will provide by way of refinance credit for the promotion of agriculture, small-scale industries in rural areas, cottage and village industries, handicrafts and other rural crafts and other allied economic activities in rural areas with a view to promoting integrated rural development and securing rural prosperity.

1.11 Another important addition to the institutional machinery came about with the setting up, on January 1, 1982 of the Export-Import Bank of India (Exim Bank), a statutory body wholly owned by the Central Government. The Exim Bank is to operate as a development bank in the area of India's foreign trade and is to provide finance and other services to the export sector under a variety of schemes it has formulated. The Bank mainly provides term credit for export of goods and services on deferred terms, while short-term credit is provided by commercial banks.

1.12 This enlargement of the financial structure is an indication of the functional specialization in banking, necessary for catering to the requirements of a growing economy. For the more immediate future, the commercial banking system has to face certain problems. A serious challenge has emerged to the system's position as the preeminent repository of the savings of the community. The widening of the range of savings media, with the increased direct approach both by the government and the private sector, was an important reason for the marked deceleration in the rate of deposit growth.

1.13 The availability of a variety of savings media, designed to appeal to various strata of society, is desirable as it will lead to an increase in the totality of savings in financial assets. The banking system has certain unique advantages in the mobilisation of savings as it has a widespread branch net-work, which means both easy accessibility and personalized attention to the saver, who also has the choice of variety of services provided by commercial banks. It is now important than even before, that banks exploit these advantages fully to maximise their resources.

1.14 The future expansion of banking will be necessarily in the more remote and difficult areas of rural India, where the presence of banks has to be established. This spread entails difficulties in communication and control. The developments in bank credit in the past year have once again demonstrated the weakness in communicating policy impulses through the system and in obtaining feed-back on developments vital for policy formulation. The improvement of informative system is therefore, an important and urgent necessity alike for individual banks and for the system as a whole.

CHAPTER 2

COMMERCIAL BANKING

I. Overall Review

2.1 A sharp deceleration in the rate of growth of deposits was the most outstanding feature of banking trends during 1981-82 (July-June). Aggregate deposits increased by only 13.0 per cent, this being the lowest growth rate for any year since 1967-68; the rate of growth in 1980-81 was 21.5 per cent.

2.2 Credit expansion in 1981-82 at 13.4 per cent was also much lower than the expansion of 20.3 per cent in the preceding year. The slow-down was entirely in non-food credit, which increased by only 12.0 per cent this year, as against 23.9 per cent last year. However, there was a disproportionately large growth in non-food credit in the slack season of 1981; the subsequent months coinciding with the busy season of 1981-82 had naturally to bear the brunt of correction of the credit trend.

2.3 While the overall stance of credit policy continued to be one of restraint and caution, the restrictive policy was administered with considerable flexibility. During the first half of the year, a number of measures were taken aimed at siphoning off the excess liquidity in the banking system and thereby controlling credit expansion. In the latter half of the year, banks faced severe resource constraint and the Bank sought to provide relief through changes in the cash reserve ratio, provision of discretionary refinance and the enhanced food refinance entitlement.

2.4 During the year, banks made good progress towards attaining the national target in respect of advances to priority sectors. In respect of 50 major banks accounting for about 96 per cent of outstanding gross bank credit, advances to priority sectors as per cent of their net bank credit reached 37.7 per cent by end-March 1982 as against 35.0 per cent at the close of March 1981—the target of 40 per cent is to be reached by March 1985.

2.5 The new Branch Licensing Policy formulated during the year for the period April 1982 to March 1985 continued the emphasis on increasing banking facilities in rural and semi-urban areas and reducing inter-regional disparities. Its aim is to achieve one bank office on an average for a population of 17,000 in rural and semi-urban areas as per 1981 census.

II. Trends in Deposits and Credit

Aggregate Deposits : Growth Trends

2.6 The year 1981-82 (July-June) witnessed a conspicuous deceleration in the growth of commercial bank deposits. Aggregate deposits of scheduled commercial banks rose by only Rs. 5,282 crores or 13.0 per cent in 1981-82, as against a much larger expansion of Rs. 7,172 crores or 21.5 per cent in 1980-81 (Table 2.1). The growth rate of 13.0 per cent has been the lowest since 1967-68. In 1969-70 (July-June), the first year after nationalisation, deposits had increased by 13.5 per cent. In the eleven years thereafter, *i.e.*, during 1970-71 to 1980-81, the deposit growth rate ranged between 20.4 per cent and 24.5 per cent in seven years and between 16.4 per cent and 17.8 per cent in four years.

TABLE 2.1—SCHEDULED COMMERCIAL BANKS' DATA

(Rs. crores)

Items	Outstanding as on			Variations during	
	June 27, 1980	June 26, 1981	June 25, 1982*	1980-81 (2—1)	1981-82* (3—2)
	1	2	3	4	5
1. **Aggregate Deposits**	**33,377**	**40,549**	**45,831**	**+ 7,172**	**+ 5,282**
(a) Demand Deposits $	6,597	8,290	8,979	+ 1,693	+ 689
(b) Time Deposits $	26,780	32,259	36,852	+ 5,479	+ 4,593
2. **Total Bank Credit**	***22,068***	***26,551***	**30,104**	**+ 4,482**	**+ 3,554**
Of which					
(a) Food procurement advances ..	2,410	2,202	2,825	— 208	+ 622
(b) Bank credit excluding food advances	19,658	24,348	27,280	+ 4,690	+ 2,932
3. Bills rediscounted with the RBI	75	3	—	—72	—3
4. **Gross Bank Credit**	**22,143**	**26,553**	**30,104**	**+ 4,410**	**+ 3,551**
5. Investments in Government and other approved securities	11,824	14,222	16,883	+ 2,398	+ 2,661
(a) Government securities	8,461	9,975	11,653	+ 1,514	+ 1,678
(b) Other approved securities	3,363	4,247	5,231	+ 884	+ 984
6. Cash in hand and balances with the RBI	4,089	5,501	5,728	+ 1,412	+ 227
7. Borrowings from the RBI	488	564	572	+76	+8
8. Credit-Deposit Ratio	66.1	65.5	65.7		
9. Gross Credit-Deposit Ratio	66.3	65.5	65.7		
10. Non-food Credit-Deposit Ratio ..	58.9	60.1	59.5		
11. Gross non-food Credit-Deposit Ratio ..	59.1	60.1	59.5		
12. Investment-Deposit Ratio	35.4	35.1	36.8		

* Partially revised.

$ Data for demand and time deposits relating to June 1980 have been re-worked on the basis of a uniform classification into demand and time liabilities of savings deposits.

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.

2.7 Accretion to deposits was lower than last year in both absolute amount and in percentage terms in the first, second and fourth quarters, while in the third quarter, deposits actually declined this year, in sharp contrast to a substantial increase last year as shown below:

(Rs. crores)

Quarter	1980-81		1981-82	
	Amount	Percentage variation	Amount	Percentage variation
July-September	+1107	+ 3.3	+ 947	+ 2.3
October-December	+2416	+ 7.0	+2339	+ 5.6
January-March	+1088	+ 2.9	— 15	—
April-June	+2561	+ 6.7	+2011	+ 4.6

It will thus be observed that the deceleration in deposit growth had set in in the first quarter of 1981-82 itself, but it was not very conspicuous till December. The growth in deposits in July-December 1981 at Rs. 3,286 crores or 8.1 per cent was lower than the increase of Rs. 3,523 crores or 10.6 per cent in July-December 1980.

2.8 In the first eight weeks of 1982 (December 25, 1981 to February 19, 1982), deposits registered a sharp fall of Rs. 657 crores, in contrast to a rise of Rs. 202 crores in the same period in 1981. From the last week of February, the continuous downtrend in deposits came to a halt, but a clear uptrend did not emerge, deposit growth continuing to be erratic. In the last week of June, however, deposits registered a sharp rise of Rs. 1,105 crores*. Between end-February and end-June 1982, expansion in deposits at Rs. 2,339 crores or 5.4 per cent was substantially lower than that of Rs. 3,178 crores or 8.5 per cent in the same period in 1981.

2.9 A number of factors which contributed to the deceleration in deposit growth include : (*i*) A sharp deceleration in the rate of growth of reserve money (9.6 per cent as against 19.3 per cent in 1980-81) resulting mainly from the sizeable fall of Rs. 1,955 crores in net foreign exchange assets of RBI, as against a fall of only Rs. 720 crores in 1980-81, and this meant depletion of the liquidity base; (*ii*) The slowing down of the pace of disbursements by Central and State Governments—the disbursements increased by only 12.0 per cent in 1981-82 (April-March), as against a rise of 23.9 per cent in 1980-81 and this also affected overall liquidity; (*iii*) A marked widening of the range of savings media with the introduction of the new 12 per cent 6-Year National Savings Certificates and the sharp increase in the issue by the private corporate sector of shares and debentures, particularly, convertible debentures. In this category has also to be considered the issue of Special Bearer Bonds, the total collection during 1981-82 (April-March) being Rs. 876 crores; it is possible that some of the subscriptions were made by withdrawal of deposits; and

*Based on provisional figure for June 18 and partially revised figure of June 25.

(*iv*) The restrictive measures adopted by banks in the latter part of 1981-82 would probably have affected the return flow of funds into the banking system.

Growth of Demand and Time Deposits

2.10 The slow-down in deposit growth was particularly pronounced in demand deposits. During 1981-82, the growth in demand deposits was only Rs. 689 crores or 8.3 per cent, as against an increase of Rs. 1,693 crores or 25.7 per cent in 1980-81. The rise in time deposits was Rs. 4,593 crores or 14.2 per cent in 1981-82 as against a rise of Rs. 5,479 crores or 20.5 per cent last year. The quarterly increase/decline in demand and time deposits in the two years are shown below:

(Rs. crores)

Quarter	Demand Deposits		Time Deposits	
	1980-81	1981-82	1980-81	1981-82
July-September	— 24	— 242	+ 1131	+ 1189
October-December	+ 890	+ 963	+ 1526	+ 1375
January-March	+ 335	— 501	+ 753	+ 487
April-June	+ 492	+ 469	+ 2069	+ 1542
Total	+1,693	+ 689	+5,479	+4,593

Trends in Credit

2.11 The expansion in total bank credit in 1981-82 at Rs. 3,554 crores or 13.4 per cent was also much smaller than the expansion of Rs. 4,482 crores or 20.3 per cent in the preceding year. Food credit increased by Rs. 622 crores, in contrast to a decline of Rs. 208 crores last year. The increase in non-food credit during 1981-82 at Rs. 2,932 crores or 12.0 per cent was much smaller than the expansion of Rs. 4,690 crores or 23.9 per cent last year.

2.12 A feature of non-food credit in 1981-82 was a disproportionately larger expansion than in the preceding year in the first four months of the year (*i.e.* July-October 1981), a much smaller expansion than in the previous year in the next six months (which constituted the busy season) and a sizeable decline in the last two months of the year, in contrast to an increase in the same period in the previous year. Of the total expansion of Rs. 2,932 crores in 1981-82, as much as 57 per cent or Rs. 1,680 crores was in July-October; in the preceding year, only 26 per cent of the total expansion was in July-October. It is pertinent to note that the unusual expansion in July-October 1981 was a continuation of the trend noticed in the previous quarter—non-food credit had increased by Rs. 737 crores in April-June 1981, i.e. far in excess of the expansion of Rs. 221 crores in April-June 1980.

Non-food credit expansion in the whole of the 1981 slack season was substantially larger at Rs. 1,960 crores or 8.1 per cent, as against Rs. 1,282 crores or 6.5 per cent in the preceding slack season. The incremental non-food credit-deposit ratio in the 1981 slack season worked out to 56 per cent, as against 49 per cent in the 1980 slack season.

2.13 In the busy season of 1981-82, non-food credit expansion was only Rs. 1,514 crores or 5.8 per cent, as against a substantially larger expansion of Rs. 3,184 crores or 15.2 per cent in the 1980-81 busy season. Thus, the expansion in the entire busy season of 1981-82 was less than the expansion in the last four months of the preceding slack season. The incremental non-food credit-deposit ratio worked out to 69 per cent in the 1981-82 busy season as against 88 per cent in the 1980-81 busy season.

2.14 The smaller expansion in non-food bank credit in the busy season of 1981-82 was by way of correction of the earlier credit trend. The over-commitment of non-food credit in the first four months of the year in the face of deceleration in deposit growth, and later a sharp fall in deposits in January-February 1982 led to a severe resource constraint and while several banks resorted to across-the-board cut in limits, some banks restricted further drawals on limits already sanctioned. If banks had moderated the non-food credit growth in the slack season itself, it would have greatly mitigated the severity of adjustments which became necessary in the busy season.

2.15 In the first two months of the 1982 slack season, *i.e.* May-June 1982, non-food bank credit declined by Rs. 279 crores, in sharp contrast to an increase of Rs. 270 crores in May-June 1981.

Credit Guidelines

2.16 It may be useful to review the performance of banks in complying with the guidelines set by the Reserve Bank in May 1981 in respect of non-food credit expansion. In terms of those guidelines, non-food credit expansion in the first half of the financial year was not to be in excess of the expansion in the first half of 1980-81, and expansion in the slack season of 1981 and during the full financial year 1981-82 was to be marginally lower than that in the 1980 slack season and in the financial year 1980-81, respectively.

2.17 The data on non-food credit expansion during these three periods in 1980-81 and 1981-82 are shown in Table 2.2.

It will be seen that the banks were not able to comply with the guidelines in respect of the first half of the financial year, and the slack season of 1981; non-food credit expansion in these two periods was more than double and more than one-and-half times, respectively, of the expansion in the same period in 1980-81. For the full financial year 1981-82, however, non-food credit expansion at Rs. 3,903 crores was lower than

TABLE 2.2—NON-FOOD CREDIT EXPANSION

(Rs. crores)

Period	1980-81*	1981-82@
April-September		
Absolute ..	+ 775	+1,575
Rate of growth ..	+ *4.0*	+ *6.7*
Slack Season (May-October)		
Absolute ..	+1,283	+1,952
Rate of growth ..	+ *6.5*	+ *8.1*
April-March		
Absolute ..	+4,175	+3,903
Rate of growth ..	+ *21.5*	+ *16.5*

* Variations based on final data. When guidelines were fixed, only partially revised data were available for 1980-81.
@ Partially revised.

the guideline figure of Rs. 4,074* crores in 1980-81. The lower expansion was due to the return flow of funds from the petroleum industry. If bank credit to petroleum industry is excluded for both the years, the expansion of non-food credit at Rs. 4,195 crores during 1981-82 was substantially higher than the increase of Rs. 3,725 crores during 1980-81. It needs to be emphasised here that if the increase in non-food credit had been moderated during the first half of 1981-82, it would have greatly alleviated the severtiy of adjustment necessitated in the latter part of the the year, particularly in the last quarter. Sectors which received the bulk of the credit during the first six months had a disproportionately easy access to credit, while sectors which had large seasonal requirements in the second half of 1981-82 bore the brunt of the correction of the credit trend.

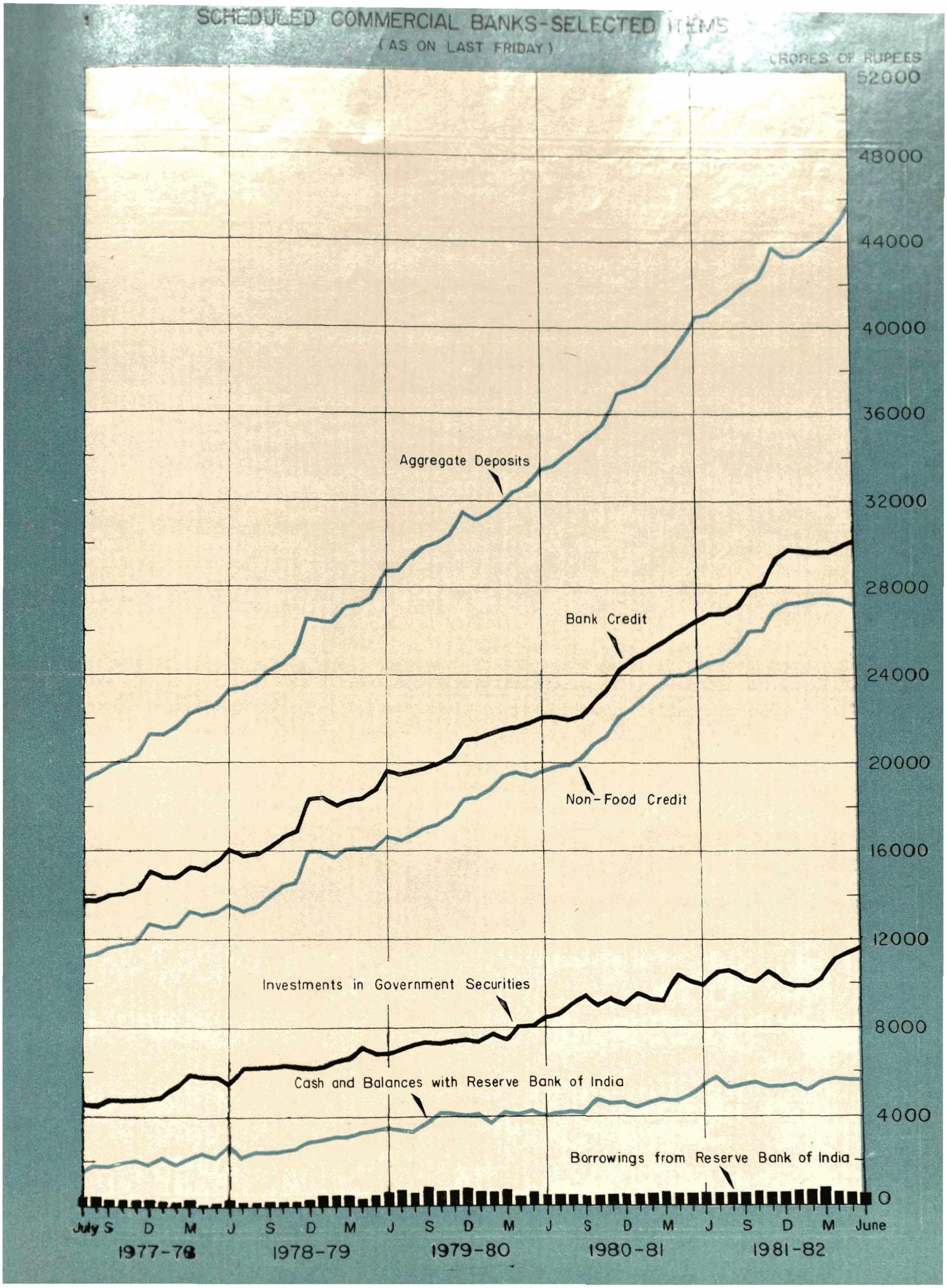
Investments and Cash Balances

2.18 Scheduled commercial banks' investments in Government and other approved securities increased over the year by Rs. 2,661 crores or 18.7 per cent, as against an increase of Rs. 2,398 crores or 20.3 per cent last year. The increase in their cash and balances with RBI was only Rs. 227 crores, as against a substantially larger increase of Rs. 1,412 crores in 1980-81.

RBI Accommodation

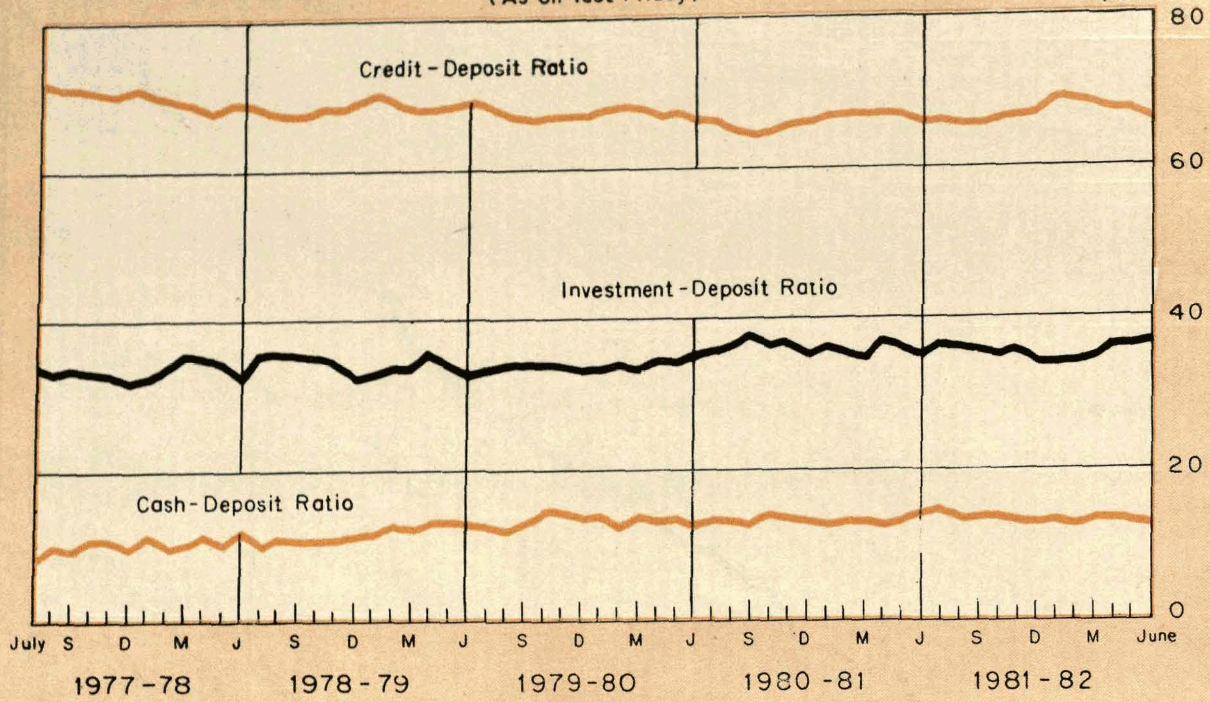
2.19 Although the thrust of the credit policy during the year had to be one of continued restraint, the RBI modified its refinance policy during the second half of the year to enable banks to meet the needs of seasonal industries and certain other vital sectors such as sugar, tobacco, cashew, tractors and trucks. Banks were granted sizeable discretionary and

* The guidelines set in May 1981 were based on the variations in partially revised data available at that time for March 1981 over the final data for March 1980.


SCHEDULED COMMERCIAL BANKS-SELECTED ITEMS
(AS ON LAST FRIDAY)
CRORES OF RUPEES
52000
48000
44000
40000
36000
32000
28000
24000
20000
16000
12000
8000
4000
0
Aggregate Deposits
Bank Credit
Non-Food Credit
Investments in Government Securities
Cash and Balances with Reserve Bank of India
Borrowings from Reserve Bank of India
July S D M J S D M J S D M J S D M J S D M June
1977-78
1978-79
1979-80
1980-81
1981-82

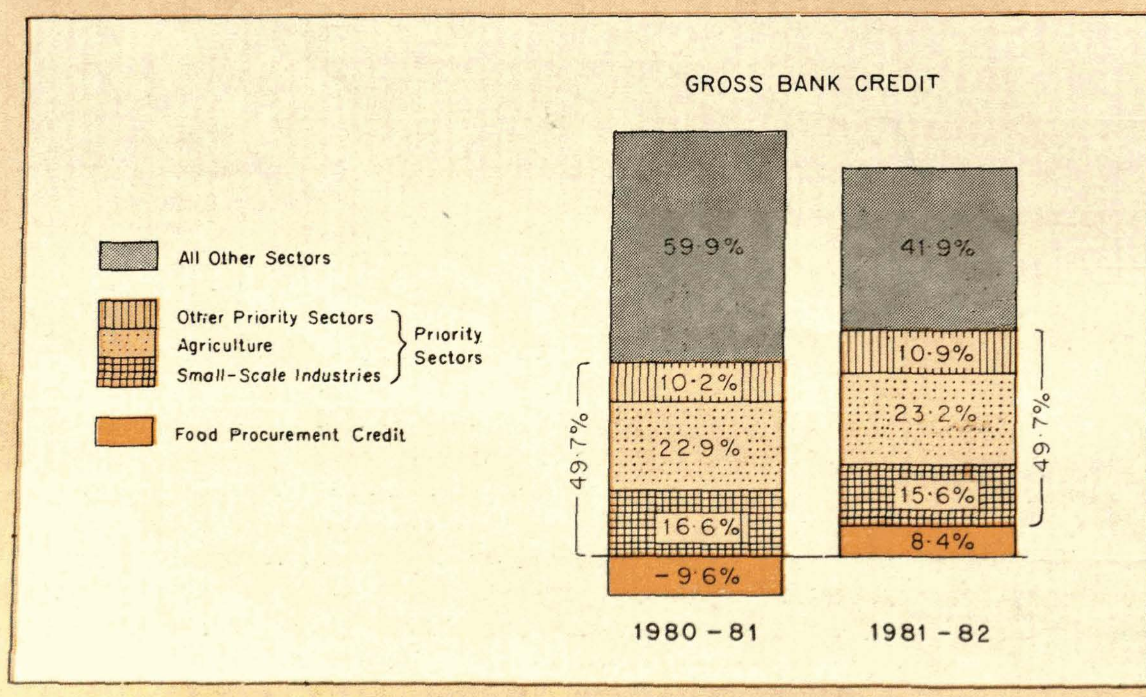
2 SCHEDULED COMMERCIAL BANKS' CASH, INVESTMENTS AND CREDIT-DEPOSIT RATIOS

(As on last Friday)



3 SECTORAL DEPLOYMENT OF GROSS BANK CREDIT VARIATIONS DURING 1980-81 AND 1981-82

(APRIL-MARCH)



stand-by refinance; these limits reached a peak of Rs. 218 crores on April 9, 1982.

2.20 *Food Refinance :* Banks were not entitled to any refinance limit against food credit between end-November 1980 and mid-June 1981, as the outstanding food credit remained below the level of Rs. 2,200 crores —the lowest level touched during this period was Rs. 1,684 crores in the first week of April 1981. Food credit increased during May and June and banks became entitled to food refinance limit of Rs. 26 crores as on the last Friday of that month; the utilisation was hardly Rs. 2 crores. Between end-July and mid-December 1981, banks were not entitled to any food refinance. However, with an appreciable increase in foodgrains production in 1981-82 and consequently larger procurement, food credit registered a sharp increase in early 1982; banks' entitlement for food refinance increased from Rs. 14 crores at the end of December 1981 to Rs. 96 crores by end-February 1982; the outstanding amount of food refinance went up from Rs. 9 crores to a peak of Rs. 74 crores. Subsequently, with the decline in food credit, the food refinance limits decclined, and from April 9, 1982 banks were not entitled to any food refinance. However, with the commencement of rabi procurement, the food credit picked up. The food refinance entitlement as on the last Friday of June 1982 amounted to Rs. 347 crores; the utilisation was Rs. 29 crores only as on that date.

2.21 *Export Refinance :* In respect of export refinance, the entitlements continued to be equivalent to 50 per cent of the increase in export credit over the monthly average for 1979 (based on month-end outstandings)—i.e. the base year was not changed. The export refinance limits which had declined from Rs. 193 crores at the end of June 1980 to Rs. 175 crores by end-June 1981, rose to Rs. 214 crores by mid-April 1982. In the current year, the proportion of utilisation rose sharply since the beginning of October 1981 and as on March 5, 1982, the ouststanding was 90.8 per cent of the limit of Rs. 184 crores. With the relaxation in credit policy in April 1982, the utilisation of export refinance has gradually come down; as on June 25, 1982, the outstanding export refinance amounted to Rs. 32 crores against the entitlement of Rs. 163 crores.

2.22 *Discretionary Refinance :* During February-April 1982, banks were granted sizeable discretionary and stand-by refinance limits of a little over Rs. 200 crores to facilitate the flow of adequate credit to seasonal industries and other sectors. The RBI accommodation was on a selective basis, taking into account the overall resources of the banks concerned, including the credit needs of seasonal industries and vital sectors. The total limits under discretionary and stand-by refinance reached a peak of Rs. 218 crores on April 9, 1982. The maximum utilisation of both the limits together was Rs. 166 crores on March 26, 1982, and accounted for 85 per cent of limits sanctioned on that date. However, in view of the modifications in credit control measures announced on April 8, 1982, banks were advised to undertake a phased repayment of outstanding discretionary and stand-by refinance by June 25, 1982, and banks accordingly repaid the entire outstandings.

2.23 *Import of Capital Goods :* The special scheme for refinance against loans for import of capital goods was discontinued with effect from July 1, 1980 and banks were permitted to repay the refinance amount by October 31, 1981. Banks have repaid the outstanding amount accordingly.

2.24 The total limits sanctioned to scheduled commercial banks under RBI refinance facilities (excluding special refinance against shipping loans, import of capital goods, duty drawback and refinance to RRBs) increased over the year by Rs. 309 crores; the peak was reached at Rs. 576 crores on June 11, 1982. The amount outstanding touched a peak of Rs. 336 crores on March 26, 1982, but over the year (by June 25, 1982) increased marginally by Rs. 4 crores.

2.25 *Bills Rediscounting :* Limits sanctioned for rediscounting the bills had stood at Rs. 4 crores on the last Friday of June 1981. No fresh limits were sanctioned to banks during the year, and as such there were no outstandings under the scheme from October 23, 1981.

III. Credit Policy

Overall Approach

2.26 The basic stance of the Reserve Bank's credit policy during 1981-82 continued to be one of restraint and caution marked, however, by considerable flexibility in its administration. During the first half of the year, several measures were taken by the Bank with a view to mopping up the excess liquidity with the banking system and checking non-food credit growth. In the latter half of the year, the position had changed, and the RBI modified a few credit control measures it had taken earlier, and also provided substantial discretionary and stand-by refinance to banks to relieve resource constraint faced by them and enable them to meet the genuine credit requirements of seasonal industries and other vital sectors. The credit control measures taken by the Bank from time to time during the year are described in the following paragraphs.

July 1981 Measures

2.27 In the last year's Report, mention was made of the broad guidelines issued by the Reserve Bank to banks in May 1981 regarding non-food credit expansion. In terms of those guidelines, non-food credit expansion in the first half of the financial year 1981-82 was not to be in excess of the expansion in the first half of 1980-81. Also, non-food credit expansion in the slack season of 1981 and during the full financial year 1981-82 was to be marginally lower than that in the 1980 slack season and the financial year 1980-81, respectively. Certain other measures were also taken by the RBI in May 1981 aimed at slowing down the pace of monetary expansion, and these included raising of the cash reserve ratio from 6 per cent to 7 per cent in two stages and raising the interest rate on discretionary refinance and on rediscounting of bills from 11 per cent to 14 per cent.

2.28 Despite these measures, the increase in aggregate monetary resources i.e. M_3 in the financial year 1981-82 upto June 19, was larger in both absolute and percentage terms than in the corresponding period in the previous year. Non-food credit expansion during April-June 1981 was also nearly three times the expansion in April-June 1980. With a view to mopping up the excess liquidity in the banking system, and checking non-food credit expansion, the Reserve Bank took a number of measures in July 1981, and these are mentioned below:

(*i*) The Bank Rate was raised by one percentage point from 9 per cent to 10 per cent, effective the close of business on July 11, 1981.

(*ii*) The second phase of the increase in cash reserve ratio (CRR) from 6.5 per cent to 7 per cent of net demand and time liabilities which was to be effective from September 11, 1981 was advanced to August 21, 1981.

(*iii*) The statutory liquidity ratio (SLR) which was 34 per cent since December 1978 was raised to 35 per cent in two phases—34.5 per cent from September 25, 1981 and 35 per cent from October 30, 1981.

(*iv*) In the case of selective credit controls, the minimum margins against stocks of wheat, paddy/rice and other foodgrains were raised by 10 percentage points across the board with the exception of advances to roller flour mills against wheat.

2.29 Consequent to the raising of the Bank Rate, the interest rate on food refinance and export refinance was raised from 9 per cent to 10 per cent effective July 18, 1981; the commercial banks' lending rates in respect of these were, however, kept unchanged. In respect of two other refinance facilities, *viz*., refinance against shipping loans and against loans for import of capital goods, the refinance rates are linked to the Bank Rate. Consequently, from the close of business on July 11, 1981, the interest rate on refinance against shipping loans was raised from 10.5 per cent to 11.5 per cent and the lending rate of commercial banks from 11 per cent to 12 per cent. The interest rate on refinance against loans for import of capital goods was raised from 9 per cent to 10 per cent and on-lending rate of commercial banks from 11 per cent to 12 per cent from the close of business on July 11, 1981. The scheme was terminated on July 1, 1980 and as required, the outstanding refinance was repaid by banks by October 31, 1981.

2.30 As banks' profitability was likely to be affected by the raising of the refinance rates and the increase in reserve requirements, they were informed that they were free to raise such of their lending rates which were below the prescribed maximum to the maximum rates prescribed by the Reserve Bank. They were also urged to give positive and detailed instructions to their branches as to the specific internal measures which should be taken to ensure that the May 1981 guidelines regarding non-food credit were not infringed.

October-November 1981 Measures

2.31 The growth in aggregate monetary resources (M_3) in the first half of the financial year 1981-82 was a little higher than in the first half of the financial year 1980-81 even though the growth in real national income in 1981-82 was anticipated to be much smaller than that in the previous year. The large monetary expansion was a cause of concern, particularly because this was despite a sizeable loss of foreign exchange reserves.

2.32 Aggregate deposits of scheduled commercial banks had also recorded a phenomenal growth during April-June 1981. The unexpected growth in the deposit resources of banks led to excessive non-food credit expansion, which aggregated Rs. 1,575 crores or 6.7 per cent during April-September 1981, as against only Rs. 775 crores or 4 per cent during the same period in 1980. While the larger non-food credit expansion could partly be attributed to the higher level of industrial production, the pace of credit expansion was clearly excessive and was also the major factor contributing to the faster pace of monetary expansion in 1981-82. If a deceleration in monetary expansion was to be achieved, a slow-down in the pace of credit expansion thus became necessary. With a view to mopping up the excess liquidity in the banking system and thereby control credit expansion, the RBI raised in mid-October 1981 the CRR of scheduled commercial banks by one percentage point from 7 per cent of net demand and time liabilities to 8 per cent; the increase was to be effected in four stages *viz.*, 7.25 per cent from November 27, 1981, 7.50 per cent from December 25, 1981, 7.75 per cent from January 29, 1982 and 8.00* per cent from February 26, 1982.

2.33 The acceleration in non-food credit growth in the face of a slow-down in deposit accretion was likely to lead the banking system into a liquidity bind at the inception of the busy season, and it was realised that unless there was a correction in the pace of non-food credit expansion, banks would have difficulty in meeting their reserve requirements and the seasonal increase in food credit. The RBI therefore emphasised the need for every bank to undertake a serious and critical appraisal of its lending programmes, so as to ensure that it adhered to the guidelines stipulated in May 1981 for non-food credit expansion. Banks were also informed that (*i*) access to the commercial bills rediscounting facility would not be available in the immediate forthcoming months, (*ii*) the total amount of discretionary refinance available for the system as a whole from the RBI would be very limited and banks' access to this facility would be only under exceptional circumstances and for very short periods and (*iii*) banks whose credit expansion was clearly out of alignment with the guidelines would not be provided discretionary refinance.

February-April 1982 Measures

2.34 The first eight weeks of 1982 witnessed a sizeable erosion of deposits with banks; this was in sharp contrast to the substantial accretion

* As discussed later, the last phase of the increase was first postponed and later rescinded.

in the same period in 1981. The fall in deposits resulted in a severe resource constraint, and a large number of banks defaulted in the maintenance of the cash reserve ratio and the statutory liquidity ratio. This also necessitated sharp cuts by banks in their lending operations. While several banks resorted to across-the-board cuts in limits, some banks restricted further drawals on limits already sanctioned, with the result a number of seasonal industries and other vital sectors were affected. With a view to easing the position of banks and enabling them to meet the needs of seasonal industries and certain other vital sectors including sugar, tractors, trucks and exports, on February 24, 1982 the Reserve Bank deferred to April 30, 1982, the last phase of the increase in the CRR from 7.75 per cent to 8.0 per cent, which was to be effective from February 26, 1982, and later on March 22, 1982, the increase was rescinded. The Bank also provided substantial discretionary and stand-by refinance accommodation to banks on a selective case by case basis; such refinance exceeded Rs. 200 crores by early April 1982. Since discretionary refinance was provided to enable banks to maintain an even flow of credit to vital sectors, the Reserve Bank decided not to levy during January-April 1982*, the additional interest charge of 3 per cent on refinance in case of shortfall in reserve requirements.

2.35 Though the continuous downtrend in deposits came to a halt after the third week of February 1982 and deposits started picking up with minor oscillations, the accretion was not significant and banks' liquidity position continued to be tight. To ease this, and also to enable banks to meet the large credit demand arising from rabi food procurement and the legitimate requirements of other vital sectors and thus restore normalcy in their credit operations, the Reserve Bank modified on April 8, 1982 some of the credit policy measures. These included: (1) The reduction in CRR from 7.75 per cent to 7.25 per cent of net demand and time liabilities from April 9, 1982; (2) a lower CRR of 3 per cent from April 9, 1982 in respect of deposits under the Non-Resident (External) Rupee Accounts Scheme**; (3) the enhancement in the refinance entitlement for food credit during the 1982 rabi procurement season—the entitlement was raised from 30 per cent of the increase in food credit over the base level of Rs. 2,200 crores to 50 per cent of the increase over the level of Rs. 2,200 crores and upto Rs. 2,800 crores, and 100 per cent refinance to be provided over the level of Rs. 2,800 crores; and (4) the extension upto June 25, 1982 of the concession granted during January-April 1982, of not levying the additional interest of 3 per cent on refinance, in case of banks with shortfall in reserve requirements. The Bank also raised, effective April 1, 1982 the interest rate payable by it on cash reserves (above the statutory minimum of 3 per cent and inclusive of the additional cash balances held under the 10 per cent incremental CRR) maintained with it by banks, from 7 per cent to 8 per cent. Banks were also instructed to phase out by end-June 1982 the outstanding discretionary and stand-by refinance.

* This concession was later extended upto June 25, 1982.

** The CRR was already 3 per cent in respect of deposits under the Foreign Currency (Non-Resident) Accounts Scheme.

2.36 As regards export refinance, banks were informed that the entitlement would continue to be equivalent to 50 per cent of the increase in export credit over the monthly average for 1979; the normal practice of bringing forward the base level by one year was thus not followed.

2.37 The Reserve Bank once again cautioned banks against the dangers inherent in excessive reliance on money market funds, and warned that banks continuing to rely on unduly large money market borrowings would not be provided refinance when money market resources would not be available. Banks were also urged that they should increasingly give attention to the qualitative aspects of priority sector lending, should bear in mind the special priority requirements such as tractors, and make constructive use of the extra credit facilities provided by ARDC and RBI in respect of tractor advances. The RBI also emphasised the need for an effective implementation by banks of the quarterly operating limits in case of meduim and large borrowers and ensuring that borrowers meet a part of their working capital requirements out of their own resources.

2.38 The credit policy measures announced on April 8, 1982 were designed specifically for the quarter April-June 1982 which was to be considered as a period of restoration of normalcy in banking operations. The measures were intended to ensure that: (1) banks scrupulously observed the discipline of CRR and SLR and rectified defaults by end-April in CRR and by end-June in SLR; (2) banks fully met their commitments to the food consortium during the rabi procurement; (3) the legitimate credit requirements of seasonal industries and other vital sectors including exports were met without disruption, and drastic across-the-board cuts in limits were restored and avoided in future; and (4) credit needs of the weaker sections as identified in the revised 20-Point Programme and under the IRDP were adequately met.

June 1982 Measures

2.39 The banking trends during April-May 1982 continued to reflect some degree of resource constraint. Deposit growth had improved but the trend was somewhat uncertain. Food credit had risen sharply by over Rs. 300 crores over the two-month period and was expected to show a further substantial increase in June; non-food credit had remained almost stagnant. Apart from further demand for credit for food procurement, the bunching of seasonal credit demands was likely to be accentuated in the next few weeks, particularly from fertilisers and sugar, and the Reserve Bank therefore, took two additional measures in June 1982 to improve the banks' liquidity position. First, the CRR which had been reduced from 7.75 per cent of net demand and time liabilities to 7.25 per cent from April 9, 1982, was further reduced to 7.00 per cent from June 11, 1982. Secondly, while the level of food credit for 100 per cent refinance had been earlier indicated as Rs. 2,800 crores, banks were advised that the 100 per cent refinance would be provided for food credit over the outstanding level of Rs. 2,600 crores; this refinance arrangement was to be operative for the rabi season upto end-September 1982.

2.40 These two measures were expected to ease immediately the liquidity pressure on banks and enable them (i) to meet fully the seasonal credit requirements, (ii) to remove all across-the-board cuts in limits, particularly in respect of small-scale industries and other small accounts, (iii) to restore the normal sanctioning powers of their branch/zonal/regional managers in the priority sector areas, (iv) to remove blanket restrictions, if any, on acceptance of new accounts, and (v) to provide larger credit to those sectors of industry where special difficulties were felt or were likely to be felt.

2.41 Banks were also required to intensify their efforts at deposit mobilisation and also recovery of overdue outstandings. As customer service in banks continued to be unsatisfactory, the RBI urged bank executives to give their personal attention to this aspect and take specific action to bring about significant improvement in the quality and promptness of banking services.

July 1982 Measures

2.42 In early April 1982, when the existing credit control measures were modified, it was impressed on banks that April-June 1982 should be considered as a period of restoration of normalcy in banking operations with strict observance of the sanctity of reserve requirements. Banks were required to rectify the CRR defaults by end-April 1982, and the SLR defaults by the end of June 1982. Excepting a couple of banks, the banking system was able to adhere to the time frame for rectification of defaults.

2.43 It was expected that in the quarter April-June 1982, deposits would increase by Rs. 1,750 crores, food credit would reach Rs. 2,800 crores by the end of June 1982 and non-food credit would show a modest growth. While deposit growth and food credit during the quarter were broadly in alignment with RBI's expectations, outstanding non-food credit on July 2 was not materially different from end-March 1982 level, which was contrary to Reserve Bank's expectations of a modest growth. This indicated that restoration of normalcy in credit operations had not been fully implemented at least by some banks, and the Reserve Bank urged such banks on July 19, 1982 to normalise their credit operations expeditiously.

2.44 At the same time, Reserve Bank also set out credit guidelines for 1982-83 as a whole, in terms of which non-food credit expansion for the banking system in the financial year 1982-83 could be around the same percentage rate of growth as was attained in 1981-82, i.e., 16.8 per cent. This worked out to an absolute growth of about Rs. 4,600 crores for the system as a whole. Each bank was required to modulate its credit growth in consonance with its resources growth and the demand for non-food credit.

2.45 Deposit growth in 1982-83 was estimated between Rs. 6,600-Rs. 7,000 crores, and in view of this a modest resources gap was anticipated in the next busy season. The Reserve Bank assured banks that, to the extent genuine credit requirements warranted the need for supplementing banks' resources, it would be prepared to bridge the resources gap in the next busy season.

2.46 While the basic credit policy measures were kept unchanged by the Bank, certain changes were made in the operations of some measures with a view to assisting banks in their resource management. These are listed below.

(*a*) With a view to alleviating punitive penalties on small involuntary defaults in CRR, it was decided to introduce a scheme of graduated penalties retroactive from January 1, 1982. In case of CRR shortfalls up to and inclusive of an amount equivalent to 4 per cent of the absolute amount of cash balances required to be maintained, there was to be no penalty on the shortfall, while in case of shortfalls upto 3 per cent banks would be paid interest on the eligible balances actually maintained on a graduated scale as shown below:

Shortfall as % of absolute amount of cash balances required to be maintained (upto and inclusive of)	*Rate of interest payable on eligible balances actually maintained*
0	8.0
0.5	7.5
1.0	6.5
1.5	4.0
2.0	2.0
3.0	0.5
over 3.0	0

The interest rate on cash reserves maintained with RBI which was earlier raised from 7 per cent to 8 per cent with effect from April 1, 1982 was also to be effective from January 1, 1982.

(*b*) The additional interest charge on refinance/rediscount of 3 per cent in case of shortfalls in reserve requirements which was not levied during January 1-June 25, 1982 was once again made operative from July 2, 1982.

(*c*) Under the stand-by refinance facility, refinance was provided under Section 17(4) (a) of RBI Act against the collateral of Government and trustee securities; banks however, could use the facility for only three days and, for availing of the facility, were required to show that there was a clearing imbalance. It was decided that henceforth drawals would not be restricted to three days and evidence of a clearing imbalance would not be necessary. Banks with a satisfactory record of observance of CRR/SLR would, on request, be provided access to this refinance facility to the extent of sizeable proportion of what could be deemed as a sustained excess of liquid assets. In the event of a shortfall in the collateral, the stand-by refinance would be recallable immediately and higher interest charges would be imposed for such periods as a bank utilised the facility without adequate collateral.

(*d*) The cut-off point for the Credit Authorisation Scheme which was Rs. 2 crores for private sector borrowers was raised to Rs. 3 crores—which is the same as for public sector borrowers. The increase in the cut-off point for private sector was expected to reduce the number of cases requiring credit authorisation by about a third.

The Reserve Bank also urged banks to meet the genuine credit requirements of vital sectors within the framework of the credit guidelines.

Credit Budgets

2.47 The first round of discussions held with the major banks on their credit budgets for 1981-82 were referred to in the last year's Report. Subsequently, major banks revised their credit budgets in the context of the credit policy measures announced in November 1981 and the trend observed in growth of deposits and in non-food credit expansion. These budgets were examined and discussed with banks in December 1981-January 1982. The discussions stressed the need for banks to adhere to the guideline in respect of non-food credit which emphasised that the expansion of non-food credit in financial year 1981-82 should be marginally lower in absolute terms than the actual level of expansion during 1980-81. Besides, the banks were also required to implement the quarterly operating limits for medium and large borrowers.

2.48 The credit budgets for 1982-83 were discussed with the major banks in May/June 1982. While the need to ensure that expansion in credit must be based on the accretion to deposits was emphasised during the discussions, it was also suggested that credit requirements of seasonal industries and vital sectors for productive purposes should be fulfilled to the optimum extent.

2.49 *Seminar on Credit Budget :* A two-day Seminar on 'Credit Budgeting in Commercial Banks' was organised by the Bankers' Training College of the Reserve Bank with a view to enabling the concerned officers in the scheduled commercial banks to appreciate the rationale and objectives of the credit budgets, requisite internal consistency therein, and the need to translate macro targets into micro decisions. The Seminar was attended by the senior officers of 17 commercial banks and of Nepal Rashtra Bank and the Reserve Bank of India.

Changes in Interest Rates on Deposits

2.50 With a view to aligning the shorter term deposit rates with the rates on longer maturities, the Reserve Bank raised by $\frac{1}{2}-1\frac{1}{2}$ per cent interest rates paid by scheduled commercial banks on term deposits of periods less than three years. The new interest rates which became effective from

March 1, 1982 and apply only to fresh deposits and on renewals of maturing deposits, are as under :

TABLE 2.3—INTEREST RATES ON DEPOSITS

(Per cent per annum)

Term Deposits	Rates prior to March 1, 1982	New rates effective March 1, 1982
Maturity of:		
15 days to 45 days	2.5	3.0
46 days to 90 days	3.0	4.0
91 days to less than 6 months	4.0	5.0
6 months to less than 9 months	4.5	6.0
9 months to less than one year	5.5	7.0
One year and above but less than two years	7.5	8.0
Two years and above but less than three years	8.5	9.0
Three years and above	10.0	10.0

Note: On all term deposits of less than 3 years, Regional Rural Banks may, at their discretion, allow an additional interest of 0.5 per cent per annum and scheduled commercial banks having aggregate demand and time liabilities of less than Rs. 25 crores, an additional interest of 0.25 per cent per annum.

2.51 Interest on bank deposits along with interest on investments in other specific categories upto Rs. 3,000 was tax free till March 1982. This exemption limit has now been raised to Rs. 4,000 in terms of the Finance Act, 1982. Additional exemption upto Rs. 2,000 on income from bank deposits of maturity of one year or more together with interest on Government securities has also been given under the Finance Act, 1982.

2.52 In respect of non-resident deposits, under the Non-Resident (External) Rupee (NRE) Accounts Scheme and Foreign Currency (Non-Resident) (FCNR) Accounts Scheme, the RBI provided a special incentive to enable banks to attract remittances from abroad. Commercial banks which are authorised to deal in foreign exchange and accept term deposits of one year and above under these two schemes are to pay, effective March 1, 1982 additional interest on such deposits at two per cent per annum over the rates permissible on domestic deposits of comparable maturities.

Non-Resident Accounts

2.53 The two schemes (NRE and FCNR) which were hitherto available only to non-resident individuals of Indian nationality or origin, were extended effective April 22, 1982, to overseas companies, partnership firms, societies and other corporate bodies owned to the extent of at least 60 per cent by non-residents of Indian nationality/origin, and also to overseas trusts in which at least 60 per cent of the beneficial interest is irrevocably held by such persons.

2.54 The provisional data on NRE Accounts and FCNR Accounts are given in Table 2.4. The data show that the amount in the NRE Accounts rose from Rs. 1,002 crores at the end of June 1981 to Rs. 1,230 crores by end-April 1982. In the case of FCNR Accounts, the balances in sterling rose from £16.41 million at the end of December 1980 to £20.08 million by end-December 1981 and those in US$ from $150.56 million to $ 157.20 million over the same period.

TABLE 2.4—NUMBER OF ACCOUNTS AND OUTSTANDING BALANCES UNDER NON-RESIDENT (EXTERNAL) RUPEE ACCOUNTS AND FOREIGN CURRENCY (NON-RESIDENT) ACCOUNTS

Non-Resident (Exernal) Rupee Accounts

As at the end of	No. of Accounts	Amount (Rs. crores)
June 1981	711,954	1,002
April 1982	881,952	1,230

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 1980*	£ Sterling	9,938	16,413
December 1981	£ Sterling	11,863	20,081
December 1980*	U. S. $	30,087	1,50,555
December 1981	U. S. $	31,982	1,57,200

*Revised.

Note : Data are provisional.

Source : Department of Statistical Analysis & Computer Services, RBI

Selective Credit Control

2.55 While the existing framework of selective credit control remained unchanged during the year, minor adjustments were made, mostly in respect of margin requirements against selected commodities in the light of their supply position and price trends.

2.56 *Foodgrains :* On a review of the trends in production, prices and bank credit relating to paddy, rice and other foodgrains (including wheat), the minimum margins on advances against stocks of these commodities were raised effective July 13, 1981 by 10 percentage points. An exception was made in the case of advances to roller flour mills against wheat, for which the minimum margin remained unchanged at 25 per cent. A similar increase was made in the margins prescribed for advances against warehouse receipts covering these commodities. No change was made in the existing minimum margin requirements on advances against pulses (stocks/warehouse receipts).

2.57 In West Bengal there is no system of levy on producers; instead, the rice mills, which purchase paddy from the cultivators have to pay levy at such percentage as fixed by the State Government on a year-to-year basis. There is thus a statutory liability on the mills to pay levy on paddy owned by them and rice produced out of it. They therefore represented to the Reserve Bank that advances against such levy stocks should carry concessional rate of interest as in the case of levy stocks procured by rice mills as Government agents or on behalf of Government. Accordingly, banks were advised on June 9, 1982 that advances granted by them to rice mills in West Bengal against the levy stock to be surrendered to the State Government would be exempted from selective credit control.

2.58 *Cottonseed :* With a view to augmenting the production of cottonseed oil, the minimum margin on advances to oil mills against stocks of cottonseed was relaxed. With effect from September 9, 1981, the minimum margin on advances to oil mills against cottonseed equivalent to two months' consumption was lowered to 45 per cent from 70 per cent earlier. For advances covering stocks over the level indicated above, the minimum margin continued to be 70 per cent.

2.59 *Margins on Bank Guarantees:* The RBI advised banks on September 17, 1981 not to issue guarantees covering payment of customs/import duty payable against import of essential commodities like edible oils without obtaining cash margin equivalent to at least one half of the amount of guarantees issued. It was clarified on March 1, 1982 that the instruction would apply to the import of all vegetable oils, irrespective of whether these were edible or not.

2.60 *Sugar :* The Government of India decided to acquire up to 4 lakh tonnes of levy-free sugar as levy sugar during October and November 1981, out of the 1980-81 season's output. Consequent to the release of levy-free sugar as levy sugar, which was valued at market/tariff and levy rates, respectively, it was possible that, in respect of many of the sugar mill borrowers, accounts would be rendered irregular and there would be a certain amount of deficiency in margin/drawing power. In order to meet this contingency and with a view to ensuring that the distribution of sugar under the public distribution system did not suffer, the Reserve Bank advised all scheduled commercial banks on September 19, 1981 that a reduction in margin could be permitted in respect of the accounts of the sugar mills to the extent it became necessary on account of the above mentioned arrangement between the Government and sugar mills; the relaxation stood revoked after January 31, 1982.

2.61 In regard to the stocks of levy-free sugar out of the 1980-81 season's production still left with the factories, banks were advised not to insist on the deficiency in margin being made good by the realisations coming out of such sales upto end-January 1982. In relation to the 1981-82 crushing season, banks were advised to regulate the drawings on the basis of 25 per cent margin on new stocks of sugar produced.

2.62 Consequent on the fall in market/tariff rates of levy-free sugar since July 1981, there had been erosion in margins in accounts maintained by banks on stocks of sugar. It was represented that the sale proceeds of stocks released from pledge accounts were being utilised by banks for regularising the cash credit accounts. This had resulted in the sugar units being left with little or no resources to attend to off-season repairs to plant and machinery and for purchase of certain essential stores in preparation for the ensuing cane crushing season. With a view to affording relief to the sugar mills, banks were advised on September 19, 1981 that they may allow, on merits, requests for grant of loans on secured or clean basis for amounts not exceeding Rs. 25 lakhs per unit to be repaid in instalments out of sales realisations during the 1981-82 season but not later than March 31, 1982. They should ensure that similar loans granted during the previous year were repaid by the respective units and fresh loans now granted were used for the specific purpose of off-season repairs and purchase of stores. As in the past, such loans were allowed without RBI's prior authorisation but banks were reqiured to report them to RBI.

2.63 *Advances to Sugar Industry :* The Banks were advised on October 29, 1981 that subject to the estimate of sugar production of individual units, they might sanction limits up to 100 per cent of the maximum amount availed during the previous season, without prior authorisation from the Reserve Bank. 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 budget of mills. Banks were also asked to continue the practice of monitoring the payment of dues of sugar mills to cane growers and the system of earmarking of funds out of advances against pledge/hypothecation of sugar for payment to cane growers in consultation with the borrowers.

Violations of Directives

2.64 In view of the violations of the Selective Credit Control brought to light through RBI inspections and sample studies, banks were advised in August 1981 that their internal Inspectors should be instructed to carefully scrutinise borrowal accounts against sensitive commodities so as to ensure that irregularities were set right and steps taken to avoid recurrence of the same. They were also advised to arrange for special inspection of larger branches with concentration of advances against sensitive commodities with a view to examining thoroughly the reasons for violations and devising ways and means to prevent recurrence thereof.

2.65 A programme of sample inspection of certain key branches of the banks mainly handling large number of advances against sensitive commodities is also being chalked out.

Other Policy Measures

2.66 The Reserve Bank issued from time to time specific instructions to banks indicating minor changes/adjustments/clarifications in banking policy measures whenever such changes/clarifications became necessary. The more important of these are given below.

(i) Repayment of Deposit by Cheque/Draft

2.67 In terms of an Ordinance promulgated by the Government of India on July 11, 1981 no company including a banking company, a co-operative society or a firm shall repay to any person any deposit otherwise than by an account payee cheque or account payee bank draft, when the amount of such deposit repayable together with interest, if any, is Rs. 10,000 or more. Accordingly, the Reserve Bank directed all commercial banks to issue suitable instructions to their branches for strict compliance with the provisions of the Ordinance. In this connection, banks' attention was again drawn to the RBI circular of May 24, 1976 wherein they were advised to satisfy themselves about the identity of their depositors through proper introduction.

(ii) Bank Finance to Small Units

2.68 *Small-Scale Industrial Units :* Advances granted to organisations which have been established for the purpose of developing the decentralised sector by the Central and State Governments or by recognised promotional and marketing organisations like Khadi and Village Industries Commission for the purchase and supply of inputs to and/or marketing the output of the artisans, village and cotton industries, are treated as priority sector advances. Banks were advised on June 9, 1981 that such advances are also to be charged concessional rate of interest at 13.5 per cent per annum effective July 1, 1981.

2.69 *Small and Medium Newspaper Units :* The banks were advised on August 19, 1981 to treat advances to small and medium newspaper units which satisfied the investment criteria laid down for SSI units as priority sector advances and extend them the concessions in rate of interest, margin etc., normally available to other SSI units. Such advances are eligible for guarantee cover under the Small Loans (Small-Scale Industries) Guarantee Scheme 1981 of the Deposit Insurance and Credit Guarantee Corporation, if the units conformed to the definition of SSI as set out by Government of India and also complied with other terms and conditions of the Scheme.

(iii) Interest on Savings Bank Accounts of certain Organisations

2.70 In terms of the directive issued on July 22, 1974, banks were prohibited from paying interest on savings bank accounts opened in the name of any trading or business concern. The question of payment of interest on the savings bank accounts of certain organisations which were engaged in socially desirable activities was considered by the Reserve Bank and it was decided to exempt from the provisions of that directive (*i*) certain institutions viz., SFDA, MFAL, DPAP, DDA, etc., (*ii*) institutions which were specifically charged with the task of rendering social or economic assistance to, or welfare of the weaker and under-privileged sections of the society, (*iii*) societies registered under the Societies Registration Act, 1960 or any State Law and (*iv*) companies licensed under section 25 of the Companies Act, 1956. It was, however, clarified that though the activities of organisations like housing boards, municipal corporations, etc., are developmental in nature, they would not be eligible for interest on their savings bank accounts as they do not specifically serve the weaker sections of the society.

(*iv*) *Interest Rates on Bills Rediscounted*

2.71 The ceiling rate of interest on bills rediscounted by banks with other commercial banks and approved financial institutions which was 10 per cent since March 4, 1978 was raised by the RBI to 11.5 per cent effective September 1, 1981.

(*v*) *Interest Rates on Premature Withdrawal of Deposits*

2.72 The Reserve Bank modified on September 19, 1981, its directive on interest rates on deposits issued on July 22, 1974. In terms of that directive, in case of premature withdrawal of a deposit, interest payable on such deposit for the entire period was to be at least 2 per cent less than the rate applicable to the period for which the deposit had remained with the bank. The modification of September 19, 1981 provides that in the event of a deposit being repaid before the agreed period to the heirs or legal representatives of the deceased depositor, interest would be payable at the rate applicable for the period for which the deposit actually remained with the bank.

(*vi*) *Acceptance of Deposits from Institutions*

2.73 Following reports that some banks were accepting funds from institutions like LIC and UTI as deposits on a roll-over basis and paid interest at 11.5 per cent or at still higher rates, the RBI instructed banks on February 3, 1982 to treat deposits accepted from these institutions as deposits from the public and as such apply the rates of interest applicable as per the relevant RBI directives. Banks which had accepted such institutional deposits at rates in excess of the prescribed rates, were asked to discontinue the same and also take steps to recover from the concerned institutions excess interest, if any, already paid.

(*vii*) *Assistance for Development and Utilisation of Renewable Sources of Energy*

2.74 In the context of Government's declared policy to accelerate development and use of technologies based on new and renewable sources of energy (*e.g.*, solar and wind energy), the Reserve Bank advised commercial banks on December 17, 1981 to accord priority to assisting the manufacture and use of equipments based on such technologies; for instance, banks could provide working capital or term finance to the manufacturers or users of such equipment and if the borrower belonged to the category of priority sector, the advance was to be classified as priority sector advance.

2.75. Banks were also asked to extend term loans for purchase of such equipments by farmers for agricultural purposes at 10.25 per cent interest, irrespective of whether the borrower/farmer was 'small' or otherwise.

(*viii*) *Discounting of Non-Trade Bills*

2.76 It was observed that some banks were discounting non-trade bills, *i.e.*, bills converted out of cash credit/overdraft/loan accounts of borrowers, with the approved financial institutions like the LIC and UTI. The RBI pointed out to banks on February 3, 1982 that rediscounting of bills was allowed only in respect of trade bills arising out of genuine trade transactions. Rediscounting of non-trade bills had technically all the characteristics of participation certificates (PCs) and resort to such practice for the purpose of resource mobilisation would defeat RBI's credit restraint measures as also its policy on recourse to PCs. Banks were, therefore, advised to take immediate steps to stop rediscounting of non-trade bills.

(*ix*) *Valuation of Securities for Liquidity Ratio*

2.77 The concession in the form of a partial exemption from the requirement of securities being valued at prices not exceeding the market prices, which was available to scheduled commercial banks upto October 1981 was extended initially upto March 1982 and was later extended till September 1982.

IV. Deployment of Credit

Sectoral Deployment of Credit

2.78 Data on sectoral deployment of credit in respect of 50 major banks which account for about 96 per cent of gross bank credit are available upto March 1982, and hence the analysis here is based on financial year April-March data and not July-June. The available data are given in Table 2.5. It will be seen that gross bank credit expansion in 1981-82 in respect of the 50 major banks covered here at Rs. 4,355 crores or 17.6 per cent was appreciably larger than the expansion of Rs. 3,569 crores or 16.8 per cent in 1980-81. The increase during 1981-82 was shared by both food credit and gross non-food credit which rose by Rs. 368 crores or 20.9 per cent and Rs. 3,987 crores or 17.3 per cent, respectively. In the previous year, there was actually a return flow of food credit to the extent of Rs. 341 crores, while expansion in non-food credit had amounted to Rs. 3,910 crores.

2.79 Of the incremental gross non-food credit of Rs. 3,987 crores in 1981-82, priority sectors' share was as high as Rs. 2,163 crores or 54.3 per cent, as against Rs. 1,774 crores or 45.4 per cent in the preceding

TABLE 2.5: SECTORAL DEPLOYMENT OF GROSS BANK CREDIT

(Rupees crores)

Sector	Outstanding as on			Variations during	
	March 28, 1980	March 27, 1981	March 26, 1982@	1980-81 (April-March)	1981-82@ (April-March)
	1	2	3	4	5
I. Public food procurement	2,100	1,759	2,127	— 341	+ 368
II. (a) Priority sectors	6,730	8,5C4	10,667	+1,774 (+45.4)	+2,163 (+54.3)
(i) Agriculture	2,767	3,584	4,593	+ 817 (+20.9)	+1,009 (+25.3)
(ii) Small-scale industries	2,635	3,229	3,907	+ 594 (+15.2)	+ 678 (+17.0)
(iii) Other priority sectors	1,328	1,691	2,167	+ 363 (+ 9.3)	+ 476 (+12.0)
(b) Industry (medium & large)	8,269	9,960	11,167	+1,691 (+43.2)	+1,207 (+30.3)
(c) Wholesale trade	1,915	1,994	2,219	+ 79 (+ 2.0)	+ 225 (+ 5.6)
(i) Cotton Corporation of India	229	261	255	+ 32 (+ 0.8)	—6 (— 0.2)
(ii) Food Corporation of India (Fertiliser) ..	210	242	411	+ 32 (+ 0.8)	+ 169 (+ 4.2)
(iii) Jute Corporation of India	56	79	115	+ 23 (+ 0.6)	+ 36 (+ 0.9)
(iv) Other trade	1,420	1,412	1,438	— 8 (— 0.2)	+ 26 (+ 0.7)
(d) Other sectors	2,221	2,587	2,979	+ 366 (+ 9.4)	+ 392 (+ 9.8)
III. Non-food gross bank credit(a+b+c+d)	19,135	23,045	27,032	+3,910 (+100.0)	+3,987 (+100.0)
Of which :					
Export credit	1,640	1,640	1,799	—	+ 159
IV. Gross Bank Credit (I+III)	**21,235**	**24,804**	**29,159**	**+3,569**	**+4,355**

@ Provisional.

Note: 1. Data relate to major banks which account for about 96 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.

year. Within the priority sector, advances to agriculture and small-scale industries rose by Rs. 1,009 crores (28.2 per cent) and Rs. 678 crores (21.0 per cent), respectively, as compared with Rs. 817 crores (29.5 per cent) and Rs. 594 crores (22.5 per cent) in the previous year. Of the incremental advances to priority sector, agriculture accounted for 46.6

per cent, and small-scale industry for 31.3 per cent, as against 46.1 per cent and 33.5 per cent, respectively in the preceding year. As at the end of March 1982, of the total outstanding advances to priority sector of Rs. 10,667 crores, Rs. 4,593 crores or 43.1 per cent were in respect of agriculture and Rs. 3,907 crores or 36.6 per cent were in respect of small-scale industries. Total priority sector advances at Rs. 10,667 crores at the end of March 1982 constituted 37.7* per cent of the total net bank credit (including PCs) of Rs. 28,317 crores of these 50 banks, as against 35.0* per cent of their net bank credit (including PCs) of Rs. 24, 317 crores on March 27, 1981.

2.80 Advances to large and medium industries showed a much smaller increase of Rs. 1,207 crores or 12.1 per cent in 1981-82, as against Rs. 1,691 crores or 20.4 per cent in 1980-81. Of the incremental non-food gross bank credit of Rs. 3,987 crores, the share of medium and large industry was 30.3 per cent, as against 43.2 per cent in the preceding year. The outstanding credit to medium and large-scale industries at the end of March 1982 amounted to Rs. 11,167 crores constituting 38.3 per cent of the gross bank credit as compared with Rs. 9,960 crores or 40.2 per cent at the end of March 1981.

2.81 Total bank credit to industry (large, medium and small-scale) increased by Rs. 1,885 crores in 1981-82, which was smaller than the increase of Rs. 2,285 crores in 1980-81. Major industries which accounted for the increase were engineering (Rs. 684 crores), chemicals, dyes and paints group (Rs. 170 crores), other textiles (Rs. 136 crores), iron and steel (Rs. 119 crores) and cotton textiles (Rs. 113 crores). Petroleum industry which had accounted for the largest increase of Rs. 450 crores last year, reported a fall of as much as Rs. 292 crores during 1981-82 (Table 2.6).

2.82 There was an increase of Rs. 225 crores in advances to wholesale trade (other than food procurement) during the year as compared with an increase of only Rs. 79 crores in 1980-81.

2.83. Credit to other sectors, which include personal loans, advances to financial institutions, hire-purchase agencies and other residual parties increased by Rs. 392 crores as compared with Rs. 366 crores last year.

Priority Sector Advances

2.84 The data on priority sector advances given in the previous section relate to 50 major commercial banks, accounting for 96 per cent of total bank credit. Full details on priority sector advances of all scheduled commercial banks and the share of SC/ST in each category of advances are available upto December 1980, and these are shown in Table 2.7.

*In November 1974, when the target for priority sector advances was set at 33⅓ per cent of total 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 total advances to the priority sectors by March 1985. The ratio of priority sector advances to bank credit works out to 37.7 per cent in March 1982 and 35.2 per cent in March 1981 if PCs are excluded from the figures of bank credit.

TABLE 2.6 : INDUSTRY-WISE DEPLOYMENT OF GROSS BANK CREDIT

(Rs. crores)

	Outstanding as on			Variations during	
	March 28, 1980	March 27, 1981	March 26,@ 1982	1980-81 (April-March)	1981-82@ (April-March)
	1	2	3	4	5
Industry (Total of small-scale, medium & large-scale industries)	10,904	13,189	15,074	+2,285	+1,885
1. Coal	65	66	55	+ 1	— 11
2. Iron & steel	615	738	857	+ 123	+ 119
3. Other metals & metal products	388	451	524	+ 63	+ 73
4. All engineering	2,996	3,222	3,906	+ 226	+ 684
5. Electricity (generation & transmission)	91	163	211	+ 72	+ 48
6. Cotton textiles	1,032	1,155	1,268	+ 123	+ 113
7. Jute textiles	135	159	187	+ 24	+ 28
8. Other textiles	564	729	865	+ 165	+ 136
9. Sugar	303	342	401	+ 39	+ 59
10. Tea	184	226	259	+ 42	+ 33
11. Vegetable oils (including vanaspati)	144	185	211	+ 41	+ 26
12. Tobacco & tobacco products	101	142	134	+ 41	— 8
13. Paper & paper products	236	285	358	+ 49	+ 73
14. Rubber & rubber products	225	251	281	+ 26	+ 30
15. Chemicals, dyes, paints, drugs & pharmaceuticals	1,220	1,501	1,671	+ 281	+ 170
Of which : Fertiliser	(196)	(278)	(327)	(+82)	(+49)
16. Cement	81	121	160	+ 40	+ 39
17. Leather & Leather products	171	219	224	+ 48	+ 5
18. Construction	105	119	147	+ 14	+ 28
19. Petroleum	273	723	431	+ 450	— 292
20. SAFAUNS*	258	300	307	+ 42	+ 7
21. Residual	1,717	2,092	2,617	+ 375	+ 525

@ Provisional.

* Ships acquired from abroad under new scheme.

Source : Credit Planning Cell, RBI.

TABLE 2.7 : SCHEDULED COMMERCIAL BANKS' ADVANCES TO PRIORITY SECTORS

(Rs. crores)

Sectors	Outstanding priority sector advances as on the last Friday of December					
	1979			1980		
	Total	Of which to SC/ST	% of (2) to (1)	Total	Of which to SC/ST	% of (5) to (4)
	1	2	3	4	5	6
1. Agriculture	2869.50 (42.4)	184.98 (71.5)	6.4	3572.66 (42.9)	253.60 (74.1)	7.1
2. Small-scale industries	2632.77 (38.9)	26.57 (10.3)	1.0	3136.48 (37.7)	27.97 (8.2)	0.9
3. Setting up of industrial estates ..	29.10 (0.4)	0.05 (—)	0.2	34.85 (0.4)	0.04 (—)	0.1
4. Road and water transport operators ..	513.75 (7.6)	17.84 (6.9)	3.5	667.23 (8.0)	20.13 (5.9)	3.0
5. Retail trade and small business ..	562.79 (8.3)	17.49 (6.8)	3.1	704.62 (8.5)	25.12 (7.3)	3.6
6. Professional and self employed persons	157.50 (2.3)	11.22 (4.3)	7.1	197.99 (2.4)	14.89 (4.4)	7.5
7. Education	9.55 (0.1)	0.41 (0.2)	4.3	13.08 (0.2)	0.49 (0.1)	3.7
Total priority sector advances	**6774.96 (100.0)**	**258.56 (100.0)**	**3.8**	**8326.91 (100.0)**	**342.24 (100.0)**	**4.1**
Percentage of priority sector advances to total advances	32.5			34.7		

Note : Figures in brackets represent percentage to total priority sector advances.

It will be seen from the Table that the share of small-scale industries in total priority sector advances declined from 38.9 per cent in December 1979 to 37.7 per cent in December 1980, while that of agriculture and of other priority sector advances rose from 42.4 to 42.9 per cent and from 18.8 to 19.4 per cent, respectively.

2.85 The total advances to small-scale industries amounted to Rs. 3,136 crores at the end of December 1980, of which Rs. 69 crores were in respect of artisans and village and cottage industries and Rs. 203 crores in respect of tiny sector.

2.86 Out of the 'other' priority sector advances of Rs. 1,618 crores at the end of December 1980, retail trade and small business, and road and water transport operators accounted for the bulk — *i.e.*, Rs. 705 crores and Rs. 667 crores, respectively, their share in total priority sector advances increasing from 8.3 per cent and 7.6 per cent, respectively, in December 1979 to 8.5 per cent and 8.0 per cent in December 1980. Of the total amount of Rs. 667 crores advanced to small road and water transport operators, Rs. 189 crores were outstanding against 1.32 lakh persons driving taxis, scooters, and autorickshaws and persons plying boats and barges.

2.87 Priority sector advances to SCs/STs increased over the year by 32.4 per cent from Rs. 259 crores at the end of December 1979 to Rs. 342 crores by end-December 1980, their share in total priority sector advances increasing from 3.8 per cent in December 1979 to 4.1 per cent in December 1980. Almost three-fourths of the advances to SCs/STs *i.e.* Rs. 254 crores were in respect of agriculture.

Regional and Rural/Urban Pattern of Credit Deployment

2.88 Apart from population per bank office in different regions/States which is discussed later, regional/state-wise disparities are also reflected in (*i*) varying credit-deposit ratios and (*ii*) rural/semi-urban versus urban/metropolitan flow of banks' resources.

2.89 It is pertinent to point out the limitations of using credit-deposit ratios. The ratios do not necessarily depict the correct picture of the extent to which resources mobilised by banks in a particular region/State are utilised in that region/State. This is because the ratios are based on only credit provided in a particular State and do not take into account investment of banks' funds in securities of that State Government and in bonds/debentures of State-level institutions. Also, loans sanctioned by a bank in its offices in a given area may not necessarily represent the financing of activities in that area. For instance, credit sanctioned by offices of banks in a particular centre may actually be utilised in States other than the State in which the bank office is located. Further, the amount of credit deployed in a State may be small, yet the ratios may work out high due to the relatively lower magnitude of deposits on the basis of which the ratios are worked out.

State-wise Credit-Deposit Ratios

2.90 Data on Region-wise and State-wise credit-deposit ratios according to sanction and utilisation of credit are given in Table 2.8. Though, at the all-India level the credit-deposit ratios at the end of December 1980 as per credit sanctioned and utilised were the same at 66.9 per cent, region-wise and State-wise there were disparities. A higher ratio according to utilisation as compared to that according to sanction, indicating thereby the inflow of credit from other States is observed in Haryana and Punjab in the Northern Region and also in Assam, Arunachal Pradesh, Mizoram, Bihar and Orissa in the less developed North-Eastern and Eastern regions. On the other hand, the ratio as per sanction is very much higher than the ratio as per utilisation in Chandigarh, Delhi and particularly in metropolitan centres of Maharashtra, Tamil Nadu and West Bengal. This follows, principally, from the fact that the head offices or administrative offices of companies etc., located in the cities negotiate and obtain credit limits from bank offices in their headquarter cities, but the credit is utilised in factories/processing units located elsewhere.

Rural/Urban Pattern of Credit Deployment

2.91 In terms of the national target laid down by the Government of India, public sector banks were required to achieve by March 1979 a credit-

TABLE 2.8 : CREDIT-DEPOSIT RATIOS ACCORDING TO SANCTION AND UTILISATION OF CREDIT

(As on the last Friday)

Region/State/ Union Territory	DECEMBER 1973		DECEMBER 1977		DECEMBER 1979		DECEMBER 1980	
	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 ..	**59.7**	**56.7**	**92.2**	**91.1**	**83.3**	**82.5**	**70.0**	**69.1**
Haryana	59.8	105.5	66.2	97.6	70.9	104.4	70.4	95.1
Himachal Pradesh	15.7	12.0	24.0	24.2	29.1	29.3	31.8	32.4
Jammu & Kashmir	24.8	25.8	27.6	23.1	33.2	27.8	30.7	27.1
Punjab	41.3	41.5	41.4	73.1	42.1	64.8	42.3	68.7
Rajasthan	55.4	57.6	62.2	67.8	67.9	73.4	67.4	72.8
Chandigarh	69.6	73.3	269.0	41.1	192.1	34.2	209.2	55.2
Delhi	75.8	60.9	123.1	116.4	108.5	102.0	81.0	71.4
NORTH-EASTERN REGION ..	**34.6**	**64.9**	**38.7**	**56.4**	**37.1**	**52.9**	**45.2**	**62.5**
Assam	42.2	85.7	43.4	66.6	42.3	63.5	53.3	76.6
Manipur	26.7	26.7	39.0	38.0	26.7	30.8	36.9	42.8
Meghalaya	15.7	9.7	18.6	19.9	14.8	15.4	15.1	15.3
Nagaland	42.0	39.8	25.4	25.6	24.3	30.4	25.6	29.4
Sikkim	—	—	2.9	2.5	3.3	3.3	4.3	4.3
Tripura	12.4	18.0	36.0	36.4	55.2	58.5	49.2	51.1
Arunachal Pradesh	4.3	35.9	7.8	27.9	10.1	24.4	10.4	22.7
Mizoram	1.3	2.5	5.3	4.2	6.7	8.6	9.7	23.7
EASTERN REGION	**67.6**	**65.6**	**60.1**	**60.6**	**58.2**	**57.9**	**55.9**	**55.0**
Bihar	29.7	44.6	38.8	59.0	41.2	52.4	41.2	49.3
Orissa	52.2	72.1	58.2	66.4	58.5	66.4	58.5	66.1
West Bengal	82.0	72.7	67.7	60.8	64.3	59.2	61.4	56.1
	(102.3)	(53.6)	(85.3)	(47.7)	(81.5)	(46.1)	(79.7)	(42.7)
Andaman & Nicobar Islands	23.4	24.0	16.8	30.5	25.1	34.6	26.0	28.0
CENTRAL REGION	**44.1**	**48.6**	**45.6**	**50.9**	**46.6**	**50.7**	**46.2**	**49.4**
Madhya Pradesh	53.0	55.4	55.0	58.4	53.1	56.3	55.2	57.6
Uttar Pradesh	41.3	46.5	42.6	48.4	44.5	48.8	43.2	46.7
WESTERN REGION	**76.4**	**74.8**	**70.3**	**67.8**	**69.7**	**67.0**	**72.2**	**70.2**
Gujarat	57.5	67.8	55.1	60.6	53.7	57.7	57.5	61.1
Maharashtra	84.0	78.0	76.9	71.3	76.7	71.1	79.1	74.8
	(91.7)	(72.3)	(82.5)	(63.0)	(83.0)	(64.6)	(87.7)	(71.8)
Dadra & Nagar Haveli ..	88.2	117.7	116.0	146.0	88.9	155.6	107.0	131.7
Goa, Daman & Diu	48.0	52.3	40.9	45.3	42.1	51.8	40.1	41.6
SOUTHERN REGION	**91.3**	**94.2**	**80.5**	**80.4**	**77.5**	**78.6**	**79.8**	**80.9**
Andhra Pradesh	83.7	92.5	71.8	73.3	73.6	75.0	74.3	75.5
Karnataka	89.7	94.6	81.6	84.3	79.4	81.0	75.5	77.0
Kerala	70.8	74.0	61.4	59.4	64.3	65.8	68.1	69.3
Tami Nadu	105.8	104.0	96.8	94.3	86.9	86.7	94.7	95.2
	(117.8)	(86.2)	(113.9)	(83.7)	(97.4)	(66.9)	(119.6)	(84.2)
Lakshadweep	15.0	45.0	5.3	5.3	5.5	6.4	7.4	8.2
Pondicherry	88.5	86.7	70.7	81.1	60.3	66.6	57.4	63.7
ALL-INDIA	**70.3**	**70.3**	**71.7**	**71.7**	**69.0**	**69.0**	**66.9**	**66.9**

Note : 1 Figures in brackets relate to metropolitan centres.
2 *Data* are provisional.

Source : Basic Statistical Returns.

deposit ratio of at least 60 per cent in respect of their rural and semi-urban branches separately. The private sector banks were subsequently asked to reach the target within a time bound programme. Banks were also advised to ensure against wide disparities in the ratios between different States and regions. The progress made in this regard till December 1980 was reviewed in last year's Report. The position as at the end of June 1981 is presented in Table 2.9. For the banking system as a whole the all-India credit-deposit ratios for rural and semi-urban branches were 57.7 per cent and 49.1 per cent as at the end of June 1981 which was a fractional improvement over the December 1980 ratios of 57.2 per cent and 48.9 per cent, respectively, but were still much lower than the target ratios. The performance of private sector banks was better than that of public sector banks in this regard —81.8 per cent against 55.1 per cent for rural offices and 53.0 per cent against 48.8 per cent for semi-urban offices. It has however, to be recognised that this feature follows mainly from the high concentration of private sector banks in regions where rural offices have good business potential. The credit-deposit ratio of public sector banks was 60 per cent or more in 11 States/Union Territories in respect of rural branches and 5 States/Union Territories in respect of semi-urban branches. In the case of private sector banks, the respective number of States was 15 and 8, respectively. The ratio was much below 60 per cent in many States/Union Territories.

2.92 A further analysis can be made from frequency distribution of districts based on credit-deposit ratios. These, for the rural and semi-urban offices are given in Tables 2.10 and 2.11, respectively. At the end of June 1981, the rural offices of scheduled commercial banks achieved a credit-deposit ratio above 60 per cent in 188 out of 400 districts (*i.e.* in 47 per cent of the districts) as against 161 out of 399 districts (*i.e.* in 40 per cent of the districts) at the end of June 1980. In the case of semi-urban offices, such districts numbered 112 out of 357 districts (*i.e.* 31.4 per cent of the districts) at the end of June 1981 as against 86 out of 354 districts (*i.e.* 24.3 per cent of the districts) in June 1980. Thus, only 47 per cent (40 per cent in June 1980) of districts covered by rural branches and 31 per cent (24 per cent in June 1980) of districts covered by semi-urban branches had credit-deposit ratio over 60 per cent at the end of June 1981.

2.93 Tables 2.12 and 2.13 present State-wise frequency distribution of districts according to credit-deposit ratios of rural and semi-urban offices respectively, at the end of June 1981. Of the 188 districts in which scheduled commercial banks' rural offices had achieved credit-deposit ratio of more than 60 per cent, 29 were in Madhya Pradesh, 20 in Andhra Pradesh, 19 in Maharashtra, 18 in Rajasthan, 16 in Karnataka, 14 each in Uttar Pradesh and Tamil Nadu and 12 in Haryana. Seen in relation to the total number of districts in the State, more than 60 per cent credit-deposit ratio was achieved in a majority of districts in Haryana, Rajasthan, Orissa, Madhya Pradesh, Maharashtra, Andhra Pradesh, Karnataka, Kerala and Tamil Nadu.

TABLE 2.9—STATE-WISE CREDIT-DEPOSIT RATIOS OF OFFICES OF PUBLIC* AND PRIVATE SECTOR SCHEDULED COMMERCIAL BANKS@ ACCORDING TO POPULATION GROUPS

(As on the last Friday of June 1981)

Region/State/Union Territory	Rural			Semi-Urban			Urban/Metropolitan			Total		
	Public	Private	Total	Public	Private	Total	Public	Private	Total	Public	Private	Total
	1	2	3	4	5	6	7	8	9	10	11	12
NORTHERN REGION	**48.2**	**54.3**	**48.8**	**52.3**	**59.1**	**52.6**	**81.4**	**61.1**	**79.3**	**71.0**	**59.8**	**70.0**
Haryana	78.8	85.8	79.3	69.3	60.8	69.0	65.8	155.2	68.1	70.5	87.1	71.1
Himachal Pradesh	37.8	42.3	37.9	38.3	18.8	37.2	—	—	—	38.2	26.5	37.6
Jammu & Kashmir	41.6	33.5	36.9	49.5	60.2	53.8	37.0	44.9	40.6	39.5	43.0	41.2
Punjab	36.7	11.3	35.7	42.2	47.3	42.2	49.2	68.7	50.0	43.1	44.5	43.2
Rajasthan	74.9	129.8	82.6	63.0	68.7	63.7	73.5	53.5	71.0	70.4	74.0	70.8
Chandigarh	62.7	—	62.7	24.1	—	24.1	202.1	40.4	199.1	197.3	40.4	194.4
Delhi	44.1	19.7	42.5	—	—	—	82.2	65.5	80.5	81.8	65.3	80.2
NORTH-EASTERN REGION	**33.7**	**103.2**	**37.7**	**34.5**	**42.2**	**34.8**	**51.8**	**51.9**	**51.8**	**38.7**	**57.7**	**39.9**
Assam	36.1	77.7	37.7	42.5	43.6	42.6	53.7	51.9	53.5	44.9	52.0	45.4
Manipur	59.2	—	59.2	30.7	—	30.7	33.7	—	33.7	37.9	—	37.9
Meghalaya	29.3	—	29.3	16.4	14.2	16.3	—	—	—	18.0	14.2	17.8
Nagaland	17.3	—	17.3	31.9	23.6	31.2	—	—	—	28.3	23.6	27.9
Sikkim	—	—	—	5.6	—	5.6	—	—	—	5.6	—	5.6
Tripura	52.4	124.0	75.9	42.6	115.3	45.4	—	—	—	44.6	121.8	53.4
Arunachal Pradesh	12.7	—	12.7	—	—	—	—	—	—	12.7	—	12.7
Mizoram	7.9	—	7.9	5.2	—	5.2	—	—	—	5.4	—	5.4
EASTERN REGION	**43.3**	**127.6**	**49.6**	**30.7**	**35.6**	**30.8**	**61.3**	**59.7**	**61.1**	**51.8**	**64.2**	**52.9**
Bihar	48.1	116.5	53.2	33.4	35.8	33.4	41.2	31.6	41.0	39.0	73.7	39.9
Orissa	78.2	263.0	98.8	56.8	60.9	56.9	62.3	24.6	61.5	63.7	167.3	68.0
West Bengal	28.3	64.2	30.5	21.9	29.8	22.1	65.6	60.9	64.9	55.9	59.9	56.4
Andaman & Nicobar Islands	39.7	—	39.7	27.5	—	27.5	—	—	—	29.9	—	29.9
CENTRAL REGION	**50.5**	**64.3**	**51.7**	**49.2**	**34.1**	**48.3**	**52.5**	**63.9**	**53.0**	**51.2**	**55.4**	**51.4**
Madhya Pradesh	65.5	139.2	69.1	56.6	50.1	56.5	61.2	107.3	61.6	60.6	106.5	61.4
Uttar Pradesh	46.4	54.7	47.2	46.4	32.9	45.4	49.4	61.2	50.1	48.0	50.9	48.2
WESTERN REGION	**52.6**	**69.5**	**53.1**	**46.0**	**51.5**	**46.2**	**75.5**	**94.7**	**77.0**	**68.2**	**89.5**	**69.7**
Gujarat	47.9	46.8	47.9	42.6	72.6	42.6	68.3	70.6	68.3	56.3	68.3	56.4
Maharashtra	71.7	70.9	71.7	51.6	47.5	51.2	77.2	95.2	78.9	74.5	89.9	76.0
Dadra & Nagar Haveli	101.3	—	101.3	—	—	—	—	—	—	101.3	—	101.3
Goa, Daman & Diu	23.2	90.0	23.2	44.3	107.4	45.6	—	—	—	36.9	107.0	37.9
SOUTHERN REGION	**79.0**	**93.9**	**81.6**	**63.2**	**57.5**	**62.2**	**92.6**	**90.8**	**92.4**	**81.9**	**78.6**	**81.4**
Andhra Pradesh	81.9	175.9	89.8	62.6	55.5	62.2	70.3	55.5	69.5	69.9	85.3	70.8
Karnataka	74.8	93.3	77.0	69.0	48.0	66.3	82.2	76.1	81.7	78.0	71.7	77.3
Kerala	56.9	73.1	63.0	48.6	61.9	52.4	117.4	109.8	116.0	72.9	74.4	73.3
Tamil Nadu	97.1	84.4	94.7	75.8	53.9	71.8	111.1	98.7	109.3	101.1	84.3	98.4
Lakshadweep	7.9	—	7.9	—	—	—	—	—	—	7.9	—	7.9
Pondicherry	89.3	65.7	88.3	38.0	14.7	37.1	61.4	81.9	62.3	62.0	71.3	62.4
ALL INDIA	**55.1**	**81.8**	**57.7**	**48.8**	**53.0**	**49.1**	**74.6**	**76.3**	**74.8**	**66.0**	**72.4**	**66.6**

* Public sector includes the State Bank of India, 7 associate banks of SBI and 20 nationalised commercial banks.

@ Including Regional Rural Banks.

Note : The data are provisional.

Source : Monthly Returns on 'Aggregate Deposits and Gross Bank Credit'.

TABLE 2.10—FREQUENCY DISTRIBUTION OF DISTRICTS BASED ON CREDIT-DEPOSIT RATIOS FOR RURAL OFFICES OF SCHEDULED COMMERCIAL BANKS

(As on the last Friday)

(Rs. crores)

Credit-deposit Ratio	June 1979			June 1980			June 1981		
	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	34	614 (18)	91
20%—30%	52	598 (12)	148	49	683 (14)	171	41	641 (16)	160
30%—40%	45	317 (7)	111	43	533 (12)	193	42	734 (17)	263
40%—50%	48	333 (7)	150	54	594 (11)	271	56	792 (14)	356
50%—60%	35	325 (9)	176	44	361 (8)	200	39	499 (13)	274
Above 60%	164 (41.8)£	1,069 (7)	1,032	161 (40.4)£	1,320 (8)	1,271	188 (47.0)£	1,974 (11)	1,888
TOTAL	**392**	**3,064**	**1,667**	**399**	**4,054**	**2,182**	**400**	**5,254**	**3,032**

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

£As percentage of total number of districts.

Note : The data are provisional.

Source : Returns on Aggregate Deposits and Gross Bank Credit.

TABLE 2.11—FREQUENCY DISTRIBUTION OF DISTRICTS BASED ON CREDIT-DEPOSIT RATIOS FOR SEMI-URBAN OFFICES OF SCHEDULED COMMERCIAL BANKS

(As on the last Friday)

(Rs. crores)

Credit-Deposit Ratio	June 1979			June 1980			June 1981		
	No. of districts	Deposits @	Advances	No. of districts	Deposits @	Advances	No. of districts	Deposits @	Advances
	1	2	3	4	5	6	7	8	9
Upto 20%	28	530 (19)	82	32	797 (25)	131	23	824 (36)	132
20%—30%	56	1,129 (20)	267	49	946 (19)	238	42	1,241 (30)	316
30%—40%	54	1,173 (22)	418	72	1,719 (24)	602	62	1,657 (27)	576
40%—50%	52	1,059 (20)	480	64	1,364 (21)	606	66	1,795 (27)	809
50%—60%	59	1,041 18)	575	51	1,127 (22)	612	52	1,459 (28)	802
Above 60%	98 (28.2)£	1,511 (15)	1,218	86 (24.3)£	1,779 (21)	1,416	112 (31.4)£	2,509 (22)	2,023
TOTAL	**347**	**6,443**	**3,040**	**354**	**7,732**	**3,605**	**357**	**9,485**	**4,658**

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

£ As percentage of total number of districts.

Note : The data are provisional.

Source : Returns on Aggregate Deposits and Gross Bank Credit.

TABLE 2.12—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 June 1981)

(Amount in lakhs of rupees)

Region/State/Union Territory	Frequency (Credit-Deposit Ratios)								
	Upto 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
NORTHERN REGION ..	**10**	**320,66**	**51,08**	**5**	**43,57**	**11,36**	**7**	**211,00**	**75,91**
Haryana	—	—	—	—	—	—	—	—	—
Himachal Pradesh	3	60,74	11,38	2	5,05	1,20	2	25,57	8,75
Jammu & Kashmir	4	12,62	1,84	2	13,52	3,61	2	27,07	9,58
Punjab	2	246,47	37,71	1	25,00	6,55	2	155,98	56,67
Rajasthan	1	83	15	—	—	—	1	2,38	91
Chandigarh	—	—	—	—	—	—	—	—	—
Delhi	—	—	—	—	—	—	—	—	—
NORTH-EASTERN REGION	**12**	**18,47**	**1,42**	**8**	**16,75**	**4,36**	**7**	**38,83**	**13,91**
Assam	1	3,92	14	2	10,69	2,81	3	35,45	12,76
Manipur	—	—	—	3	98	23	1	69	26
Meghalaya	—	—	—	3	5,08	1,32	—	—	—
Nagaland	4	3,98	40	—	—	—	2	77	25
Sikkim	—	—	—	—	—	—	—	—	—
Tripura	—	—	—	—	—	—	—	—	—
Arunachal Pradesh	4	9,17	77	—	—	—	1	1,92	64
Mizoram	3	1,40	11	—	—	—	—	—	—
EASTERN REGION	**3**	**63,84**	**9,16**	**11**	**210,90**	**49,51**	**10**	**162,48**	**56,21**
Bihar	2	34,63	4,60	6	73,32	19,70	7	82,86	29,27
Orissa	—	—	—	—	—	—	—	—	—
West Bengal	1	29,21	4,56	4	136,35	29,51	3	79,62	26,94
Andaman & Nicobar Islands ..	—	—	—	1	1,23	30	—	—	—
CENTRAL REGION	**5**	**98,99**	**17,40**	**9**	**120,71**	**30,99**	**7**	**96,33**	**35,43**
Madhya Pradesh	—	—	—	1	11,66	2,88	3	28,97	10,85
Uttar Pradesh	5	98,99	17,40	8	109,05	28,11	4	67,36	24,58
WESTERN REGION ..	**3**	**111,20**	**11,96**	**7**	**247,15**	**63,81**	**9**	**186,65**	**69,08**
Gujarat	1	64,06	4,50	6	133,77	36,47	7	125,93	45,40
Maharashtra	1	40,10	6,83	—	—	—	2	60,72	23,68
Dadra & Nagar Haveli ..	—	—	—	—	—	—	—	—	—
Goa, Daman & Diu ..	1	7,04	63	1	113,38	27,34	—	—	—
SOUTHERN REGION ..	**1**	**1,27**	**10**	**1**	**1,94**	**52**	**2**	**38,46**	**12,06**
Andhra Pradesh	—	—	—	—	—	—	—	—	—
Karnataka	—	—	—	—	—	—	—	—	—
Kerala	—	—	—	—	—	—	1	37,34	11,69
Tamil Nadu	—	—	—	—	—	—	—	—	—
Lakshadweep	1	1,27	10	—	—	—	—	—	—
Pondicherry	—	—	—	1	1,94	52	1	1,12	37
ALL-INDIA	**34**	**614,43**	**91,12**	**41**	**641,02**	**160,55**	**42**	**733,75**	**262,60**

TABLE 2.12—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 June 1981)

(Amount in lakhs of rupees)

Region/State/Union Territory	Frequency (Credit-Deposit Ratios)											
	40%—50%			50%—60%			Above 60%			Total		
	No. of Dis-tri-cts	Depo-sits	Ad-vances	No. of Dis-tri-cts	Depo-sits	Ad-vances	No. of Dis-tri-cts	Depo-sits	Ad-vances	No. of Dis-tri-cts	Depo-sits	Ad-vances
	10	11	12	13	14	15	16	17	18	19	20	21
NORTHERN REGION ..	**14**	**171,11**	**73,81**	**2**	**18,01**	**9,60**	**40**	**493,74**	**365,38**	**78**	**1204,09**	**587,14**
Haryana	—	—	—	—	—	—	12	159,09	126,21	12	159,09	126,21
Himachal Pradesh	3	29,93	13,63	—	—	—	2	16,67	17,38	12	137,96	52,34
Jammu & Kashmir	3	21,71	9,49	1	5,29	2,73	2	7,87	5,27	14	88,08	32,52
Punjab	2	67,82	27,95	—	—	—	5	115,82	89,49	12	611,09	218,37
Rajasthan	5	18,50	8,64	1	12,72	6,87	18	136,70	124,78	26	171,13	141,35
Chandigarh	—	—	—	—	—	—	1	3,59	2,25	1	3,59	2,25
Delhi	1	33,15	14,10	—	—	—	—	—	—	1	33,15	14,10
NORTH-EASTERN REGION	**5**	**17,82**	**8,41**	**2**	**9,58**	**5,23**	**5**	**12,01**	**9,43**	**39**	**113,46**	**42,76**
Assam	3	16,88	7,96	1	9,19	5,02	—	—	—	10	76,13	28,69
Manipur	—	—	—	—	—	—	2	1,10	1,15	6	2,77	1,64
Meghalaya	1	36	18	1	39	21	—	—	—	5	5,83	1,71
Nagaland	1	58	27	—	—	—	—	—	—	7	5,33	92
Sikkim	—	—	—	—	—	—	—	—	—	—	—	—
Tripura	—	—	—	—	—	—	3	10,91	8,28	3	10,91	8,28
Arunachal Pradesh	—	—	—	—	—	—	—	—	—	5	11,09	1,41
Mizoram	—	—	—	—	—	—	—	—	—	3	1,40	11
EASTERN REGION	**9**	**102,28**	**47,77**	**8**	**60,39**	**33,37**	**20**	**134,20**	**167,93**	**61**	**734,09**	**363,95**
Bihar	3	34,53	16,17	5	32,53	18,50	8	55,22	78,34	31	313,09	166,58
Orissa	2	15,25	7,17	2	16,52	9,19	9	68,85	83,04	13	100,62	99,40
West Bengal	4	52,50	24,43	1	11,34	5,68	2	9,57	6,14	15	318,59	97,26
Andaman & Nicobar Islands ..	—	—	—	—	—	—	1	56	41	2	1,79	71
CENTRAL REGION	**19**	**187,02**	**82,31**	**18**	**267,14**	**150,69**	**43**	**315,07**	**244,32**	**101**	**1085,26**	**561,14**
Madhya Pradesh	7	34,92	15,50	5	28,41	16,03	29	118,73	108,70	45	222,69	153,96
Uttar Pradesh	12	152,10	66,81	13	238,73	134,66	14	196,34	135,62	56	862,57	407,18
WESTERN REGION	**3**	**70,86**	**30,47**	**3**	**43,44**	**24,29**	**22**	**223,18**	**269,30**	**47**	**882,48**	**468,91**
Gujarat	1	43,09	18,23	2	27,16	15,58	2	51,01	93,10	19	445,02	213,28
Maharashtra	2	27,77	12,24	1	16,28	8,71	19	170,66	174,67	25	315,53	226,13
Dadra & Nagar Haveli ..	—	—	—	—	—	—	1	1,51	1,53	1	1,51	1,53
Goa, Daman & Diu	—	—	—	—	—	—	—	—	—	2	120,42	27,97
SOUTHERN REGION ..	**6**	**242,88**	**113,13**	**6**	**100,14**	**50,38**	**58**	**849,90**	**831,85**	**74**	**1234,59**	**1008,04**
Andhra Pradesh	2	55,66	26,43	1	6,01	3,09	20	297,38	293,01	23	359,05	322,53
Karnataka	2	118,43	56,16	1	14,83	8,80	16	215,73	203,90	19	348,99	268,86
Kerala	2	68,79	30,54	2	41,62	21,78	7	105,83	95,74	12	253,58	159,75
Tamil Nadu	—	—	—	1	36,70	16,21	14	226,63	233,20	15	263,33	249,41
Lakshadweep	—	—	—	—	—	—	—	—	—	1	1,27	10
Pondicherry	—	—	—	1	98	50	1	4,33	6,00	4	8,37	7,39
ALL-INDIA	**56**	**791,97**	**355,90**	**39**	**498,70**	**273,56**	**188**	**1974,10**	**1888,21**	**400**	**5253,97**	**3031,94**

Note : The data are provisional.

Source : Monthly 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 SEMI-URBAN CENTRES

(As on the last Friday of June 1981)

(Amount in lakhs of rupees)

Region/State/Union Territory	Frequency (Credit-Deposit Ratio)								
	Upto 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
NORTHERN REGION ..	**4**	**124,64**	**19,92**	**8**	**252,06**	**67,79**	**8**	**139,24**	**48,93**
Haryana	—	—	—	—	—	—	—	—	—
Himachal Pradesh	1	10,59	1,65	—	—	—	3	21,13	7,19
Jammu & Kashmir	1	2,98	28	1	8,50	2,49	—	—	—
Punjab	1	108,42	17,54	3	188,29	50,55	2	81,67	28,60
Rajasthan	1	2,65	45	3	50,49	13,60	3	36,44	13,14
Chandigarh	—	—	—	1	4,78	1,15	—	—	—
Delhi	—	—	—	—	—	—	—	—	—
NORTH-EASTERN REGION	**5**	**71,52**	**8,50**	**5**	**59,33**	**14,51**	**6**	**64,86**	**21,36**
Assam	1	1,97	21	3	54,85	13,30	3	47,05	15,59
Manipur	—	—	—	—	—	—	1	88	27
Meghalaya	2	44,22	6,95	—	—	—	1	1,28	47
Nagaland	—	—	—	1	1,82	42	1	15,65	5,03
Sikkim	1	5,51	31	—	—	—	—	—	—
Tripura	—	—	—	1	2,66	79	—	—	—
Arunachal Pradesh	—	—	—	—	—	—	—	—	—
Mizoram	1	19,82	1,03	—	—	—	—	—	—
EASTERN REGION	**8**	**441,05**	**71,53**	**14**	**609,87**	**153,87**	**12**	**215,12**	**74,86**
Bihar	2	38,90	5,32	6	387,51	97,24	9	181,78	62,70
Orissa	—	—	—	1	1,53	34	2	18,96	7,29
West Bengal	6	402,15	66,21	6	213,60	54,30	1	14,38	4,87
Andaman & Nicobar Islands ..	—	—	—	1	7,23	1,99	—	—	—
CENTRAL REGION	**2**	**32,54**	**5,65**	**11**	**149,69**	**38,90**	**22**	**390,29**	**136,96**
Madhya Pradesh	—	—	—	3	21,93	4,97	8	57,10	19,84
Uttar Pradesh	2	32,54	5,65	8	127,76	33,93	14	333,19	117,12
WESTERN REGION	**3**	**153,10**	**25,95**	**2**	**45,83**	**10,87**	**11**	**743,43**	**259,29**
Gujarat	2	148,32	25,03	2	45,83	10,87	6	510,96	181,90
Maharashtra	—	—	—	—	—	—	5	232,47	77,39
Dadra & Nagar Haveli ..	—	—	—	—	—	—	—	—	—
Goa, Daman & Diu	1	4,78	92	—	—	—	—	—	—
SOUTHERN REGION ..	**1**	**1,26**	**11**	**2**	**124,43**	**30,38**	**3**	**104,37**	**34,18**
Andhra Pradesh	1	1,26	11	—	—	—	1	25,07	7,70
Karnataka	—	—	—	—	—	—	—	—	—
Kerala	—	—	—	1	124,07	30,30	—	—	—
Tamil Nadu	—	—	—	—	—	—	1	71,24	23,44
Lakshadweep	—	—	—	—	—	—	—	—	—
Pondicherry	—	—	—	1	36	8	1	8,06	3,04
ALL-INDIA	**23**	**824,11**	**131,66**	**42**	**1241,21**	**316,32**	**62**	**1657,31**	**575,58**

TABLE 2.13—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 June 1981)

(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
NORTHERN REGION	**10**	**267,18**	**116,57**	**6**	**243,38**	**137,94**	**29**	**573,72**	**450,62**	**65**	**1600,22**	**841,77**
Haryana	—	—	—	3	87,07	49,38	9	302,15	219,37	12	389,22	268,75
Himachal Pradesh	2	61,50	25,84	—	—	—	—	—	—	6	93,22	34,68
Jammu & Kashmir	1	13,65	5,58	—	—	—	5	14,28	12,87	8	39,41	21,22
Punjab	2	146,71	65,96	2	144,67	82,44	2	112,94	85,65	12	782,70	330,74
Rajasthan	5	45,32	19,19	1	11,64	6,12	13	144,35	132,73	26	290,89	185,23
Chandigarh	—	—	—	—	—	—	—	—	—	1	4,78	1,15
Delhi	—	—	—	—	—	—	—	—	—	—	—	—
NORTH-EASTERN REGION	**2**	**28,02**	**13,14**	**1**	**6,56**	**3,44**	**1**	**61,85**	**40,81**	**20**	**292,14**	**101,76**
Assam	—	—	—	1	6,56	3,44	1	61,85	40,81	9	172,28	73,35
Manipur	—	—	—	—	—	—	—	—	—	1	88	27
Meghalaya	—	—	—	—	—	—	—	—	—	3	45,50	7,42
Nagaland	—	—	—	—	—	—	—	—	—	2	17,47	5,45
Sikkim	—	—	—	—	—	—	—	—	—	1	5,51	31
Tripura	2	28,02	13,14	—	—	—	—	—	—	3	30,68	13,93
Arunachal Pradesh	—	—	—	—	—	—	—	—	—	—	—	—
Mizoram	—	—	—	—	—	—	—	—	—	1	19,82	1,03
EASTERN REGION	**8**	**84,14**	**36,37**	**5**	**55,78**	**30,14**	**12**	**166,73**	**118,24**	**59**	**1572,69**	**485,01**
Bihar	5	58,93	25,16	1	7,40	4,34	7	84,83	58,88	30	759,35	253,64
Orissa	3	25,21	11,21	4	48,38	25,80	3	52,68	38,90	13	146,76	83,54
West Bengal	—	—	—	—	—	—	2	29,22	20,46	15	659,35	145,84
Andaman & Nicobar Islands	—	—	—	—	—	—	—	—	—	1	7,23	1,99
CENTRAL REGION	**25**	**400,66**	**177,07**	**16**	**204,02**	**111,60**	**21**	**269,30**	**228,02**	**97**	**1446,50**	**698,20**
Madhya Pradesh	11	89,41	41,24	9	95,29	52,98	13	109,04	91,64	44	372,77	210,67
Uttar Pradesh	14	311,25	135,83	7	108,73	58,62	8	160,26	136,38	53	1073,73	487,53
WESTERN REGION	**10**	**440,30**	**202,99**	**6**	**202,62**	**108,90**	**13**	**375,58**	**298,84**	**45**	**1960,86**	**906,84**
Gujarat	2	61,97	29,55	2	87,84	44,55	4	125,66	125,72	18	980,58	417,62
Maharashtra	7	154,52	70,12	4	114,78	64,35	9	249,92	173,12	25	751,69	384,98
Dadra & Nagar Haveli	—	—	—	—	—	—	—	—	—	—	—	—
Goa, Daman & Diu	1	223,81	103,32	—	—	—	—	—	—	2	228,59	104,24
SOUTHERN REGION	**11**	**574,09**	**262,81**	**18**	**746,56**	**409,85**	**36**	**1061,93**	**886,89**	**71**	**2612,64**	**1624,22**
Andhra Pradesh	5	184,01	89,00	6	205,12	116,29	10	216,98	180,33	23	632,44	393,43
Karnataka	3	124,68	58,17	6	135,61	74,78	10	209,01	178,40	19	469,30	311,35
Kerala	2	228,70	99,43	5	351,30	189,83	4	136,20	121,06	12	840,27	440,62
Tamil Nadu	1	36,70	16,21	1	54,53	28,95	12	499,74	407,10	15	662,21	475,70
Lakshadweep	—	—	—	—	—	—	—	—	—	—	—	—
Pondicherry	—	—	—	—	—	—	—	—	—	2	8,42	3,12
ALL-INDIA	**66**	**1794,39**	**808,95**	**52**	**1458,92**	**801,87**	**112**	**2509,11**	**2023,42**	**357**	**9485,05**	**4657,80**

Note : The data are provisional.
Source : Monthly Returns on Aggregate Deposits and Gross Bank Credit.

2.94 Of the 112 districts where semi-urban branches had credit-deposit ratio over 60 per cent, 13 each were in Rajasthan and Madhya Pradesh, 12 in Tamil Nadu and 10 each in Andhra Pradesh and Karnataka.

Term Lending by Commercial Banks

2.95 Data on term lending of commercial banks are available up to December 1980 and are shown in Table 2.14. The number of term loan accounts rose from 462 thousand at the end of June 1980 to 520 thousand by December-end 1980 and formed 39.1 per cent of total of all loan accounts as against 38.4 per cent in June 1980. Total credit limits went up from Rs. 4,849 crores to Rs. 5,468 crores during the six-month period. Outstanding term loans rose from Rs. 3,938 crores at the end of June 1980 to Rs. 4,492 crores by end-December 1980—an increase of 14.4 per cent over the six-month period and constituted 22.2 per cent of total bank credit at the end of December 1980 as compared with 21.3 per cent in June 1980.

TABLE 2.14 : SCHEDULED COMMERCIAL BANKS' TERM LOANS (OUTSTANDING)

(Rupees crores)

As on last Friday	No. of Accounts		Credit Limit		Amount outstanding		Total Bank Credit (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
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)
December 1980*	519,635 (39.1)	1328,278	5,468 (18.4)	29,780	4,492 (22.2)	20,221	18,180 (24.7)

* 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 percentage 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.

Recovery of Direct Agricultural Advances

2.96 The latest data available in respect of recovery position of agricultural advances relate to June 1980. These show that the percentage of recovery to demand in respect of direct agricultural advances granted by the public sector banks as at the end of June 1980 was 52.0 which was about the same as at the end of June 1979 when it was 52.2 per cent. In fact, the percentage recovery has not shown much variation since June 1975 when it was 50.2. Taking public and private sector Indian scheduled commercial banks together, the proportion of recoveries to demand declined from 53.1 per cent in June 1979 to 52.1 per cent in June 1980.

2.97 The data on recovery according to type of advance show that at the end of June 1980, the percentage of recovery to demand was 57.0 per cent for short-term loans and 46.1 per cent for long-term loans in the case of public sector banks. State-wise, in respect of short-term loans, the recovery position was 83 per cent in Punjab, 72-74 per cent in Kerala, Haryana and Andaman & Nicobar Islands, 63-67 per cent in Pondicherry, Goa, Daman and Diu and Rajasthan, and 50-60 per cent in Karnataka, Tamil Nadu, Maharashtra, Andhra Pradesh, Uttar Pradesh, Gujarat and Nagaland. It was below 50 per cent in other States/Union Territories.

2.98 In respect of term loans also, the percentage of recovery to demand was highest at 80 per cent in Punjab; it was 75 per cent in Chandigarh, 61-69 per cent in Haryana, Jammu & Kashmir, Himachal Pradesh and Nagaland and 50-59 per cent in Kerala, Pondicherry, Rajasthan, U.P., Tripura, Goa, Daman and Diu, Dadra and Nagar Haveli and Arunachal Pradesh. It was less than 50 per cent in the remaining States/Union Territories.

V. Regional Rural Banks

Establishment of RRBs

2.99 Nineteen new RRBs were set up during the year covering 35 of the 87 districts identified by the Steering Committee on RRBs. Of the 19 new banks, five were in Andhra Pradesh, two each in Assam, Gujarat, Karnataka, Madhya Pradesh and Uttar Pradesh, and one each in Orissa, Rajasthan, West Bengal and Meghalaya. Thus, Meghalaya has become the nineteenth State in the country to have an RRB. The total number of RRBs functioning in the country at the end of June 1982 was 121 covering 207 districts spread over 19 States as against 102 RRBs covering 172 districts spread in 18 States at the end of June 1981 and the Sixth Plan programme of 170 RRBs covering 270 districts by March 1985 (Table 2.15).

Operations

2.100 The deposits and advances of 107 reporting RRBs aggregated Rs. 355 crores and Rs. 436 crores, respectively, as on the last Friday of

TABLE 2.15—STATE-WISE OFFICES OF REGIONAL RURAL BANKS

(As on June 30, 1982)

States	No. of RRBs	No. of Branches@	No. of districts
1. Andhra Pradesh	10	376	15
2. Assam	5	89	10
3. Bihar	17	1,035	26
4. Gujarat	4	58	5
5. Haryana	2	123	5
6. Himachal Pradesh	1	50	3
7. Jammu & Kashmir	3	121	10
8. Karnataka	6	341	11
9. Kerala	2	203	4
10. Madhya Pradesh	14	458	25
11. Maharashtra	1	107	4
12. Manipur	1	1	6
13. Orissa	9	401	11
14. Rajasthan	6	293	13
15. Tamil Nadu	1	104	2
16. Tripura	1	51	3
17. Uttar Pradesh	29	936	35
18. West Bengal	8	301	16
19. Meghalaya	1	..	3
Total	121	5,048@	207

@ As at the end of March 1982.

March 1982, as against Rs. 223 crores and Rs. 274 crores, respectively reported by 84 RRBs as on the last Friday of June 1981. Advances to small/marginal farmers, landless labourers and rural artisans amounted to Rs. 415 crores constituting 95.2 per cent of total advances at the end of March 1982, as against Rs. 261 crores or 64.1 per cent at the end of June, 1981. During the year under review, 37 RRBs were implementing the DRI scheme either on agency basis or on refinance basis.

Refinance Facilities

2.101 *From RBI* : The RRBs continued to avail of refinance facility from the RBI as per the scheme introduced on October 1, 1976. During 1981-82 (upto May) limits aggregating Rs. 177 crores were sanctioned to 82 RRBs. The amount drawn against these limits and remaining outstanding at the end of May 1982 was Rs. 162 crores.

2.102 During 1981-82, RRBs which had deposits of Rs. 5 crores and above were required to maintain their involvement out of their own funds at not less than 25 per cent of their outstanding eligible loans and advances, and those having deposits of less than Rs. 5 crores at not less than 15 per cent. To ensure that RRBs employ their deposit resources to the maximum extent possible in their loan operations, it was decided that for the purpose of providing refinance during 1982-83, RRBs would be divided into three categories and RRBs under each category would be required to show certain minimum involvement as under:

Eligibility Criteria	Minimum involvement (in terms of per cent of outstanding loans)	Maximum refinance from RBI (as per cent of total eligible loans)	Maximum refinance from sponsored bank (per cent)
As on March 31, 1982			
RRBs with outstanding loans of Rs. 8 crores and above	30	40	30
RRBs with outstanding loans of less than Rs. 8 crores but in existence for 5 years and above	20	50	30
All other RRBs	15	50	35

Subject to the above, the minimum involvement of a RRB and the refinance limit from RBI will be determined in each individual case, taking into account the deposit resources of the bank, the amount kept with sponsor bank by way of deposits and the realistic lending programme.

2.103 *From ARDC :* RRBs had been advised to avail of maximum refinance from ARDC in veiw of the low cost of funds from that source. Refinance availed of by RRBs from ARDC, and remaining outstanding at the end of June 1982, was Rs. 53 crores as against Rs. 22 crores a year earlier. RRBs which lack technical expertise for formulating schemes have not been able to avail of refinance assistance from ARDC, which is now formulating a scheme under which financial assistance would be made available to RRBs for the appointment of technical personnel for formulation of Schemes.

2.104 *From Sponsor Banks:* The amount of refinance availed of by RRBs from sponsor banks also registered a substantial increase; the amount outstanding was Rs. 92 crores at the end of March 1982 as against Rs. 66 crores on the last Friday of June 1981.

Viability of RRBs

2.105 Reference was made in the last year's Report to the conclusion arrived at by the RBI study on viability of RRBs *viz.*, on an average, a RRB would require about 6 years and a network of 70 branches to become viable, and it was also necessary that it reached outstanding business level of Rs. 8 crores and had a margin of 5 per cent between its borrowing and lending rates. As on March 31, 1981, seven RRBs achieved a network of 70 branches and business of Rs. 8 crores or more. It is also significant that in respect of 40 RRBs in existence for more than 5 years, 12 out of 18 reporting RRBs showed profits for the year 1981.

Branch Expansion Policy

2.106 It has been recognised that RRBs have a special role to play in the context of IRDP and the revised 20-Point Programme. In line with this, and with a view to ensuring adequate spread of branches in rural areas, the branch expansion policy formulated by the RBI, in consultation with the Union Government, gives preference to RRBs for opening branches in the rural areas of districts covered by RRBs. At the same time, in the districts identified for setting up of RRBs in the rest of the Plan period pending their establishment in phases, sponsor banks will be permitted to a limited extent, to open branches at central location in the rural area from where they can operate through satellite or mobile offices to cover the interior villages.

2.107 The need for cautioning RRBs from going ahead with rapid branch expansion regardless of their ability to exercise adequate control has also been recognised. Accordingly, such of the RRBs which have shown major deficiencies in their internal organisation and control mechanism have been advised to review their internal arrangements well before they reach the level of 100 branches and to seek RBI's prior clearance before going beyond 100 branches. During the year, 19 RRBs approached RBI for opening branches beyond 100, of which ten were given clearance.

Report of the Committee on Control over Branches of RRBs

2.108 A Committee was constituted by RBI in February 1980 to go into the systems and procedures followed by RRBs in the matter of head office control over branches and suggest appropriate measures to ensure effective control. The Committee's recommendations relating to streamlining the arrangements for control over branches by the head office, exercise of discretionary powers of branch managers, cash management, internal audit, inspection systems and measures to check frauds have been conveyed to the RRBs for implementation, while those relating to organisational structure, staffing pattern, etc. are under consideration of the sponsor banks and the Reserve Bank.

Monitoring

2.109 With a view to improving the performance of RRBs, the need for periodical monitoring to supplement the statutory inspections undertaken once in two years has been recognised. Accordingly, RBI has made a beginning in monitoring of RRBs experiencing difficulties, in order to identify their problems and to help find a solution jointly with local authorities and sponsor banks.

Development of SC/ST

2.110 Following the recommendations of the Working Group on the Development of Scheduled Castes and Scheduled Tribes, RRBs have been asked to formulate their credit plans taking into account the needs of these communities and to draw up special bankable schemes to ensure a larger flow of credit to them for self-employment.

RRBs and District Credit Plans

2.111 The Reserve Bank has now issued revised guidelines for the preparation of the District Credit Plans (DCP) for 1983-85. The IRDP and other special programmes for weaker sections would be integrated with the DCPs in terms of the new guidelines. Wherever RRBs have been set up or are likely to be set up, they would play an important role both in the formulation and implementation of DCPs and annual action plans.

State Level Co-ordination Committee

2.112 State level Co-ordination Committees for RRBs have been set up in 13 States. Problems relating to administration and staff matters of RRBs located in the States are reviewed at these meetings. Some of the State governments have also made a beginning in reviewing the overall performance of the RRBs in their States in the light of the potential available in the area of their operation.

RRBs' Overall Performance

2.113 A reference was made in last year's Report regarding a study undertaken by the Reserve Bank to make a qualitative assessment of RRBs' performance. The study report revealed *inter alia* that the basic aim of setting up of RRBs, *viz*., developing the rural economy by providing credit for agriculture, trade, commerce, industry and other productive activities in the rural areas, particularly to the small/marginal farmers, agricultural labourers, artisans and small enterprises, has been largely achieved, and once RRBs are equipped with technical staff, their performance could be bettered. The study noted that RRBs had successfully maintained their image as a small man's bank by confining their credit facilities to the target groups.

2.114 With the setting up of NABARD the Reserve Bank's responsibility *vis-a-vis* RRBs has been transferred to the new bank.

VI. Special Credit Schemes/Facilities

Differential Rate of Interest (DRI) Scheme

2.115 During 1980-81, the public sector banks made further progress in their lending under DRI scheme. The number of borrowal accounts increased by 4.16 lakhs to 26.69 lakhs and the amount of loans outstanding in these accounts by Rs. 67 crores to Rs. 225 crores. The average amount of loan per account increased from Rs. 702 at the end of June

1980 to Rs. 844 by end-June 1981. At the end of June 1981, the public sector banks had achieved the target of 1 per cent of their total advances as at the end of December 1980.

2.116 The coverage of SC/ST borrowers under the scheme improved, the number of such borrowal accounts increasing from 9.77 lakhs at the end of June 1980 to 12.60 lakhs by end-June 1981 and the amount of loans outstanding from Rs. 70 crores to Rs. 101 crores. The percentage of outstanding advances to SCs/STs to total advances under the scheme increased from 44.4 in June 1980 to 45.1 in June 1981 (as against the target of 40 per cent).

2.117 Advances under the scheme made by private sector banks in 20,000 borrowal accounts amounted to Rs. 1.80 crores at the end of June 1981; of this, Rs. 51 lakhs in about 6,000 borrowal accounts *i.e.* 34.1 per cent of the total amount was given to members of SC/ST as against the stipulated target of 40 per cent.

2.118 In terms of the Government of India's guidelines on DRI Scheme, the physically handicapped persons pursuing gainful occupations, are eligible for bank finance under the scheme. In February 1982, the Scheme was modified to allow banks to extend financial assistance to the physically handicapped persons for purchase of artificial limbs, hearing aids, wheeled chairs, etc., subject to a maximum of Rs. 2,500/- per borrower provided such assistance was given along with advances for productive activities and self-employed ventures and all other requirements under the scheme were fulfilled.

Credit Authorisation Scheme

2.119 The Credit Authorisation Scheme (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.

2.120 *Changes in CAS :* Limits sanctioned by banks for financing deferred receivables under the IDBI Bills Rediscounting Scheme do not require prior authorisation under the CAS. However, such limits were required to be taken into account for computing the total limits for the purpose of the cut-off point under the scheme. The RBI reviewed the position and advised banks on October 3, 1981 that bills discounting limits under the IDBI scheme allowed to manufacturer-seller for sale of indigenous machinery need not hereafter be taken into account while computing the total limits enjoyed by them for the purpose of cut-off point under the CAS. However, the discounting banks should ensure the genuineness of the transaction covered by the bills. Further, receivables in respect of the sale of indigenous machinery under the IDBI scheme were not to be taken into account for the purpose of current assets while arriving at the maximum permissible bank finance to the manufacturer-seller for the activity of the borrower other than that covered by the scheme.

2.121 *Working of CAS* : During 1981-82 (July-June) the number of parties covered under the CAS rose from 1,177 to 1,251 (inclusive of 204 public sector undertakings as against 199 as at the end of June 1981). Total limits in force relating to parties covered under the scheme increased by Rs. 1,479 crores to Rs. 15,906 crores by the end of June 1982. The share of public sector undertakings at Rs. 8,370 crores (52.6 per cent) showed an increase of Rs. 675 crores, while that of private sector at Rs. 7,536 crores, an increase of Rs. 804 crores.

2.122 The pattern of purpose-wise distribution of the total limits in force as at the end of June 1982 remained more or less unchanged, *viz.*, 89.2 per cent for working capital purposes, including packing credit and bills (Rs. 14,186 crores), 8.2 per cent for term finance (Rs. 1,300 crores) and 2.6 per cent for sale of machinery on deferred payment basis (Rs. 420 crores).

2.123 Activity-wise, of the total limits, engineering, manufacture of chemicals/chemical products and cotton textiles claimed Rs. 2,635 crores (16.6 per cent), Rs. 1,407 crores (8.8 per cent) and Rs. 1,023 crores (6.4 per cent), respectively. Industry as a whole accounted for Rs. 9,444 crores or 59.4 per cent of the total limits. Of the total limits in force of Rs. 8,370 crores relating to the public sector, trading accounted for 57.9 per cent (the share of food procurement being 36.8 per cent and fertiliser distribution 9.9 per cent), engineering 9.3 per cent, generation and distribution of electricity 5.0 per cent and iron and steel industry 3.7 per cent.

Short-term Funds for Expansion/Diversification Programmes of Large Borrowers.

2.124 The question whether banks should grant short-term loans (repayable within 3 years) to the existing companies having substantial internal accruals, for financing their modernisation, expansion, or diversification programmes costing over Rs. 5 crores without any participation from all-India financial institutions was considered by the Reserve Bank in consultation with Government of India. Accordingly, banks were advised on May 20, 1982 that they may grant short-term loans to the extent of approximately 33.33 to 40 per cent of the project cost, provided the internal generation of the company executing the project is able to take care of the balance amount of 60 to 66.66 per cent of the project cost. In exceptional cases, banks may consider providing such short-term loans even upto a maximum of 50 per cent of the project cost on the undertaking that the companies concerned should take steps to widen their equity base as soon as possible. Banks are also required to obtain clearance from the IDBI, as regards the technical, financial and commercial viability of the project, etc.

Sick Industrial Undertakings

2.125 The Sick Industrial Undertakings Division in the RBI continued to (*i*) monitor the performance of banks in identifying sick units and taking remedial action, wherever necessary, (*ii*) coordinate the efforts of banks, financial institutions, Government and other agencies in the rehabilitation of sick units, and (*iii*) convene meetings of banks and financial institutions to discuss the problems of specific sick units.

2.126 The Standing Co-ordination Committee (SCC) set up to secure co-ordination between banks and financial institutions on an on-going basis, resolved some of the important issues that were impeding rehabilitation of sick units *viz.*, sharing of cash losses, cash surplus and securities, etc.

2.127 To avoid the time lag between the formulation of the final rehabilitation package, and its implementation, banks were asked to ensure that the package proposals were sent to RBI sufficiently in advance of the date of the joint meeting fixed by the IDBI for finalisation of the proposals to enable the Bank to examine the same and take a final view thereon. The package would, *inter alia*, cover relaxations in the rate of interest/ margins, funding of past liabilities for recovery in a phased manner depending upon the cash generation capacity of the unit, grant of fresh facilities, etc. The credit limits determined at the joint meetings for finalisation of the package proposals, in conformity with the views of the Reserve Bank need not be referred to it again for further approval.

2.128 Since cases of incipient sickness were not being reported by banks either to the RBI or Central Government, scheduled commercial banks were advised that, where any medium or large unit employing 1,000 and more persons financed by them was likely to become actually sick, a report thereon giving broad particulars of the unit should be promptly made to the RBI as also to the Union Ministry of Finance/Ministry of Industry. In the case of consortium/multiple financing, such report should be made by the leader bank or the bank having major share in the credit limits to the concerned units.

2.129 In pursuance of the new policy guidelines on industrial sickness announced by the Government of India on October 6, 1981 and modified on February 15, 1982, all scheduled commercial banks were advised to initiate action for rehabilitation of sick industries as enunciated therein.

2.130 The reconstituted State Level Inter-Institutional Committees (SLIICs) have started functioning at almost all the centres where the Department of Banking Operations and Development (DBOD) of the RBI has Regional Offices. The committees, besides providing a useful forum for exchanging information and discussion on the problems faced by the small and medium 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.

2.131 The statements for the quarter ended June 1981 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 422 involving aggregate bank credit of Rs. 1,453 crores as compared to 389 units with an outstanding amount of Rs. 1,233 crores at the end of June 1980. Out of the 422 identified sick units, banks had completed viability studies in respect of 386 units, and of these, 343 units were considered as potentially viable, of which 242 units were under nursing programme.

2.132 In pursuance of the decision of the High Power Committee (1978), banks were required to submit to the RBI quarterly progress reports on all sick units, with separate data on sick SSI units. According to the progress reports for the quarter ended June 1981, 22,360 small-scale units involving aggregate bank finance of Rs. 322 crores (provisional) were identified as sick. Out of these, 5,468 units were considered by banks as viable and 11,346 units as non-viable. Out of 5,468 viable sick SSI units, 2,029 units have been put under nursing programme.

Credit for Petroleum Industry

2.133 Mention was made in the last year's Report of the emergence of oil industry as a major user of bank finance in 1980-81, after having enjoyed a comfortable surplus funds position prior to 1978. In 1981-82 however, as a result of the increase allowed by the Union Government in the price of oil and petroleum products supplied indigenously, the oil industry succeeded in generating funds and reduced its dependence on bank finance to some extent. In the context of credit restraints, the banks financing oil companies were advised in December 1981, to ensure that actual drawings permitted to them were within the authorised limits and no excess drawings were allowed. While emphasising the need for financial discipline and observance of the standard credit norms, it was made clear to the banks in April 1982 that the companies are expected to maintain a current ratio of 1.33:1 latest by March 1983 to ensure that their contribution from internal cash generation towards working capital requirements is to the extent of minimum 25 per cent of their current assets, so that their excessive reliance on bank finance is further reduced.

Bank advances for Fertiliser Distribution and Manufacturing

2.134 Fertiliser consumption target for the financial year 1981-82 was fixed higher at 66 lakh tonnes as against 61 lakh tonnes in 1980-81. The Government had to import larger quantities of fertilisers to attain this higher target. In order to enable the specified agencies entrusted with the distribution of fertilisers to handle the increased quota, the RBI authorised additional limits to the handling agencies. Following the increase announced by the Government in the price of fertilisers by 17.5 per cent effective July 11, 1981, credit requirements of the handling agencies went up and these were duly authorised by the RBI.

2.135 The credit requirements of the fertiliser industry have steeply risen on account of increase in production target, higher cost of raw materials and longer credit demanded by the co-operative marketing agencies engaged in distribution of fertilisers. As against the total limits aggregating Rs. 386 crores enjoyed by the manufacturing companies during 1981-82, their credit requirements during 1982-83 are placed at Rs. 598 crores, an increase of 55 per cent over the previous year. The credit needs of the industry are being met on a priority basis.

Additional Credit to Jute Industry

2.136 As in the previous season, the jute mills were allowed credit facilities to carry inventory of raw jute equivalent to four weeks' consumption through exclusive purchases from the Jute Corporation of India, ten weeks' consumption through normal purchases in accordance with the Tandon Committee norms and during the peak marketing period from November 1981 to January 1982, additional accommodation for purchase equivalent to two weeks' consumption. On November 6, 1981 banks were advised to consider grant of advances to jute mills for purchase of raw jute with reduced margins of 10 per cent for purchases to be made in November and December 1981 and 15 per cent for purchases to be made in January 1982.

Credit for Purchase of Tractors

2.137 On representation from manufacturers of tractors that their sales were not picking up due to lack of adequate credit to farmers for purchase of tractors, the RBI advised banks on March 16, 1982 that it would consider providing, on merits, discretionary refinance accommodation to the extent of Rs. 10 crores to the entire commercial banking system, (in addition to the interim accommodation of Rs 36 crores to be provided by ARDC for the purpose) having regard to the performance of individual banks in providing credit for the above purpose between mid-March and mid-June 1982.

Term Loan Assistance to Road Transport Corporations/Undertakings

2.138 Following requests from State road transport corporations (SRTCs) and other public transport undertakings to commercial banks for grant of term loans for financing their capital expenditure, the RBI advised banks on May 5, 1982 that their role would continue to be marginal.

2.139 In terms of the guidelines issued by RBI to banks, (*i*) transport organisations run by municipal bodies (such as those in Bombay, Pune and Ahmedabad) as departmental units, would not be eligible for financial assistance from banks for their fleet expansion/replacement programmes; (*ii*) unless banks comply with both the CRR and SLR requirements, they should not entertain any proposal for term loans from SRTCs; (*iii*) term loans from banks should not exceed 25-30 per cent of the term loan component (including deferred payment guarantees) of the project cost; (*iv*) if any SRTC approached more than one bank for its term finance requirements, it was necessary to form a consortium, so as to ensure a co-ordinated approach, joint appraisal, etc; (*v*) SRTCs were expected to fully tap all the sources of financing their capital expenditure programmes including IDBI bills rediscounting facility, irrespective of the cost involved and seek assistance from banks only for the residuary requirements; (*vi*) provision of bank finance should be restricted to purchase of bus chassis, reasonable quantity of spares and for body building and should not be extended for purchase of land for bus depots and construction of bus sheds/depots, which are in the nature of infrastructure and (*vii*) repayment period of loans granted by banks should not normally exceed 5 years and in no case 7 years.

Credit Requirements of Textile Industry

2.140 The cotton textile industry had represented to the RBI that because of increasing costs without matching increase in prices of end-products and recession, the industry was incurring cash losses, and, in general, facing a liquidity crunch. Having regard to the overall monetary and credit situation, the RBI was not in favour of any across-the-board sanction of additional facilities or reduction of margin, etc. However, with a view to assisting genuine cases of hardship, the RBI advised scheduled commercial banks on April 19, 1982 that they could on a selective basis in individual cases, consider reduction in margin upto 10 per cent on advances made against stocks-in-process and finished stocks for a period of three months.

Financing of Tobacco Exports

2.141 Commercial banks have been financing procurement, processing and export of tobacco from Andhra Pradesh and Karnataka. Since August 1981, the problems of tobacco exporters have been jointly reviewed by the RBI, the Government and the Tobacco Board in a series of meetings, mainly with a view to ensuring smooth flow of bank credit. The RBI has given discretionary refinance assistance to banks, *inter alia*, to help extension of adequate credit to tobacco exports. Emphasis has been given on broadbasing of credit by involving more banks, including urban co-operative banks, and strengthening of own resources by the exporters.

Rural Electrification Schemes for Energisation of Pumpsets

2.142 According to the Rural Electrification Corporation's (REC) projections regarding the financial outlays and physical targets for the second phase of Special Project Agriculture (SPA) Scheme, as approved by the Planning Commission, 8 lakh pumpsets are to be energised during the three years ending 1984-85 involving an outlay of Rs. 630 crores, of which Rs. 420 crores will be by way of bank finance. As in the past, the programme is required to be financed from the combined resources of commercial banks, the NABARD (hitherto ARDC) and the REC. The loans will be guaranteed by State governments. NABARD will provide funds through commercial banks by way of refinance to the extent of 50 per cent of their loans. Bank finance for energisation of pumpsets would be in the form of term credit and not subscription to the debentures/bonds floated by SEBs. Loans with a medium repayment period not exceeding eight years can be financed by commercial banks either singly or through consortium arrangement or in participation with REC, while loans involving longer repayment period upto 14 years may be financed by banks in participation with REC. In case of participation loans, the earlier maturities, upto 6 years in the case of 8-year loans, and upto 8 years in the case of 14-year loans, would go to commercial banks and later maturities to REC. The rate of interest (inclusive of interest tax) chargeable by banks to SEBs continues to be at 10.25 per cent irrespective of whether commercial banks obtain refinance or not. Refinance funds from NABARD will carry interest at 6.5 per cent.

2.143 Banks were advised to make adequate provision in their annual credit budgets for financing the above programme and delegate powers to State level officers so as to avoid delay in release of funds. The advances covered under the programme will be treated as priority sector as hitherto.

Village Adoption Scheme

2.144 As at the end of June 1981, banks had adopted 111,808 villages and financed 3.69 million accounts involving an amount of Rs. 944 crores (outstanding) as against 101,725 villages and 3.08 million accounts involving Rs. 731 crores at the end of June 1980.

Integrated Rural Development Programme

2.145 Increasing production and productivity in agriculture and other sectors in rural areas, creating substantial additional employment opportunities and making the rural families viable and self-sufficient, are the main objectives of the Integrated Rural Development Programme (IRDP) which is in operation in all the blocks of the country. The Programme seeks in particular to improve the lot of the poorest of the poor — small and marginal farmers, share croppers, agricultural labourers, rural artisans, scheduled castes/tribes and other weaker sections. The Government gives subsidy ranging from 25 per cent to 50 per cent of the total captial investment depending upon the category of beneficiary. Total subsidy per year is estimated at about Rs. 300 crores, and the expected credit support from banks not less than Rs. 600 crores.

2.146 The operations of the IRDP were reviewed at a high level meeting held in New Delhi in November 1981, in which senior officers of the Central and State governments and Chief Executives of the public sector banks participated. The review brought out that the progress of disbursal of institutional credit in support of this programme was not satisfactory and that the operational agencies at all levels should gear up their machinery urgently if the annual targets under the programme were to be achieved. Accordingly, the RBI advised banks the lines on which action should be taken by them in order to accelerate the pace of lending under IRDP.

2.147 With a view to monitoring the progress made by co-operative banks in giving adequate credit support to the IRDP, a detailed information system was introduced in March 1982, and co-operative banks were advised to furnish data on a quarterly basis, in respect of their lendings under this programme.

Lead Bank Scheme

2.148 The High Power Committee (HPC) on the working of the Lead Bank Scheme in its meeting held in August 1981, considered *inter alia* the undernoted issues.

(*i*) *Information System under the Lead Bank Scheme :* In view of the highly unsatisfactory position regarding timely submission of data, the HPC decided that data for the quarters ended December 1980 to September 1981 should be obtained from banks on a crash programme basis, skipping the data for the previous quarters. The RBI regional offices were also asked to monitor the receipt of data and see that the banks adhered to the time schedule prescribed under the crash programme.

To expedite the district-wise consolidation of the data it was decided to give the work mechanical support in the Department of Statistical Analysis and Computer Services (DSACS) at Bombay for consolidation of the data district-wise, so as to reduce the time lag in the availability of data. Regional offices were issued detailed guidelines to ensure that schedules sent by the banks were thoroughly scrutinised before despatching them to Bombay.

(*ii*) *Organisational Set-up at the District Level :* It was reported that many non-lead banks had not appointed District Co-ordinators in several districts on the ground that the DCC meetings were invariably attended by their Regional Managers. It was clarified that the District Co-ordinator is intended not only to represent the bank in the DCC and other committee meetings, but also to fulfil a role in various other matters involving co-ordination at the district level. Even if the Regional Manager regularly attends the DCC meetings, it is necessary that the manager of the bank's branch at the district head quarters (or the manager of any other convenient branch, if there is no branch at the district head quarters) should be enabled to function as District Co-ordinator. Further, a Lead Bank Cell under the charge of the District Co-ordinator should be created to attend to all matters arising out of the Lead Bank Scheme where there are more than, say, five branches in the district. These views of the High Power Committee were communicated to all banks for necessary action.

(*iii*) *Role of Banks in Block Level Forums :* Block level committees have been constituted by some State Governments primarily in connection with the implementation of development schemes in the block (*e.g.* IRDP). It was pointed out to the banks that, while they may participate in the discussions of these committees and otherwise extend necessary co-operation, the initiative in regard to the functioning of these committees should necessarily be taken by the block development officials. Banks should not, therefore, act as conveners of these committees as was reported to be the practice in certain States. The issues which could not be resolved at the block level should be taken up at the higher level in the banks with district/State authorities or at the State Level Co-ordination Committees, without the local branch manager being required to deal with them at the block level.

(iv) *Allocation of Shares in the District Credit Plans/Annual Action Plans:* The banks were advised to dovetail the branch-wise shares under the Annual Action Plans (AAP) with the performance budgets of the branches and to include outlays under IRDP in the AAPs. They were also advised that commitments under AAP and important programmes like IRDP should be invariably indicated to the branches specifically and they should be advised that beneficiaries of such programmes should be given preference in lending, subject to the observance of the usual safeguards.

2.149 *Lead Banks for the Newly Constituted Districts:* Consequent to the formation in April 1981 of two new distrcits, *viz.* Kanpur Dehat and Kanpur Nagar from the erstwhile district of Kanpur in Uttar Pradesh, Bank of Baroda, the lead bank for the erstwhile district of Kanpur, was entrusted with the lead responsibility in these two districts. Likewise for the two additional districts of Madhepura and Khagaria carved out from the existing districts of Saharsa and Monghyr in Bihar in May 1981, Central Bank of India (the lead bank for the erstwhile district of Saharsa) and United Commercial Bank (the lead bank for the erstwhile Monghyr district), respectively, would be the lead banks.

2.150 In Maharashtra, two new districts of Jalna and Sindhudurg were carved out from the existing districts of Aurangabad and Ratnagiri, respectively in May 1981. Bank of Maharashtra (the lead bank for the erstwhile district of Aurangabad) was designated the lead bank for Jalna and Bank of India (the lead bank for the erstwhlie Ratnagiri district) for Sindhudurg.

2.151 In Rajasthan, a new district *viz.* Dholpur, was formed from the existing Bharatpur district effective April 15, 1982. Punjab National Bank (the lead bank for the Bharatpur District), would be the lead bank for Dholpur.

Working Group to review the Working of the Lead Bank Scheme

2.152 The Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) had, *inter alia*, recommended that a review of the working of the Lead Bank Scheme, which had completed more than a decade of its working, may be undertaken by the RBI. This suggestion was considered by the Bank and a Working Group was set up in November 1981 under the Chairmanship of the Chief Officer, DBOD, of the Bank. The terms of reference of the Working Group are:

(*i*) to review the working of the Lead Bank Scheme in regard to the preparation and implementation of the DCPs and to suggest improvements for proper and effective co-ordination of activities among the various participating organisations, in the light of the recommendation of CRAFICARD;

(*ii*) to review the role of the lead banks and to suggest measures to make them more effective and also to suggest measures to improve the organisational set up of lead and non-lead banks at the district and other levels;

(*iii*) to examine the role of the District Consultative Committees and Standing Committees and make suggestions for their more effective functioning;

(*iv*) to review the role of the Lead District Officers of RBI;

(*v*) to consider the question of allocation of lead responsibility, particularly to banks which have been recently nationalised;

(*vi*) to consider measures to improve the flow of data under the information system;

(*vii*) to examine and review the existing arrangements for training of all officials concerned with the work relating to the Scheme, with particular reference to the DCPs, and consider what improvements would be necessary in this regard; and

(*viii*) any other matter germane to the aforesaid aspects. The Group is expected to submit its report within a period of nine months.

Banking Plans under Integrated Rural Development Programme

2.153 Following the extension of IRDP to all the blocks in the country with effect from October 1980, lead banks were advised in January 1981, to prepare banking plans (earlier they were prepared by ARDC), to allocate the responsibility of financing the identified beneficiaries for different activities among the participating banks and integrate the same with the AAPs 1981. Further, following a review undertaken by the High Level Inter-Ministerial Committee set up by Government of India in September 1981, the lead banks were again advised to obtain complete details of village-wise distribution of physical programmes, subsidy, credit needs, etc. from the District Rural Development Agencies (DRDAs) incorporate the same in the AAPs from 1981 and ensure that the specified branches of the participating banks accept the responsibility for processing and sanctioning loan applications of the identified beneficiaries from the villages allocated to them. A sample study conducted by the Reserve Bank brought to light that instructions issued by it to lead banks in pursuance of the recommendations of the Baldev Singh Committee had not percolated to the branch level and that in some cases banks were insisting on collateral security from the beneficiaries even in respect of small loans. Banks were instructed to ensure that the guidelines given to them in this regard are strictly enforced and that a periodical review is undertaken by Head Office of the performance of the branches in this regard.

Annual Action Plans, 1982

2.154 There was considerable delay on the part of some of the banks in formulating AAPs 1980 and 1981. Lead banks were therefore advised in 1981 to ensure that the AAPs 1982 were prepared and kept ready by December 1981, duly approved by the respective DCCs for being launched in January 1982, and that the AAP 1982 should cover the unfulfilled/ unimplemented portion of the IRD banking plan for the financial year 1981-82. If details of IRDPs for 1982-83 were not readily available, the banks were to proceed to finalise the AAP on the basis of available data and as and when the IRDPs for 1982-83 became available, prepare a supplementary AAP 1982.

2.155 The launching of AAP 1982 was not to await the formality of cyclostyling, printing etc.; what was important was formal approval of AAP by the DCC, allocation of scheme-wise, block-wise and bank-wise shares among various banks, acceptance by the banks of their commitments and communication of targets by each bank to every one of its branches before the close of December 1981 so that the plan could be launched from January 1982. Twenty-six lead banks covering 407 districts had prepared 403 AAPs 1982 by the end of June 1982.

Guidelines for the Preparation of Third Round of DCPs (1983-85)

2.156 The revised guidelines for the formulation of the DCPs covering the period January 1983 to March 1985 were issued by the RBI to the lead banks in February 1982. The DCPs to be prepared in the Third Round would be co-terminus with the balance of the Sixth Plan period. The revised guidelines are intended to help lead banks in making the DCP exercise more realistic and meaningful. They lay emphasis on making optimum use of available resourcs for increasing productivity and production, 1982 being declared as the 'Year of Productivity.'

2.157 In formulating the guidelines, the feedback received regarding the formulation/implementation of earlier DCPs/AAPs from various sources including the studies conducted by the Bank, the deliberations at the District level review meetings (DLRMs)/State level review meetings (SLRMs) and the NIBM seminars conducted in 1981, and the views expressed/suggestions offered by the lead banks, the ARDC and governments at various forums for improving the quality of DCPs were taken into account.

2.158 In order to correct the deficiency in the quality of DCPs arising from non-availability of district development plans, the revised guidelines now incorporate formats in which essential data have to be provided by the State governments regarding the programmes to be implemented in each district with State financial assistance and/or infrastructure and other support. At the instance of the Reserve Bank, Planning Commission has requested the State governments to furnish the sub-sectorwise data on physical programmes, State financial assistance and bank support needed under DCP, to form the basis for formulation of the DCPs.

2.159 Programmes incorporated in the DCPs earlier were not always successfully implemented either because they were not tested for their feasibility or bankability or for want of adequate infrastructural support and forward and backward linkages. In terms of the new guidelines, only those programmes requiring bank assistance which are considered technically feasible and bankable would figure in the DCP. Further, not only are the States required to indicate specifically the infrastructural support and other assistance they would provide for making various investment programmes indicated by them viable, but banks are also required to specify in the DCP document the implementing agencies in each case so as to facilitate monitoring of progress at the DCC meetings. A special feature of the new DCPs would be a separate chapter devoted to the special programmes, *viz.*, 20-Point Programme, IRDP, special component plan for the SC/ST, etc.

2.160 While preparing schemes for inclusion in the DCPs for 1983-85, lead banks are required to keep in view (*a*) the directives issued by GOI and RBI regarding deployment of their resources for specified sectors/sub-sectors, etc. especially in regard to agriculture, weaker sections, SC/ST, the revised 20-Point Programme, IRDP, etc., and (*b*) the need for improving credit absorptive capacity of rural sector especially of capital deficit areas/weaker sections.

2.161 The growing linkage between the Government-supported programmes which are formulated on a financial year basis and bank lending, has made it increasingly important that the period of DCPs/AAPs should correspond to the financial year. Accordingly, while the first AAP (1983) under the new guidelines would be for the calendar year, the second AAP would end with March 1985 *i.e.*, end of the Sixth Plan. The banks have also been advised to co-ordinate and synchronise preparation of the corporate plan with the AAPs to ensure that AAPs reflect corporate plan objectives or vice versa.

Training Programmes under the Lead Bank Scheme

2.162 In the light of the decisions taken by the HPC in its meeting held in February 1981, lead banks were advised to organise one meeting of DCC every year as a two-day district level review meeting for identifying the problems in the implementation of DCPs and fixing the responsibility for resolving the problems. DLRMs which were required to be completed by end-September 1981, have since been completed in almost all the districts. The HPC had also suggested that similar two-day review meetings should be organised at State level by the conveners of the State Level Bankers' Committees by end-December 1981, after the DLRMs were held in most of the districts in the State. SLRMs have since been completed in 20 out of 21 States (separate SLRM was not advised in the case of Sikkim).

2.163 It was felt that it would be worthwhile to impart training to all those concerned with preparation of the DCPs (*i. e.* the lead bank officials,

officials from controlling offices of banks, district level Government officials and the lead district officers of the Reserve Bank) so that the plan may be prepared at the district level itself. Towards this end, thirteen 6-day training programmes were organised during March-April 1982 by the Reserve Bank in collaboration with NIBM, while certain lead banks held such programmes on their own for their lead bank officers and the concerned Government officials.

T. T Discounting Facility

2.164 The telegraphic transfer discounting facility to the scheduled commercial banks under the revised arrangement which became effective from November 1, 1975, was extended for a further period of one year *i. e.* upto the end of October 1982. The number of scheduled commercial banks which have been sanctioned telegraphic transfer discounting limits, under the relative scheme stood at 45. (For rates under Reserve bank's Remittance Facilities Scheme see Appendix to this Chapter).

VII Export Finance

2.165 The Reserve Bank continued to pay special attention to the problems of export finance. During the financial year 1981-82, outstanding export credit reached a peak level of Rs. 1,817 crores* as against the peak of Rs. 1,675 crores* and Rs. 1,640 crores* reached in 1980-81 and 1979-80, respectively.

2.166 The Export-Import Bank of India was established on January 1, 1982 with the objective of providing a comprehensive package of financial and allied services to the exporters/importers. The objectives and functions of the Bank are dealt with in detail in Chapter 4.

Export Credit (Interest Subsidy) Scheme, 1968

2.167 As in the previous years, the Reserve Bank disbursed interest subsidy at 1.5 per cent per annum from the Marketing Development Assistance of the Government of India (Ministry of Commerce) to commercial banks and certain eligible co-operative banks on the export credit extended by them to the exporters for specific periods.

2.168 In addition, in respect of special lines of credit made available to Bangladesh for its imports from India, RBI continued to pay special subsidy at 3 per cent per annum on behalf of the Ministry of External Affairs to the IDBI, United Bank of India and United Commercial Bank (under Rs. 25 crores special credit), at 1.5 per cent per annum to IDBI and Punjab National Bank (under Rs. 7 crores credit), and at 2 per cent to IDBI (under Rs. 10 crores credit). The particulars of subsidy paid during 1981-82 are as under:

Special subsidy at 3%, 1½ % and 2% : Rs. 67 lakhs.

General subsidy at 1.5 per cent : Rs. 18,86 lakhs.

* The data are based on returns relating to Sectoral Deployment of Credit; see footnote No. 1 to Table No. 2.5.

Duty Drawback Credit Scheme, 1976

2.169 The Scheme is intended to benefit exporters who can avail of interest-free finance from banks upto 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 finance from Reserve Bank, pending final settlement of duty drawback claims of the exporters. During the period November 1, 1981 to June 30, 1982, limits aggregating Rs. 17.76 crores were sanctioned to 32 banks. As on June 30, 1982, these banks availed of refinance to the extent of Rs. 17.98 crores, and had an outstanding balance of Rs. 5.97 crores.

Standing Committee on Export Finance

2.170 The Standing Committee on Export Finance had, in September 1980, constituted a sub-group to examine the possibility of exporters raising finance from commercial sources abroad. The sub-group has since submitted its report and its recommendations are under consideration.

2.171 At its meeting held on January 25, 1982, the Standing Committee on Export Finance constituted another sub-group to study the various aspects relating to exports to Africa and make suitable recommendations thereon, particularly in view of the important policy and strategy matters involved therein.

2.172 The Export-Import Bank would be participating in the meetings of the Standing Committee as a permanent member.

VIII. Branch Expansion

Objectives and Progress

2.173 The branch licensing policy which came into effect in January 1979 terminated in March 1982. The policy was oriented towards extension of banking facilities in deficient areas *i.e.* areas with population per bank office higher than the national average of 20,000 as at the end of June 1978. During the three-year period January 1979 to end-December 1981, authorisations for opening 9,750 offices in rural and semi-urban areas were issued to banks, of which 6,171 authorisations or 63.2 per cent of the total were in respect of relatively under-banked States of Assam, Uttar Pradesh, Bihar, Madhya Pradesh, Orissa, Rajasthan and West Bengal. As at end-December 1981, banks were holding authorisations for opening offices at 4,298 centres. The policy period which expired in December 1981 was extended upto March 1982.

2.174 During the year, commercial banks opened 3,484 offices as against 3,291 offices in 1980-81. The national average per bank office which was 65,000 at the end of June 1969 and 19,000 as at the end of June 1981 (based on 1981 Census), declined further to 17,500 by June 1982 (Table 2.16).

TABLE 2.16—STATE-WISE DISTRIBUTION OF BANK OFFICES AS AT THE END OF JUNE 1969, JUNE 1981 AND JUNE 1982

State/Union Territory	No. of offices as at the end of			Opened during 1980-81 (July 1980 to June 1981)	Of which at un-banked centres	Opened during 1981-82 (July 1981 to June 1982)	Of which at un-banked centres	Population per bank office (in thousands) as at the end of		
	June 1969	June 1981	June 1982					June 1969	June 1981	June 1982
	1	2	3	4	5	6	7	8	9	10
Andhra Pradesh	567	2,762	2,998	287	216	236	176	75	19	18
Assam	74	507	562	41	33	55	39	198	39	35
Bihar	273	2,394	2,807	487	429	413	381	207	29	25
Gujarat	752	2,363	2,452	120	64	89	40	34	14	14
Haryana	172	810	872	64	45	62	53	57	16	15
Himachal Pradesh	42	369	412	45	36	43	39	80	11	10
Jammu & Kashmir..	35	459	546	65	52	94	74	114	13	11
Karnataka	756	2,792	2,973	158	97	181	136	38	13	12
Kerala	601	2,340	2,429	149	101	89	50	35	11	10
Madhya Pradesh	343	2,177	2,510	335	303	336	288	116	24	21
Maharashtra	1,118	3,631	3,888	311	230	257	174	44	17	16
Manipur	2	37	39	2	1	2	—	497	39	37
Meghalaya	7	59	67	4	3	9	3	147	23	20
Nagaland	2	40	45	5	5	5	2	205	19	17
Orissa	100	968	1,228	153	129	260	232	212	27	21
Punjab	346	1,592	1,672	48	22	81	56	42	10	10
Rajasthan	364	1,638	1,785	167	106	147	91	70	21	19
Sikkim†	—	3	7	2	1	3	3	—	105	45
Tamil Nadu	1,060	3,016	3,225	202	142	209	154	37	16	15
Tripura	5	85	86	8	2	1	1	276	24	24
Uttar Pradesh	747	4,128	4,747	388	264	619	522	119	27	23
West Bengal	504	2,233	2,465	193	149	232	181	87	24	23
Andaman & Nicobar Islands ..	1	12	12	—	—	—	—	82	16	16
Arunachal Pradesh	—	22	25	3	3	3	2	—	29	25
Chandigarh	20	80	89	2	—	9	4	7	6	5
Dadra & Nagar Haveli	—	6	6	2	1	—	—	—	17	17
Delhi	274	872	914	35	18	42	12	10	7	7
Goa, Daman & Diu	85	244	246	12	8	2	2	8	4	4
Lakshadweep	—	5	5	—	—	—	—	—	8	8
Mizoram	—	12	13	—	—	1	1	—	41	41
Pondicherry	12	51	55	3	2	4	3	31	12	11
TOTAL	8,262	35,707	39,180	3,291	2,461	3,484	2,719	65	19	17*

† Sikkim became a full-fledged State of the Indian Union from April 26, 1975. * 17,500 to be exact

Note : 1. The average population per bank office is based on 1961 Census in col. 8 and 1981 Census in columns 9 and 10.
2. 11 offices of commercial banks were closed during the period July 1981 to June 1982.

2.175 Of the 3,484 new offices opened during the year, 544 offices were opened by State Bank of India and its associate banks, 1,230 by nationalised banks, 183 by private sector banks, including one office by a foreign bank and 1,527 by regional rural banks (Table 2.17).

2.176 Unbanked centres accounted for 2,719 offices or 78.0 per cent of the total number of new branches. Thus, of the 30,859 offices added since nationalisation of the 14 major banks (*i. e.* from July 19, 1969) upto June 1982, 18,358 (59.5 per cent) were in unbanked centres. At the end of June 1982, there were 39,180 commercial bank offices (including 5,118 offices of RRBs), as against 35,707 offices (3,598 offices of RRBs) in June 1981; the number of offices at the end of June 1969 was 8,262.

Rural Branch Expansion

2.177 Data regarding the spread of commercial bank offices according to population group are given in Table 2.18. The proportion of bank offices in rural areas to the total, which was 49.4 per cent at the end of June 1981, increased to 52.1 per cent at the end of June 1982; in June 1969, the percentage was 22.2.

TABLE 2.17—BANK GROUP-WISE DISTRIBUTION OF OFFICES OPENED DURING 1980-81 AND 1981-82

Bank Group	New Offices opened by commercial banks						Bank offices as on			No. of banks as on		
	1980-81			1981-82								
	July-Dec. 1980	Jan-June 1981	July-June 1980-81	July-Dec. 1981	Jan-June 1982	July-June 1981-82	June 30, 1981	Dec. 31, 1981	June 30, 1982	June 30, 1981	Dec. 31, 1981	June 30, 1982
	1	2	3	4	5	6	7	8	9	10	11	12
1. State Bank of India ..	280 (171)	127 (77)	407 (248)	275 (163)	72 (47)	347 (210)	5,700	5,975	6,047	1	1	1
2. Associate Banks of SBI	116 (63)	54 (32)	170 (95)	144 (98)	53 (29)	197 (127)	2,616	2,760	2,813	7	7	7
3. 14 Nationalised Banks	973 (765)	412 (328)	1,385 (1,093)	796 (604)	272 (191)	1,068 (795)	16,739	17,532	17,804	14	14	14
4. 6 Banks Nationalised in April 1980	94 (51)	53 (36)	147 (87)	127 (76)	59 (45)	162 (101)	2,872	2,999	3,034	6	6	6
5. Regional Rural Banks..	517 (454)	403 (364)	920 (818)	873 (787)	647 (612)	1,527 (1,408)	3,598	4,471	5,118	102	107	121
6. Other Scheduled Commercial Banks ..	184 (91)	74 (28)	258 (119)	125 (57)	53 (18)	179 (76)	4,023	4,149	4,202	34	34	34
7. Foreign Banks ..	3 (—)	—	3 (—)	1 (—)	—	1	132	132	132	17	18	18
8. All Scheduled Commercial Banks ..	2,167 (1,595)	1,123 (865)	3,290 (2,460)	2,341 (1,785)	1,156 (942)	3,481 (2,717)	35,680	38,018	39,150	181	187	201
9. Non-Scheduled Commercial Banks ..	1 (1)	—	1 (1)	3 (2)	1 (1)	3 (2)	27	29	30	4	4	4
10. All Commercial Banks	2,168 (1,596)	1,123 (865)	3,291 (2,461)	2,344 (1,787)	1,157 (943)	3,484 (2,719)	35,707	38,047	39,180	185	191	205

Note : 1 Figures in brackets are number of unbanked centres in which offices were opened.
2 Eight bank offices were closed during the period from July 1980 to December 1981.

Source : Department of Banking Operations and Development, Reserve Bank of India.

TABLE 2.18 : POPULATION GROUP-WISE DISTRIBUTION OF COMMERCIAL BANKS' OFFICES

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

	June 1978	% to total	June 1979	% to total	June 1980	% to total	June 1981	% to total	June 1982	% to total
	1	2	3	4	5	6	7	8	9	10
Rural	11,802	42.1	13,333	44.1	15,101	46.6	17,650	49.4	20,398	52.0
Semi-urban	7,587	27.1	7,846	26.0	8,079	24.9	8,426	23.6	8,763	22.4
Urban	4,542	16.2	4,717	15.6	4,856	15.0	5,126	14.4	5,360	13.7
Metropolitan/Port Town ..	4,086	14.6	4,307	14.3	4,384	13.5	4,505	12.6	4,659	11.9
TOTAL	28,017	100.0	30,203	100.0	32,420	100.0	35,707	100.0	39,180	100.0

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

2. The classification is based on 1971 census.

3. 11 bank offices closed during the period July 1981-June 1982.

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

Unbanked Block Headquarters

2.178 Top priority continued to be given to ensure the presence of bank branches in all the community development block headquarters in the country. Of the 675 centres identified as unbanked block headquarters in the country, 571 were covered by branches of commercial banks/ regional rural banks as at the end of December 1981. Of the remaining 104 block headquarters (of which 82 fall in the backward areas of the North-Eastern Region), licences in respect of 89 were pending with the banks whereas in respect of the remaining 15 block headquarters, banks have expressed difficulties in opening of offices mainly on account of lack of infrastructural facilities. The question of opening of offices at the 104 unbanked block headquarters continues to be pursued with the concerned banks/State governments.

Branch Licensing Policy for 1982-85

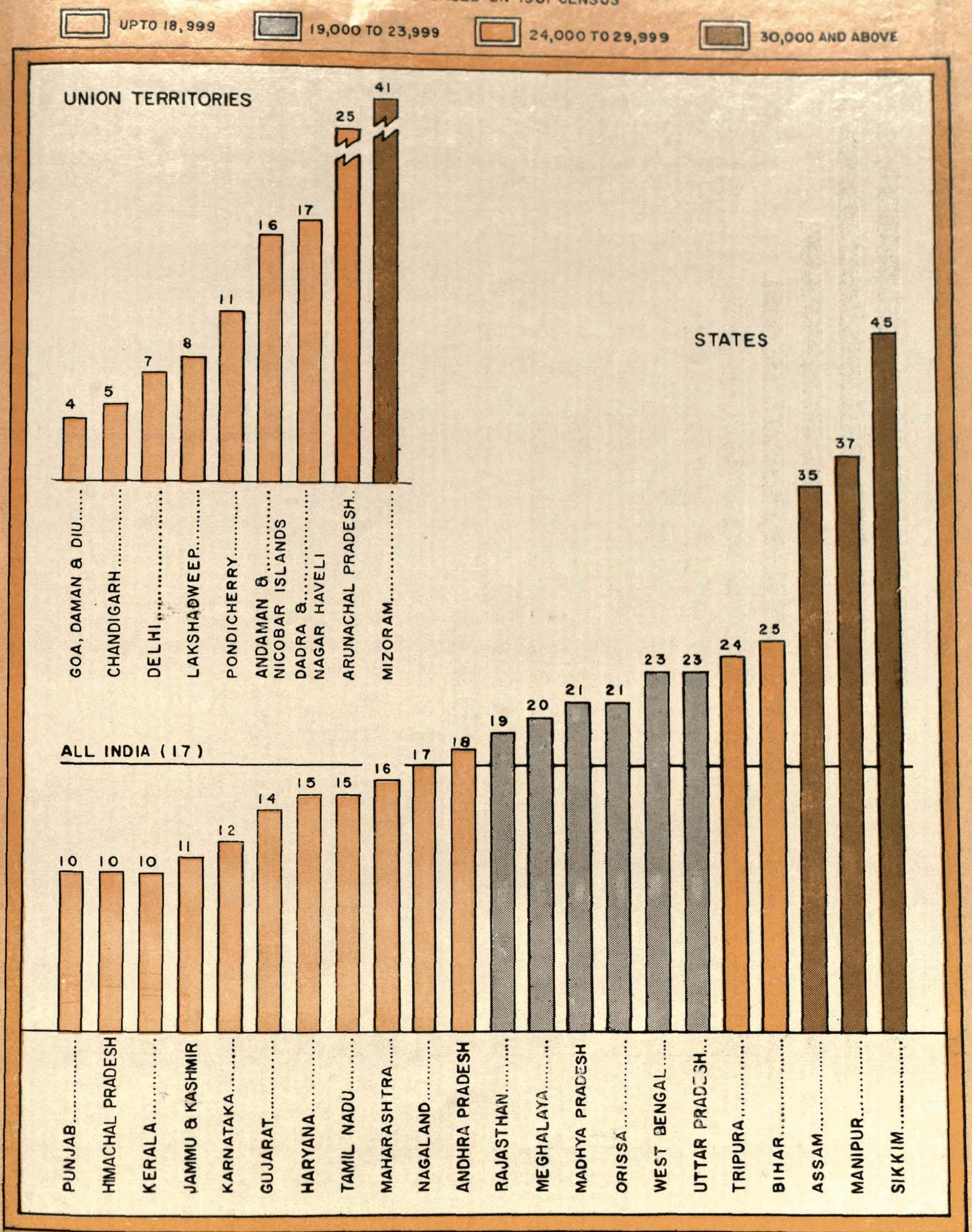
2.179 The new Branch Licensing Policy for the period April 1982 to March 1985 has been formulated in consultation with Government of India. Under the new policy, the main emphasis will continue to be on increasing banking facilities in rural and semi-urban areas and reducing the inter-regional disparities in the spread of banking facilities. It is aimed to achieve a coverage of one bank office on an average for a population of 17,000 in the rural and semi-urban areas on the basis of the 1981 census. State governments have been asked to identify the centres in the rural and semi-urban areas for opening bank offices. It is estimated that about 8,000 additional bank offices would have to be opened during the new policy period *i.e.,* upto March 31, 1985 to attain the objective set out under the policy.

AVERAGE POPULATION PER COMMERCIAL BANK OFFICE

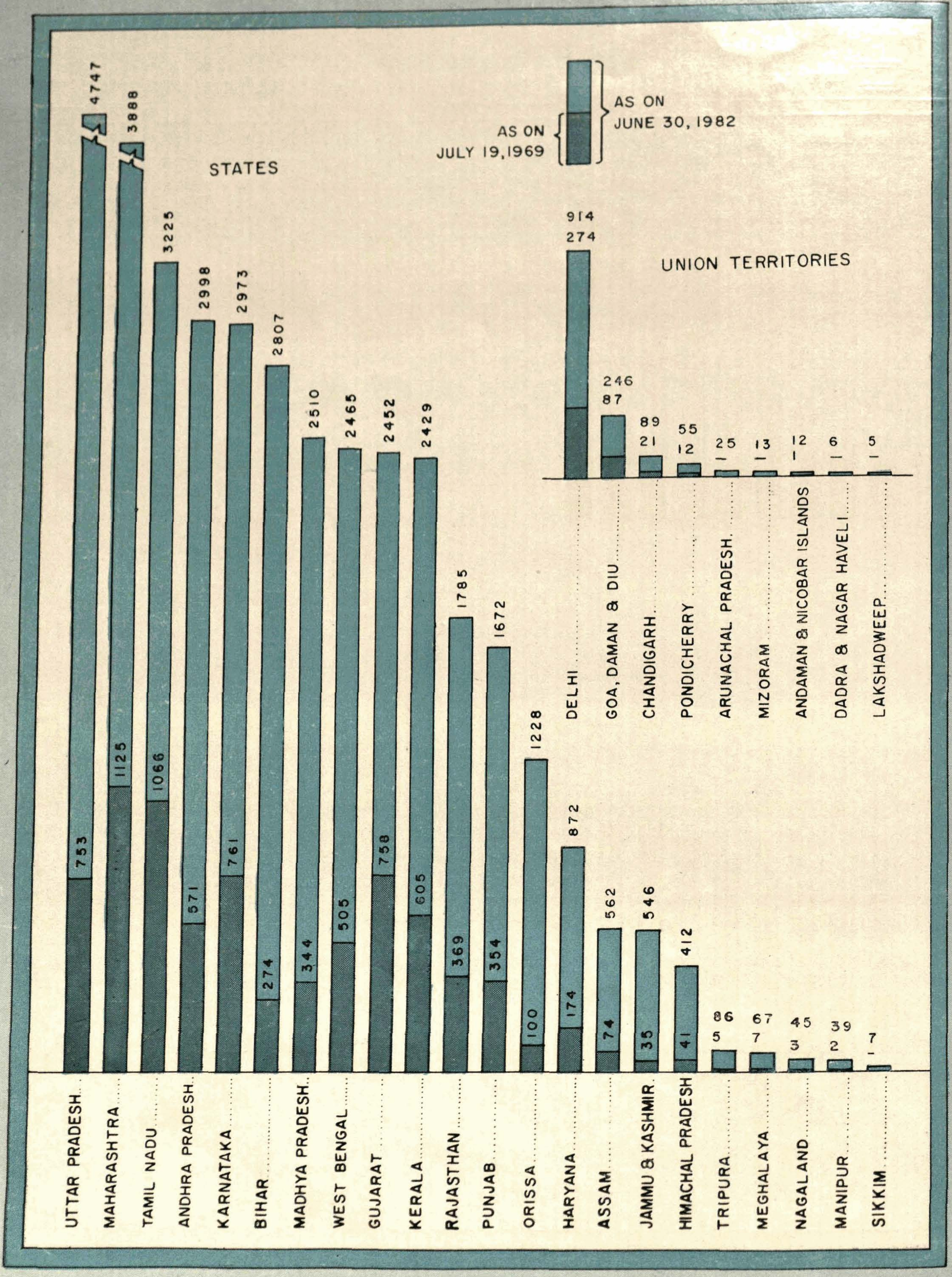
AS ON JUNE 30, 1982

(FIGURES ARE IN THOUSANDS)

DATA ARE BASED ON 1981 CENSUS



NUMBER OF OFFICES OF COMMERCIAL BANKS



Offices of Indian Commercial Banks Outside India

2.180 The branch expansion programme of Indian banks abroad continued to be mainly dictated by factors like earning of foreign exchange, promotion of India's foreign trade and assistance to Indian entrepreneurs in setting up joint ventures abroad. Countries having potential for absorption of Indian exports and technical know-how and international financial centres with capacity to serve as reservoirs of funds for branches, got priority in the opening of offices.

2.181 The number of Indian bank offices abroad [excluding non-functioning offices in Pakistan (17) and Bangladesh (22)] which was 135 at the end of June 1981 increased further to 137 by the end of June 1982.

2.182 During the year, Bank of Baroda and State Bank of India opened a branch each in Lakeba (Fiji Islands) and Anuradhapura (Sri Lanka), respectively, raising the total number of overseas offices of Indian commercial banks to 137 as on June 30, 1982. In addition, 3 Indian banks were issued licences to open 5 branches and 3 banks were permitted to establish 4 representative offices in foreign countries. Besides, State Bank of India was accorded permission to set up a joint venture merchant bank in Lagos (Nigeria) and to enter into a management services agreement with the merchant bank as also to set up a joint venture bank in Sudan. Two Indian banks *viz.* Canara Bank and Syndicate Bank were permitted to enter into management services agreements with exchange companies in Kuwait and Bank of India to enter into a management services agreement with a deposit taking company in Hong Kong.

Foreign Banks in India

2.183 During the year, Grindlays Bank was permitted to open a branch at Mall, Amritsar *in lieu of* the branch in another location at Amritsar which had been closed earlier. Banque De L' Indochine Et De Suez (INDOSUEZ) opened its first branch in Bombay and four other banks *viz.* Barclays Bank International Ltd. (U. K.), Credit Lyonnais (France), Midland Bank Ltd. (U. K.) and Wells Fargo Bank (U.S.A.) established a Representative Office each in Bombay. Bank of Nova Scotia (Canada) and Llyods Bank International Ltd. (U. K.) were permitted to set up a Representative Office each in Bombay. As at the end of June 1982, there were 130 branches and 13 Representative Offices of foreign banks functioning in India.

Banking Delegation to Libya

2.184 A banking delegation from India (led by a senior officer of RBI) visited Libya in March 1982 with a view to sorting out problems relating to projects being executed in Libya, as also strengthening and consolidating co-operation in the field of banking between the two countries. The discussions covered important issues like raising of existing limits for guarantees in respect of Indian banks by the Libyan authorities, establishment of correspondent arrangements between Indian banks and Libyan banks, co-operation in the sphere of training, exchange of know-how, etc. The issues are being examined for initiating necessary action thereon.

IX. Working Results of Scheduled Commercial Banks

2.185 The available working results relating to 74 scheduled commercial banks (28 public sector banks, 15 foreign banks and 31 other Indian scheduled commercial banks) for the year 1981 are shown in Table 2.19. These data are based on the published Profit and Loss Accounts of the banks. The summation of the position for all banks continues to be difficult because of the adoption of different accounting procedures by banks in regard to the recording/payment of bonus to staff. While most banks showed provision for bonus under contingency reserves, a few included it as part of their establishment expenditure comprising salaries, wages, etc. Since contingency reserves would also include provisions for other purposes, the actual bonus paid would be lower than the figure shown as contingency reserves. However, as details in this regard are not available for the purpose of analysis, the entire contingency reserves have been deducted for arriving at net profits.

2.186 Profits of scheduled commercial banks, after providing for taxation and bonus/ex-gratia payments to staff (contingency reserves) registered a significant rise in 1981 in both absolute and percentage terms. The aggregate profits of 74 scheduled commercial banks during 1981 amounted to Rs. 63.9 crores recording a substantial increase of Rs. 12.6 crores or 24.6 per cent over the profits for 1980. In 1980, the increase in profits was smaller at Rs. 7 crores or 16.0 per cent. The rate of growth in profits varied sharply among the different bank groups. In the public sector, the State Bank of India group recorded higher growth rate of 24.0 per cent as against 18.1 per cent in 1980; profits of the 14 nationalised banks increased by 10.0 per cent against 16.6 per cent last year. The performance of the six banks nationalised in April 1980 showed some improvement with the growth in profits at 19.1 per cent compared with 17.2 per cent last year. In the private sector, both the other Indian scheduled commercial banks group and the foreign banks showed substantially higher growth rates — 34.5 per cent and 61.6 per cent, as against only 3.1 per cent and 14.9 per cent, respectively, in 1980.

2.187 The total earnings of the scheduled commercial banks, in absolute terms, recorded an increase of Rs. 1,084 crores during 1981 as compared with an increase of Rs. 889 crores in the previous year. Similarly the total expenditure rose by Rs. 1,071 crores during 1981 as against Rs. 882 crores during 1980. Interest and discount, which are the major items on the earnings side rose by Rs. 1,004 crores while interest on deposits, borrowings, etc. — major item on the expenditure side— went up by Rs. 777 crores during 1981. Establishment expenses increased by Rs. 184 crores in 1981 as against Rs. 176 crores in the previous year.

Increase in Paid-up Capital of Banks

2.188 Since the nationalisation of the 14 major scheduled commercial banks in July 1969 and of the six banks in April 1980, there was no

TABLE 2.19 : WORKING RESULTS OF SCHEDULED COMMERCIAL BANKS

(Rs. crores)

	State Bank Group			14 Nationalised Banks			6 Banks Nationalised in April 1980		
	1979	1980	1981	1979	1980	1981	1979	1980	1981
No. of Reporting Banks:—	8	8	8	14	14	14	6	6	6
ITEMS									
Total earnings	1,008.17 (25.8)	1,323.37 (31.3)	1,704.36 (28.8)	1,789.70 (24.1)	2,249.63 (25.7)	2,811.68 (25.0)	209.23 (29.3)	259.84 (24.2)	312.03 (20.1)
Of which :									
Interest & Discount	841.89 (26.0)	1,118.10 (32.8)	1,464.44 (31.0)	1,626.59 (25.2)	2,061.16 (26.7)	2,591.60 (25.7)	185.28 (28.6)	235.11 (26.9)	286.09 (21.7)
Total Expenditure	997.03 (25.9)	1,310.21 (31.4)	1,688.04 (28.8)	1,770.42 (24.1)	2,227.14 (25.8)	2,786.94 (25.1)	205.79 (29.1)	255.81 (24.3)	307.23 (20.1)
Of which :									
(*i*) Interest paid on deposits, borrowings, etc.	622.41 (26.8)	842.16 (35.3)	1,133.43 (34.6)	1,177.07 (25.5)	1,512.97 (28.5)	1,924.33 (27.2)	126.14 (30.4)	160.20 (27.0)	196.69 (22.8)
(*ii*) Salaries, allowances, provident fund and bonus/ex-gratia payment to staff. ..	285.68 (26.2)	347.43 (21.6)	403.18 (16.0)	432.83 (23.3)	521.05 (20.4)	620.06 (19.0)	52.97 (29.0)	65.42 (23.5)	75.85 (15.9)
Profits after provisions for taxation and bonus/contingency reserves/ex-gratia payments to staff.	11.14 (15.2)	13.16 (18.1)	16.32 (24.0)	19.28 (21.6)	22.49 (16.6)	24.74 (10.0)	3.44 (42.1)	4.03 (17.2)	4.80 (19.1)

	Other Indian Scheduled commercial banks@			Foreign Banks £			Total		
	1979	1980	1981	1979	1980	1981	1979	1980	1981
No. of Reporting Banks:— ..	31	31	31	12	15	15	71	74	74
ITEMS									
Total earnings	162.54 (24.7)	205.71 (26.6)	256.22 (24.6)	163.33 (18.2)	183.11 (12.1)	221.23 (20.8)	3,332.97 (24.6)	4,221.66 (26.7)	5,305.55 (25.7)
Of which:									
Interest & Discount	144.36 (26.0)	185.62 (28.6)	232.53 (25.3)	128.64 (19.7)	146.00 (13.5)	175.73 (20.4)	2,926.76 (25.4)	3,745.99 (28.0)	4,750.39 (26.8)
Total Expenditure	159.98 (24.7)	203.07 (26.9)	252.67 (24.4)	155.53 (17.5)	174.15 (12.0)	206.78 (18.7)	3,288.75 (24.6)	4,170.38 (26.8)	5,241.66 (25.7)
Of which:									
(*i*) Interest paid on deposits, borrowings, etc.	93.10 (24.7)	119.26 (28.1)	147.56 (23.7)	70.86 (15.8)	77.94 (10.0)	87.59 (12.4)	2,089.58 (25.7)	2,712.53 (29.8)	3,489.60 (28.6)
(*ii*) Salaries, allowance, provident fund and bonus/ ex-gratia payment to staff. ..	45.99 (26.5)	57.53 (25.1)	71.23 (23.8)	32.74 (14.4)	35.08 (7.1)	40.40 (15.2)	850.21 (24.4)	1,026.51 (20.7)	1,210.72 (17.9)
Profits after provision for taxation and bonus/contingency reserves/ex-gratia payments to staff.	2.56 (24.9)	2.64 (3.1)	3.55 (34.5)	7.80 (35.0)	8.96 (14.9)	14.48 (61.6)	44.22 (23.6)	51.28 (16.0)	63.89 (24.6)

Note : Figures in brackets represent percentage changes over the previous year.

@Relate to comparable other Indian scheduled commercial banks with deposits of Rs. 10 crores and above as at the end of December 1981.

£Offices of three foreign banks started functioning during the latter half of 1980.

Source : Profit and Loss Accounts of banks.

additional direct contribution to the capital of these banks till recently. These banks, however, augmented their reserves by appropriation from their yearly profits. Some of these banks also capitalised a part of the reserves from time to time with the result, their paid-up capital as at the end of December 1981 was higher than that at the time of their nationalisation. The Table below shows the paid-up capital and reserves in 1969 and in December 1981 of State Bank of India, its associate banks, and the 14 banks nationalised in 1969 and in December 1980 and in December 1981 of the six banks nationalised in April 1980.

(Rs. crores)

Bank group	As at the end of 1969		As at the end of 1981	
	Paid-up capital	Reserves	Paid-up capital	Reserves
State Bank of India	5.63	14.35	5.63	240.73
Associates of SBI	5.00	3.79	5.00	11.53
14 banks nationalised in 1969	28.89 (As on 18-7-1969)	40.34	71.79	131.48
Six banks nationalised in 1980	5.05 (As on 31-12-1980)	16.81	6.79	18.22

2.189 In March 1982, the Central Government contributed a sum of Rs. 25 crores to the capital of the following eight banks.

	Amount
1. Bank of India 2. Bank of Baroda	Rs. 4 crores each
3. Indian Overseas Bank 4. United Commercial Bank 5. Indian Bank 6. Syndicate Bank	Rs. 3 crores each
7. Central Bank of India 8. Punjab National Bank	Rs. 2.50 crores each
Total	Rs. 25 crores

The raising of the paid-up capital will enable these banks to have higher limits with foreign banks for the purpose of issue of gurantees, etc. The Reserve Bank also proposes to contribute to the share capital of the State Bank of India in a phased manner over the next three years, while the State Bank would contribute to the share capital of its associate banks.

X. Committees and Working Groups

Appointment, Recommendations and Follow-up

A—Appointment

Working Group on the Modalities of Implementation of the New 20-Point Programme

2.190 Consequent upon the announcement of the new 20-Point Programme by the Prime Minister in January 1982, it was decided at the Finance Minister's meeting with the Chief Executives of public sector banks on February 15, 1982 that RBI would appoint a Working Group to formulate the modalities of implementation of the new 20-Point Programme by banks. Accordingly, the Bank appointed on March 11, 1982, a Working Group under the Chairmanship of Shri A. Ghosh, Deputy Governor, comprising senior officers of banks, Ministry of Finance, Ministry of Rural Development, ARDC, AFC and RBI. The terms of reference of the Working Group were:

(*i*) to identify the tasks for the banking system for effective implementation of the new 20-point Programme;

(*ii*) to review the present targets and sub-targets within the priority sector with special reference to the needs of the weaker sections;

(*iii*) to examine the scope for modifications in the definitions of the priority sector;

(*iv*) to review the present reporting and monitoring system regarding the flow of credit to the new 20-Point Programme with a view to simplifying and expediting the flow of information and making evaluation more effective; and

(*v*) to make any other recommendations which are incidental or related to the above terms of reference.

The Group has submitted its Report, which is under consideration of the Government.

Committee on Rehabilitation of Sick Industrial Undertakings

2.191 The RBI constituted on May 14, 1981, a Committee to examine the legal and other difficulties faced by banks and financial institutions in rehabilitation of sick industrial undertakings and suggest remedial measures. The terms of reference *inter alia* were :

(*i*) to review the present policy framework within which banks/financial institutions can bring about a change in the management of assisted industrial units, and to make recommendations as to the changes considered desirable;

(*ii*) to review the existing criteria adopted by banks/financial institutions for determining the suitability of a sick unit for revival and to recommend appropriate modifications therein;

(*iii*) to identify the main constraints in the matter of rehabilitation of sick units and to suggest remedial measures including amendments to statutes;

(*iv*) to suggest measures for facilitating the restructuring of the capital base of the assisted units;

(*v*) to identify concessions which should normally be made by various agencies for revival of sick units and to consider whether sick units should be burdened with obligations like payment of minimum bonus, implementation of wage awards etc., and

(*vi*) to identify the factors inhibiting expeditious mergers of sick units with the healthy ones and to suggest remedial measures for expediting such mergers.

2.192 The Committee submitted its interim report in November 1981 on the issue of special legislation for creation of Special Authority, i.e. Board for Industrial Revival with an indicative draft legislation suggesting suitable legal measures for expeditious rehabilitation of sick industrial undertakings. The interim report was examined by the RBI and its views thereon have since been forwarded to the Union Government for its consideration.

Committee to consider formats of published accounts of banks and full disclosure in such accounts

2.193 The RBI appointed, in March 1982, a Committee under the Chairmanship of Shri A. Ghosh, Deputy Governor, and comprising representatives from banks, NIBM, Government and RBI and a chartered accountant to examine formats of published accounts of banks and consider the need, if any, for full disclosure by banks of their liabilities/assets.

2.194 The terms of reference of the Committee *inter alia* are :

(*a*) to examine the desirability of greater or full disclosure in the published accounts of banks, having regard to the need for disclosure, public accountability of banks, requirement of maintenance of confidentiality between banker and customer and the requirement of maintaining the image, reputation and creditworthiness of banks;

(*b*) to suggest, whether it is necessary to make any further provisions in the existing laws if greater or full disclosure is not considered necessary or appropriate;

(c) to suggest suitable changes/amendments in the formats of the balance sheets and profit and loss accounts, having regard to : (*i*) the need for greater or full disclosures, (*ii*) the expansion of banking operations both area-wise and sector-wise, (*iii*) the need for improving the presentation of accounts, and (*iv*) the presentation of accounts of other companies;

(*d*) to look into broadly the practices followed by banks in accounting/ classifying various items of liabilities and assets and income and expenditure, and to suggest standard accounting concepts which would facilitate a uniform, comparable presentation of such items in the published accounts, and compliance with various statutory requirements, and

(*e*) to consider evolving suitable norms for creating provisions for income tax and other taxes, bad and doubtful debts, depreciation in Government securities, etc., on a scientific basis.

The Committee is expected to submit its report within 9 months.

Working Group to Review the Existing System of Inspections

2.195 The Reserve Bank appointed a Working Group, in December 1981, under the Chairmanship of a retired senior officer of the Bank to review the existing system of inspection of commercial banks in the public and private sectors and to suggest improvements/modifications therein. The Group will review the existing system of inspection of urban co-operative banks and RRBs also. The terms of reference also cover examination of (*i*) the question of in-class as well as on-the-job training of inspection staff of the Bank and (*ii*) the existing machinery for monitoring the progress of inspections and the follow-up of their findings.

B—Follow-up

Working Group on the Modalities of Implementation of the Priority Sector lending and 20-Point Economic Programme by banks

2.196 In last year's Report, a reference was made regarding instructions issued by RBI to banks on the implementation of the 20-Point Programme and various targets and sub-targets for lending to the weaker sections and priority sectors. Accordingly, banks have taken steps for implementation of the recommendations of the Working Group for assisting the beneficiaries of the Programme. The position of public sector banks' assistance to the beneficiaries under the 20-Point Programme (point-wise) as at the end of December 1980 is given in Table 2.20.

TABLE 2.20 : PUBLIC SECTOR BANKS' ASSISTANCE UNDER 20-POINT PROGRAMME

As at the end of December 1980

(No. of Accounts in thousands, Amount outstanding in Rs. crores)

Purpose as identified in the 20-Point Programme		28 Public Sector Banks	
		No. of Accounts	Balance outstanding
Point No. 1	Fair price shops, consumer co-ops. and super bazars (Not including Point No. 10)	365	102
Point No. 2	Identified landless labourers and other allotted surplus lands, and oral share croppers	545	99
Point No. 3	Allottees of house sites amongst landless and weaker sections ..	199	40
Point No. 4	Identified released bonded labour	36	4
Point No. 5	Identified beneficiaries of liquidation of rural indebtedness (excluding Points 2 and 4)	2,891	468
Point No. 7	Minor Irrigation	606	356
Point No. 8	Loan assistance to industrial units/Electricity Boards, etc. ..	9	454
Point No. 9	Handloom weavers	193	34
Point No. 10	Individual/Fair price shops/Consumer Co-ops. for supply of controlled cloth	33	8
Point No. 16	National Permit Holders	12	48
Point Nos. 18 and 19	Consumer Co-ops., educational institutions and book/stationery stores run by schools/colleges	20	6
	TOTAL	**4,902**	**1,619**

Working Group to review the system of Cash Credit (Chore Committee)

2.197 Mention was made in last year's Report of the decisions conveyed by RBI to commercial banks in December 1980 on the recommendations of the Working Group. As various problems/issues arising out of the implementation of the recommendations were brought to the notice of the Reserve Bank, it organised a Seminar in July 1981 to discuss the same; senior executives of banks, representatives of IDBI, ICICI and NIBM participated in the discussions. In the light of the consensus reached at the Seminar, certain relaxations were made by the RBI. The more important were :

(*a*) As some of the borrowers, for instance, (*i*) new companies floated prior to December 8, 1980, (*ii*) companies showing signs of incipient sickness and (*iii*) companies having finalised modernisation/expansion programmes prior to implementation of Chore Committee recommendations might not be in a position to switch over to the second method of lending recommended by the Tandon Committee (according to which the borrowers' contribution from owned funds and long-term resources to meet the working capital requirements should be at least 25 per cent of the total current assets), banks were instructed to assess the credit requirements of such borrowers without applying the second method of lending. Such relaxation was, however, to be permitted for a period not exceeding three years.

(*b*) Banks were advised to adopt a flexible approach in respect of exporters who were unable to bring in additional contributions required under second method of lending, in respect of additional credit limits sanctioned for specific export transactions. In view of the concessionary rate of interest applicable to export packing credits in the case of exporter-borrowers, banks may identify the working capital term loan where required on a notional basis and not carve it out from the relative account. Banks were also advised that additional interest of one per cent per annum on *ad hoc* temporary limits may be charged only on limits other than pre-shipment/post-shipment credit finance, as such finance is governed by ceiling rates of interest prescribed under the directives issued by the RBI from time to time.

(*c*) For calculating current assets/current liabilities and contribution to be made by the borrowers, the net amount relating to income tax paid for the previous years and for which assessments are pending and the corresponding provision may be taken into account. The advance tax paid for the current year and the corresponding provision may be taken as current assets and current liabilities respectively, for the purpose of assessment and *not* the net position.

(*d*) For the purpose of computing permissible bank finance, banks were advised to include under current assets the amount of excise duty levied on the permissible level of inventory to be held by the borrower. Such amounts of excise duty may, however, be shown under other current assets and should not be treated as cost of production. Further, where the receivables of the borrower include an element of sales tax paid, banks may include under other current assets such element of sales tax.

Working Group on Customer Service in Banks

2.198 The Reserve Bank continued to review the banks' performance in implementing the 136 recommendations made by the Working Group. The progress reports received from the banks revealed that State Bank of India and its associates have implemented more than 100 recommendations, while the 14 banks nationalised in 1969 have implemented more than 90 recommendations.

2.199 During the year, in accordance with the decision of the Small Group set up by the Government of India to monitor and oversee the implementation of the Working Group's recommendations, the private sector banks, which were so far implementing only 54 recommendations of the Working Group, were also advised to implement all the 136 recommendations.

Working Group on Problems of Bank Credit in the North-Eastern Region

2.200 Major banks operating in the North-Eastern Region, which were advised in December 1980 to take steps to strengthen their existing set-up in the region, have already opened or upgraded their regional offices at

Gauhati so that they may involve themselves more vigorously in accelerating the flow of credit for implementation of the developmental schemes for the region.

2.201 In the fifth meeting of the Regional Consultative Committee for nationalised banks, it was decided that the State governments and the lead banks in the States would co-ordinate their efforts to increase the flow of credit in the North-Eastern area, particularly for implementation of IRDP and DCPs. It was also decided that all the States in the region would bring about legislation to empower village councils to borrow from banks and that all the banks would adopt the procedure of State Bank of India for extending agricultural credit to farmers in areas where land is vested in the community; State Bank of India has decided to grant advances upto Rs. 10,000 to individual cultivators against hypothecation of agricultural machinery and/or crops and group guarantee of not less than 3 persons.

Committee on Financing of Tea Industry

2.202 In terms of the recommendation of the Working Group on financing of tea industry, certain guidelines were issued to banks in June 1982 for assessing the working capital requirements of the borrowers. For this purpose borrowers are classified into four categories:

Large borrowers : Units having their own processing factories, and those which do not have processing factories but whose holdings are over 100 hectares.

Small borrowers : Units with holdings upto 100 hectares and which do not have processing factories of their own.

Bought-leaf factories : Units which buy green leaves from the neighbouring small planters for processing.

Tea Traders : Those engaged in buying tea at auction in bulk and eventually selling/exporting it.

Determination of Working Capital :

2.203 *Large Borrowers :* Cash credit/bills limits should not exceed 75 per cent of the peak deficits as reflected in the cash budgets of borrowers. Banks are required to fix the limits for the entire season/year on the basis of monthly cash budgets.

Small borrowers : Working capital limits should be fixed on the basis of per acre scale of finance as determined by Area Committees (to be constituted by the Tea Board). No minimum contribution by way of net working capital is stipulated, but the banks have to take into account the owned funds that could be brought in by the more affluent among the tea planters and determine the limits accordingly.

Bought-leaf factories : Advances to factories holding registration certificates as SSI units should be eligible for classification as priority sector advances. The working capital needs should continue to be assessed on the basis of Tandon/Chore Committee discipline.

Tea Traders : Need-based finance should continue to be extended to tea traders, keeping in view the Tandon/Chore Committee discipline, except where specially relaxed by RBI, as in the case of *ad hoc* increase in packing credit limits to meet any large unforeseen export orders, etc.

2.204 *Conversion of deficits into term loans :* Cash credit accounts should be liquidated by the end of the season/year from the sale proceeds of tea. However, deficits arising from losses incurred by units as a result of price fluctuations, natural calamities or other factors beyond their control may be kept in separate accounts and adjusted from future cash generations over periods normally not exceeding three years. The facility of conversion should not be allowed in respect of deficits occurring due to bad management or diversion of sale proceeds for liquidating past liabilities or financing of capital expenditures.

2.205 *Temporary limits :* In exceptional circumstances like natural calamities or fall in prices or other contingencies like port strike and warehouse strike, temporary limits may be allowed to units in excess of regular limits fixed for the particular season, but only for pre-determined short durations and given through separate demand loan or non-operable cash credit. In such circumstances, banks may also consider deviations from the projected cash budgets more leniently than in the case of other industries. However, such *ad hoc* or temporary limits may be charged an additional interest of one per cent.

2.206 *Development finance* : Term loans to tea units are mainly given by Tea Board, NABARD and IDBI. Commercial banks should, therefore, not extend term finance to tea units for their replanting/extension of plantation programmes. There is, however, no objection to banks extending limited support to the units for acquisition of balancing equipment, purchase of generators, repairs/additions to factories, etc.

2.207 *Margin :* IDBI and NABARD normally insist on a margin of 25 per cent from borrowers' own resources for grant of term finance for developmental activities. In exceptional cases, banks may consider reduction in margin on working capital finance upto 15 per cent as against the required 25 per cent for temporary periods if it becomes necessary on account of the need to provide the stipulated margin on term finance.

Working Group to Review the Accounting System at Bank Branches

2.208 Reference was made in the last year's Report to the appointment of a Working Group to review the accounting system at bank branches. The report has since been submitted and is being processed.

XI. Banking Legislation/Regulation

Banking Laws (Amendment) Bill

2.209 It was mentioned in the last Report that the Banking Laws (Amendment) Bill was awaiting re-introduction in Parliament. During the year some additional amendments to the Banking Regulation Act, 1949 and Reserve Bank of India Act, 1934 were suggested by the Bank to the Government of India, at their instance.. The Bill, as finalised by the Finance Ministry, is now being vetted by the Law Ministry before being re-introduced in the Parliament.

Composition of the Boards of Directors of Nationalised Banks

2.210 In accordance with the provisions of the Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970/1980, the Boards of nationalised banks include, *inter alia*, an official each from the Central Government and the Reserve Bank and two directors, one representing the workmen staff and other the non-workmen staff of the respective banks. The other directors represent the interests of depositors, farmers, workers, artisans, or they have special knowledge or experience in the fields of accountancy, small-scale industries, etc.

2.211 The three-year term of most of the directors on the Boards of 14 nationalised banks, constituted in October-December 1977 expired in October-December 1980. However, pending new appointments by the Government, they continued to be directors on the Boards till December 1981. During January-April 1982, Government reconstituted the Boards of all the 14 banks nationalised in 1969.

2.212 In respect of the six banks nationalised in April 1980, Government have constituted the full Boards (except directors to represent workmen and non-workmen staff) during January-April 1982.

Appointment of Standing Advisory Committee on Issues pertaining to Annual Audit

2.213 The recommendations made by the Committee for Enlargement of Statutory Auditors' Panel for the public sector banks in its report submitted in December 1980 are under Government's consideration. In the meantime, a Standing Advisory Committee, consisting of two representatives from the Reserve Bank and two from Government, has been constituted by the Bank in December 1981 to consider and advise it and the Central Government on issues pertaining to the annual audit arrangements of public sector banks (including RRBs), on an on-going basis. In its first meeting held in Bombay in December 1981, the Standing Advisory Committee considered and approved the names of auditors to be appointed as statutory auditors of public sector banks for 1981 audit.

Inspection, Merger, Liquidation and Licensing of Banks

Inspection of Banks

2.214 In terms of the powers vested in the Reserve Bank, under section 35 of the Banking Regulation Act, 1949, the Bank continued to carry out inspection of commercial banks.

Annual Appraisal and Annual Appraisal-cum-financial inspection

2.215 During the year, annual appraisal of 15 public sector banks was taken up/completed. Further, since 6 of these public sector banks were due for financial inspection, they were inspected for both purposes *i.e.* annual appraisal and financial assessment. With this, the second round of inspection under the system of 'Annual Appraisal of public sector banks', which was introduced in 1978, has been almost completed. In respect of 3 banks, inspections under the third round were taken up.

2.216 *Financial Inspections :* Besides the 6 public sector banks, which were inspected both for annual appraisal as well as financial assessment, financial inspections of 51 scheduled commercial banks (including 27 RRBs, 9 foreign banks and 15 private sector banks) and one non-scheduled bank were taken up/completed.

2.217 *Overseas Inspections :* Inspections of nine overseas offices of Indian banks in UK, USA, and UAE, were also taken up and completed.

2.218 *Other Inspections :* The Reserve Bank, under a directive issued by the Government of India in terms of Section 45Q of the B. R. Act, 1949, carried out inspection of a bank in liquidation, with a view to obtaining detailed information regarding the component items of assets and liabilities of the bank.

2.219 In addition to inspections, the Bank carried out a number of scrutinies, *e.g.*,

(*a*) Verification of claims paid on applications in respect of small borrowers, as also test check inspections of advances granted to small-scale industries covered under the guarantees issued by DICGC.

(*b*) Investigations into various complaints/frauds/allegations against banks/their employees.

(*c*) Scrutiny of advances granted by banks to textile units to ascertain the manner in which their working capital requirements were assessed and the extent to which the guidelines of Tandon/Chore Committees were implemented by banks.

Licensing of Commercial Banks

2.220 The number of licensed commercial banks remained unchanged at 49 (including the National Bank of Pakistan). The public sector banks do not require a licence to carry on banking business in India. Commercial banks functioning without a licence under Section 22 of the Banking Regulation Act, 1949 numbered seven (including Habib Bank Ltd.) on April 15, 1982, *i.e.*, same as last year.

2.221 One foreign bank *viz.* Banque de L'Indochine et de Suez (Indo-Suez) which was issued a licence on December 5, 1980, commenced banking business in India on September 21, 1981 by opening its first branch in Bombay. The bank was included in the Second Schedule to the Reserve Bank of India Act, 1934 on October 2, 1981. The total number of scheduled banks (excluding RRBs) now stands at 80 including two Pakistani banks *viz.* National Bank of Pakistan and Habib Bank Ltd., which are under the Custodian of Enemy Property.

2.222 The Bank of Ceylon which was issued a licence in February 1981 for opening a branch in India (Bombay), is yet to commence banking business in India.

Bank Mergers and Liquidation

2.223 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.

2.224 *Amalgamation :* The Government of India had earlier sanctioned schemes of amalgamation under Section 45 of the B.R. 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 Government of India in consultation with the Reserve Bank. The final valuation of the assets of 33 banks as provided in the relative schemes was completed, while in case of 12 banks, the reports were under consideration. Of the remaining four banks, the matter regarding the final valuation of assets in respect of two banks was being pursued.

2.225 *Liquidation :* During the period under review, one bank *viz.* The Oriental Christian Bank Ltd. (in liquidation) was dissolved.

XII. Promoting Use of Hindi in Public Sector Banks

2.226 The Official Languages Implementation Committee (OLIC) set up in the Reserve Bank for promoting use of Hindi held three meetings during the year. Emphasis was laid at these meetings on the implementation of the provisions of the Official Languages Act, 1963 and the Rules framed thereunder.

2.227 With a view to monitoring the progress made by the public sector banks in the use of Hindi, RBI continued to obtain from them quarterly progress reports and copies of the minutes of Official Languages Implementation Committees constituted by them. All banks have constituted the OLICs in their head offices and zonal/regional offices and their quarterly meetings were held regularly.

2.228 In order to comply with the persistent demand made by the members of the public sector banks to hold a conference of their executives and O.L./Hindi Officers, the second O.L. conference was convened by the Reserve Bank in August 1981, at which the following papers were read out :

(*i*) Implementation of the O.L. Policy —Views of an Executive; (*ii*) Features of functional Hindi; (*iii*) The practical difficulties faced in the use of Official Language; (*iv*) Hindi Workshops and Banking Training and (*v*) Problems faced in implementing the O. L. Hindi in Non-Hindi speaking areas.

APPENDIX

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

I. *For General Public*

Members of the general public and other parties may remit funds by drafts and telegraphic transfers through offices of the Bank, agencies and treasury agencies and also by mail transfers between accounts maintained at agencies as indicated below :

Upto Rs. 5,000 = 12 P%; Minimum 25P for drafts and mail transfers and Re. 1 for telegraphic transfers (excluding telegram charges)

Over Rs. 5,000 = 6P %; Minimum Rs. 6.

II. For Banking Institutions

Banking institutions 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	Limits on amounts	Frequency of remittances	Remarks
(A)	SCHEDULED BANKS				
1.	Between accounts at RBI offices	At par	In multiples of Rs. 10,000 *subject to a minimum* of Rs. 50,000.	No limit	—
2.	(*a*) From an agency office to an account maintained with RBI	At par	In multiples of Rs. 5,000 subject to 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.
	(*b*) From an account with RBI to an agency office	At par	-do-	Fifteen times a week	—
3.	Other remittances to its account with RBI from an agency office.	At premium—2P% minimum Re. 1/-.	No limit	No limit	—
4.	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	Upto Rs. 5,000—6P% minimum Re. 1/- * Over Rs. 5,000—3P% minimum Rs. 3/-	-do-	-do-	—
(B)	NON-SCHEDULED BANKS				
1.	Between accounts at RBI Offices	At par	In multiples of Rs. 5,000 subject to minimum of Rs. 20,000.	No limit	
2.	(*i*) From an agency office to an account maintained with the RBI	At par	It 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 RBI to an agency office	At par	In multiples of Rs. 5,000 subject to a minimum of Rs. 10,000	Fifteen times a week	—

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

For notes see page 79.

APPENDIX (*Continued*)

		Whether at par or at premium	Limits on amounts	Frequency of remittances	Remarks
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	Upto Rs. 5,000—6P % minimum Re. 1/-* Over Rs. 5,000—3P % minimum Rs. 3/-	—	—
(C)	STATE CO-OPERATIVE BANKS				
1.	Between accounts at RBI offices.	At par	In multiples of Rs. 10,000 subject to 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 RBI. (*b*) to the head office account of the state co-operative bank mantained 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.
	(*ii*) From an account with RBI 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 up-country centres and not 15 remittances to each of its branches.
3.	Other remittances to an account which it maintains with the RBI from an agency office.	At premium	2P % minimum Re. 1/-	No limit	—
4.	Other remittances favouring:				(*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.
	(*a*) themselves	At premium	Upto Rs. 5,000—3P % minimum Re. 0.25 Over Rs. 5,000—2P % minimum Rs. 1.50	No limit	
	(*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	—

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

Notes : (*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 the exchange charges.
(*iii*) "Other Remittances" can also be made to or from treasury agencies.
(*iv*) State co-operative banks, which are scheduled banks, will be able to avail themselves of remittance facilities only under Scheme C and not under Scheme A.
(*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 Booklet on Reserve Bank of India Remittance Facilities Scheme, 1975.

CHAPTER 3

CO-OPERATIVE BANKING

3.1 In the sphere of co-operative credit, the Reserve Bank continued to direct its efforts towards strengthening the institutional arrangements and facilitating a larger flow of credit from the co-operatives to the rural sector and in particular, to the small/marginal farmers and other weaker sections.

3.2 A welcome feature of the co-operative banking during the year was an improvement in the recovery position, perhaps stemming from a good crop harvest. Deposits with state co-operative banks (SCBs) and central co-operative banks (CCBs) during 1980-81 (July-June) registered a rise of 17.6 per cent and 22.1 per cent, respectively, as against 16.2 per cent and 18.5 per cent recorded in 1979-80. However, the growth rate of deposits with primary agricultural credit societies (PACS) was lower at 6.4 per cent in 1980-81, as against 15.7 per cent in the previous year.

3.3 In pursuance of the recommendations of the Committee set up by RBI to review arrangements for institutional credit for agriculture and rural development, the National Bank for Agriculture and Rural Development (NABARD) was set up on July 12, 1982. The NABARD has taken over the entire undertaking of ARDC as well as the Reserve Bank's functions in the sphere of rural credit. NABARD is to provide to commercial banks, RRBs, state land development banks (SLDBs) and SCBs the same refinance facilities hitherto extended by ARDC and to RRBs and SCBs the refinance assistance till now provided by the Reserve Bank.

I. Progress of Credit Co-operatives

Overview

3.4 The progress made during 1978-79 to 1980-81 by co-operative institutions at the three levels of the co-operative credit structure is presented in Table 3.1. Deposits with 27 SCBs rose from Rs. 1,424 crores at the end of June 1980 to Rs. 1,674 crores by end-June 1981, i. e., an increase of Rs. 250 crores or 17.6 per cent, as against a rise of Rs. 198 crores or 16.2 per cent in the preceding year. The recovery performance of SCBs during 1980-81 was also better than in the preceding year. The percentage of overdues to loans outstanding which had increased from 8.9 per cent at the end of 1978-79 to 11.6 per cent at the end of 1979-80, declined to 6.9 per cent by end-June 1981.

3.5 The 337 CCBs also registered a higher deposit growth during 1980-81 of 22.1 per cent as against 18.5 per cent in the previous year. In absolute terms, deposits increased from Rs. 1,978 crores in June 1980 to Rs. 2,416 crores by June 1981 —a rise of Rs. 438 crores. The percentage of overdues to loans outstanding declined over the year from 37.0 per cent to

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

(Amount in rupees crores)

Type of Institution	Items	Co-operative year (July-June) 1978-79	1979-80	1980-81 (P)
(a) State Co-operative Banks	Number ..	27	27	27
	Owned funds ..	249	301	341
	Deposits ..	1,226	1,424	1,674
	Borrowings from RBI ..	374	349	462
	Of which :			
	Short-term agricultural purposes ..	252	184	291
	Working capital ..	2,037	2,275	2,765
	Loans issued ..	2,284	2,363	3,792†
	Loans outstanding ..	1,420	1,510	1,772
	Loans overdue ..	127	175	123@
(b) Central Co-operative Banks	Number ..	338	337	337
	Owned funds ..	546	602	652
	Deposits ..	1,669	1,978	2,416
	Borrowings from RBI/apex banks ..	806	886	1,022
	Working capital ..	3,376	3,870	4,681
	Loans issued ..	2,432	2,695	3,216
	Loans outstanding ..	2,328	2,617	2,956
	Loans overdue ..	835	969	937
(c) State/Central Land Development Banks	Number ..	19	19	..
	Owned funds ..	235	280	..
	Debentures outstanding ..	1,765	1,873	..
	Working capital ..	2,196	2,355	..
	Loans issued ..	249	309	..
	Loans outstanding ..	1,392	1,535	..
	Loans overdue ..	166	205	..
	Loans to Individuals by CLDBs/PLDBs:			
	(a) Issued ..	240	319	..
	(b) Outstanding ..	1,334	1,476	..
	(c) Overdue ..	177	218	..
(d) Primary Agricultural Credit Societies	Number (in thousands) ..	96	95	94
	Membership (in thousands) ..	52,569	54,836	57,330
	Owned funds ..	618	687	729
	Deposits ..	216	250	266
	Borrowings ..	1,831	2,148	2,310
	Total loans issued ..	1,458	1,629	1,656
	Loans for agricultural purposes ..	1,383	1,502	..
	Of which:			
	Term loans ..	174	243	..
	Total loans outstanding ..	2,049	2,374	2,508
	Total loans overdue ..	927	1,089	1,090
(e) Urban Co-operative Banks*	Number ..	..	1,083	1,117
	Owned funds ..	..	151	187
	Deposits ..	..	913	1,243
	Borrowings ..	..	51	81
	Loans issued ..	..	686	945

.. : Not available.

P : Provisional data.

@ : Excludes outstandings under unrenewed cash credit and overdraft limits.

† : Includes gross advanced under cash credits and overdrafts instead of highest outstanding in case of some banks.

* : Include Salary Earners' Societies. The data are provisional.

(Source: Agricultural Credit Department, RBI).

31.7 per cent; however the proportion of overdues to outstandings in the case of CCBs was much higher than in respect of SCBs.

3.6 In pursuance of the accepted policy of reorganisation of PACS into viable units, the number of societies declined by about a thousand over the year 1980-81. In fact, the number of societies has been steadily declining from 1,35,000 at the end of 1975-76 when reorganisation programme was taken up by most of the States to 94,500 at the end of June 1980. Their deposits at Rs. 266 crores at the end of June 1981 showed an increase of only Rs. 16 crores or 6.4 per cent over the level of Rs. 250 crores at the end of June 1980; in 1979-80, deposits had registered a larger increase of Rs. 34 crores or 15.7 per cent. The membership of PACS increased by 25 lakhs or 4.6 per cent to 573 lakhs by the end of 1980-81, as against an increase of 23 lakhs or 4.3 per cent in 1979-80. The disbursal of loans by PACS at Rs. 1,656 crores during 1980-81 recorded a marginal rise of 1.7 per cent over Rs. 1,629 crores disbursed in the preceding year. The percentage of overdues to outstanding loans, which had increased marginally from 45.2 per cent in 1978-79 to 45.9 per cent in 1979-80, declined to 43.5 per cent in 1980-81.

3.7 The performance of urban co-operative banks which numbered 1,117 at the end of June 1981 (1,083 in June 1980) was quite impressive. Their deposits at Rs. 1,243 crores at the end of 1980-81 showed a growth of 36 per cent over the previous year-end level of Rs. 913 crores. Likewise, loans advanced by these banks during 1980-81 aggregated Rs. 945 crores, recording a rise of 37.8 per cent over the year.

II. Credit Policy

Changes in Deposit and Lending Rates

Deposit Rates

3.8 With a view to aligning interest rates payable on short-term deposits with those on long-term, the Reserve Bank revised upwards from March 1, 1982 the interest rates on deposits of less than 3 years with co-operative banks. The revision is in line with that made in respect of interest rates payable by commercial banks on deposits with them. Interest rates on deposits for periods of 3 years and above were kept unchanged. Co-operative banks were permitted, as hitherto, to pay additional interest upto 1 per cent on term and savings deposits as stipulated below:

Primary co-operative banks	Up to 1 per cent
CCBs and SCBs in Manipur, Tripura, Nagaland, Meghalaya and Arunachal Pradesh	Up to ½ per cent
SCBs in other States	Up to ¼ per cent

3.9 With a view to enabling banks to attract remittances from abroad, a special incentive was provided. Like commercial banks, co-operative banks authorised to deal in foreign exchange and which accept term deposits having maturity periods of one year and above under the Foreign Currency (Non-Resident) Accounts Scheme and Non-Resident (External) Rupee Accounts Scheme are required to pay on such deposits, interest at 2 per cent per annum above the rates specified for local deposits having corresponding maturity.

3.10 Another development relating to payment of interest on deposits was the relaxation in December 1981, by the Reserve Bank of its earlier directive of August 1974, so as to facilitate payment of interest by co-operative banks on the savings bank accounts standing in the name of trading/business concerns.

Lending Rates

3.11 Consequent on the raising of the Bank Rate from 9 per cent to 10 per cent from the close of business on July 11, 1981, the interest rate on RBI refinance facilities to SCBs in respect of short and medium-term loans for agricultural purposes was also raised by one percentage point from 6 per cent to 7 per cent, thus retaining the concessional element in the refinance rate at 3 per cent below the Bank Rate. However, the lending rates on short-term and medium-term agricultural loans to the ultimate borrowers were kept unchanged. The rates of interest charged at various levels of co-operative structure for short-term and medium-term loans are given in Tables 3.2 and 3.3, respectively.

Selective Credit Control

3.12 The Reserve Bank advised co-operative banks not to sanction any new or additional credit limits to traders, manufacturers or other borrowers (whether individuals or co-operative societies) trading in sensitive commodities, where speculative tendencies were clearly in evidence. They were also required to strictly regulate advances against sensitive commodities in keeping with the various directives issued by RBI from time to time.

Advances against Cottonseed

3.13 Considering the need to augment production of cottonseed oil, the margin requirement in respect of advances made by SCBs and CCBs against stocks of cottonseed was relaxed; advances to oil mills against stocks of cottonseed equivalent to two months' consumption were subjected to a minimum margin of 40 per cent, as against 60 per cent stipulated earlier. For stocks exceeding two months' consumption requirement, the minimum margin continued to be 60 per cent.

TABLE 3.2—RATES OF INTEREST CHARGED AT VARIOUS LEVELS OF CO-OPERATIVE STRUCTURE

(Short-term Agricultural 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	8.00	10.25	12.25	13-7-81
Assam	10.50	@	12.50	2-3-81
Bihar	7.75	9.75	13.50 (12.50)	2-3-81
Gujarat	6.00 to 6.50	7.00 to 11.00	8.50 to 13.50	31-3-80
Haryana	7.50	9.50	12.50	12-7-81
Himachal Pradesh	6.30	10.00	12.50	..
Jammu & Kashmir	6.50	10.75 (8.85)	14.00 (11.85)	..
Karnataka	8.15 (7.75)	10.85 (10.20)	14.00 (12.85)	12-7-81
Kerala	7.75	9.50	12.50	1-8-81
Madhya Pradesh	8.00 (7.50)	11.00 (9.50)	15.00 (12.50) 17.50*	1-7-81
Maharashtra	7.25	9.00	12.00	28-7-81
Orissa	7.50	10.00	12.50	12-7-81
Punjab	7.30	9.00	11.50	12-7-81
Rajasthan	9.00 (7.75)	12.00 (10.00)	15.00 (12.50)	12-7-81
Tamil Nadu	6.66	9.50 (8.00)	12.00 (10.50)	..
Uttar Pradesh	7.50	9.75	14.00 (12.50)	1-10-81
West Bengal	6.90	9.20	13.00 (11.00)	..
Manipur	11.00 (10.00)	@	15.00 (12.50)	2-3-81
Meghalaya	10.25	@	11.75	2-3-81
Nagaland	11.00 (10.50)	@	13.00 (12.50)	2-3-81
Tripura	9.75	@	12.50	2-3-81
Andaman & Nicobar Islands	9.35	@	11.35	..
Chandigarh	12.50	@	13.50 to 14.50	..
Delhi	13.00 (10.50)	@	15.00 (12.50)	2-3-81
Goa, Daman & Diu	9.00	@	11.00	1-12-81
Pondicherry	8.75 (8.50)	@	11.50 (11.00)	2-3-81

@ There are no CCBs in these areas. .. Not available.
* Loans above Rs. 15,000.

Note: Figures in brackets indicate rates charged to small farmers.

(Source: Agricultural Credit Department, RBI)

TABLE 3.3—RATES OF INTEREST CHARGED AT VARIOUS LEVELS OF CO-OPERATIVE STRUCTURE

(Medium-term Agricultural 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	7.75 to 8.50 (7.75)	10.25 to 10.50 (10.25)	10.50 to 12.50 (11.50)	13-7-81
Assam	9.00 to 10.50 (10.00)	@	10.50 to 12.50 (11.50)	2-3-81
Bihar	7.50 to 8.50 (8.50)	8.50 to 9.50 (9.50)	10.50 to 12.50 (11.50)	2-3-81
Gujarat	6.50	7.75 to 12.00	9.00 to 14.50	31-3-80
Haryana	7.50	8.50 to 9.50	10.50 to 12.50	12-7-81
Himachal Pradesh	6.30	10.50	13.00	..
Jammu & Kashmir	6.50	8.50 to 9.00	10.50 to 11.50	7-10-80
Karnataka	7.50 to 7.75 (7.50)	9.25 to 10.25 (9.50)	11.50 to 13.50 (12.00)	12-7-81
Kerala	7.50 to 7.75 (7.50)	8.50 to 9.50 (9.00)	10.50 to 12.50 (11.50)	1-8-81
Madhya Pradesh	7.50	8.50 to 9.50 (9.00)	10.50 to 12.50 (11.50)	1-7-81
Maharashtra	7.25	9.00	12.00	28-7-81
Orissa	7.50	9.00 to 10.00	10.50 to 12.50	12-7-81
Punjab	7.30	9.00	11.50	12-7-81
Rajasthan	7.50	9.00 to 10.00 (9.50)	10.50 to 12.50 (11.50)	12-7-81
Tamil Nadu	7.00 to 7.25 (7.25)	9.00 to 9.50 (9.00)	10.50 to 12.50 (10.50)	..
Uttar Pradesh	7.20	9.00 to 9.20 (9.20)	10.50 to 12.50 (11.50)	1-10-81
West Bengal	6.75 to 6.90 (6.75)	8.25 to 9.50 (8.75)	10.50 to 13.00 (11.00)	..
Manipur	8.50 to 10.50 (9.50)	@	10.50 to 12.50 (11.50)	2-3-81
Meghalaya	9.00 to 10.50 (9.50)	@	10.50 to 12.50 (11.50)	2-3-81
Nagaland	9.50 to 11.00 (9.50)	@	10.50 to 12.50 (11.00)	1-1-81
Tripura	9.00 to 10.50 (9.25)	@	10.50 to 12.50 (11.50)	2-3-81
Andaman & Nicobar Islands	12.00 to 14.00 (12.00)	@	14.00 to 16.00 (14.00)	..
Chandigarh	12.50	@	13.50 to 14.50	..
Delhi	10.00 to 10.50 (10.00)	@	11.50	2-3-81
Goa, Daman & Diu	11.00	@	13.00	1-12-81
Pondicherry	8.50	@	10.50	2-3-81

@ There are no CCBs in these areas. .. Not available.

Note: Figures in brackets indicate rates charged to small farmers.

(Source: Agricultural Credit Department, RBI).

Advances against Foodgrains

3.14 Advances against paddy and rice and other foodgrains (including wheat) made by SCBs and CCBs were brought under selective credit control with effect from November 26, 1981. The minimum margins prescribed are given below:

MINIMUM MARGINS ON ADVANCES AGAINST FOODGRAINS

(Per cent)

	Advances to co-operative processing units/mills (minimum)		Advances to other co-operative societies (minimum)
A. Advances against commodities :			
(a) Paddy			
(i) Pledge	30	Pledge	35
(ii) Hypothecation	45	Hypothecation	50
(b) Rice Pledge/Hypothecation	50	Pledge/Hypothecation	50
(c) Other foodgrains (including wheat)			
(i) Pledge	30	Pledge	35
(ii) Hypothecation	45	Hypothecation	50
(d) Wheat and wheat products to roller flour mills Pledge/Hypothecation	25		
B. Advances against warehouse receipts covering foodgrains :			
(a) Advances upto Rs. 5,000 against warehouse receipts issued by rural godowns	30		
(b) Other advances against warehouse receipts ..	35		

3.15 In respect of pulses, the existing margin requirements (45 per cent for processing units and 60 per cent for others) remained unchanged. As advances against foodgrains by SCBs and CCBs were brought under selective credit control, stipulations relating to minimum lending rates were also made applicable to such advances. The SCBs and CCBs in Assam, Arunachal Pradesh, Himachal Pradesh, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Orissa and Tripura were exempted from the purview of this directive.

Advances by Urban Co-operative Banks against Sensitive Commodities

3.16 With effect from July 28, 1981 the margins on advances against stocks of paddy, rice and other foodgrains (including wheat) made by primary urban co-operative banks (PUCBs) in Gujarat, Karnataka and Maharashtra, were increased. The minimum margin till then for advances against these commodities was 40 per cent in all cases. The revised margins are indicated on next page.

REVISED MINIMUM MARGINS

(Per cent)

Commodity	Against stocks		Against warehouse receipts	
	Processing units/mills (Minimum)	Others (Minimum)	For small advances upto Rs. 5,000 against rural warehouse receipts (fixed)	For others (Minimum)
Paddy	45	60	30	50
Rice	60	60	30	50
Other foodgrains (including wheat)	45*	60	30	50

* For stocks equivalent to four weeks' consumption; for additional stocks, margin will be 60 per cent.

3.17 The minimum margin on advances against wheat (including wheat products) to roller flour mills continued at 25 per cent. As regards advances against pulses, the existing margins of 45 per cent for processing units and 60 per cent for others remained unchanged.

3.18 The directives controlling advances against sensitive commodities, *viz.*, sugar, pulses, gur, khandsari, foodgrains, oilseeds/oil (including vanaspati) and cotton textiles (including yarn) were earlier made applicable to PUCBs in only three States, viz., Maharashtra, Gujarat and Karnataka. From September 1, 1981, however, PUCBs in all States/Union territories were brought under the purview of these directives. However, PUCBs in Assam, Arunachal Pradesh, Jammu and Kashmir, Himachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Orissa and Tripura continued to be exempted from the purview of directives relating to advances against the security of foodgrains, pulses, oilseeds and oils.

III. Agricultural Credit

Short-term Credit

Financing of Seasonal Agricultural Operations

3.19 The rates of interest on refinance together with other particulars of financial accommodation provided by the RBI to the co-operatives are presented in Table 3.4. The RBI continued to sanction to SCBs short-term credit limits for financing seasonal agricultural operations at 3 per cent below the Bank Rate. As in the 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. This facility was made available to banks only to the extent of their borrowings within the aggregate levels fixed separately for each CCB. The number of banks covered under the scheme during 1981-82 (July-June) was 297 —same as in 1980-81. During 1981-82, 22 CCBs did not get full benefit of the concessional rate of interest under the scheme (as against 13 CCBs in 1980-81), as their borrowings exceeded the aggregate levels fixed.

TABLE 3.4—RESERVE BANK CREDIT TO CO-OPERATIVES, STATE GOVERNMENTS AND ARDC 1980-81 and 1981-82

(Rupees crores)

Section of the RBI Act, 1934	Term-wise/ Purpose-wise Finance	Period for which limits are sanctioned	1980-81				1981-82			
			Limits sanctioned	Drawals	Repayments	Outstandings	Limits sanctioned	Drawals	Repayments	Outstandings
			1	2	3	4	5	6	7	8
	I. Short-term		**950**	**1,278**	**1,125**	**374**	**1,087**	**1,644**	**1,403**	**612**
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	798	968	861	291	892	1,149£	939£	501£
—do—	(*ii*) Marketing of crops other than cotton and kapas (at Bank Rate from June 1978)	July-June								
17(4)(c)	(*iii*) Marketing of cotton and kapas including monopoly procurement of cotton (at Bank Rate from June 1978)	July-June	18	—	—	—	24	37£	36£	1£
—do—	(*iv*) Purchase and distribution of fertilisers (at 1% above Bank Rate from June 1978)	January-December†	4	4	3	2	5	7	5	4
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	75	235	200	62	97	341	346	57
—do—	(*vi*) Financing of other cottage and small-scale industries (at 2½% below Bank Rate from March 1978)@	April-March	39	70	60	18	59	103	70	48
17(4)(c)	(*vii*) Purchase and sale of yarn (at Bank Rate)	April-March	6	1	1	1	10	7	7	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	—	—	—	—	—	—	—
	II. Medium-term		**90**	**55**	**81**	**132**	**111**	**72**	**82**	**122**
17 (4AA) read with 46A(2)(b)	(*i*) Agricultural purposes (at 3% below Bank Rate from January 1, 1979) ..	January-December†	30	17	16	37	26	18	18	37
17(4AA) read with 46B(2)	(*ii*) Conversion of short-term loans into medium-term loans in scarcity affected areas including rephasement (at 3% below Bank Rate from January 1979)	July-June	60	38	65	95	85	54	64	85
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	..	**108**	**112**	**56**	**494**	**213**	**212**	**69**	**637**
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	13	17	13	128	13	12	16	123
17(4AA) read with Section 46A(2)(e)	(*ii*) Loans to ARDC (at 6% per annum).. ..	July-June	95	95	43	366	200	200	53	514
	TOTAL CREDIT (I+II+III)	..	**1,148**	**1,445**	**1,262**	**1,000**	**1,411**	**1,928**	**1,554**	**1,371**

* Subject to recovery of an additional interest of 1½ per cent as per linking scheme.
† Data for 1980 and 1981. — Nil or Negligible. £ May 31, 1982 position.
@ Including small amounts relating to advances to artisans and weavers at 3 per cent below Bank Rate.
(*Source :* Agricultural Credit Department, RBI)

3.20 The short-term credit limits sanctioned by the Reserve Bank to SCBs during 1981-82 for financing seasonal agricultural operations amounted to Rs. 892 crores, as against Rs. 798 crores in 1980-81. The Bank continued to sanction separate credit limits for financing *kharif* and *rabi* crops in States where *rabi* crops were predominant. Accordingly, supplementary short-term credit limits aggregating Rs. 134 crores were sanctioned to 20 SCBs on behalf of 143 CCBs during 1981-82.

3.21 In view of the rise in prices of chemical fertilisers, the Reserve Bank advised SCBs in August 1981 that the Technical Group constituted in each district for determining the scales of finance for different crops might enhance the same, so that cultivators received adequate credit to purchase fertilisers. The Bank expressed its willingness to sanction additional short-term credit limits, if necessitated by the revision of the scales of finance.

3.22 With the continuing emphasis on linking of credit to recovery performance in respect of seasonal advances, SCBs were not permitted to make drawals on the credit limits sanctioned by the RBI on behalf of CCBs from April 1, 1982 unless the concerned CCB had recovered and remitted to the apex bank by March 31, 1982 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. From July 1, 1982, the drawals were to be 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 loans for the co-operative year 1981-82.

Financing of Weaker Sections

3.23 The Reserve Bank continued to ensure the flow of credit to small and marginal farmers. The CCBs were not allowed to draw in excess of 70 per cent of the limits sanctioned to them by RBI, unless advances to small farmers reached the specified percentage (usually 20 per cent) of the total short-term loans advanced by the affiliated primary societies. However, banks which could not reach the stipulated percentage but had already utilised the free limits (generally 70 per cent) were allowed to draw to the extent of short-term loans actually disbursed to the small and marginal farmers during the year.

Financing Marketing of Crops

3.24 The credit limits sanctioned by the Reserve Bank during 1981-82 for financing marketing of crops aggregated Rs. 24 crores, including the limits sanctioned for marketing of cotton and kapas, as against Rs. 18 crores during 1980-81.

Credit Limits for Distribution of Fertilisers

3.25 Where commercial banks were not in a position to provide financial accommodation for fertiliser distribution, the RBI continued to sanction credit limits to the SCBs on behalf of marketing societies and federations at one per cent above the Bank Rate. The credit limits sanctioned for this purpose during the calendar year 1981 aggregated Rs. 5 crores as against Rs. 4 crores during 1980. The State governments were advised by the RBI that financing the primary level societies for fertiliser distribution activities under consortium arrangements with commercial banks should be given priority by the SCBs before their resources were diverted for financing the state/national level institutions.

Credit Limits for Dairy Co-operatives

3.26 Though a separate line of credit by way of RBI refinance facility at Bank Rate is available to SCBs on behalf of CCBs for financing the marketing and processing activities of dairy co-operatives, none of the SCBs availed of it till June 1982. Each drawal under this refinance facility was hitherto repayable within a period of 90 days. As co-operative dairy plants usually store milk-based products up to six months, it was decided in November 1981 to extend the period of each drawal to 180 days.

3.27 In January 1982 it was further decided that in cases where CCBs are not in a position to finance dairy co-operatives, SCBs may directly finance the district/state level federations of milk supply societies. Further, the stocks held by district unions on behalf of the State federation could be treated as cover for borrowings, provided the usual margin requirements were fulfilled and proper supervision on the pledged/hypothecated stocks was ensured.

Medium-term Credit

Policy Changes

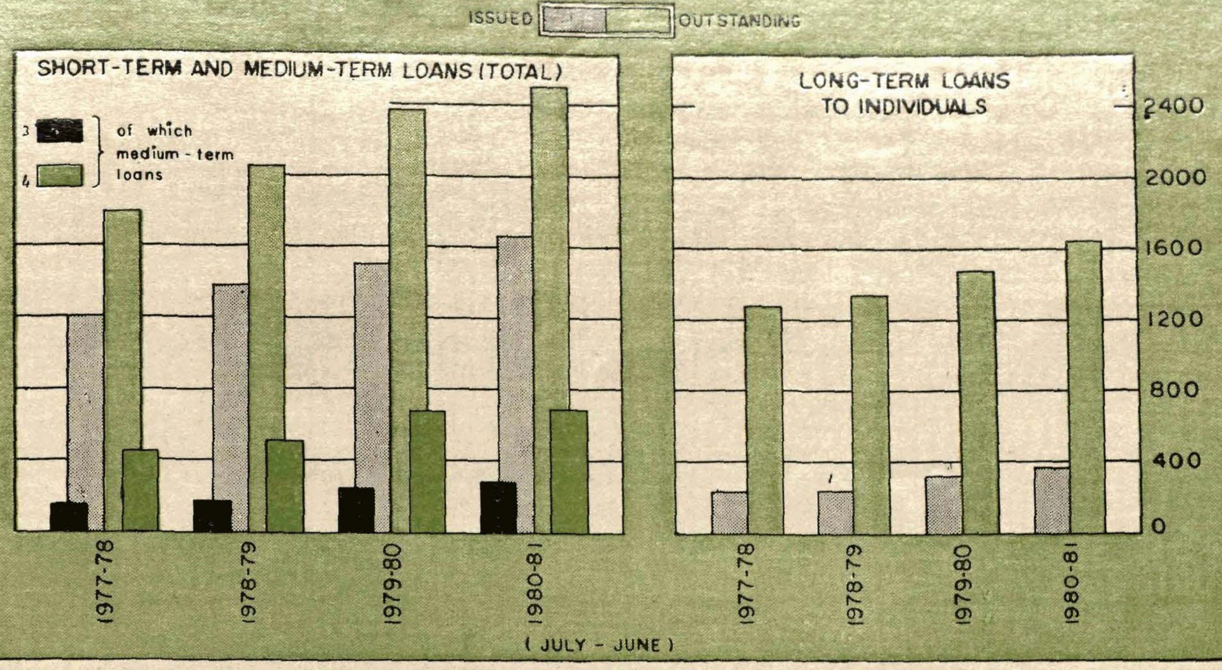
3.28 During the year, the Reserve Bank made a few changes in respect of dispensation of medium-term credit. It was decided to allow inter-purpose diversion of credit limits to SCBs on behalf of CCBs. Further, on the suggestion from the Government of India, Reserve Bank allowed CCBs in Tamil Nadu to route their medium-term loans for sheep-breeding under ARDC refinance schemes through sheep-breeding societies instead of through PACS.

3.29 Following from unforeseen changes in the demand pattern of the ultimate borrowers as also the need for alleviating the difficulties faced by CCBs in utilising the medium-term credit limits sanctioned for approved purposes, the RBI decided to allow inter-purpose diversion of the credit limits sanctioned to SCBs on behalf of CCBs. This facility is available only when banks have genuine difficulties in availing of the limits for sanctioned purposes. It is applicable to those cases where there has been a shift from less productive or less identifiable purposes to more productive or easily identifiable purposes. While diversion of the amounts from other purposes to minor irrigation is permissible, no amount sanctioned for minor irrigation was to be diverted to other purposes.

6

CO-OPERATIVE LOANS FOR AGRICULTURAL PURPOSES

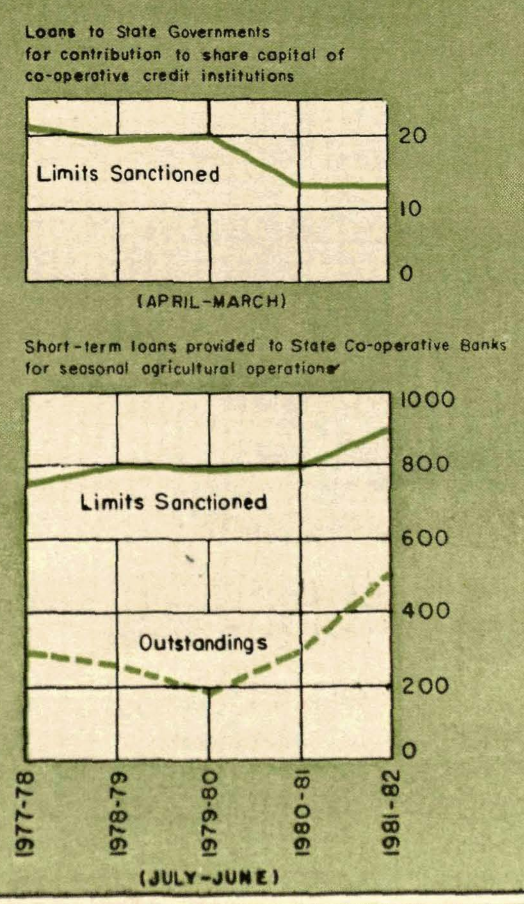
(CRORES OF RUPEES)



7

R.B.I. CREDIT FOR AGRICULTURAL PURPOSES

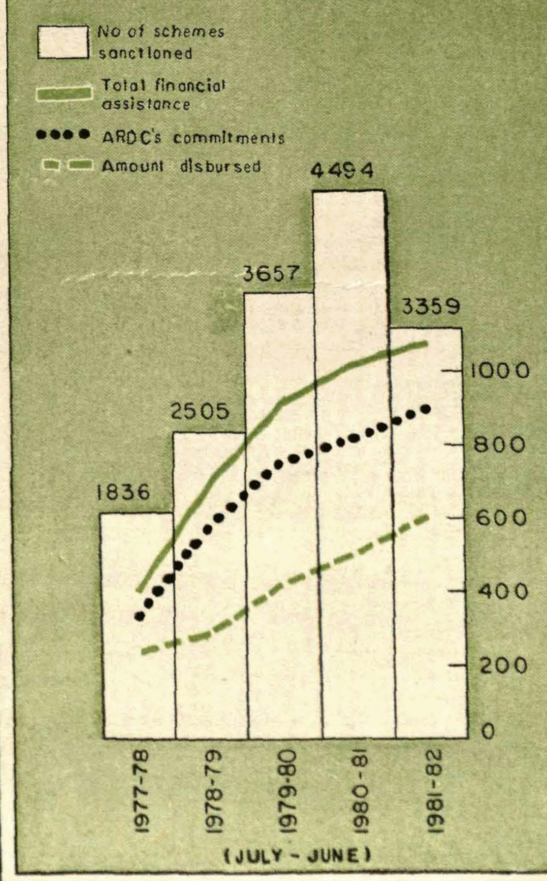
(CRORES OF RUPEES)



8

OPERATIONS OF AGRICULTURAL REFINANCE AND DEVELOPMENT CORPORATION

(CRORES OF RUPEES)



Credit Limits

3.30 For the calendar year 1982, an allocation of Rs. 45 crores was made by the RBI from the National Agricultural Credit (Long-term Operations) [NAC (LTO)] Fund for medium-term credit, of which Rs. 22 crores were sanctioned till the end of June 1982. During the calendar year 1981 the limits sanctioned and drawals made by SCBs were Rs. 26 crores and Rs. 18 crores, as against Rs. 30 crores and Rs. 17 crores, respectively, in 1980. In view of the large gap between amounts sanctioned and their utilisation during the past three years, the Reserve Bank impressed upon the State governments the need to assess the credit needs of each CCB realistically and ascertain the reasons for under-utilisation.

Conversion Loans

3.31 The limits sanctioned by the Reserve Bank during 1981-82 from the NAC (Stabilisation) Fund for enabling SCBs/CCBs to convert short-term agricultural loans of farmers into medium-term loans aggregated Rs. 85 crores against Rs. 60 crores sanctioned for 1980-81. The drawals made amounted to Rs. 54 crores as against Rs. 38 crores during 1980-81. The three-month grace period granted to SCBs for repayment of their borrowings from the RBI to avail themselves of facilities for conversion of short-term into medium-term loans was available up to June 30, 1982.

Long-term Credit

3.32 The National Agricultural Credit (Long-Term Operations) Fund, set up in 1956 was to be used, among others, for making long-term loans to State governments for subscribing to the share capital of co-operative credit institutions, for providing medium-term loans to state co-operative banks for agricultural and other allied purposes, and for purchase of rural debentures of the central land development banks. Thus, the creation of the Fund paved way for contribution to debentures floated by ARDC for approved purposes.

Loans for Share Capital Contribution

3.33 With a view to strengthening the share capital base and expanding and diversifying the credit and non-credit activities of reorganised PACS, certain relaxations were made in the criteria to be followed during 1981-82 while granting loans to State governments out of NAC (LTO) Fund for contributing to share capital of the PACS; for instance, the eligibility criteria for applying for loans for share capital contribution by the State governments was extended to societies whose overdues were between 40 and 50 per cent of demand, as against the earlier limit of 40 per cent; in order to avail of this facility these societies should have improved their recovery performance by at least 5 percentage points in the previous year. The societies which satisfy the above criteria are eligible for share capital contribution upto Rs. 15,000 as against Rs. 10,000 earlier. Likewise, societies which issue consumption loans and undertake non-credit business activities in addition to agricultural credit are eligible for share capital contribution upto Rs. 25,000, as against Rs. 15,000 specified earlier. However, the overall ceiling of Rs. 50,000 prescribed on Governments' share capital contribution continues.

3.34 During the financial year 1981-82, loans amounting to Rs. 13 crores were sanctioned from NAC (LTO) Fund to 18 State governments for contribution towards the share capital of 5,026 co-operative credit institutions. The amount drawn by State governments till March 1982 was Rs. 12 crores and the outstanding loan amount at the end of March 1982 was Rs. 123 crores.

Loans to ARDC

3.35 The loan sanctioned to ARDC from the NAC (LTO) Fund during 1981-82 at Rs. 200 crores was larger than that of Rs. 95 crores sanctioned in the previous year and was fully drawn by the Corporation.

Regulation of Advances

3.36 With a view to providing sufficient incentives to units which have shown better recovery performance, the RBI revised norms relating to regulation of advances by state land development banks (SLDBs) to primary land development banks (PLDBs)/branches of SLDBs. The eligibility level worked out against different ranges of overdues as percentage of demand is as under:-

Range of overdues as percentage of demand	*Eligibility*
(*a*) upto 25 per cent	Unrestricted.
(*b*) 26 to 40 per cent	Highest lending level reached in any of the preceding five co-operative years or the amount of recoveries in the preceding co-operative year or the average amount of recoveries during the preceding three co-operative years, whichever is highest.
(*c*) 41 per cent and above	The amount of recoveries in the preceding co-operative year or the average amount of recoveries during the preceding three co-operatives years, whichever is higher.

3.37 However, this eligibility is to be utilised first to meet the disbursement of second and subsequent instalments, and the remaining amount to provide fresh loans. Additional eligibility would not be available either to meet committed expenditure or for issue of loans to small farmers. However, if after meeting the committed expenditure, the eligibility for issue of fresh loans is very small, such cases could be referred to the RBI and ARDC for consideration of additional eligibility. The eligibility for lending is now made applicable for the co-operative year (July-June) instead of the financial year.

Lending Programme and Resources of LDBs

3.38 The lending programme of SLDBs, both under normal and ARDC refinance schemes, for the financial year 1981-82 was fixed at Rs. 408 crores for financing agricultural and allied activities (minor irrigation, dairying, poultry farming, etc.) as against Rs. 439 crores in 1980-81 (Table 3.5).

TABLE 3.5—RESOURCES OF LAND DEVELOPMENT BANKS

(Rupees crores)

	1980-81	1981-82	1982-83
Lending Programme ..	439	408	419
Resources:			
(a) ARDC special debentures	314	301	320
(b) Internal sources	10	7	4
(c) Ordinary debentures	115	100	95
Out of (c) actual floatations	96	93	—

(Source: Agricultural Credit Department, RBI).

3.39 The ordinary debentures (guaranteed by State governments) floated by banks during 1981-82 aggregated Rs. 93 crores, which fell short of the original programme by Rs. 7 crores. The support expected to be received from various institutions under the ordinary debenture programme for the year 1982-83 is shown in Table 3.6. Incidentally it may be mentioned that during the year none of the banks floated rural debentures.

TABLE 3.6—CONTRIBUTIONS TO ORDINARY DEBENTURES PROGRAMME OF SLDBs

(Rupees crores)

	1981-82		1982-83
	Target	Achievement	Target
Central and State Governments	8.0	8.0	8.0
Life Insurance Corporation of India	45.0	35.0	35.0
Commercial Banks (through IBA)	10.0	10.0	10.0
State Bank of India Group	10.0	10.0	10.0
Mutual support and self-help	27.0	29.7	32.0
Total	100.0	92.7	95.0

(Source: Agricultural Credit Department, RBI).

IV. Non-Agricultural Credit

Credit Limits for Financing Weavers' Societies

3.40 In February 1982, it was decided to raise the scale of finance applicable to weavers' societies producing silk, woollen and polyester cloth on handlooms. The details are given below:

Production of	Scale of Finance per Handloom	
	Existing (Rs.)	Revised (Rs.)
Silk cloth	2,500	3,500
Woollen	2,500	3,000
Polyester	8,000	10,000
Special varieties of cotton cloth@	*	3,000
Silk on powerlooms	15,000	20,000

* There was no separate scale for these varieties hitherto. The scale of finance of Rs. 2,000 applicable to cotton cloth in general was applicable to these varieties also.

@ Like bed-spreads, furnishing materials, jacquard terry towels and export variety of cloth.

The above scales of finance would, however, be sanctioned by the RBI for a period of two years only in the case of new weavers' societies as also dormant societies to be activated. The financial requirements of these societies for production after the initial period of two years, will be assessed at 33 per cent of their anticipated production.

3.41 For production and marketing of handloom products, the RBI sanctioned a credit limit of Rs. 97 crores during the financial year 1981-82 against Rs. 75 crores sanctioned during 1980-81. With the increase in the Bank Rate, the refinance rate under Section 17(2) (*bb*) read with Section 17(4) (*c*) of the RBI Act, 1934 for the purpose of financing and marketing activities of co-operative handloom industries was raised from 6½ per cent to 7½ per cent in respect of advances made on and after July 12, 1981.

Credit Limits for Financing other Cottage and Small-scale Industries

3.42 Short-term credit limits aggregating Rs. 59 crores were sanctioned during 1981-82 (financial year) under Section 17(2) (*bb*) read with Section 17(4)(*c*) of the RBI Act, 1934, to SCBs on behalf of 41 CCBs and 81 PCBs for financing co-operatives (other than weavers' societies but including coir societies), industrial units and also rural artisans. Of these, an amount of Rs. 1 crore was sanctioned exclusively for financing weavers and rural artisans, who are members of PACS/LAMPS/FSS, through 25 CCBs in Haryana, Orissa and Uttar Pradesh.

Interest Rates on Loans to Industrial Units

3.43 Consequent upon the raising of the Bank Rate, the rate of interest to be charged to the ultimate borrower was raised by one percentage point with effect from July 12, 1981 for financial accommodation under Section 17(2)(*bb*)/17(4)(*c*). The margins that may be retained by the lending bank/society remained unchanged. The details are given in the following Table.

TABLE 3.7—SPREAD AND RATE OF INTEREST ON LOANS TO INDUSTRIAL UNITS

(Per cent)

Category of Banks	Spread to be retained (Not exceeding)	Rate of interest	
		Up to July 11, 1981	Effective July 12, 1981
(i) State co-operative banks' lending to:			
(a) Central co-operative banks	½	7	8
(b) Primary (urban) co-operative banks	1	7½	8½
(ii) Central co-operative banks' lending to:			
(a) Industrial co-operative societies	1	8	9
(b) Primary (urban) co-operative banks	1	8	9
(iii) Primary (urban) co-operative banks' lending to individuals/units engaged in cottage and small-scale industrial activities	2½	10-10½	11-11½

V. Strengthening of Co-operative Structure

Reorganisation of PACS

3.44 The reorganisation of PACS was more or less completed in Andhra Pradesh, Assam, Bihar, Karnataka, Kerala, Madhya Pradesh, Manipur, Meghalaya, Orissa, Punjab, Rajasthan, Tripura, Uttar Pradesh and West Bengal. In Gujarat, however, there was hardly any progress, although the reorganisation programme was drawn up as early as in 1976. In Maharashtra and Jammu and Kashmir also, no steps have so far been taken in this direction. CRAFICARD had suggested that the Government of India and RBI should prevail upon State governments to initiate suitable action so as to complete the programme within a year at the latest, and this was brought to the notice of concerned State governments in March 1982.

3.45 In the States where reorganisation programme was completed, the governments were requested to select some of the reorganised societies and develop them into multipurpose service institutions by introducing some diversified activities like distribution of agricultural inputs, marketing of produce, etc. At the end of June 1980, the number of PACS (including FSS and LAMPS) were around 94,500 as compared with

95,782 a year ago. With the completion of reorganisation of the base level structure through amalgamation of societies in all the States, the number is expected to come down to 90,000.

Rehabilitation of CCBs/SCBs

3.46 Five CCBs were deleted from the list of weak banks as there was desired improvement in their financial position and operational efficiency, while 20 banks were identified afresh as weak and brought under the programme of rehabilitation. The total number of CCBs requiring rehabilitation thus increased from 96 at the end of June 1979 to 111 by June 1980. The number of SCBs classified as weak in areas served by two-tier credit structure remained unchanged at nine as on June 30, 1980.

3.47 It may be recalled that in 1977, SCBs were advised to draw up and complete the rehabilitation programme of weak CCBs within five years; the five-year period was to be reckoned from July 1, 1977 or the date on which the concerned CCB was initially classified/notified as weak, whichever was later. Accordingly, about 71 CCBs had June 30, 1982 as the cut-off date. The regional offices of ACD were advised to have informal discussions with SCBs and the concerned State governments to finalise arrangements in this regard.

Rehabilitation of SLDBs/PLDBs

3.48 In view of the persistent rise in the overdues position of SLDBs in Bihar, Gujarat, Karnataka, Maharashtra, Madhya Pradesh and Tamil Nadu, programmes were drawn up for their rehabilitation. It may be recalled that IDA had shown unwillingness to permit participation of banks with overdues exceeding 55 per cent of the demand in the World Bank assisted ARDC III Project unless a time-bound rehabilitation programme was implemented. The rehabilitation plan was to include extension of demand in the case of cultivators affected by natural calamities but not provided with facility of rescheduling earlier, and extension of period of loans upto 15 years to the small farmers. As part of this programme, six SLDBs were allowed to grant extension of demand and deferment of redemption of ordinary and special development debentures aggregating Rs. 60 crores.

3.49 The LDBs in some States viz., Maharashtra, Karnataka, Gujarat, Tamil Nadu, Bihar and Madhya Pradesh were allowed to block chronic overdues above five years aggregating Rs. 159 crores. The recovery of the blocked chronic overdues was to be spread over five years, i.e., 20 per cent of the blocked amount every year, so that sticky overdues could be rephased and recovered with reference to the repaying capacity of the borrowers.

Integration of Co-operative Credit Institutions

3.50 With a view to introducing functional co-ordination between the long-term and short-term co-operative credit structure and ensuring availability of production credit to the borrowers, the State governments were advised to select, on a proirity basis, a few viable PACS to work as agents of the PLDBs for collection, preliminary scrutiny of loan applications, disbursement of long-term loans and recovery of loan instalments on behalf of the PLDBs. The PLDBs are also expected to forward the list of their borrowers to the concerned PACS, so that the latter may enrol such borrowers as members and meet their production credit needs.

VI. Other Developments

*Credit Authorisation Scheme**

3.51 During the co-operative year 1981-82, 11 SCBs and 12 CCBs approached the RBI for prior authorisation in respect of 95 proposals for block capital finance on behalf of 74 units. Authorisation was granted to five SCBs and six CCBs for an aggregate amount of Rs. 59 crores in respect of 33 units, as compared with Rs. 20 crores authorised to 5 SCBs and 6 CCBs during 1980-81 in respect of 25 units. For granting working capital finance, 13 SCBs and 61 CCBs submitted 508 proposals on behalf of 220 units during 1981-82 and authorisation was granted to 13 SCBs and 57 CCBs for an aggregate amount of Rs. 879 crores in respect of 443 proposals on behalf of 200 societies/units, as against authorisation of Rs. 698 crores granted to 12SCBs and 36 CCBs on behalf of 177 units in 1980-81. In addition, the Maharashtra SCB was authorised to sanction Rs. 205 crores for financing cotton monopoly procurement scheme in the State during 1981-82 as against Rs. 195 crores in the preceding year.

3.52 The RBI has permitted SCBs to sanction, without its prior authorisation, pledge credit limits to co-operative sugar factories for the 1981-82 season to the extent of 75 per cent of the previous year's limits authorised by the RBI. The SCB is, however, to keep in view the utilisation of limits in the previous year and the need for funds in relation to the units' production programme. If sugar factories require clean/hypothecation limits in addition to pledge limtis, SCB would have to obtain RBI's prior authorisation. The above relaxation has not been made applicable to CCBs which are required to obtain prior authorisation from RBI as hitherto.

3.53 The Reserve Bank has revised upwards the existing cut-off points from Rs. 200 lakhs to Rs. 300 lakhs in the case of SCBs and from Rs. 100 lakhs to Rs. 150 lakhs in the case of CCBs in respect of sanction of working captial limits to co-operative marketing/processing societies and consumer stores with effect from July 30, 1982. The SCBs and CCBs are, therefore, now required to obtain prior authorisation from NABARD when their loans and advances to any of the above types of societies for working capital purposes from the entire banking sector exceed Rs. 300 lakhs in the case of a SCB and Rs. 150 lakhs in the case of a CCB.

* Revised data are used in this paragraph.

Financing of Societies by Commercial Banks

3.54 As at the end of June 1981, the scheme of financing of PACS by commercial banks introduced in June 1970, was operating in 142 districts of 13 States, where 695 branches of 25 commercial banks took over 2,725 societies. During 1980-81 the commercial banks provided finance to 2,020 societies i.e., 74 per cent of the societies adopted by them. Short-term loans provided during 1980-81 amounted to Rs. 21 crores (Rs. 24 crores in 1979-80) which worked out on an average Rs. one lakh per society, as against Rs. 1.3 lakhs in 1979-80. Medium-term loans disbursed during 1980-81 amounted to Rs. 5 crores against Rs. 6 crores in 1979-80. Though the total overdues of the societies ceded to commercial banks declined from Rs. 37 crores at the end of June 1980 to Rs. 36 crores by end-June 1981, the percentage of overdues to demand increased from 61 to 69. (For Study Group's report on the working of the scheme see para 3.88)

Advances to Individuals by SCBs/CCBs

3.55 Co-operative banks are now allowed to provide housing loans to individuals in middle income group, with monthly income between Rs. 601 and Rs. 1,500, on condition that the quantum of loan per borrower does not exceed Rs. 50,000 and that the bank finance does not exceed 50 per cent of the cost of house/tenement. Total loans provided under the scheme are not to exceed 15 per cent of the total loans issued for house construction.

3.56 The maximum limit up to which an individual could be financed by SCBs/CCBs for purchase of consumer durables such as refrigerator, television, radio and scooter has remained unchanged at Rs. 5,000. The overall ceiling fixed for financing individuals for such purposes is retained at 10 per cent of the total deposit liabilities, of which at least 5 per cent is to be for the benefit of small-scale industrial units. Within this broad framework, the Reserve Bank has indicated the operative ceilings for such advances. These are given in Table 3.8.

TABLE 3.8—OPERATIVE CEILINGS FOR ADVANCES FOR CONSUMER DURABLES BY CCBs AND SCBs

	Ceiling Limit
Central Co-operative Banks having deposits from individuals	
(1) Upto Rs. 1 crore	2 per cent of the deposits raised from individuals or Rs. 2 lakhs whichever is less.
(2) More than Rs. 1 crore but less than Rs. 5 crores	2 per cent of the deposits raised from individuals or Rs. 5 lakhs whichever is less.
(3) Exceeding Rs. 5 crores	2 per cent of the deposits raised from individuals or Rs. 10 lakhs whichever is less.
State Co-operative Banks having deposits from individuals	
(1) Upto Rs. 10 crores	2 per cent of the deposits raised from individuals or Rs. 10 lakhs whichever is less.
(2) Exceeding Rs. 10 crores	2 per cent of the deposits raised from individuals or Rs. 30 lakhs whichever is less.

Rescheduling of Agricultural Loans by the Gujarat State Government

3.57 With a view to providing fresh finance to defaulters in the scarcity affected areas in Gujarat, the State Government formulated a scheme in February 1982, for rehabilitation of defaulters of co-operative societies. The scheme envisages rescheduling of overdues of farmers into long-term loans repayable in 10 annual instalments and provision of rebate to the extent of 7 per cent in the interest accruing on the outstanding rescheduled loans for prompt repayment of annual instalments. As a measure of further relief to the small farmers who are regular in the repayment of instalments, the fifth and tenth instalments of their rescheduled loans are to be paid by the State Government.

Crop Insurance

3.58 In the context of the Reserve Bank's decision in September 1979 to allow co-operative banks to treat the insurance premium payable by borrowers under the crop insurance scheme as a component of loans issued to members of PACS under certain stipulated conditions, a pilot crop insurance scheme became operative in that year in Gujarat, Tamil Nadu and West Bengal. It was further extended to six States, viz., Andhra Pradesh, Haryana, Himachal Pradesh, Karnataka, Maharashtra and Orissa during *kharif* 1981, covering 199 units of low risk areas (Blocks, etc.) spread over 74 districts.

Banking Regulation and Inspection

3.59 During the year licences to carry on banking business were issued to one SCB, seven CCBs, 15 existing PCBs and 19 new PUCBs. The licensed co-operative banks numbered 345 as at the end of June 1982, comprising eight SCBs, 32 CCBs and 305 PCBs. During the year 1981-82, licences were issued to 12 SCBs and 138 PCBs for opening 150 new offices, as against licences for 180 offices issued during 1980-81.

3.60 With the addition of one SCB, two CCBs and 42 PUCBs during 1981-82 and the deletion of 3 CCBs and 12 PUCBs, co-operative banks coming under the purview of BR Act, 1949, numbered 1,634 as on June 30, 1982 and comprised 30 SCBs,* 346 CCBs@ and 1,258 PUCBs (including 105 salary earners' societies); a year ago, the number was 1,604.

3.61 During the year, the Reserve Bank conducted statutory inspections of 12 SCBs, 166 CCBs and 523 PCBs (including salary earners' societies). Further, 11 SLDBs and six apex weavers'/marketing societies were inspected on a voluntary basis. The number of inspection reports issued during the period was 762.

Licensing Policy in respect of new Primary (Urban) Co-operative Banks

3.62 The policy relating to licensing of new PUCBs was elucidated in September 1981. The salient features of the new policy guidelines are:

* Including two State Industrial Co-operative Banks.
@ Including 10 Central Industrial Co-operative Banks.

(*a*) the need for a new urban co-operative bank or a new branch of an existing bank is to be determined with reference to the existing branch network in the area and overall policy of the Government/RBI;

(*b*) the proposed bank should have a truly co-operative character and necessary expertise in order to grow into a reasonably good and viable bank; and

(*c*) its operation must cover an urban area as the credit needs of the rural areas are being met by PACS, FSS, CCBs, etc.

3.63 In pursuance of the above guidelines, certain norms in regard to minimum membership and share capital have been laid down separately for semi-urban and metropolitan areas.

Chit Fund Business of Co-operatives

3.64 With a view to discouraging co-operative banks from undertaking chit/kuri business, the RBI advised co-operatives to taper off such business, whenever any running chit/kuri terminates. Clause 85 of the Chit Funds Bill 1980, provides that no bank shall commence or carry on chit fund business. The Reserve Bank has undertaken studies in some of the States in this regard in order to advise the State governments suitably. An important conclusion of the study conducted in Kerala was that PACS could carry on chit business, subject to certain safeguards.

VII. Agricultural Refinance and Development Corporation

3.65 The ARDC continued its developmental and promotional activities in the field of agriculture and allied activities during 1981-82. With the emphasis laid on Integrated Rural Development Programme (IRDP) in the Sixth Plan period, the Corporation stepped up its activities in that sphere.

Operations

3.66 During 1981-82, ARDC sanctioned 3,359 schemes involving commitments of Rs. 895 crores as compared with 4,494 schemes involving commitments of Rs. 819 crores in the previous year. The decline in the number of schemes may be partly attributed to consolidation of various purposes into banking plans under IRDP which are not counted in the number of schemes and partly to the declining scope in the exploitation of ground water potential in certain States. Disbursements by the Corporation during the year amounted to Rs. 600 crores, as against Rs. 499 crores in the previous year. Since its inception in 1963, up to end-June 1982 the Corporation sanctioned 19,611 schemes with the commitments and disbursements amounting to Rs. 4,650 crores and Rs. 2,808 crores, respectively.

3.67 During 1981-82 2,187 schemes were sanctioned for diversified purposes @ (i.e. other than minor irrigation) involving commitments of Rs. 528 crores, which accounted for about 65 per cent of the total schemes sanctioned and 59 per cent of commitments involved as against 55 per cent (2,483 schemes) and 47 per cent (Rs. 385 crores), respectively, during 1980-81.

3.68 Agency-wise, the credit availed of from ARDC by commercial banks (including RRBs), SLDBs and SCBs was of the order of Rs. 351 crores (58 per cent), Rs. 226 crores (38 per cent) and Rs. 23 crores (4 per cent), respectively, the percentage shares showing an increase of 2 per cent each in the case of commercial banks and SCBs and a reduction of 4 per cent in the case of SLDBs as compared with the previous year.

3.69 Region-wise, the Southern region and the Eastern and North-Eastern regions together accounted for 24 per cent and 6 per cent, respectively, of the total disbursements during the year, i.e. an increase of one percentage point and four percentage points, respectively, over their shares, in the previous year. The share of Northern, Western and Central regions in the total disbursements at 24 per cent, 14 per cent and 22 per cent, respectively, declined by three percentage points and one percentage point each over the previous year.

3.70 With the continued efforts of the Corporation in developing and promoting agricultural investments in the less developed and/or under-banked States, the share of disbursements in these areas to total disbursements rose from 39 per cent (Rs. 192 crores) in 1980-81 to 43 per cent (Rs. 260 crores) in 1981-82 (Table 3.9). Till the end of June 1982, 8,498 schemes were sanctioned in these less developed/under-banked areas, with total commitments at Rs. 2,083 crores and disbursements at Rs. 1,128 crores.

3.71 State-wise, Uttar Pradesh maintained the lead by availing Rs. 90 crores, followed by Andhra Pradesh (Rs. 67 crores), Punjab (Rs. 59 crores), Maharashtra (Rs. 54 crores) and Haryana (Rs. 53 crores).

3.72 In tune with the national policy, the Corporation has been emphasising the need to cover more and more small farmers under its schemes. Accordingly, the facility of concessional rate of interest on loans to small farmers at 10.25 per cent for diversified purposes was continued.

3.73 The Corporation continued to be actively involved in implementing the IRDP which aims at the identification and financing of rural families living below the poverty line and improving their economic status. During 1981-82, banking plans covering 2,134 blocks with refinance commitments of Rs. 206 crores were approved by the Corporation;

@ These include land development, farm mechanisation, plantation, poultry/dairying/sheep breeding/fisheries and development of market yards, etc.

TABLE 3.9—DISBURSEMENTS BY ARDC TO LESS DEVELOPED AND/OR UNDER-BANKED STATES

(Rupees lakhs)

	States	1977-78	1978-79	1979-80	1980-81	1981-82
		1	2	3	4	5
1.	Uttar Pradesh	743,17	48,77	56,60	72,49	90,04
2.	Madhya Pradesh	16,70	16,66	36,47	38,01	41,58
3.	Bihar	18,64	22,53	24,68	24,46	39,60
4.	Orissa	8,16	8,75	13,15	19,79	37,30
5.	West Bengal	9,96	10,45	9,81	9,84	12,93
6.	Andaman & Nicobar Islands	—	—	1	1	—
7.	Assam & Other North-Eastern States	3,09	2,79	3,07	6,30	7,32
8.	Rajasthan	13,12	16,16	18,15	18,90	24,92
9.	Jammu & Kashmir	15	14	12	59	3,15
10.	Himachal Pradesh	23	50	1,85	1,94	2,72
	Total Disbursements (1 to 10)	113,22 (48.3)	126,75 (44.5)	163,91 (39.8)	192,33 (38.6)	259,56 (43.2)
	Total Disbursements (All India)	**234,30**	**284,87**	**412,23**	**498,79**	**600,23**

Note : Figures in brackets indicate percentage disbursement in the specified States to total disbursements.

(*Source :* Agricultural Refinance and Development Corporation)

the total number of blocks for which banking plans were approved by the Corporation upto June 1982 stood at 2,641 with Rs. 350 crores of commitments and Rs. 115 crores of disbursements. The simplification of the procedure for availing refinance during the year contributed significantly to the increase in disbursements under IRDP which increased from Rs. 13 crores in 1980-81 to Rs. 98 crores during 1981-82.

3.74 The Third ARDC Credit Project launched in January 1980 and scheduled to be completed in December 1981 was successfully completed nearly one month before the stipulated date. A major share of the total disbursements of Rs. 453 crores under this project went to small and medium farmers. During the year, the Himachal Pradesh Apple Processing and Marketing Project, the Chambal Command Area Development Project (Madhya Pradesh) and the Karnataka Dairy Development Project were closed. The IDA/IBRD sanctioned the Fourth ARDC Credit Project involving $ 350 million assistance to the Corporation during the year. The project became effective from May 25, 1982 and it will be implemented over a two-year period January 1982 to December 1983.

3.75 The World Bank group has sanctioned so far 41 projects involving a total credit of $ 1,550 million to be routed through the Corporation, of which 20 projects have been fully implemented. Other international aid agencies/countries also continued to extend financial support to ARDC for its lending programmes. During the year, the U.K., EEC and CIDA have approved asssitance equivalent to Rs. 79 crores.

Policy Decisions

3.76 On Government of India's request, the Corporation revised upwards the rate of its contribution to the special development debentures floated by SLDBs, on or after September 1, 1981 and upto the end of the Sixth Plan period (i.e. March 31, 1985). These are given in Table 3.10. However, the existing level of refinance at 75 per cent for farm mechanisation was kept unchanged.

TABLE 3.10—ARDC's CONTRIBUTION TO SPECIAL DEVELOPMENT DEBENTURES OF SLDBs

(Per cent)

Purpose	Extent of ARDC's Contribution	
	Existing	Revised
1. *Minor irrigation*	90	95
2. Special schemes for diversified purposes under capital subsidy schemes for identified small farmers		
3. All purposes in North-Eastern and Eastern Regions*		
4. Diversified purposes (other than farm mechanisation)		
(a) Small farmers (other than under 2 above)	75	90
(b) Other farmers	75	85

* Assam, Meghalaya, Nagaland, Arunachal Pradesh, Mizoram, Manipur, Tripura, Andaman & Nicobar Islands, Bihar, Orissa, Sikkim and West Bengal.

3.77 To alleviate the resource constraint faced by banks and to enable farmers to purchase tractors to carry out farm operations during the *kharif* season, the Corporation in consultation with RBI, decided as a special case to provide interim finance to participating banks for financing tractor schemes.

3.78 During the year, the Corporation liberalised the quantum of financial assistance to be provided by banks to State electricity boards (SEBs) for energisation of pumpsets. The scale of finance has been raised to Rs. 7,500 per pumpset up to 7.5 HP and Rs. 10,000 upto 10 HP. For pumpsets above 10 HP, a higher loan may be provided at a rate not exceeding Rs. 1,500 for every additional 2.5 HP. The repayment period of loans to SEBs was increased from 7 years to 9 years.

3.79 The Corporation decided to refinance eligible institutions in respect of viable schemes for setting up of windmills under minor irrigation schemes, subject to certain terms and conditions.

VIII. National Bank for Agriculture and Rural Development

3.80 With a view to providing all types of production and investment credit for agriculture and rural development and also to act as an agency for promoting integrated rural development, the Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development in its report submitted to the RBI in March 1981 had recommended the establishment of the National Bank for Agriculture and Rural Development (NABARD). The Bill for the establishment of NABARD was passed by the Parliament and received the assent of the President on December 30, 1981. NABARD came into existence on July 12, 1982.

3.81 The Board of Directors of NABARD to be appointed by the Central Government in consultation with RBI consists of, besides the Chairman and the Managing Director, 2 directors from amongst experts in rural economics, rural development, etc., 3 directors from out of the directors of the RBI, 3 directors from amongst the officials of GOI and 2 directors from among the officials of State governments. Shri Ramakrishnayya, Deputy Governor of the Reserve Bank and Chairman of the erstwhile ARDC has been appointed as the Chairman of NABARD.

3.82 The capital of NABARD is Rs. 100 crores (which can be raised to Rs. 500 crores) and is held by the Reserve Bank and Government of India in equal proportion. In terms of the provisions of the NABARD Act, the entire assets and liabilities of the erstwhile ARDC have been taken over by NABARD. For its short-term operations, the NABARD will draw funds mainly from the Reserve Bank. For its term loan operations, it will draw funds from the Government of India, float bonds in the open market and also draw, to the extent needed, from its National Rural Credit (Long-term Operations) Fund and National Rural Credit (Stabilisation) Fund. The assets and liabilities of the two funds maintained by the Reserve Bank, viz., the NAC (LTO) Fund and NAC (Stabilisation) Fund have been transferred to the above Funds of the NABARD. The Bank is also authorised to accept deposits with maturity of not less than twelve months from the Central and State governments, local authorities, scheduled banks, etc., and to borrow, with the approval of the Central Government, foreign currency from any bank or financial institution in India or elsewhere. The outstandings in respect of short-term loans granted by RBI to SCBs and RRBs under Section 17 of the RBI Act [except those under Sec. 17(4)(*a*)] have been transferred to NABARD, which in turn will repay them to RBI.

3.83 The NABARD will provide by way of refinance, credit for the promotion of agriculture, SSI units in rural areas, cottage and village industries, handicrafts, other rural crafts and other allied economic activities in rural areas, with a view to promoting integrated rural development and securing rural prosperity. Short-term credit by way of refinance (repayable within 18 months) would be provided to SCBs, RRBs and other financial institutions (approved by the Reserve Bank) for:

agricultural operations or marketing of crops; marketing and distribution of inputs necessary for agriculture or rural development; bonafide commercial or trade transactions; and production or marketing activities of artisans or SSI units in rural areas, industries in tiny and decentralised sectors, village and cottage industries or those engaged in handicrafts and other rural crafts, and other allied economic activities in rural areas. The short-term loans granted to SCBs and RRBs can be converted into medium-term loans for periods not exceeding seven years under conditions of drought, famine or other natural calamities. Medium-term loans (i.e. 18 months to seven years) will be provided to SCBs and RRBs for agriculture and rural development and other purposes as determined by NABARD. Long-term loans (up to 25 years) and advances by way of refinance will be provided to LDBs, RRBs, scheduled banks, SCBs and other financial institutions for promoting agriculture and rural development, as well as for giving loans to artisans, small-scale industries, industries in tiny and decentralised sectors and village and cottage industries, etc. NABARD can also give short-term loans along with long-term loans where such composite loans are considered necessary. It will also make loans and advances to State governments for periods not exceeding 20 years to enable them to subscribe directly or indirectly to the share capital of co-operative credit societies.

3.84 NABARD will maintain a Research and Development (R & D) Fund which will be strengthened through contribution from its profits every year. It is also provided in the NABARD Act that, for the first fifteen years, it would, after making provision for bad and doubtful debts, depreciation of assets and other provisions necessary or expedient, transfer the remaining surplus to the R & D Fund. This will help promote research in agriculture and rural development and aid NABARD in formulating and designing projects/programmes to suit requirements of different areas.

IX. Study Teams/Committees

3.85 A brief review of appointments, reports and recommendations, etc., of the study teams/committees relating to co-operative banking is given below.

Study Team on Agricultural Credit Institutions in Orissa

3.86 The Study Team on Agricultural Credit Institutions in Orissa constituted by the RBI submitted its Report in August 1981. The main findings/recommendations are:

(*i*) considerable progress was achieved in mobilisation of deposits and loan business in recent years by the state and central co-operative banks in the State;

(*ii*) wherever RRBs were established, preference may be given to them in meeting credit gaps; and (*iii*) the State Government should complete the programme of reorganisation of PACS quickly and revise upwards the norm of minimum short-term agricultural loan business for ensuring the viability of base-level societies.

Study Group on Deployment of Resources by State and Central Co-operative Banks

3.87 The Study Group set up by the Reserve Bank in March 1981 to examine the problems of surplus resources and profitable investment of loanable internal resources, faced by the state and central co-operative banks, submitted its report in August 1981. The Group has stressed the need to view the problem in its proper perspective since surpluses are mainly due to under-development of co-operative infrastructure in most of the States. Further, the surpluses are either region-specific or institution-specific and are not of an alarming magnitude. In these circumstances it visualised two categories of surpluses, viz., long-term and seasonal which need to be tackled separately. The Group cautioned against taking steps which would retard deposit growth, particularly in the context of vast scope for developmental lending and overall resource constraint. The Group recommended *inter alia* that:

(*i*) the long-term remedy to the problem of surplus resources lies in accelerating the growth of loans and advances, particularly for agriculture and allied purposes by taking several measures suggested by various committees from time to time, and

(*ii*) without detriment to the interest of the agricultural sector, the other avenues for lending could be state marketing federations for fertiliser distribution and national co-operative marketing consumer federations for general business, dairy development corporations, State Electricity Boards, interim accommodation to SLDBs, working capital accommodation to co-operatives in tribal areas, term loans to co-operative processing societies, procurement, etc.

Study Group to Review the Working of the Scheme of Financing of PACS by Commercial Banks

3.88 The Study Group which had been constituted by the RBI in December 1978 to review the working of the scheme of financing of PACS by commercial banks submitted its report in August 1981. The findings of the Group revealed that the scheme which was introduced in 1970 had failed to achieve its major objectives and had not been able to make any perceptible impact on the functioning of the societies ceded to commercial banks. Further, commercial banks had not been able to provide higher quantum of assistance to the societies ceded to them as compared with the CCBs' assistance to their affiliated societies. The organisational link with commercial banks had also failed in arresting delinquency in repayment of loans. According to the Study Group, the failure of the scheme was more due to organisational incompatibility of the delivery systems than due to any operational lacuna. The Study Group has, therefore, recommended that no useful purpose would be served in continuing the scheme. The Agricultural Credit Board has decided to leave the option to the concerned societies either to continue their link with commercial banks or to opt for retransfer to the CCB to which they were affiliated.

Working Group on Institutional Credit for Jute Growers

3.89 The Central Government in consultation with the RBI, had constituted a Working Group in December 1980 to go into the problems of jute growers, particularly in regard to the institutional arrangements for production credit and marketing of raw jute. The report of the Group, submitted in January 1982, contains several recommendations mainly about the coverage of crop insurance, construction of rural godowns and other supporting facilities. These recommendations are under the active consideration of the Government.

Study Group to Review Stabilisation Funds of State Co-operative Banks

3.90 As per the recommendation of the Agricultural Credit Board (ACB), it was decided that with effect from 1979-80, the financial burden of converting the short-term dues into medium-term conversion loans in the event of natural calamities, should be shared by the CCBs, SCBs, State governments and the RBI in the ratio of 15: 10: 15: 60. Further, in its November 1981 meeting, the ACB decided that the State governments should not only contribute to the stabilisation fund but should also build up the stabilisation fund of the banks to a predetermined optimum level during the Sixth Plan period by making good the deficit in the SCB's contribution to the fund with Government assistance. A Study Group was, therefore, formed in February 1982 on the recommendation of the ACB, to determine the optimum level of stabilisation funds of SCBs for the Sixth Plan period. The Study Group is represented by the Agricultural Credit Department of the RBI, the Ministry of Agriculture, the governments of Maharashtra and Uttar Pradesh and the National Federation of state co-operative banks.

Standing Committee on Term Lending through Co-operatives

3.91 The RBI appointed a Standing Committee in November 1981 to review, on a continuing basis, the operations, policies and procedures in respect of LDBs. The main terms of references are to : review the organisational capabilities of LDBs in the context of the projectised lending and prompt recycling of resources; examine the loan policies and procedures of LDBs and give guidance for their rationalisation and improved financial management; review the recovery performance of LDBs; formulate time-bound rehabilitation programme for weak LDBs and monitor their implementation; review the norms for fixing the lending programme of LDBs; bring about functional co-ordination between LDBs and PACS and make recommendations to ensure the sound growth of LDBs. With the setting up of this Committee, the Debentures Norms Committee set up in 1975 by the RBI stands abolished.

CHAPTER 4

OTHER FINANCIAL INSTITUTIONS

4.1 A significant addition to the institutional machinery for provision of finance and for promotional and developmental activities was the establishment on January 1, 1982 of the Export-Import Bank of India (Exim Bank), a statutory Corporation, wholly owned by the Central Government. Designed to operate as a development bank in the area of India's foreign trade, it is to provide a package of financial and allied services to the export sector, and also coordinate the working of institutions engaged in financing and promoting export and import of goods and services. The Exim Bank commenced lending operations on March 1, 1982.

4.2 The aggregate assistance sanctioned and disbursed by the all-India term-lending institutions during the financial year 1981-82 was larger than in 1980-81-an increase of 18.3 per cent in sanctions and 25.6 per cent in disbursements. The increase was accounted for mainly by the IDBI; the assistance sanctioned and disbursed by the IDBI in 1981-82 was around 15 per cent larger than in 1980-81.

4.3 The year under review witnessed a sizeable growth in the operations of the Unit Trust of India; sales of units in 1981-82 at Rs. 157 crores were the highest for any year since the inception of the Trust. Of the total sales, Rs. 77 crores were in respect of two new attractive schemes, introduced by the Trust during the year, one for charitable and religious trusts and registered societies and the other for people in lower and middle income groups.

I. RBI Assistance to Financial Institutions

4.4 The Reserve Bank provides long-term loans as well as medium/short-term credit facilities to financial institutions notified by the Central Government. The credit so provided to institutions catering to the agricultural sector has been dealt with in Chapter 3. The details of the RBI assistance sanctioned to financial institutions catering to the industrial sector during 1980-81 and 1981-82 (July-June) are shown in Table 4.1. Long-term loans sanctioned to the IDBI during 1981-82 from the National Industrial Credit (Long-term Operations) NIC (LTO) Fund amounted to Rs. 265 crores, compared with Rs. 270 crores in 1980-81. The 1980-81 sanction amount included Rs. 30 crores sanctioned as advance against allocation for 1981-82. The IDBI utilised the entire limit of Rs. 265 crores; in the preceding year the utilisation had amounted to Rs. 240 crores against sanctioned limit of Rs. 270 crores. An amount of Rs. 2 crores was repaid during the year. The amount borrowed by the IDBI from the NIC (LTO) Fund and remaining outstanding on June 30, 1982 aggregated Rs. 1,586 crores.

TABLE 4.1—RBI ASSISTANCE SANCTIONED TO FINANCIAL INSTITUTIONS (JULY-JUNE)

(Rs. crores)

Type of Assistance	1980-81	1981-82	Amount outstanding as on June 30, 1982
Long-term Credits (NIC (LTO) Fund)			
IDBI (1)	270 (240)	265 (265)	1,586
Exim Bank (2)	—	25 (25)	25
Medium/Short-term Credit Limits			
IDBI (3)	100	190	—
IFCI (4)	3	3	—
ICICI (5)	10	10	—
SFCs (6) (7)	23	30	5.5

(1) and (2) Under Section 17 (4G) of the RBI Act 1934.
(3) Under Section 17 (4H) (b) of the Act.
(4) Under Section 17 (4B) (b) of the Act.
(5) Under Section 17 (4BB) (b) of the Act.
(6) Under Section 17 (4A)/17(4BB) (b) of the Act.
(7) Including Tamil Nadu Industrial Investment Corporation Ltd. Sanctions for 1981-82 are in respect of 12 SFCs and outstanding in respect of 2 SFCs.

Note : Figures in brackets indicate utilisation.

4.5 During the year, the scope of section 46(C) of the RBI Act was enlarged with a view to enabling the Exim Bank, a new financial institution, to borrow out of NIC (LTO) Fund for the purpose of its business. Accordingly, on March 31, 1982, the Exim Bank was sanctioned a credit limit of Rs. 25 crores, which was availed of by it on the same date, and which remained outstanding at the end of June 1982.

4.6 The amount of short-term credit limits sanctioned to IDBI against the security of eligible bills rediscounted by it was substantially larger at Rs. 190 crores, as compared with Rs. 100 crores in 1980-81. The IDBI availed of loans aggregating Rs. 20 crores from these limits on three occasions and the amounts were repaid.

4.7 Short-term borrowing limit of Rs. 3 crores sanctioned to IFCI was renewed by the RBI during 1982 for a further period of one year. In respect of ICICI, the Bank sanctioned in June 1982 a credit limit of Rs. 10 crores—same limit as was sanctioned last year.

4.8 The Bank sanctioned during 1981-82 fresh borrowing limits aggregating Rs. 16 crores to 6 SFCs against their *ad hoc* bonds, and also extended the period of borrowing limits amounting to Rs. 14 crores in respect of 6 SFCs.

4.9 At the end of June 1982, there were no outstandings against the short-term limits sanctioned to the IDBI, the IFCI and the ICICI; the outstanding amount in respect of limits sanctioned to SFCs was Rs. 6 crores on June 30, 1982.

4.10 During the financial year 1981-82, the Central Government approved a market borrowing programme of SFCs for an aggregate amount of Rs. 76 crores (net), including maturities of Rs. 12 crores as against Rs. 49 crores in the previous year. This amount was allocated among 16 SFCs (excepting the Assam and the Haryana Financial Corporations) in consultation with the IDBI, and was fully raised by the Corporations.

II. Operations of Term-Lending Institutions

4.11 Financial assistance sanctioned by all-India term-lending institutions (*i.e.*, the IDBI, the IFCI, the ICICI, the IRCI, the UTI, the LIC and the GIC and its subsidiaries) during the financial year 1981-82 aggregated Rs. 2,600 crores, showing an increase of 18.3 per cent over the amount of Rs. 2,197 crores sanctioned in 1980-81. Disbursements during 1981-82 at Rs. 1,845 crores were also larger than the previous year's disbursements of Rs. 1,469 crores by 25.6 per cent. The increase in sanctions as well as disbursements was mainly accounted for by the IDBI.

4.12 Of the total assistance of Rs. 2,600 crores sanctioned in 1981-82, Rs. 2,399 crores were by way of loans—an increase of Rs. 304 crores over the previous year's figure of Rs. 2,095 crores. Loans disbursed aggregated Rs. 1,749 crores, *i.e.*, Rs. 344 crores more than in the preceding year (Rs. 1,405 crores). Sanctions under the head underwriting and direct subscriptions to shares and debentures at Rs. 201 crores in 1981-82 were almost twice the amount sanctioned in the preceding year, indicating the growing importance of the role played by these institutions in strengthening the efforts of companies to raise capital in the market. Disbursements on this account also increased from Rs. 64 crores in 1980-81 to Rs. 96 crores in 1981-82, an increase of 50 per cent (Table 4.2).

4.13 Institution-wise, the assistance sanctioned in 1981-82 was larger than in the preceding year in respect of all financial institutions excepting the ICICI. In absolute terms, the largest increase was recorded by the IDBI (Rs. 235 crores); the increases registered by the IFCI, the IRCI, the UTI, the LIC and the GIC and its subsidiaries ranged between Rs. 9 crores and Rs. 96 crores. In percentage terms, the increase in sanctions was the highest in the case of the IRCI at 161.3 per cent, reflecting further expansion of its activities. The sanctions by the ICICI were lower than in the preceding year by Rs. 25 crores or 7.6 per cent.

4.14 Disbursement of assistance was also larger than in the preceding year in respect of all institutions, excepting the GIC and its subsidiaries. In absolute terms, the increase was the largest in the case of IDBI (Rs. 149 crores), followed by the ICICI (Rs. 83 crores), the LIC (Rs. 70 crores) and the IFCI (Rs. 60 crores); in the case of the IRCI and the UTI, disbursements were higher by Rs. 11-12 crores than in

TABLE 4.2—ASSISTANCE SANCTIONED AND DISBURSED BY TERM-LENDING INSTITUTIONS DURING 1980-81 AND 1981-82 (APRIL-MARCH)

(Rs. crores)

Institutions	Loans				Underwriting and direct subscriptions to shares and debentures	
	1980-81		1981-82 £		1980-81	
	Sanctioned	Disbursed	Sanctioned	Disbursed	Sanctioned	Disbursed
	1	2	3	4	5	6
I.F.C.I.*	193.41	107.81	198.43	166.93	13.14	1.11
I.C.I.C.I.*	310.41	181.48	280.79	262.58	16.99	3.83
I.R.C.I.	17.94	16.78	46.88	28.03	—	—
I.D.B.I.**	1473.30	993.90	1676.30	1141.51	29.66	3.81
U.T.I.	23.67@	20.19@	44.21@	34.09@	17.71	30.84
L.I.C.	53.05	53.56	126.66	102.23	16.90	12.08
GIC and its subsidiaries	22.82	31.42	25.84	13.40	7.94	12.62
TOTAL	**2094.60**	**1405.14**	**2399.11**	**1748.77**	**102.34**	**64.29**

Institutions	Underwriting and direct subscriptions to shares and debentures		Total			
	1981-82 £		1980-81		1981-82 £	
	Sanctioned	Disbursed	Sanctioned	Disbursed	Sanctioned	Disbursed
	7	8	9	10	11	12
I.F.C.I.*	17.07	2.10	206.55	108.92	215.50 (+4.3)	169.03 (+55.2)
I.C.I.C.I.*	21.74	5.81	327.40	185.31	302.53 (— 7.6)	268.39 (+44.8)
I.R.C.I.	—	—	17.94	16.78	46.88 (+161.3)	28.03 (+67.0)
I.D.B.I.**	61.30	5.21	1502.96	997.71	1737.60 (+15.6)	1146.72 (+14.9)
U.T.I.	37.64	29.37	41.38	51.03	81.85 (+97.8)	63.46 (+24.4)
L.I.C.	38.84	33.70	69.95	65.64	165.50 (+136.6)	135.93 (+107.1)
GIC and its subsidiaries	24.21	20.26	30.76	44.04	50.05 (+62.7)	33.66 (—23.6)
TOTAL	**200.80**	**96.45**	**2196.94**	**1469.43**	**2599.91 (+18.3)**	**1845.22 (+25.6)**

£ Provisional. * Excluding guarantees. @ Privately placed debentures.
**Includes all types of assistance with the exception of subscription to shares and bonds of financial institutions.
Note : Figures in brackets indicate percentage variations over the previous year.
Source : Information received from the respective institutions.

last year. Disbursements in 1981-82 were lower than in 1980-81 by Rs. 10 crores or 23.6 per cent in respect of the GIC and its subsidiaries.

III. Industrial Development Bank of India

4.15 The aggregate financial assistance sanctioned (excluding guarantees but including subscriptions to shares and bonds of financial institutions) by the IDBI during 1981-82 (April-March) amounted to Rs. 1,815 crores, and covered 68,759 applications, as against Rs. 1,567 crores covering 61,540 applications during the previous year (Table 4.3). Total disbursements during 1981-82 amounted to Rs. 1,224 crores as against Rs. 1,058 crores during the previous year. In percentage terms, financial assistance sanctioned as well as disbursed in 1981-82 was about 16 per cent larger than in 1980-81 and the increase was mainly under the Project Assistance Scheme. Total assistance sanctioned and disbursed by the IDBI since its inception till March 1982 amounted to Rs. 8,257 crores and Rs. 5,642 crores, respectively. The assistance outstanding at the end of March 1982 was Rs. 3,839 crores as against Rs. 2,978 crores at the end of March 1981.

4.16 The total project assistance (comprising direct industrial assistances refinance of industrial loans, rediscounting of bills, subscription to share) and bonds of financial institutions and seed capital through SIDCs, sanctioned formed 93.0 per cent of the total assistance sanctioned by the IDBI during 1981-82, *i.e.*, marginally higher than 92.4 per cent of total assistance during the previous year. The rediscounting of bills and subscriptions to shares and bonds of financial institutions constituted 16.0 per cent and 4.3 per cent of the total assistance; these were higher than the proportions of 14.0 per cent and 4.1 per cent, respectively, in the previous year. The sanctions through direct industrial assistance and refinance of industrial loans formed 29.7 per cent and 42.8 per cent of the total assistance, which were lower than 30.6 per cent and 43.6 per cent, respectively, in the previous year. Similar trend was noticed in disbursements. Total project assistance disbursed during 1981-82 accounted for 96.1 per cent of the total disbursements; the corresponding percentage in the preceding year was 95.9 per cent.

4.17 In respect of all types of assistance, sanctions during 1981-82 were larger than in the preceding year: (*i*) direct industrial assistance rose from Rs. 479 crores in 1980-81 to Rs. 539 crores or by 12.4 per cent, (*ii*) refinance of industrial loans from Rs. 683 crores to Rs. 777 crores or 13.8 per cent, (*iii*) rediscounting of bills from Rs. 220 crores to Rs. 290 crores or 31.9 per cent, and (*iv*) subscriptions to shares and bonds of financial institutions from Rs. 64 crores to Rs. 77 crores or 20.4 per cent. Under the export finance schemes, sanctions for eleven months, *i.e.*, upto the end of February 1982 when the Exim Bank commenced operations, aggregated Rs. 129 crores as against Rs. 120 crores for the whole of 1980-81.

TABLE 4.3—ASSISTANCE SANCTIONED BY THE IDBI AND UTILISED BY THE ASSISTED CONCERNS DURING 1980-81 AND 1981-82 (APRIL-MARCH) AND SINCE INCEPTION

(Amount in Rs. crores)

Type of Assistance	Sanctions (effective)						Disbursements		
	1980-81		1981-82£		Cumulative since inception upto end-March 1982 £		1980-81	1981-82 £	Cumulative disbursements since inception upto end-March 1982 £
	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**	**369**	**479.1 (30.6)**	**360**	**538.6 (29.7)**	**2296**	**2669.2 (32.3)**	**325.7 (30.8)**	**378.8 (30.9)**	**1689.6 (29.9)**
(*a*) Direct loans to industrial concerns (other than for exports) ..	**304**	**449.4**	**311**	**477.3**	**1728**	**2419.2**	**321.9**	**373.6**	**1608.2**
(*i*) Normal	159	361.6	140	369.7	1055	1955.9	231.1	268.4	1313.2
(*ii*) Soft loan assistance	67	73.4	75	92.0	370	415.3	80.5	87.8	255.2
(*iii*) Technical Development Fund ..	78	14.4	96	15.6	303	48.0	10.3	17.4	39.8
(*b*) Underwriting of and direct subscriptions to shares and debentures of industrial concerns	65	29.7	49	61.3	568	250.0	3.8	5.2	81.4
2. Refinance of industrial loans	59,803	683.0 (43.6)	66,841	777.3 (42.8)	239,284	3135.2 (38.0)	461.8 (43.7)	506.1 (41.3)	2152.4 (38.2)
3. Rediscounting of bills ..	1259	219.6 (14.0)	1427	289.7 (16.0)	5170	1545.7 (18.7)	165.6 (15.7)	213.3 (17.4)	1188.0 (21.1)
4. Subscriptions to shares and bonds of financial institutions	18	64.3 (4.1)	26	77.4 (4.3)	36	324.1 (3.9)	60.2 (5.6)	77.0 (6.3)	318.4 (5.6)
5. Seed capital through SIDCs	42	1.7 (0.1)	58	3.2 (0.2)	178	7.9 (0.1)	1.3 (0.1)	1.0 (0.1)	3.8 (0.1)
Total Project Assistance (1 to 5)	**61,491**	**1447.7 (92.4)**	**68,712**	**1686.2 (93.0)**	**246,964**	**7682.1 (93.0)**	**1014.6 (95.9)**	**1176.2 (96.1)**	**5352.2 (94.9)**
6. **Export Finance**	**49**	**119.6 (7.6)**	**47**	**128.8* (7.0)**	**365**	**574.7* (7.0)**	**43.3 (4.1)**	**47.5* (3.9)**	**289.3* (5.1)**
(*a*) Direct loans for exports	14	30.3	5	19.7	124	181.8	13.1	19.0	137.8
(*b*) Refinance of export credit	21	11.4	29	20.6	183	102.3	8.3	14.3	78.5
(*c*) Overseas buyers' credit	—	2.1@	2	57.0	11	83.8	4.2	3.9	22.2
(*d*) Foreign lines of credit ..	7	71.0	3	23.0	25	184.0	12.8	9.3	44.9
(*e*) Overseas investment finance	6	3.8	8	8.5	18	20.8	3.9	1.0	4.9
(*f*) Pre-shipment credit ..	1	1.0	—	—	4	2.0	1.0	—	1.0
Total (1 to 6)	**6,1540**	**1567.3 (100.0)**	**68,759**	**1815.0 (100.0)**	**247,329**	**8256.8 (100.0)**	**1057.9 (100.0)**	**1223.7 [(100.0)**	**5641.5 (100.0)**
7. Guarantees for loans and deferred payments	2	3.1	3	23.6	20	53.4	—	—	19.6
8. Export guarantees	118	139.6	213	197.3	578	550.3	133.1	185.3	510.0

£Provisional.

@Enhancement of assistance sanctioned.

*During the period April 1981 to February 1982 and as at the end of February 1982, respectively, *i.e.*, when the Exim Bank commenced operations.

Note: 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.

4.18 Disbursements in 1981-82 were also higher than in 1980-81 under different categories of assistance. Disbursements in respect of direct industrial assistance increased from Rs. 326 crores to Rs. 379 crores or by 16.3 per cent. The increase in percentage terms was significant in loans from Technical Development Fund—by 68.9 per cent from Rs. 10 crores to Rs. 17 crores. Soft loans showed a modest increase of 9.1 per cent from Rs. 81 crores to Rs. 88 crores. Rediscounting of bills rose sharply from Rs. 166 crores in 1980-81 to Rs. 213 crores or by 28.8 per cent. Refinance of industrial loans was also larger at Rs. 506 crores, as against Rs. 462 crores or by 9.6 per cent. Disbursements of export finance increased from Rs. 43 crores in 1980-81 to Rs. 48 crores in 1981-82 (upto February 1982), *i.e.*, by 9.7 per cent.

4.19 The rate of interest charged by the IDBI on various types of assistance remained unchanged during the year.

IV. State Financial Corporations

4.20 Operations of State Financial Corporations (SFCs) during 1981-82 (April-March), recorded a significant increase over the preceding year's level, indicating a larger flow of long-term financial assistance to small and medium-scale industries. Total financial assistance sanctioned and disbursed by 18 SFCs (including Tamil Nadu Industrial Investment Corporation Ltd.) during the financial year 1981-82 were substantially higher at Rs. 514 crores and Rs. 316 crores, respectively, as compared with Rs. 383 crores and Rs. 249 crores, during 1980-81. Thus, sanctions rose by as much as 34.2 per cent and disbursements by 26.9 per cent over the year. Total loans outstanding as at the end of March 1982 stood at Rs. 1,207 crores, as compared with Rs. 970 crores at the end of March 1981 (Table 4.4).

TABLE 4.4—OPERATIONS OF STATE FINANCIAL CORPORATIONS

(Rs. crores)

	1980-81 (April-March)	1981-82@ (April-March)
Assistance sanctioned	383.3	514.3
Assistance disbursed	249.1	316.0
Loans outstanding as at the end of March	969.7	1206.7

@ Provisional.
Source : Industrial Development Bank of India.

Among the 18 SFCs, sanctions and disbursements during 1981-82 were the highest in respect of the Andhra Pradesh State Financial Corporation at Rs. 62 crores and Rs. 37 crores, respectively. Assistance sanctioned by the SFCs of Tamil Nadu and Uttar Pradesh also crossed Rs. 50 crores mark each. A noteworthy feature of the operations of SFCs was that sanctions by SFCs in relatively industrially backward States like Orissa, Rajasthan and Uttar Pradesh either exceeded or came close to the sanctions by SFCs in relatively industrially advanced States like Maharashtra, Gujarat and Tamil Nadu.

V. Unit Trust of India

4.21 During 1981-82 (July-June), the operations of the Unit Trust of India recorded sizeable growth. Aggregate sales of units under the Trust's various schemes touched a new peak of Rs. 157 crores; the previous peak was Rs. 102 crores achieved in 1978-79 (Table 4.5). Of the total sales, Rs. 80 crores were in respect of the existing Unit Scheme 1964 and Unit Scheme 1971, as against Rs. 52 crores in 1980-81, while thé balance of Rs. 77 crores was in respect of two new attractive schemes introduced by the Trust during the year. The hike in the rate of dividend, from 10 per cent in 1979-80 to 11.50 per cent in 1980-81 under the Unit Scheme 1964 and from 8.50 per cent to 8.75 per cent under the Unit Scheme 1971 contributed in part to the increased sales of units under the schemes. The Trust stepped up the rate of dividend for 1981-82 to 12.5 per cent under the Unit Scheme 1964 and to 9.5 per cent under the Unit Scheme 1971.

TABLE 4.5—SCHEME-WISE SALES AND REPURCHASES BY UTI

(Rs. crores)

Schemes	Sales		Repurchases		Outstanding as on June 30, 1982
	1980-81	1981-82	1980-81	1981-82	
Unit Scheme 1964	39.66	65.15	15.36	21.70	433.23
Unit Scheme 1971	12.44*	15.52*	0.41	1.16	45.53
Unit Scheme 1976	—	—	1.87	4.41	—
CRTS—1981	—	9.16	—	—	9.16
Income Unit Scheme 1982	—	67.54	—	—	67.54
TOTAL	**52.10**	**157.37**	**17.64**	27.27	**555.46**

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

Source : Unit Trust of India.

4.22 On October 1, 1981, the Trust introduced a new scheme, *viz.*, Scheme for Charitable and Religious Trusts and Registered Societies (CRTS-81) exclusively for the trusts and societies registered under the Societies Registration Act, 1860. At the time of the introduction of this Scheme, the Trust announced a minimum of 12 per cent dividend per annum. However, a higher dividend of 12.5 per cent was announced for the year 1981-82.

4.23 On May 1, 1982, the Trust launched the Income Unit Scheme, 1982 for people in the lower and middle income groups. Sales under this

Scheme were kept open only for two months, i.e., May and June 1982. The rate of dividend under the Scheme was fixed at 12 to 13 per cent per annum and is payable on a half yearly basis.

4.24 As on June 30, 1982, sales under the CRTS, 1981 and the Income Unit Scheme 1982 aggregated Rs. 9 crores and Rs. 68 crores, respectively. Sales under the Unit Scheme 1964 and the Unit Scheme 1971 (ULIP) during 1981-82 amounted to Rs. 65 crores and Rs. 15 crores, respectively.

4.25 Repurchases at Rs. 27 crores were also higher than during the previous year (Rs. 18 crores) and formed 4.9 per cent of the outstanding unit capital as against 4.1 per cent in the previous year. Unit capital of the Trust under all the Schemes rose from Rs. 425 crores at the end of June 1981 to Rs. 555 crores by the end of June 1982.

4.26 With the objective of reaching out to the semi-urban and rural areas and of extending prompt and personalised service to the unit holders, the Trust opened during 1981-82 a sub-office at Vijayawada (Andhra Pradesh). It may be recalled that this policy was initiated in 1980-81 with the opening of two sub-offices, one at Ludhiana in Punjab and the other at Trichur in Kerala.

4.27 The investible funds of the Trust rose to Rs. 679 crores as on June 30, 1982 from Rs. 523 crores at the end of June 1981. Out of the total investible funds of Rs. 679 crores, Rs. 152 crores (22.4 per cent) were invested in equity shares, Rs. 14 crores (2.0 per cent) in preference shares and Rs. 195 crores (28.7 per cent) in debentures. The balance Rs. 318 crores (46.9 per cent) were mainly invested in advance deposits against investment commitments, fixed deposits, bridge finance and money at call and short notice.

VI. Deposit Insurance and Credit Guarantee Corporation

4.28 The Deposit Insurance and Credit Guarantee Corporation (DICGC) provides protection to depositors, particularly the small depositors, from the risk of the 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

4.29 The number of insured banks increased from 1,619 at the end of June 1981 to 1,661 by the end of June 1982, comprising 82 commercial banks, 117 RRBs and 1,462 co-operative banks. By the end of June 1982, the scheme covered co-operative banks in thirteen 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 Delhi, Goa, Daman and Diu and Pondicherry. The Government of Himachal Pradesh has carried out amendments to the Co-operative Societies Act with a view to facilitating extension of deposit insurance scheme to co-operative banks in that State and steps are being taken to extend the scheme there with effect from October 1, 1982. Four other States, *viz.*, Bihar, Manipur, Nagaland and Punjab which account for a total of 60 co-operative banks are also taking steps in this regard. The remaining States/Union Territories account for only 28 co-operative banks.

4.30 The limit of insurance cover per depositor (in the same right and capacity) per bank at Rs. 30,000 has remained unchanged. The rate of premium at four paise per Rs. 100 per annum also remained unchanged. The amount of assessable deposits increased from Rs. 32,570 crores at the end of 1980 to Rs. 35,004 crores at the end of 1981 resulting in a rise of 22.5 per cent in the premium income from Rs. 1,488 lakhs in 1980 to Rs. 1,823 lakhs in 1981. Consequently, the Deposit Insurance Fund increased over the year from Rs. 110 crores in 1980 to Rs. 133 crores as at the end of 1981. The Fund constitutes 0.38 per cent and 0.51 per cent of total assessable deposits and aggregate insured deposits, respectively.

4.31 As at the end of June 1981, fully protected accounts formed 99.1 per cent of the total number of deposit accounts, while insured deposits formed 73.9 per cent of the total assessable deposits.

4.32 The total amount of deposit insurance claims paid or provided for since the inception of the Scheme upto June 1982 in respect of 14 commercial banks and 11 co-operative banks aggregated Rs. 113 lakhs and Rs. 190 lakhs, respectively. The Corporation has received from the commercial banks/co-operative banks Rs. 78 lakhs and Rs. 13 lakhs, respectively, towards repayment.

Credit Guarantee Function :

Credit guarantee schemes relating to non-industrial sector, i.e., other than SSI

4.33 At the end of June 1982, 75 commercial banks (excluding RRBs) and 94 RRBs were participating in the Small Loans Guarantee Scheme. This scheme accounts for 99.7 per cent of the guaranteed advances to the non-industrial sector. The number of institutions participating in the Financial Corporations' Guarantee Scheme remained unchanged at 18, while the number of credit institutions participating in the Small Loans (Service Co-operative Societies) Guarantee Scheme rose to 140, comprising 61 commercial banks, 42 RRBs and 37 co-operative banks.

4.34 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. 2,800 crores at the end of June 1980 to Rs. 3,747 crores by end-June 1981 recording a rise of 33.9 per cent. Advances to farmers and agriculturists continued to constitute a major portion (63.7 per cent) of the guaranteed advances to the non-industrial sector, followed by credit to transport operators (13.6 per cent), retail traders (11.0 per cent) and professional and self-employed persons (4.5 per cent) (Table 4.6).

TABLE 4.6—SECTOR-WISE DETAILS OF DICGC's GUARANTEED ADVANCES

(Rs. crores)

Scheme/Category of Borrowers	As on the last Friday of June					
	1972	1977	1978	1979	1980	1981
A. Small Loans Guarantee Scheme, 1971	205.7 (98.7)	1,322.8 (99.4)	1,706.3 (99.5)	2,154.5 (99.5)	2,789.1 (99.6)	3,735.1 (99.7)
Farmers and agriculturists	134.7 (64.6)	845.6 (63.6)	1,057.0 (61.6)	1,345.8 (62.2)	1,796.1 (64.2)	2.387.2 (63.7)
Transport operators	28.3 (13.6)	202.3 (15.2)	282.7 (16.5)	310.5 (14.4)	368.5 (13.2)	508.8 (13.6)
Retail Traders	28.3 (13.6)	138.0 (10.4)	178.9 (10.4)	257.4 (11.9)	316.7 (11.3)	413.4 (11.0)
Professional and self-employed persons	9.1 (4.4)	69.7 (5.2)	88.0 (5.1)	108.1 (5.0)	127.1 (4.5)	166.6 (4.5)
Business enterprises	5.3 (2.5)	46.8 (3.5)	68.1 (4.0)	92.2 (4.3)	116.6 (4.2)	157.3 (4.2)
Residual category of borrowers under the D.I.R. Scheme	—	20.4 (1.5)	31.6 (1.8)	40.4 (1.9)	64.2 (2.3)	101.8 (2.7)
B. Financial Corporations Guarantee Scheme, 1971	2.6 (1.2)	7.6 (0.6)	8.7 (0.5)	9.4 (0.4)	10.2 (0.4)	10.9 (0.3)
Transport operators	2.4 (1.1)	7.0 (0.5)	8.0 (0.5)	8.7 (0.4)	9.6 (0.3)	10.4 (0.3)
Business enterprises	0.2 (0.1)	0.6 (0.1)	0.7 (—)	0.7 (—)	0.7 (—)	0.6 (—)
C. Service Co-operative Societies Guarantee Scheme, 1971 Service Co-operative Societies	0.1 (0.1)	0.3 (—)	0.2 (—)	0.9 (—)	0.4 (—)	1.4 (—)
TOTAL (A+B+C)	**208.4 (100.0)**	**1,330.7 (100.0)**	**1,715.2 (100.0)**	**2,164.7 (100.0)**	**2,799.7 (100.0)**	**3,747.4 (100.0)**
D Small Loans (Small-Scale Industries) Guarantee Scheme, 1981 (As at March 31, 1981)	—	—	—	—	—	3,716.4

— Nil or negligible.
Note : Figures in brackets are percentages to total.
Source : Deposit Insurance and Credit Guarantee Corporation.

4.35 Guarantee claims (under the guarantee scheme relating to non-industrial sector) numbering 1,00,669 for Rs. 16 crores were received during 1981 and 58,149 claims for Rs. 10 crores were received during January-June 1982. Claims received since the inception of the scheme upto June 1982 numbered 3,30,473 involving Rs. 68 crores.

4.36 During 1981, 74,030 claims for Rs. 11 crores and during January-June 1982, 41,108 claims for Rs. 6 crores were disposed of. The total claims disposed of since the inception of the Corporation's guarantee schemes upto June 1982 numbered 2,15,391 involving Rs. 38 crores.

4.37 The Credit Guarantee Fund representing the surplus of the guarantee fee realised over guarantee claims paid stood at Rs. 81 crores at the end of 1981 as against Rs. 44 crores a year before. The increase is mainly due to the receipts amounting to Rs. 42 crores towards guarantee fee during the year, out of which Rs. 17 crores were received as guarantee fee in respect of the new credit guarantee scheme for the small-scale industries introduced with effect from April 1, 1981. The Fund is in the nature of a reserve for lending as also for future claims both under the original and new guarantee schemes and constituted 0.7 per cent of the total guaranteed advances.

Credit Guarantee Function Relating to S.S.I.

4.38 Mention was made in the last year's Report of the introduction by the Corporation from April 1, 1981 of its own guarantee scheme, viz., Small Loans (Small-Scale Industries) Guarantee Scheme, 1981 in place of the Government of India's Credit Guarantee Scheme for small-scale industries which ceased to operate from April 1, 1981. The new Scheme provides guarantee support to all eligible credit institutions assisting industries in the small-scale and priority sector. While the essential features of the erstwhile scheme have been incorporated in the new scheme of the Corporation, some improvements have been made to facilitate expeditious disposal of guarantee obligations and to ensure that guarantee support under the Scheme is weighted in favour of the weakest of the weaker sections of society. Advances covered under the erstwhile scheme and not in default were automatically covered under the new scheme. The Corporation has also taken over liabilities and obligations of the Government of India in respect of the accounts in default as on March 31, 1981 when the scheme was cancelled.

4.39 The participation in the scheme is voluntary and is open to all commercial banks, RRBs, State financial corporations and also to certain other term-lending institutions and co-operative banks approved by the Corporation in this behalf.

4.40 Till the end of June 1982, 285 credit institutions comprising 71 commercial banks, 71 RRBs, 126 co-operative banks, 13 State financial corporations and 4 State development agencies had joined the new scheme by executing the prescribed agreements and paying the necessary guarantee fee.

4.41 A concessional guarantee fee of 1/2 per cent per annum is payable in regard to advances to smaller borrowers availing of credit facilities not exceeding Rs. 25,000 as against the usual rate of 3/4 per cent per annum.

4.42 The guarantee is to the extent of as much as 90 per cent in the case of borrowers having credit facilities not exceeding Rs. 25,000 and 75 per cent for borrowers availing themselves of credit facilities for over Rs. 25,000 but not exceeding Rs. 2 lakhs. In regard to other borrowers, the cover is to the extent of 50 per cent but in the case of small-scale industries located in backward districts a higher cover of $66\frac{2}{3}$ per cent is provided. The highest cover of 90 per cent is also provided in respect of advances to technician entrepreneurs subject to certain monetary limits. The new scheme stipulates a combined ceiling of Rs. 10 lakhs in regard to the claim liabilities in respect of term-loans and working capital finance.

4.43 On March 31, 1981, i.e., the date of cancellation of the old scheme of Government of India, 30,826 claims for Rs. 98 crores were pending with the erstwhile Credit Guarantee Organisation and these were transferred to the Corporation. During the period April 1981 to June 1982, 20,148 claims for Rs. 33 crores were received under the old scheme and 3,225 claims for an aggregate amount of Rs. 5 crores under the new scheme. In all 14,330 claims for Rs. 22 crores were disposed of by the end of June 1982.

4.44 The Working Group constituted by the Corporation in 1979 to examine the question of extension of benefits of guarantee cover to co-operative credit institutions, *inter alia*, recommended extension of guarantee cover to agricultural credit societies and land development banks at the primary level, in a phased manner, in the context of the very large number of institutions to be covered and the present administrative capacity of the Corporation. The Group also recommended that guarantee may be extended to co-operative banks for their advances to non-agricultural sector. These recommendations have been accepted by the Corporation and suitable guarantee schemes have been drafted and other preliminary steps for their introduction are being taken.

VII. The Export-Import Bank of India

4.45 The Export-Import Bank of India was established on January 1, 1982 as a statutory corporation, wholly owned by the Union Government. The main objectives of the Exim Bank are : to ensure an integrated and co-ordinated approach to solve the problems of exporters, providing special attention to capital goods and project exports, joint ventures and export of technical services and international merchant banking; to extend buyer's credit and lines of credit; and to tap domestic and overseas markets for resources for undertaking developmental and financing activities in the area of exports. Its promotional activities cover:

(*i*) planning, promoting and developing exports and imports;
(*ii*) providing technical, administrative and managerial assistance for promotion, management and expansion of exports; and
(*iii*) undertaking market and investment surveys and techno-economic studies related to development of exports of goods and services.

Export Promotion Schemes

4.46 As the short-term credit requirements of exports are largely taken care of by commercial banks, the Exim Bank at present mainly concentrates on term-credit for export of goods and services on deferred terms. The Bank commenced lending operations on March 1, 1982.

4.47 The Exim Bank has introduced a variety of schemes for the promotion of exports of engineering/capital goods and technology/consultancy services. It offers financial assistance on flexible and responsive credit terms to enable Indian exporters to compete in international markets. It also operates schemes for financial assistance to overseas buyers for the purchase of engineering goods and to Indian promoters towards their equity contribution in joint ventures abroad. The salient features of the main export promotion schemes operated by Exim Bank are shown in Table 4.7.

Resources

4.48 The authorised capital of Exim Bank is Rs. 200 crores, which can be increased to Rs. 500 crores. The paid-up capital is Rs. 75 crores. A long-term loan of Rs. 20 crores has been extended by the Government of India. The Bank is authorised to borrow further sums from the Government of India. It can borrow funds from the Reserve Bank, as also raise resources in domestic and international markets.

Management

4.49 The Bank is managed by a 17-member Board of Directors, with Chairman and Managing Director as the chief executive and full time director. The Board of Directors comprises representatives from Government of India, the Reserve Bank of India, IDBI, ECGC, commercial banks and the exporting community.

Operations

4.50 Since commencing operations on March 1, 1982 till June 30, 1982, the Exim Bank has extended assistance to the tune of Rs. 133 crores consisting of Rs. 24 crores of medium and long-term loans, guarantees amounting to Rs. 32 crores and rediscounting of export bills aggregating Rs. 77 crores. During this period, Exim Bank cleared 99 bids valued at more than Rs. 3,700 crores in respect of construction contracts, turnkey projects and supplies which would involve the total commitment of Rs. 852 crores for the Exim Bank.

TABLE 4.7—EXPORT FINANCING SCHEMES OPERATED BY EXIM BANK

	Scheme	Type of Beneficiaries	Purpose	Size of Credit	Repayment Period/Terms
		1	2	3	4
I.	Overseas Buyers' Credit	Credit offered to foreign buyers	Import of capital goods from India	Minimum Rs. 10 million. No maximum limit [1]	10 years; [2] generally in Indian rupees
II.	Lines of Credit to Overseas Financial Institutions	Financial Institutions	To enable them to extend finance to foreign borrowers for import from India of machinery and capital equipment.	*	*
III.	Overseas Investment Finance Scheme	Indian promoters (any industrial or consultancy concern or an individual) whose proposal for promotion of joint ventures abroad has been approved by Govt. of India as well as the concerned authorities in the host country. [1]	Financing of overseas investment of joint ventures abroad either by way of export of engineering goods, machinery, capital equipment or in cash against their contribution towards equity.	No minimum or maximum limit	10 years maximum [2]
IV.	Scheme for Direct Financial Assistance to Exporters	Term-loans to exporters. [1]	To enable exporters to finance export of engineering goods and services on deferred payment terms to importers abroad.	No minimum or maximum limit	
V.	Scheme for Refinance of Export Credit	Term-loans to exporters. Refinance to banks in India authorised to deal in foreign exchange.	To encourage banks to provide term export credit to Indian exporters of machines, equipment or execution of projects. [1]	No minimum or maximum limit	
VI.	Pre-shipment Credit Scheme	In the case of proposals relating to export of capital and producer goods eligible for Exim Bank's post-shipment Credit.	To provide pre-shipment finance to fill a gap, wherever necessary, especially for supply of high value equipment having long manufacturing cycles. [1]	Decided on merit [2]	
VII.	Technology and Consultancy Services Finance Scheme	Term-loan to consultancy organisations having proven track record in executing domestic or international technology consultancy contracts.	To enable consultancy organisations to render their services abroad on deferred payment terms.[1]	No minimum or maximum limit	
VIII.	Guarantees	Guarantees to foreign employers on behalf of Indian exporters/contractors.	To enable Indian exporters/contractors to furnish bid bonds, advance payment guarantees, performance guarantees, overdraft guarantees, retention money guarantees, etc.	No minimum or maximum limit	
IX.	Export Bills Rediscounting Scheme	Banks in India authorised to deal in foreign exchange.	To augment funds of banks to finance export bills. [1]	As per mutual arrangement	

For notes please see column 8 on next page.

TABLE 4.7—EXPORT FINANCING SCHEMES OPERATED BY EXIM BANK—(*Concld.*)

	Scheme	Rate of Interest	Commitment Fee	Security	Other Stipulations/Notes
		5	6	7	8
I.	Overseas Buyers' Credit	Negotiable 3	0.5% per annum on undisbursed portion.	Acceptable bank guarantee or bills accepted by a bank or pro. notes executed by Govt. buyers or any other considered adequate by Exim Bank.	1. Buyers' contribution is decided on merit. 2. With suitable moratorium period. 3. Depending on international banking trends and export credit support programmes overseas.
II.	Lines of Credit to Overseas Financial Institutions	*	*	*	*The procedural framework and modus operandi are generally on the same lines as under I.
III.	Overseas Investment Finance Scheme	12.5 per cent	1%	Equity shares issued to Indian promoters pledged to Exim Bank and a mandate/assignment of know-how fees/royalties etc.[3]	1. Exim Bank assistance is available with or without participation from commercial banks. 2. Loan is to be repaid out of know-how fees, royalties, dividends etc. on the investments. 3. The Bank may also stipulate other securities (promoters' assets in India, personal guarantee etc.)
IV.	Scheme for Direct Financial Assistance to Exporters	At rates comparable to global sources		Letter of credit or guarantee from an acceptable bank in the importing country[2]	1. Exim Bank's assistance is available in respect of post-shipment credits for periods beyond 6 months. 2. Where the importer is a Government department/public undertaking, bills of exchange/promissory notes accepted/executed by the importer are accepted.
V.	Scheme for Re-Finance of Export Credit	At rates comparable to global sources.			1. Refinance is available against post-shipment credit granted by banks beyond 6 months.
VI.	Pre-shipment Credit Scheme	12.5 per cent		Security available to the participating banks in the form of hypothecation and/or pledge of assets will be shared on a pari passu basis.	1. A scheme of participation with commercial banks in the provision of pre-shipment finance. 2. Exim Bank assistance is by way of term-loan. Participation is normally not to exceed 50 per cent of total credit.
VII.	Technology and Consultancy Services Finance Scheme	9.25 per cent		Guarantee of Government of employer's country or a guarantee or an irrevocable letter of credit of an acceptable bank.	1. Period of credit normally not to exceed 5 years. (including suitable grace period), relaxable on merits.
VIII.	Guarantees	Commission charged as per rates prescribed by Foreign Exchange Dealers' Association of India.		Counter guarantees from exporters/contractors and also from the ECGC[1]	1. Exim Bank may stipulate additional securities, depending on the individual case.
IX.	Export Bills Rediscounting Scheme	10.5 per cent			1. Export bills with a usance not exceeding 180 days and unexpired usance of maximum of 90 days are rediscounted.