E. C. No. 828

ESTIMATES COMMITTEE (1975-76)

(FIFTH LOK SABHA)

EIGHTY-FOURTH REPORT

MINISTRY OF FINANCE

(Department of Banking)

Action taken by Government on the Recommendations contained in the Sixty-Second Report of the Estimates Committee (Fifth Lok Sabha) on the Ministry of Finance (Department of Banking)—Extension of Credit Facilities to Weaker Sections of Society and for Development of Backward Areas.

LOK SABHA SECRETARIAT
NEW DELHI

August, 1975/Bhadra, 1897 (S)

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Page	Para	Line	For	Read
3	9	9	Delete the sentence: "They had expressed the view that the Nationalised Banks had also been entrusted with a specific responsibility in this regard".	
4	13	3	Delete full stop after "nationalisation" and For 'It' read 'it'.	
7	25	4	class	close
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22	-	13 from bottom	preciously	precisely
29		8	Delete the heading "Recommendation (S.No.43, Para 3.53)" and substitute "Further information furnished by Government".	
43	-	8 from bottom	mad	made
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14. Shri Shiv Kumar Shastri

INTRODUCTION

I, the Chairman of the Estimates Committee, having been authorised by the Committee, present this 84th Report of the Estimates Committee on action taken by Government on the recommendations contained in the Sixty-Second Report of Estimates Committee (Fifth Lok Sabha) on the Ministry of Finance (Department of Banking)—Extension of Credit Facilities to Weaker Sections of Society and for Development of Backward Areas.

2. The Sixty-Second Report of Estimates Committee (Fifth Lok Sabha) was presented to Lok Sabha on the 26th April, 1974. Government furnished their replies indicating action taken or proposed to be taken on the recommendations contained in the Report on the 26th October, 1974 and 25th April, 1975. The replies were examined by Study Group 'F' of the Estimates Committee (1975-76) at their sitting held on the 28th July, 1975.

3. The draft Report was adopted by the Estimates Committee (1975-76) on the 8th August, 1975.

4. The Report has been divided into the following Chapters:—

I. Report;

II. Recommendations which have been accepted by Government;

III. Recommendations which the Committee do not desire to pursue in view of Government's replies;

IV. Recommendations in respect of which replies of Government have not been accepted by the Committee;

V. Recommendations in respect of which final replies of Government are still awaited.

5. An analysis of the action taken by Government on the recommendations contained in the Sixty-Second Report of Estimates Committee (Fifth Lok Sabha) is given in Appendix-III. It would be observed therefrom that out of 114 recommendations made in the Report, 75 recommendations *i.e.*, 65.8 per cent have been accepted by Government. The Committee do not desire to pursue 25 recommendations *i.e.*, 22 per cent in view of Government's replies. The Committee have not accepted the replies of Government in respect of 12

recommendations i.e., 10.5 per cent. Final replies of Government to 2 recommendations i.e., 1.7 per cent have not yet been furnished to the Committee.

R. K. SINHA,
Chairman,
Estimates Committee.

NEW DELHI;
August 25, 1975.
Bhadra 3, 1897 (*S*).

CHAPTER I

REPORT

Assessment of credit requirements/Gaps

Recommendations (Sl. Nos. 6 to 8, Paras 2.12 to 2.14)

In paragraphs 2.12 to 2.14 of their 62nd Report, the Estimates Committee had observed that though the banks were nationalised mainly to provide the credit needs of the weaker sections of society, no study has been made after bank nationalisation to assess broadly the total credit requirements of these sectors, the extent to which the same could be met by the banks and the remaining unfilled gaps. The Committee had also noted that before nationalisation, estimates of some of the credit requirements|gaps made by the Gadgil Committee and the All India Rural Credit Survey Committee in regard to agriculture and Small Scale Industries, were in the nature of rough guess. Also, the estimates for the Fifth Plan were based on the assumption that there would be no price rise during the Plan period. The Committee had recommended that necessary studies should be immediately undertaken by the Department to assess the credit gaps in agriculture and other priority sectors through bank branches or other appropriate agencies and thereafter an integrated plan of action should be prepared so as to gradually achieve the objective of meeting the requirements of these sectors by a time bound programme.

2. In their reply, the Ministry of Finance have stated that some work to identify areas in which the availability of bank credit can play a useful catalyst role has already been done. Each of the survey reports, conducted as part of the Lead Bank Scheme, does indicate important areas of credit gaps. The Ministry have, however, admitted that these could not be regarded as adequate in relation to requirements. According to the Ministry, the performance budgets and the indepth studies now being undertaken would enable the banks to determine the credit potential of the command areas of their branches. Emphasis would be on identifying viable schemes for which banks could extend credit. This would enable the banks to progress in a planned manner towards the specific targets for the agriculture and small scale industries sectors in the Fifth Plan document.

3. The Committee note that some work to identify areas in which the availability of bank credit can play a useful catalyst role has been done and that each of the survey reports conducted as

part of the Lead Bank Scheme indicates important areas of credit gap. But Government, at the same time, have admitted that this by itself cannot be regarded as adequate in relation to requirements.

4. The Committee further note that the introduction of the performance budget and indepth studies now being undertaken in an increasing number of areas would enable the banks to determine the credit potential of the common areas of their branches.

5. The Committee would like to reiterate their earlier recommendation to undertake the necessary studies to assess the credit gap in agriculture and other priority sectors through bank branches and other appropriate agencies expeditiously and thereafter to prepare an integrated plan of action so as to achieve the objective of meeting substantially the requirements of these sectors by a time bound programme. They would also like to stress that credit extension programme for priority sectors should not be based on 'assumptions' or 'rough guess' of requirements but on a scientific and realistic assessment.

Definition of Weaker Sections

Recommendations (S. Nos. 9 and 10 Paras 2.19 & 2.20)

6. The Committee, in paragraphs 2.19 & 2.20 of their 62nd Report, had observed that the weaker sections of society had not been defined as such so far and that the main approach for the purpose of bank credit had been that the sectors which had remained neglected by the banking system should receive priority treatment. They had also noted that it had not been ensured that the benefit of the schemes reached the really weaker sections of society for whom it was meant. The Committee had specifically recommended that a review of the list of priority sectors and the coverage thereof should immediately be undertaken for identifying the weaker sections of society and arrangements made to cover them under these schemes.

7. Government in their reply have recognised that the priorities should not remain constant. However, they have expressed the view that no basic change is currently called for. But, in order to give preferential treatment to certain classes of borrowers, they have realised the need for differentiation which is being currently attempted.

8. The Committee are constrained to observe that even after their specific recommendation that a review of the list of priority sectors should immediately be undertaken and Government's acceptance that, with the change of circumstances, change of priorities might be needed, no such review appears to have been made so far. While the Committee note Government's realisation of the need for differentiation, so as to give preferential treatment to certain classes of borrowers having a somewhat lower than the average economic status, they would reiterate their earlier recommendation that a review of the list of priority sectors should be undertaken well before the conclusion or the Plan period.

Credit Extension to backward districts/areas

Recommendations (S. Nos. 44 & 45, Paras 3.61 & 3.62)

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

10. The Ministry of Finance in their reply have stated that any effort aimed at forcing the pace of economic development in backward regions presupposed a capacity and willingness of that region to undertake heavy long-term often non-recoverable, investment in creating basic pre-requisite for development. The magnitude and complexity of the task and the degree of expertise needed to draw up and implement different projects is such that only sustained Government implemented plan programmes can make any discernible impact on the problem. It has also been stated that State Governments will have to offer incentives sufficient enough to compensate entrepreneurs for the disadvantage of location and encourage them to set up industrial ventures in the backward areas. The Ministry have expressed the view that the banks, given the short term nature of their resource base and the cost of mobilising these resources, will not be able to contribute substantially to such long-

term investments. The Ministry have further stated that "through expanding their branch net work and actively associating themselves with the district authorities in formulating special schemes, the banks have been able to step up their advances to the small borrowers in the different priority sectors in these areas. They have also geared up their machinery to ensure that no viable development scheme suffers for want of credit."

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

Schemes and Programmes

Recommendations (S. Nos. 55 & 56 Paras 4.14 & 4.15)

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

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

14. The Committee note the efforts made by the Reserve Bank for collecting and compiling information in some detail relating to the classification of advances granted for various agricultural and allied operations. While the compilation of the information might be useful in other ways, it is doubtful whether it will serve the purpose the Committee had in view.

15. They would like to reiterate their earlier recommendation that the working of all schemes evolved by Banks for meeting credit requirements of the agricultural sector should be reviewed by an expert group at an early date in view of the importance of agricultural sector in the national economy.

16. The Committee, in paragraph 4.15 of their 62nd Report had recommended that after a study of the data kept in certain eastern branches of banks, the Department should issue suitable instructions to banks for the collection and maintenance of information about economic benefits accruing to an area as a result of the bank credits.

17. Government in their reply have stated that a few banks have so far undertaken very modest and limited studies in selected areas to evaluate the impact of their schemes. The studies attempt an analysis of the impact of the schemes in terms of the volume of employment generated and improvement brought about in the economic condition of the borrowers etc. The Agricultural Refinance Corporation has also set up an Evaluation Cell. The Reserve Bank of India has also a separate Division of Rural Survey.

18. While the Committee note that a few banks have so far undertaken some limited studies, they would recommend that other banks should also undertake similar studies with a wider scope. The Committee reiterate that the Department should issue suitable instructions to banks for the collection and maintenance of information about the vital aspects of the impact of banks credits. The data collected in this manner should also be highlighted in the Annual Report.

Recommendation (S. No. 58, Para 4.19)

19. In paragraph 4.19 of their 62nd Report, the Committee had noted that in certain States like West Bengal, 80 per cent of the agricultural advances had been given for tea plantations etc. while the Committee had no objection to financial assistance being made available to any section in the national interest, the Committee felt that there should be correct classification in respect of such advances so as to facilitate proper evaluation of the lending activities of the banks.

20. Government, in their reply have stated that the data published by the Reserve Bank of India on advances of public sector

banks and scheduled commercial banks to various priority sectors, comprising the weaker sections, was exclusive of advances to plantations. Government have also stated that the Reserve Bank of India are now publishing district-wise and centre-wise distribution of deposits and advances of the scheduled commercial banks on a six-monthly basis. Data regarding advances of the branches of such banks in capital towns and all centres having two or more branches was available.

21. The Committee note that the Reserve Bank of India are publishing district-wise and centre-wise distribution of deposits and advances of the scheduled commercial Banks on six monthly basis. The Committee reiterate that there should be correct classification in respect of such advances so as to facilitate proper evaluation of the lending activities of the banks regarding the purposes for which these advances have been made. They recommend that such analysis and the action taken in pursuance thereof should be specifically mentioned in the Annual Reports of the Banks and of the Department of Banking.

Working Results of Banks

Recommendation (S. No. 91, Para 6.10)

22. In paragraph 6.10 of their 62nd Report the Committee had felt that for a proper appraisal of the performance of the banks, and to make the management well aware of their social and economic responsibilities, it would be desirable if Government make a comprehensive and clear statement on the objectives and obligations of the nationalised banks. The Committee had desired Government to lay the statement defining in detail the objectives and obligations of the nationalised banks on the Table of the two Houses of the Parliament.

23. In their reply, Government have stated that the objectives for which the major banks were nationalised were indicated by the Prime Minister in her broadcast to the Nation on 19th July, 1969, and in the statement made by her in both the Houses of Parliament on 21.7.69. The policies and priorities needed to follow to conform to the broad objectives of nationalisation were spelt out by the Prime Minister and the Finance Minister in September, 1969 and July, 1970 respectively. Government feel that the guidelines contained in these statements are adequate for the purpose of judging the performance of public sector banks.

24. The Committee again stress the necessity of defining in detail the objectives and obligations of the nationalised banks which should cover *inter alia* their social obligations return expected on capital, generation of surpluses etc. and laying them on the Tables of the two Houses of Parliament so that the perameters for judging the performance of banks become clear.

Implementation of Recommendations

25 The Committee would like to emphasise that they attach the greatest importance to the implementation of the recommendations accepted by Government. They would, therefore, urge that Government should keep a class watch so as to ensure expeditious implementation of the recommendations accepted by them. In cases where it is not possible to implement the recommendations in letter and spirit for any reason, the matter should be reported to the Committee in time with reasons for non-implementation.

26. The Committee also desire that further information were called for in respect of recommendations included in Chapters II, III and V of the Report may be intimated to them expeditiously.

CHAPTER II

RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation (S. No. 3 Para 2.4)

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

Reply of Government

This is covered in the reply to Recommendation No. 5, Paragraph No. 2.6.

[Ministry of Finance, Department of Banking O.M. No. 26(8)/74/PS dated 23rd October, 1974].

Recommendation (S. No. 4—Para 2.5)

The Committee understand that no overall or bank-wise targets had been laid down for mobilisation of deposits by banks in public sector during the Fourth Plan period. In the Fifth Plan, an overall projection of additional resources mobilisation of Rs. 10,560 crores has been made for the banking system as a whole, out of which the share of banks in the public sector is of the order of Rs. 9,000 crores which works out to mobilisation of additional deposits at the rate of Rs. 1800 crores per year. The Committee need hardly stress that if this ambitious target which practically implies doubling of additional deposits mobilisation achieved during the Fourth Plan period is to be realised, a far more systematic and intensive drive would have to be made.

Reply of Government

This is covered in the reply to Recommendation No. 5, Paragraph No. 2.6.

[Ministry of Finance, Department of Banking O.M. No. 26(8)/74/PS dated 23rd October, 1974].

Recommendation (S. No. 5 Para 2.6)

The Committee recommend that Government/banks should have an annual plan for additional deposit mobilisation which should in turn be broken into targets for the region and branches as may be practicable and suitably reflected in the performance budgets which are now to be prepared by the banks. The Committee stress that the actual progress made in raising additional resources should be critically examined in the light of achievements so as to roll forward the target where possible and to take remedial measures, where necessary to see that the targets laid down are realised.

Reply of Government

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

[Ministry of Finance, Department of Banking O.M. No. 26(8)/74/PS dated 23rd October, 1974].

Comments of the Committee

The Committee would like to stress that a close watch should be kept on deposit mobilisation and efforts should be intensified to reach the target set in the draft Fifth Plan.

Recommendation (S. No. 13 Para 2.31)

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

Reply of Government

The public sector banks are being requested to take necessary steps to ensure that the proportion of advances to the priority sectors reaches 33-1/3 percent by the end of the Fifth Plan period. These banks are also being advised that plans for lending to the priority sectors should form an integral part of their performance budgets, wherever this has not already been done.

[Ministry of Finance, Department of Banking O.M. No. 26(8)/74/PS dated 23rd October, 1974].

Recommendation (S. No. 15, Para 2.35)

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

Reply of Government

A reference is solicited to the reply of Government with reference to Recommendation No. 14 in paragraph 2.34 of the Committee's Report. As mentioned therein, the different public sector banks are aware of the importance of performance budgeting and are taking requisite steps for its implementation. The National Institute of Bank Management has set up a Review Committee for the purpose of evaluating the work done by the banks for implementation of the system of performance budgeting and to draw up plans for future action and give requisite guidance to the banks. The Institute has also conducted, from time to time, training programmes for training of key personnel of banks in the techniques of performance budgeting. The Reserve Bank of India is also in touch with the banks in regard to their progress in the introduction of parformance budgeting and is rendering all possible assistance to the banks in this regard.

This recommendation of the Committee is being brought to the notice of the banks for suitable action.

[Ministry of Finance, Department of Banking O.M. No. 26(8)/74/PS dated 23rd October, 1974].

Recommendation (S. No. 16, Para 2.36)

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

Reply of Government

A reference is solicited to the replies of Government relating to Recommendation Nos. 14 and 15 in paragraphs 2.34 and 2.35 of the Committees Report.

Government accept the recommendation. The relevant extracts from the Committee's 24th Report (Fifth Lok Sabha) and 48th Action Taken Report on the Revision of Forms and Contents of the Demands for Grants are being brought to the notice of the banks. The banks are also being addressed to carefully keep in view the observations made by the Committee in their Recommendation while preparing their performance budgets.

[Ministry of Finance, Deptt. of Banking O.M. No. 26(8)74/PS, dated 23-10-1974]

Recommendation (S. No. 18, Para 2.40)

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

Reply of Government

Government are in full agreement with the observations of the Committee. As regards the procedures for scrutiny of borrowal accounts to ensure proper end use of credit, the reply to recommendation No. 19, para 2.41 may be seen.

[Ministry of Finance, Deptt. of Banking O.M. No. 26(8)74/PS, dated 23-10-1974]

Recommendation (S. No. 19, Para 2.41)

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

Reply of Government

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

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

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

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

(iii) The practice of accepting personal guarantee of Managing Directors and managerial personnel, to make up for the weak financial position or lack of viability of the unit without undertaking detailed credit analysis, is being discouraged after nationalisation. In July, 1970, banks were advised to ensure that detailed credit analysis is invariably undertaken and personal guarantees are not taken as a matter of course, and that where such guarantees become necessary for protecting their interests, these are not used by the directors or other managerial pesonnel as a source of remuneration from the borrowing concerns.

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

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

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

(Ministry of Finance, Deptt. of Banking O.M. No. 26(8)74/PS, dated 23-10-1974.)

Recommendation (S. No. 20, Para 2.47)

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

Reply of Government

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

[Ministry of Finance, Deptt. of Banking O.M. No. 26(8)74/PS, dated 23-10-1974.]

Comments of the Committee

The Committee desire that specific steps taken by Government in pursuance of the recommendation made may be intimated to the Committee.

Recommendation (S. No. 21, Para 2.48)

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

Reply of Government

The concern expressed by the Committee over frauds in banks and the need for nipping such evils in the bud has been borne in mind. With a view to reducing the incidence of corruption and taking effective deterrent action against delinquent officials involved, all nationalised banks have already set up vigilance cells in their organisations, headed by a senior officer. Cases involving corruption on the part of bank officials are fully enquired into by these Cells and, wherever necessary, cases are also entrusted to the Central Bureau of Investigation. All the nationalised banks have also accepted the jurisdiction of the Central Vigilance Commission.

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

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

[Ministry of Finance, Deptt. of Banking O.M. No. 26(8)74/PS, dated 23-10-1974.]

Recommendation (S. No. 22, Para 2.53)

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

Reply of Government

In framing the credit policy measures, the Reserve Bank duly takes into account the emerging economic trends in the system. Thus, in the present phase, when inflationary pressures have put the economy under strain, the accent of the policy is on exercising the maximum possible restraint in credit creation while ensuring at the same time that both the quantum as also the distribution of credit are such as will be conducive to augmenting production and achieving other social and economic objectives. The point made by the Committee in para 2.53 is an accepted tenet of the Government policy.

[Ministry of Finance, Deptt. of Banking O.M. No. 26(8)74/PS dated 23rd October, 1974.]

Recommendation (S. No. 26, Para 3.4)

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

Reply of Government

This is covered in the reply to Recommendation No. 27, paragraph 3.5.

[Ministry of Finance, Deptt. of Banking O.M. No. 26(8)74/PS dated 23rd October, 1974.]

Recommendation (S. No. 27, Para 3.5)

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

Reply of Government

As stated in paragraph 3.4 of the Committee's report, till 1973, the branch expansion plans were formulated largely in aggregative terms. Thus, for example, for the three-year period 1972—74 an aggregate of 5,000 new branches was indicated to the banks with the suggestion that keeping this broad target in mind they should chalk out their own plans. A coordination between the plans of different banks was brought about by the Reserve Bank of India at the licensing stage so that on the one hand avoidable overlapping was eliminated and on the other the essential objective of taking banking to unbanked areas duly pursued.

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

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

A copy of the Reserve Bank of India's letter No. DBOD. B.L.B.C. 99/C 168-74 dated September 25, 1974 issued to the banks in connection with the preparation of the three-year plan 1975—77 is enclosed (Appendix I). This will indicate that the points stressed by the Estimates Committee are adequately taken care of by the planning system that is currently in use.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74/PS, dated 23-10-1974.]

Recommendation (S. No. 28—Para 3.13)

The Committee note that in the first year after nationalisation the number of offices of public sector banks in rural areas increased by 73 per cent but in subsequent years this growth rate had not been sustained, in fact it had declined to 15 per cent in 1973. Similar is the position regarding offices in semi-urban areas. In metropolitan port towns the rate of growth of bank offices has gone up from 10 per cent in 1970 to 20 per cent in 1973.

Reply of Government

This is covered in the reply to Recommendation No. 29, paragraph 3.14.

[Ministry of Finance, Deptt. of Banking O.M. No. 26(8)74/PS, dated 23-10-1974.]

Recommendation (S. No. 29—para 3.14)

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

Reply of Government

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

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

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

[Ministry of Finance, Department of Banking O.M. No. 26 (8)/74/PS dated 23rd October, 1974]

Recommendation (S. No. 30—Para 3.15)

The Committee also note that the classification of different centres on population basis for branch expansion *viz.* Rural, Semi-urban,

Urban and Metropolitan was decided in 1968. It is likely that under this classification, which defines rural centres as those having a population upto 10,000, most of the new bank offices may have been located near the sub-divisional or district towns and not in the interior rural areas. Obviously, there have been significant changes in the rural scene with the development of transport, communication, water, power and other infrastructural facilities since 1968. The Committee, recommended that the classification of rural, semi-urban, urban areas, etc., may be reviewed with a view to classify centres with population upto 5,000 only as rural so as to locate branches in really rural areas and thereby help in their growth potential.

Reply of Government

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

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

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

[Ministry of Finance, Department of Banking O.M. No. 26 (8)/74/PS dated 23rd October, 1974]

Recommendation (S. No. 31—Para 3.20)

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

Reply of Government

This is covered in the reply to Recommendation No. 32 paragraph 3.21.

[Ministry of Finance, Department of Banking O.M. No. 26 (8)/74/PS, dated 23rd October, 1974]

Recommendation (S. No. 32—Para 3.21)

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

Reply of Government

It is true that notwithstanding the massive branch expansion undertaken by the commercial banks in the post nationalisation period and the resultant improvement in the population coverage of banks in hitherto neglected areas, there still exist disparities in matters of banking facilities. The population per bank office in the Eastern Region and in the North Eastern Region is still considerably higher than the national average. The main reason for the persistance of the disparities is that these areas had been almost totally neglected by the commercial banks in the days before nationalisation. The leeway that has to be made good is thus too large to be made up within a short time. The very backwardness of these areas and lack of basic infrastructural facilities impede to some extent attempts at quicker expansion of the branch network in these areas.

Reduction of regional imbalances in matter of banking facilities is a part of the accepted policy of the Government and during the last five years banks have been trying to open an increasing number of bank offices in underbanked areas. Reserve Bank of India has also been emphasising the need for the lead banks to pay greater attention to the branch expansion needs of such of their lead districts where the population per bank office is very high. Recently, the Department of Banking have also undertaken the analysis of the existing geographical distribution of bank offices in the underbanked States so as to help the banks draw up their branch expansion programmes in such a manner as to ensure that no large geographical areas remain unbanked for long. In terms of this approach the State Government and the lead banks concerned were asked to provide data regarding unbanked blocks and so far discussions with the banks have been completed in respect of Uttar Pradesh and Madhya Pradesh. These studies and discussions also focus attention on the minimum infrastructural facilities to be provided by concerned State Governments, so as to facilitate opening of bank offices in those blocks where these are not available now.

The Committee's recommendation regarding reduction of regional imbalances in availability of banking facilities thus form part of the accepted policy of the Government and necessary steps are already being taken to achieve early these objectives.

[Ministry of Finance, Department of Banking O.M. No. 26 (8)/74/PS dated 23rd October, 1974]

Recommendation (S. No. 35—Para 3.35)

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

Reply of Government

In this paragraph, while dealing with the performance of newly opened branches, the Committee have noted that this Department have recognised the need for conducting a detailed review of such branches and economy in establishment costs by laying down suitable staffing criteria. In this connection, a reference is solicited to the reply of Government to Recommendation No. 36 appearing in paragraph 3.36 of the Committee's Report.

[Ministry of Finance, Department of Banking O.M. No. 26 (8)/74/PS dated 23rd October, 1974]

Recommendation (S. No. 36, Para 3.36)

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

Reply of Government

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

[Ministry of Finance, Department of Banking O.M. No. 26 (8)/74/PS dated 23rd October, 1974]

Recommendation (S. No. 37—Para 3.37)

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

Reply of Government

Banks do have a system of carefully assessing the business potential of centres where branches are proposed to be opened. A study of the likely working results that the branches are expected to show is also made by the banks, before taking decisions regarding opening of branches. The point highlighted by the Committee will be borne in mind at the time of formulation of the plans for opening of new branches.

[Ministry of Finance, Department of Banking O.M. No. 26 (8)/74/PS dated 23rd October, 1974]

Recommendation (S. No. 38—Para 3.38)

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

Reply of Government

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

[Ministry of Finance, Department of Banking O.M. No. 26 (8)/74/PS dated 23rd October, 1974]

Recommendation (S. No. 39—Para 3.45)

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

Reply of Government

This is covered in the reply to Recommendation No. 40, paragraph 3.46.

[Ministry of Finance, Department of Banking O.M. No. 26 (8)74/PS dated 23rd October, 1974]

Recommendation (S. No. 40—Para 3.46)

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

Reply of Government

As mentioned in the reply to Recommendation No. 42 paragraph 3.52 of the Committee's Report, there were several facets of the tasks that each lead bank had to undertake as part of its lead responsibility.

The first task for each lead bank was that of familiarising itself with the economic and social profile of the area under its charge and to identify action points for harnessing the development potential.

This meant undertaking surveys. The first round of this job is over and the banks have completed surveys for all the 338 districts covered under the Lead Bank Scheme. The survey reports have yielded useful bench-mark data relating to growth centres, credit gaps, occupational structure, main crops and several other economic and social aspects. The collection of economic and social intelligence of this type is, however, not a once-for-all job. Banks have all the time to keep themselves abreast of the developments that keep on taking place in their load areas. Steps have been taken by the banks to discharge this part of the job on a continuing basis.

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

The third task that each lead bank had to undertake was that of making the local community banking-minded, so that it utilises the banking services in the form of making over to the banking system its savings as also tapping the system for getting funds from it for productive endeavours. This is a challenging task requiring action on several fronts. One of the steps taken to handle this task on a systematic basis was to create the machinery of District Level Consultative Committees. In all districts, except Kinnaur (where the first bank office was opened very recently) this machinery has come into existence. The main objective of Consultative Committees is to provide a forum under which banks, other financial institutions and State development agencies could discuss developmental problems and the type of contribution that the banks could possibly make towards them.

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

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

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

[Ministry of Finance, Department of Banking O.M. No. 26 (8)74/PS dated 23rd October, 1974]

Recommendation (S. No. 41—Para 3.47)

The Committee need hardly stress that the composition of the District Level Consultative Committees should be broadbased. Besides including persons who are active in industry, commerce, education, social uplifts and representatives of Zila Parishads, it should be entrusted that adequate representation is given to representatives of weaker sections of the society who are actively engaged in the work *of improving the economic and social conditions of the weaker sections.*

Reply of Government

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

[Ministry of Finance, Department of Banking O.M. No. 26(8)|74|PS dated 23rd October, 74].

Recommendation (S. No. 42—Para 3.52)

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

Reply of Government

There are several facts to the implementation of the Lead Bank Scheme, *viz.*, opening of branches, identification of potential areas of development and formulation of bankable schemes, arrangements for proper coordination with the other concerned agencies, extension of credits etc. The level of progress achieved by lead banks in a particular district is determined by the extent of banking facilities and coordination arrangements available at the time of the commencement of the Lead Bank Scheme. The variation in the performance of the lead banks in different areas is thus attributable more to those factors and it cannot be said as a rule that banks have fared better in the districts in their ethnic areas than in the lead districts allotted to them in distant regions.

As observed by the Estimates Committee, no basic changes in the allotment of districts as between different banks are currently contemplated. In the case of newly carved out districts, however, a view may have to be taken as to which bank should be assigned the lead responsibility in that regard.

[Ministry of Finance, Department of Banking O.M. No. 26(8)|74|PS dated 23rd October, 74].

Recommendation (S. No. 43 Para 3.53)

The Reserve Bank of India were requested to examine the question of allocation of lead responsibility in respect of newly carved out districts. A copy of the Circular that they have now issued to all the Lead Banks in this regard is enclosed herewith. (Appendix II).

Recommendation (S. No. 43—Para 3.53)

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

Reply of Government

Government have taken note of the recommendation of the Committee.

[Ministry of Finance, Department of Banking O.M. No. 26(8)|74|PS dated 23rd October, 74].

Recommendation (S. No. 46—Para 3.63)

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

Reply of Government

The reasons for the slow progress in the development of backward areas and some of the more important measures taken by the Government for their development are reivewed in some detail in Chapter 14 of the Draft Fifth Plan document (Vol. II) which contains also the policy measures and the strategy to be adopted in this regard during the Fifth Plan period. Special measures proposed to be taken for promotion of industries in industirally backward areas are outlined in paragraph 5.19(b) of the above Report. Briefly the position is as under:—

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

The main constraints in the industrial development of backward regions are that the strategy for the development of these areas has not been completely mapped out in terms of the inherent problems which have accounted for industrial backwardness and the organisational arrangements necessary to spearhead and support the industrial development programme in backward areas both in the Centre and in the States are inadequate.

The problem of backwardness is a long term problem which can be tackled only over a long period of time. The allocation of adequate financial resources is only one of the many steps necessary for the accelerated development of these areas. In the Fifth Plan, therefore, the Planning Commission propose to create appropriate machienry capable of indentifying industires suited to the neeeds and potentialities of the backward areas. The exact nature of the machinery, both at the Central and the State levels, to be used|set up for the purpose is under their consideration.

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

[Ministry of Finance, Department of Banking O.M. No. 26(8)|74|PS dated 23rd October, 74].

Comments by the Committee

The final decision taken by the Planning Commission in identifying the industries suitable to the backward areas and in setting up the machinery for the purpose, may be intimated to the Committee.

Recommendation (S. No. 47, Para 3.64)

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

Reply of Government

The Planning Commission, on being consulted, have stated that they are concerned mainly with two types of backward areas, (i) economically backward districts and (ii) industrially backward districts. Economically backward areas have been identified by the State Governments on the basis of 15 indicators standardised by the Planning Commission, making such modifications in these indicators as were considered necessary in the light of the local conditions and resources.

For purposes of identifying industrially backward districts the Planning Commission had, in consultation with the financial institutions, evolved a different set of 6 criteria. Having regard to these criteria, the Planning Commission, in consultation with the State Governments and the Ministries, have identified 265 districts in all, as industrially backward. These districts qualify for concessional finance from the financial institutions.

Out of the 265 industrially backward districts, a further process of identification led to the selection of 97 districts/areas, which are entitled to a further concession in the shape of Central subsidy of 15 per cent of the project cost, limited to Rs. 15 lakhs.

As has been indicated in paragraph 14.23 of the Draft Fifth Five Year Plan document (Vol. II) which is extracted below, the Planning Commission has proposed to organise studies for determining norms for a fresh identification of economically backward areas:

> "14.23. The problem of the identification of backward areas has, it is felt, been made somewhat easier by the adoption of a location—specific and norm-oriented Minimum Needs Programme. However, considerable work will still need to be undertaken to evolve nationally acceptable criteria for this purpose. It is proposed, therefore, that steps may be taken to organise studies for determining norms for the identification of economically backward areas with the participation of the representatives of State Governments and re-research and academic institutions, etc."

[Ministry of Finance, Department of Banking O.M. No. 26(8)|74|PS dated 23rd October, 74].

Comments of the Committee

The steps taken by the Planning Commission to organise studies for determining norms for a fresh identification of economically backward areas, may be intimated to the Committee.

Recommendation (S. No. 48, Para 3.65)

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

Reply of Government

Comprehensive data regarding various facts of banking developments in all the districts in the country, including those identified as backward, are being published by the Reserve Bank of India on a six-monthly basis. Besides these statistical data, the Annual Reports of the Banks will highlight, as indeed they do now, the achievements of the Banks in implementing special schemes/programmes evolved for the benefit of weaker sections|backward regions.

[Ministry of Finance, Department of Banking O.M. No. 26(8)|74|PS dated 23rd October, 74].

Recommendation (S. No. 49, Para 3.71)

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

Reply of Government

This is covered in the reply to Recommendation No. 50, Para No. 3.72.

[Ministry of Finance, Department of Banking O.M. No. 26(8)|74|PS dated 23rd October, 74].

Recommendation (S. No. 50, Para 3.72)

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

Reply of Government

The Finance Minister, while announcing the Differential Interest Rates Scheme on the floor of the House on 25th March, 1972, had indicated that the banks were expected to lend about 1/2 per cent of their aggregate advances in the various year under the scheme. While communicating the details of the scheme to the public sector banks, Reserve Bank of India, in its instructions dated 3rd June, 1972, *inter alia*, pointed out that while no specific targets for districts were being indicated, it was expected that the quantum of lending by each bank would broadly correspond to about 1/2 per cent of its aggregate lending at the end of the previous year. Thus, ½ per cent' of the lending at the end of the previous year is the target against which the performance of the banks is being reviewed from time to time.

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

[Ministry of Finance, Department of Banking O.M. No. 26(8)|74|PS dated 23rd October, 74].

Comments of the Committee

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

Recommendation (S. No. 52, Para 4.5)

The Committee cannot help feeling that though the guidance on financing of agriculture issued by the RBI in 1970 indicated the strategy to be followed by the banks in this regard, there appears to have been on adequate follow-up to ensure their implementation. Had this been done, the progress in agricultural financing would have been much better. The Committee trust that atleast now, the Department would closely follow-up the implementation of the various guidelines by each bank, ascertain the difficulties, if any, in implementation so as to take immediate remedial measures and ensure sustained progress in this regard by periodical stock-taking of the position. The Committee attach particular importance to making credit available at the right time of crop season and linking its repayment to the sale of produce.

Reply of Government

Following the guidelines issued by the Reserve Bank, a depth study into the lending procedures followed by each of the public sector banks was made by a Study Team of the Department of Banking in 1972. It was observed that the commercial banks kept in view the guidelines issued in December, 1970 by the Reserve Bank and, by and large, followed these guidelines. Reserve Bank of India has also since issued further instruction since April, 1974 on the lines of the recommenadtions of the Departmental Study Team. Timely disbursement of credit for the crop seasons and linking repayment with the sale of produce are, *inter alia*, particularly stressed in the guidelines issued by the Reserve Bank of India. These are now being implemented by the banks.

[Ministry of Finance, Department of Banking O.M. No. 26(8)/74/ PS dated 23rd October, 1974].

Recommendation (S. No. 54, Para No. 4.7)

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

Reply of Government

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

[Ministry of Finance, Department of Banking O.M. No. 26(8)/74/ PS dated 23rd October, 1974].

Recommendation (S. No. 59, Para 4.20)

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

Reply of Government

The recommendation is being brought to the notice of the public sector banks for bringing it before the respective Boards of Directors.

[Ministry of Finance, Department of Banking O.M. No. 26(8)/74/ PS dated 23rd October, 1974].

Recommendation (S. No. 63, Para 4.28)

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

Reply of Government

Government have been urging all the State Governments in different forums and at different levels to expedite the implementation of the recommendations of the Talwar Committee. So far, the State Governments of Uttar Pradesh, Madhya Pradesh, Haryana, Himachal Pradesh and West Bengal have passed the necessary legislation. *In addition, Government of Rajasthan is reported to have promulgated an Ordinance on the 17th July, 1974. State Government of Maharashtra have introduced a Bill in the State Legislature. The Governments of Orissa, Jammu and Kashmir, and Meghalaya have informed that they have drafted the Bill and are taking steps to get this enacted. The recommendations of the Estimates Committee are also being communicated to the State Governments for expediting action.

[Ministry of Finance, Department of Banking O.M. No. 26(8)/74/ PS dated 23rd October, 1974].

Recommendation (S. No. 61, Para 4.29)

The Committee also note that the Cooperative banks structure is weak in a number of States, particularly in the Eastern States

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*At the time of factual verification the Ministry of Finance (Department of Banking) have informed that "the State Government of Uttar Pradesh, Madhya Pradesh, Haryana, Himachal Pradesh, West Bengal, Karnataka and Rajasthan have passed the necessary legislation."

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

Reply of Government

The commercial banks have started financing primary agricultural cooperative credit societies in a number of States where the concerned Central Co-operative Banks, for various reasons, are unable to meet the credit needs of these societies. This experiment was first started in 1970 in the States of Madhya Pradesh, Andhra Pradesh, Uttar Pradesh, Mysore and Haryana and has since been extended to Orissa, West Bengal, Bihar, Jammu and Kashmir, Maharashtra and Rajasthan. The recommendation of the Committee is being communicated to the public sector banks for their guidance.

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

[Ministry of Finance, Department of Banking O.M. No. 26(8)/74-PS dated 23rd October, 1974].

Recommendation (S. No. 62—Para 4.30)

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

Reply of Government

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

[Ministry of Finance, Department of Banking O.M. No. 26(8)/74-PS dated 23rd October, 1974].

Recommendation [S. No. 64—Para 4.32(i)]

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

Reply of Government

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

[Ministry of Finance, Department of Banking O.M. No. 26(3)/74-PS dated 23rd October, 1974].

Recommendation [S. No. 66—Para 4.32(iii)]

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

Reply of Government

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

[Ministry of Finance, Department of Banking O.M. No. 26(8)74/PS dated 23rd October, 1974]

Recommendation [S. No. 68—Para 4.32(v)]

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

Reply of Government

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

[Ministry of Finance, Department of Banking O.M. No. 26(8)74/PS dated 23rd October, 1974]

Recommendation (S. No. 69—Para 4.42)

The Committee note that unlike other priority sectors, no guidelines have been issued by Government for lending to the small scale industries laying down clearly the principles and the strategy for giving of bank credit to this sector. The Committee regret to note that although the Banking Commission in their report in January, 1972, had pointed out various lacunae in giving bank credit to the small scale industries sector and had made important suggestions like reducing cost of operations, re-orientation of attitudes no instructions have so far been issued in the matter. The delay of over two years in implementing recommendations of a high-powered Commission is a sad reflection on the working of the Government Departments. The Committee would like Government to finalise their decision and issue the necessary instructions to the Banks in this regard.

Reply of Government

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

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

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

[Ministry of Finance, Department of Banking O.M. No. 26(8)74/PS dated 23rd October, 1974]

Recommendation (S. No. 70—Para 4.43)

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

Reply of Government

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

In so far as the delays in the processing of applications and in the clearance of proposals by other agencies are concerned, the matter has been referred to the Ministry of Industrial Development for issue of suitable guidelines to such agencies, if considered necessary.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74/ PS dated 23rd October, 1974]

Further information called for by the Committee

Please state the final action taken by the Department of Banking in the matter.

Further reply of Government

In so far as the delays in processing of applications and in the clearance of proposals by other agencies are concerned, the Ministry of Industry and Civil Supplies have written to the Governments of States/Union Territories requesting them to issue suitable instructions to the State Financial Corporations and other State Financial agencies responsible for disbursement of loans to small scale industries, to ensure that such delays do not occur while clearing proposals for grant of financial assistance to entrepreneurs.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74/ PS dated 25th April, 1975]

Recommendation (S. No. 74—Para 4.54)

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

Reply of Government

Government accept the recommendation of the Committee. The banks generally make a review of all advances which show signs of proving difficult of recovery. These reviews also deal with such aspects as lacunae in appraisal, terms and conditions of advances, procedures for disbursal/supervision of credit, etc. Staff involvement *i.e.* acts of commission|omission on the part of officials, if any, is also looked into and suitable action is taken, wherever necessary, taking care, however, to see that *bona fide* errors of judgment are not penalised so as not to affect the morale of the officials concerned. The contents of the schemes are also kept under continuous review so that such schemes as have failed to take off or have led to bad results due to inherent defects are either suitably revised or even abandoned.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74/PS dated 23rd October, 1974]

Recommendation (S. No. 75—Para 4.55)

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

Reply of Government

The public sector banks have only recently made a beginning in providing consultancy services. They have taken technical personnel on their staff who are posted at the Head/Regional Offices and at important centres. These staff, by and large, mainly attend to the work relating to proper appraisal of proposals and supervision of credit. They also render advice to the entrepreneurs, wherever necessary,but in a limited way. Some of the Banks have also made special arrangements with other agencies such as NAYE, JAYCEES etc. to give technical guidance to prospective borrower entrepreneurs. In the present initial phase of provision of such consultancy services by the banks, there is no possibility of over-lapping duplication, except perhaps to a limited extent in metropolitan centres. The Committee's suggestion that duplication of efforts, leading to avoidable expenditure, should be avoided, is however, being communicated to the public sector banks for future guidance.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74/ PS dated 23rd October, 1974]

Recommendation (Sl. No. 76—Para 4.56)

The Committee attach great importance to the extension of assistance to smaller of the small-scale units and would like the Department/banks to take special interest in affording credit facilities in all genuine cases in order to encourage new entrepreneurs with skill but limited finance to enter the field.

Reply of Government

Government and the public sector banks will continue to attach great importance to meeting the genuine credit requirements of the small borrowers in the different priority sectors, offering more liberal terms in respect of interest rates and margins wherever necessary.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74/ PS dated 23rd October, 1974]

Recommendation (Sl. No. 81—Para 4.68)

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

Reply of Government

Government periodically review the achievements of the public sector banks under the priority sector lending. The banks, on their part, have evolved suitable procedures to ensure that the bank funds are utilised for the purpose for which they are advanced and do not result in avoidable bad debts. In addition, the Reserve Bank also looks into these aspects during the course of its centre-wise inspections and suggest suitable action wherever necessary as mentioned in reply to Recommendation No. 80, Para 4.67.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74/ PS dated 23rd October, 1974]

Recommendation (Sl. No. 82—Para 4.69)

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

Reply of Government

Government are communicating the observations of the Committee to the banks for their guidance.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74/ PS dated 23rd October, 1974]

Recommendation (Sl. No. 83—Para 5.5)

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

Reply of Government

This is covered in the reply to Recommendation No. 84, Para No 5.6.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74/ PS dated 23rd October, 1974]

Recommendation (Sl. No. 84—Para 5.6)

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

Reply of Government

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

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

[Ministry of Finance, Department of Banking O.M. No. 26(8)74/PS dated 23rd October, 1974]

Recommendation (Sl. No. 85—Para 5.7)

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

Reply of Government

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

[Ministry of Finance, Department of Banking O.M. No. 26(8)74/ PS dated 23rd October, 1974]

Recommendation (Sl. No. 88—Para 6.7)

The Committee note that during the 3½ years period after nationalisation *i.e.* from July, 1969 to end of 1972 the nationalised banks have paid dividends to the extent of Rs. 15.11 crores to Government, besides adding Rs 12.04 crores to their reserves. The net profits as a percentage of working funds have, however, declined from 0.21 per cent in 1968 to 0.13 per cent in 1972 and the return on capital *i.e.* ratio of dividends to share capital plus reserves came down from 6.52 per cent to 5.29 per cent during the same period. The downward trend in profitability is noticeable in all the banks but in four banks, particularly in one of them, it is very much pronounced.

Reply of Government

Under Section 10(7) of the Banking Companies (Acquisition and Transfer of Undertakigs) Act, 1970, the residual profits after making all necessary provisions and debiting all expenses, are transferable to Central Government. As the Committee have pointed out, there has been a downward trend in the net surplus transferred to Government. The Committee themselves have recognised in their observations contained in recommendation No. 89 that "the social obligations enjoined on the banks are a constraint on earning maximum possible profits", and have suggested the need for reduction in servicing costs. These have been dealt with in the reply to recommendation No. 89, Para No. 6.8.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74/ PS dated 23rd October, 1974]

Recommendation (Sl. No. 89—Para 6.8)

The Committee also note that due to social obligations after natinoalisation, Government expect a return of 5.5 per cent from the nationalised banks. While the Committee recognise that the social obligations enjoined on banks are a constraint on earning maximum possible profits, they feel that there is considerable scope for reducing servicing costs of the banks by better management and rationalisation of staff, as was admitted by the Secretary of the Department during evidence. There is no denying the fact that there is scope to instil a greater degree of cost consciousness among the nationalised banks and to bring about substantial cost reduction in their establishment, overtime and other expenses. The Committee would like the matter of cost reduction to be gone into in earnestness with a view to see that banks provide a worthy example of efficient and economic functioning in the interest of husbanding resources for national development. The Committee need hardly emphasise that it is necessary for the banks to keep the overheads and establishment charges to the minimum. For this purpose, a regular cost analysis of each Branch should be conducted by the banks to ensure that their administrative and staff expenses etc. are commensurate with the workload and the resources generated.

Reply of Government

Government accept the need for a continual review of the costing of various activities of the banks. On the basis of the findings of a cost study on the structure of costs and pricing of banks' services, the Banking Commission has recommended that such studies should be undertaken on a regular basis so as to help the authorities to evolve standards for various jobs, facilitate cost control and rationalise service charges. These recommendations have been accepted by the Government and Reserve Bank of India has been asked to initiate steps to continue such studies and undertake research in the areas suggested by the Commission. In view of the importance which the Committee has placed on cost control, the matter is again being brought to the notice of the Reserve Bank of India and public sector banks.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74/ PS dated 23rd October, 1974]

Recommendation (Sl. No. 90—Para 6.9)

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

Reply of Government

Subject to the overall control and regulation of the Central Government and the Reserve Bank as provided in the Statute, the

Board of Directors of a bank is responsible for the general superintendence and direction of its affairs and business. The working of the banks is kept under continual review by their respective Boards with a view to taking timely remedial steps whenever any undesirable features come to their notice.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74/ PS dated 23rd October, 1974]

Recommendation (S. No. 92—Para 6.13)

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

Reply of Government

The importance of reconciliation of the inter-branch accounts and balancing of books of accounts is recognised by banks. The Boards of Directors of the banks keep a continual watch so as to ensure progressive improvement in this regard. The observation of the Committee is being brought to the notice of all public sector banks.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74/ PS dated 23rd October, 1974]

Recommendation (Sl. No. 93—Para 6.19)

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

Reply of Government

This paragraph contains the Committee's observations about the composition of the "new" Boards of nationalised banks constituted in accordance with clause 3 of the "Nationalisation Scheme" and does not call for any specific action by Government.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74/PS dated 23rd October, 1974]

Recommendation (S. No. 94—Para 6.20)

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

Reply of Government

Clause 3 of the "Nationalisation Scheme" lays down the composition of the Board of a Nationalised Bank, the different categories of interests to be represented and the manner in which the persons to be included on the Board shall be selected for appointment. Selection of Directors of the public sector banks is made by Government at the highest level, taking into consideration, amongst other things, the criteria set out by the Committee.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74/PS dated 23rd October, 1974].

Recommendation (S. No. 96—Para 6.22)

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

Reply of Government

This recommendation is in two parts; the first part underscores the importance of the reporting system in every nationalised bank with a view to ensuring that the Board of the Bank is kept adequately posted of developments in all important aspects of the bank's working; and the second part refers to the vigilance which Government Directors on the Boards of the nationalised banks should exercise.

As regards the first part of the recommendation, it may be stated that the Boards of Directors of nationalised banks being conscious of the need to ensure that they are kept informed from time to time in regard to the progress and developments in all important aspects of working of their respective banks have been reviewing the performance of the banks in the fields of deposit mobilisation, advances to priority sectors, differential interest rate scheme, branch expansion, manpower training and development, working results including income and expenditure under different important heads, etc. In view of the importance attached by the Committee to a meaningful reporting system for management control, the suggestion of the Committee that the Boards of Directors should review the present reporting system, is being brought to the notice of all public sector banks.

As regards the second part of the recommendation, Government Directors are expected to bring to the notice of the Department such problems as may require Government's intervention, along with their own suggestions to resolve them. The suggestion of the Committee is being brought to the notice all Government Directors at present serving on the Boards of public sector banks.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74/PS dated 23rd October, 1974].

Recommendation (S. No. 97, Para 6.27)

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

Reply of Government

This is covered in the reply to Recommendation No. 98, para No. 6.28.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74-PS Dated 23rd October, 1974].

Recommendation (S. No. 98, Para 6.28)

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

Reply of Government

Most banks have reported that necessary arrangements have been made to ensure disposal of applications without delay. Towards this end, matters such as delegation of powers, simplification of forms and Procedures are being reviewed on a continuing basis and action taken wherever necessary. Reserve Bank has also pointed out that a survey of 63 branches conducted by it in Delhi region in 1972 has revealed that 97 per cent of the applications were disposed of within one month, while in the remaining cases furnishing of incomplete information in the first instance was found to be a major cause for the delay.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74-PS Dated 23rd October, 1974].

Comments of the Committee

"The Committee would like to be apprised of the specific steps taken for further simplification of formats and procedures and their standardisation."

Recommendation (S. No. 29, Para 6.34)

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

Reply of Government

It has been the constant endeavour of public sector banks to take appropriate measures to improve their efficiency and the quality of service to their customers, such as, changing suitably the scope and content of the training programmes, recruitment of technically qualified staff, simplification of forms and procedures, decentralisation of administrative structure, delegation of powers at regional and branch levels and promotion of better relations between the employees and the management with a view to improving customer service. Recently, Government have accepted several of the recommendations contained in Chapter 11 of the Banking Commission's Report entitled "Bank Operating Methods and Procedures", covering various areas in the functioning of banks, including customer service. The banks have been advised that expeditious steps should be taken to give effect to these recommendations which are primarily designed for improving the functional and operational efficiency of banks.

In view of the importance attached by the Committee to customer service, the observations of the Committee are being brought to the notice of all public sector banks.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74-PS Dated 23rd October, 1974].

Recommendation (S. No. 100, Para 6.35)

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

Reply of Government

The Committee's observations are borne in mind. It has always been the endeavour of the banks to improve the employee management relations.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74-PS Dated 23rd October, 1974].

Recommendation (S. No. 101, Para 6.36)

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

Reply of Government

Genuine difficulties experienced by the bank employees are looked into sympathetically by the banks with a view to remove genuine hardships without delay. Public sector banks will no doubt continue to give their best attention for resolving employee grievances.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74-PS Dated 23rd October, 1974].

Recommendation (S. No. 102, Para 6.37)

The Committee also note that measures are in hand to improve the procedures of recruitment of staff in the banks. They hope that a suitable uniform system for staff recruitment in all the nationalised banks will soon be evolved by the Department and given effect to in the interest of attracting best talent.

Reply of Government

Government have since accepted the recommendation of the Banking Commission to constitute statutorily a common recruitment agency both at the clerical and junior officers' level, on the lines of the Union Public Service Commission.* Necessary legislation for the purpose has been approved by the Cabinet and is expected to be introduced in the winter session of Parliament (1974). With the setting up of the common recruitment agency, uniform procedures and selection methods will be introduced in the public sector banks.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74-PS Dated 23rd October, 1974].

Recommendation (S. No. 103, Para 6.45)

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

Reply of Government

Government have no comments to offer.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74-PS Dated 23rd October, 1974].

Recommendation (S. No. 104, Para 6.46)

The Committee consider that the utilisation of present training capacity and contents of courses need a thorough reorientation so as to ensure that there is no waste of scarce resources and the training in designed to meet adequately the growing demands of banks for the right type of personnel for manning the new branches. The objectives of bank nationalisation and the sympathetic treatment required to be meted out to the weaker sections of society have to be brought home to trainees through regular/referesher courses. The

*At the time of factual verification the Ministry of Finance (Department of Banking) have informed that "Necessary legislation for the purpose has been passed by Parliament in the 1975 Monsoon Session and enacted."

Committee desire that departmental Committee of Direction for Formulation and Implementation of training programmes should keep this objective prominently in view while finalising training programmes.

Reply of Government

Government agree with the views expressed by the Estimates Committee regarding fuller utilisation of the existing training capacity and reorientation of the contents of the courses with a view to motivating trainees to sympathetically view the needs of the weaker sections of the society and for achieving the broad objectives of the bank nationalisation. These objectives are being constantly pursued by the Committee of Direction and the Committee has taken the following steps in this connection:

1. It has devised a system of statistical reporting with regard to training in public sector banks so as to monitor training plans, training performance and utilisation of infrastructure facilities.

2. It has designed a system of feed-back to ensure the efficiency of training methods and training courses.

3. It has defined the core training programmes as:

   (i) Courses for newly appointed rural branch managers;

   (ii) Courses on priority sector lending.

4. It has recently appointed a Sub-Group to design a common training programmes for all public sector banks for directly recruited officers.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74-PS Dated 23rd October, 1974].

Recommendation (S. No. 105, Para 6.47)

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

Reply of Government

Many of the public sector banks have recruited a number of academicians from Universities for their training institutions for such specialised subjects as behavioural sciences, monetary theory and operational research. These banks also utilise the services of specialised institutions like Indian Institutes of Management (Ahmedabad & Calcutta), Bankers Training College (R.B.I.), National Institute of Bank Management etc. for meeting the training requirements of the staff particularly in the officer cadre.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74-PS Dated 23rd October, 1974].

Recommendation (S. No. 106, Para 6.48)

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

Reply of Government

The experience of other countries in training methods and techniques, wherever it suits our system of banking, is utilised in the training programmes devised by the National Institute of Bank Management for its own courses, seminars and other teaching programmes as well as the training courses run by it for the various public sector banks.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74-PS Dated 23rd October, 1974].

Recommendation (S. No. 107, Para 6.54)

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

Reply of Government

Government would like to assure the Committee that it has been and will continue to be its constant endeavour that, while seeking to maintain a balance between the autonomy of the banks and the rights of the owner, it does not detract them from their positive role of ensuring that banks fulfil the objective for which they were nationalised.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74-PS Dated 23rd October, 1974].

Recommendation (S. No. 108, Para 6.55)

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

Reply of Government

Every attempt is being made by the Department of Banking to keep as effective a watch over the working of the public sector banks as possible so that the socio-economic goals are pursued by all concerned.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74-PS Dated 23rd October, 1974].

Recommendation (S. No. 110, Para 6.60)

The Committee also note that for exchange of views on various matters affecting the banks, meetings of Chief Executives of banks are held with the Finance Minister. These such meetings were held in 1970, two each in 1971 and 1973 but no meeting was held in 1972 on the plea that most of the banks were represented at the Regional Consultative Committee meetings held in that year, etc. Evidently this is not a valid reason for not convening any meeting during 1972. The Committee attach great importance to these meetings and hope that they would be convened at regular intervals for thrashing out specific common problems affecting the banks. The Committee also need hardly emphasise that what is more important is the implementation of the suggestions emerging out of such meetings through efficient follow up action.

Reply of Government

The recommendation of the Committee will be borne in mind.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74-PS Dated 23rd October, 1974].

Recommendation (S. No. 111, Para 6.61)

The Committee further note that after 1970, six Regional Consultative Committees were set up by the Government to review banking developments in the respective regions and make suggestions for improvement. The Committee are, however, constrained to observe that since their inception, these Committees have met only once except the Southern and Northern region Committees which met twice. The Plea advanced that the Department had to take 'some positive action' on the suggestions made at first meetings before calling further meetings is not tenable. It needs no emphasis that meetings of these Committees help in greater coordination between the banks and State developmental agencies, apart from enabling the Department to know the reactions of the State Governments about the working of banks. The Committee stress that meetings of these Committees should be held at regular intervals in future and there is close follow-up to ensure timely action.

Reply of Government

The recommendation of the Committee will be borne in mind.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74-PS Dated 23rd October, 1974].

Recommendation (S. No. 112, Para 6.63)

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

Reply of Government

The question of improving the quality and coverage of banking statistics has been constantly engaging the attention of the Government and the Reserve Bank of India. In December, 1968, the Reserve Bank of India had devised a reporting system called the Uniform Balance Book System, to provide a detailed and upto-date picture of sectoral and regional flow of bank credit. The U.B.B. proforma was required to be submitted by every bank office every month and provide for the reporting of account-wise information in regard to credit limits sanctioned, advances outstanding according to type of account, type of borrower, occupation, purpose, security and rate of interest charged. Though this was considered sufficiently comprehensive for policy and information purposes, the response and accuracy of the data obtained from the U.B.B. left much to be desired. Accordingly, the Reserve Bank of India appointed a Committee on Banking Statistics in April, 1972 to examine the U.B.B. proformae in the light of the current requirements of data and to simplify them with a view to making them manageable at the branch level. In the light of the report of the Committee, which took note of the observations of the Banking Commission, the Reserve Bank has introduced, with effect from December, 1972, a new system of statistical reporting which provides for collection of minimum information from the banks consistent with the requirements of data. There are now five basic statistical returns intended to provide a steady flow of the required data without undue strain on banks. The returns are as follows:—

BSR 1.—Return of Advances—half-yearly—as on the last Friday of June and December—from all branches—in two parts—Part A for accounts with limits over Rs. 10,000 and part B for accounts with limits of Rs. 10,000 or less.

BSR 2.—Return on Deposits—half-yearly—last Friday of June and December—from all branches.

BSR 3.—Return on Advances against security of selected sensitive commodities—monthly—as on the last Friday of each month—from Head Offices.

BSR 4.—Return on Ownership of Bank Deposits—once in two years—as on the last Friday of March—from all branches.

BSR 5.—Return on Bank Investments—annual—as on the last Friday of March—from Head Offices. The format will be the same as the present Survey of Bank Investment, supplemented by a State-wise classification of investments for which a proforma has been prescribed.

In addition to these five basic returns, there are also the following two special returns relating to agricultural lending :

(a) Return on Direct Finance to farmers—State-wise—twice a year—last Friday of March and September—from Head Offices.

(b) Return on Recovery Position—State-wise—once a year—last Friday of June—from Head Offices.

The Survey of Debits to Deposits, presently on an annual basis, will now be conducted once in three years. Two other returns relating to Assets and Liabilities and Earnings and Expenses, will be continued without any major modification in format or periodically.

Taking into account the burden that such a comprehensive reporting system will cast on the branch personnel, the periodicity of the returns had to be reduced to the minimum commensurate with our requirements. The present system seeks to achieve this balance. For instance, BSR 1 dealing with occupation-wise classification of advances needs to be submitted only twice a year compared to the U.B.B. return which used to be called for on a monthly basis. Similarly, BSR 2 dealing with deposits according to type, is a half-yearly return in place of the existing quarterly return. The annual return on ownership of deposits has been replaced by BSR 4, which is to be submitted by banks once in two years. The periodicity of the annual report on debits to deposit accounts has been made once in three years. Apart from the reduction in the periodicity, various changes in the proforma have been made with a view to simplify the returns. For instance, account-wise returns of loans under BSR 1 is confined to large accounts and the data on small accounts with limits of Rs. 10,000 or below are proposed to be presented in a consolidated form.

In formulating the new system of statistical returns the divergence between demand and supply factors had to be reconciled. Before finalising the report, the Committee had detailed discussions with the Government about the requirements and have, to the extent possible, incorporated their needs in the forms finalised. The special returns on agricultural advances, which call for State-wise figures of loans and advances disbursed and outstanding, as also recoveries, with break-up according to the holdings and purpose, is an illustrative example. This system also provides for collection of data on many other aspects like advances under Differential Interest Rate Scheme, rural industries projects etc., which would be of great use to Government.

The information system also provides adequate data to enable assessment whether the objectives of nationalisation are being met. The new statistical reporting system provides, for the first time, uptodate data on regional and sectoral flow of credit as well as distribution of different types of deposits. Further, data is being made available on credit extended to different types of borrowers (individuals, companies, public sector undertakings, etc.) at different rates of interest and according to types of credit (working capital, term loans, export credit, etc.). Since information on credit limits of individual accounts is also now being collected, it will now be possible to obtain a break up of loans according to size. The kind of information available in the BSR returns enables cross-classification of information which is of great value for analysing the information. The information on deposits is according to the type, and on regional basis, at regular half-yearly intervals. Meaningful analysis can also be made with the availability of branch-wise data on the performance of branches according to age and according to location.

The data obtained through the Basic Statistical Returns every six months is being computed by the Reserve Bank of India to show performance of different bank groups such as State Bank group, nationalised banks and other private sector sheduled commercial banks. For example, BSR Vol. I published by the Reserve Bank sets out comprehensive data obtained through the BSRs for December, 1972 and includes such data as State and bank-groupwise distribution of deposits and advances, State and Bank-groupwise distribution of deposits according to types of accounts, etc. The Reserve Bank of India have also been publishing bank-groupwise data on priority sector lendings in their monthly bulletins.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74/PS, dated 23rd October, 1974].

Recommendation (S. No. 113, Para 6.66)

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

Reply of Government

As observed by the Committee, the Annual Reports will continue to be presented to Parliament during the Monsoon Session.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74/PS, dated 23rd October, 1974].

Recommendation (S. No. 114, Para 6.67)

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

Reply of Government

The recommendation of the Committee on the placing before Parliament of a consolidated report on the working of the public sector banks has been accepted and the first Report pertaining to 1973 is proposed to be placed before Parliament in the Winter Session of 1974.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74/PS, dated 23rd October, 1974].

CHAPTER III

RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF GOVERNMENT'S REPLIES

Recommendation (S. No. 1, Para 1.9)

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

Reply of Government

The first Ordinance promulgating the nationalisation of fourteen major banks was issued on July 19, 1969. Immediately thereafter came an interim stay order from the Supreme Court and hearing of the writ petitions. Under these circumstances Government had to constantly bear in mind two important considerations. Firstly, there was the need to respect, both in letter as well as in spirit, the Supreme Court's order. Secondly, there was the other consideration that the start of the action on such points as were important from the point of view of enabling the banking system to play an adequate role in the socio-economic developmental tasks should not be unduly delayed. In the months that immediately followed Government thus adopted a course which had to be consistent with the need to uphold both these considerations. In the Administrative Report of the Ministry of Finance for the year 1969-70 some important steps, significant from the developmental angle, were enumerated. These are recapitulated below:

(i) *Meetings and consultations with the Bankers*

At the earliest possible opportunity (on 30-9-1969) Prime Minister convened a meeting of the Chief Executive of the State Bank and the Custodians of the nationalised banks to discuss with them the role that the banking system should play to subserve the developmental goals of the community. In addition to this meeting, Government officials also had informal discussions with the bank managements, the main objective being to establish mutual rapport and to arrive at a broad understanding so that all concerned appreciated the significance of the tasks that the banking system had been called upon to undertake. The Reserve Bank, consistent with its autonomous position as the Central Bank of the country, also lent its advice and good offices.

(ii) *Coordination among Public Sector Banks*

For improvement of their working procedures and for reaching a better understanding among themselves as well as with the public and the State Governments, the Chief Executives of the public sector banks set up a Coordination Committee providing a forum for discussion on matters of mutual interest.

(iii) *Introduction of the Lead Bank Scheme*

The Gadgil Committee's report examining the question of building up an appropriate organisational framework for the banking system for meeting the credit gaps of the economy became available in October 1969. One of the Committee's important recommendations contained in this report related to the need for the commercial banks to adopt "area approach" for identifying and studying local problems. It was this recommendation which led to the formulation of the Lead Bank Scheme. Towards the end of December, 1969, Reserve Bank addressed public sector banks and some private sector banks allotting to each certain specified districts in respect of which they had to assume the lead responsibility.

(iv) *Opening of branches*

The branch expansion programmes of public sector banks were reoriented immediately after nationalisation with necessary emphasis on unbanked centres. Between July 1969 and January 31, 1970, 642 new offices were opened by the public sector banks, of which nearly 50 per cent were located in unbanked centres. For the year 1970, the Reserve Bank drew up a bigger programme of branch expansion with particular emphasis on unbanked centres by circulating a list of 1,350 centres of which 1,186 were unbanked.

(v) *Qualitative improvements in Banks' Lending Procedures and Operations*

Keeping in mind the need for bringing about reforms in banks' lending procedures and operations so that the credit moved to sectors that were genuinely in need of it and its misuse avoided, Reserve Bank took up several steps during this period. In formulating some of these steps the Reserve Bank duly took into account the discussions held on some of the steps in the Coordination Committee of public sector banks. Important steps are listed below:

(a) In pursuance of the recommendations of the Coordination Committee, the Credit Authorisation Procedure, which had been in operation in Reserve Bank since 1965, was revamped for the purpose of enforcing financial discipline on large borrowers. Reserve Bank issued a circular in June 1970 laying down a set of proformae in which proposals for large credit limits were to be examined, so as to ensure that all credit aspects of the operation of an account such as inventory build-up, inter-corporate lending and investment, diversion of short-term funds for acquisition of long-term assets, etc., are looked into carefully.

(b) In the light of the recommendation of a Study Group appointed at the instance of the Coordination Committee, a new Bill Market Scheme was introduced by the Reserve Bank from 1st November, 1970, to ensure greater use of Bills of Exchange for financing sale and despatch of goods, imposing thereby a discipline on the purchaser to pay his dues within a stipulated period.

(c) Another important procedural improvement introduced by the Reserve Bank in March, 1970 was the introduction of a levy of commitment charge in respect of unutilised limits in order to impose a measure of discipline on the borrowers so that large limits are not unnecessarily pre-empted by them.

(d) Reserve Bank advised the banks in July 1970 to discourage the practice of accepting personal guarantees of managing directors and managing personnel to make up for the weak financial position or lack of viability of the unit without undertaking detailed credit analysis.

(e) In August, 1970, Reserve Bank issued a directive that no bank could exercise voting rights in respect of shares held by it as pledge without the prior approval of the Reserve Bank, the object being to discourage the use of bank finance by operators in the share market to corner shares and acquire control over well managed companies.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74/PS, dated 23rd October, 1974].

Recommendation (S. No. 2, Para 1.10)

The Committee also note that while the progress, made by public sector banks after nationalisation in areas like deposit mobilisation and branch expansion, has been somewhat satisfactory, in other important and vital areas—like lending to weaker or priority sectors, particularly agriculture; removal of regional disparities in banking, development of backward areas, provision of improved service to the public—which were the main objectives of nationalisation, the progress has been slow and has rather fallen much short of requirements and public expectation.

Reply of Government

Details of the progress achieved in fulfilling the various objectives of nationalisation such as deposit mobilisation, branch expansion, lending to weaker sections/priority sectors, particularly agriculture, removal of regional disparities in banking, development of backward areas, provision of improved services to the public, etc., have been set out in the replies to the specific observations of the Committee under the different recommendations. One factor that may be highlighted at this stage is the sructural change that has come about even in a short period of five years in the matter of deployment of bank funds, particularly the shift in favour of the sectors that had in the past been altogether neglected by the banks. In the five years since nationalisation, the outstanding public sector banks' advances to the priority sectors have risen from Rs. 441 crores as at the end of June, 1969 to Rs. 1589 crores as at the end of March 1974—an almost four-old increase. The number of borrowal accounts have over the same period increased from 2.60 lakhs to 26.06 lakhs. As percentage of their total advances, the banks' advances to priority sectors have increased from 14.9 per cent to 25.8 per cent and it is planned to increase this proportion to 33-1/3 per cent by the end of the Fifth Plan period. Thus, while there may have been some shortcomings here and there, mainly due to the organisational, manpower and other constraints, it cannot be said that the achievement of public sector banks in extending credit to the weaker sections has either been unsatisfactory or insignificant.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74/PS, dated 23rd October, 1974].

Recommendation (S. No. 11. Para 2.29)

The Committee note that during the four years after nationalisation public sector banks have been able to increase credit to priority sectors by Rs. 854 crores *i.e.*, from Rs. 441 crores in June, 1969 to Rs. 1295 crores in June, 1973 constituting 24.3 per cent of their total credit. The Committee, however, find that in the first year of nationalisation the advances to the priority sectors rose from Rs. 441 crores in June, 1969 to Rs. 769 crores in June, 1970, registering an increase of 74 per cent. But from the second year onwards this growth rate had not been sustained, in fact there had been a decline. The annual growth rate of advances during the following three years ranged between 17 per cent to 22 per cent. Even when reckoned as a percentage of total credit, the increase which was 6.4 per cent in the first year (from 14.9 per cent of total credit in June, 1969 to 21.3 per cent in June, 1970) had been only 3 per cent during the following three years, being 24.3 per cent at the end of June, 1973. The same declining trend is discernible in each of the priority sectors in varying degrees.

The Committee further note that in December, 1972, *i.e.*, after 2 years of nationalisation, Government themselves realised that the decline in the growth rate of advances to the priority sectors was "a matter of great concern" and they could not go on "taking refuge behind reasons like consolidation and emphasis on recovery". Government, therefore, stressed on banks the need for proper planning of credit for those sectors with feasible action programmes and rationallly conceived targets.

Reply of Government

This is covered in the reply to Recommendation No. 12, Para 2.30.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74/PS, dated 23rd October, 1974].

Recommendation (S. No. 12, Para 2.30)

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

Reply of Government

There are two important factors which have to be taken note of in any assessment of progress made by public sector banks in extending credit to priority sectors. First, the credit requirements of the small borrowers are not only vast but also increase with the provision of every infra-structure facility, such as, an approach road, extension of power line, a bank office, etc. Even with a vastly improved network of branches, banks would not be able to even physically reach out to all the borrowers in these sectors. Secondly, as happens in any organisation, in the case of banks also, organisational, financial and manpower constraints limit and determine the pace of expansion of activities. Thus, it would be more appropriate to assess the performance of the banks against the past trends and objectives set before them.

On the eve of nationalisation, the advances of the public sector banks to the priority sectors were quite low. There were only 2.60 lakhs borrowal accounts and the advances to the priority sectors accounted for only 14.9 per cent of the total bank advances.

As the following table would show, the rate of expansion in credit to the priority sectors every year since then has been higher than the rate of expansion of the overall credit, thus pushing up the proportion of priority sector advances steadily to 25.6 per cent by March, 1974:—

Advances to priority sectors by Public Sector Banks

As at the end of	No. of a/cs	Balance Outstanding Amount (Rs. crores)	Increase over the year — Accounts		Increase over the year — Balance outstanding Amt. (Rs. crores)		Advance to P/s as Percentage of total advances
			No.	Percentage			
1	2	3	4	5	6	7	8
June 1969	2,60,142	440·96	..	..	..	..	14·9
June 1970	8,85,318	768·71	6,25,176	240·3	327·75	74·3 (18·6)	21·3
June 1971	11,36,315	907·30	2,50,997	28·4	138·59	18·0 (14·0)	22·0
June 1972	14,48,370	1,058·51	3,12,055	27·5	151·21	16·7 (13·3)	22·9
June 1973	19,22,484	1,295·43	4,74,114	32·7	236·72	22·4 (17·5)	23·9
March 1974*	26,05,578	1,589·24	6,83,094†	35·5†	293·81†	22·7† (13·3)†	25·8

*Provisional

†Increase over 9 months period

NOTE: Figures in brackets represent percentage increases in the total advances of public sector banks.

In the first year of nationalisation, with a view to making a determined thrust towards covering a large number of small borrowers, the banks had stepped up their advances to the priority sectors, often without waiting to make satisfactory organisational arrangements for giving adequate trained manpower support. It was, therefore, inevitable that in the following years there should have been sustained efforts at consolidation and organisational restructuring in the various banks. The banks also started looking more closely into the qualitative, rather than the quantitative, aspects of their lending to priority sectors. Even so, the rate of progress since then has been fairly substantial; what is more, the rate of increase, both in terms of amounts outstanding as well as number of borrowal accounts, has also gone up every year since 1970-71. The number of borrowal accounts additionally covered during the 9-month period ending March 1974 is in fact much higher than the number additionally covered in the full year between June, 1972 and June, 1973, or even in the first year of nationalisation.

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

[Ministry of Finance, Department of Banking O.M. No. 26(8)74/ PS, dated 23rd October, 1974].

Recommendation (S. No. 14, Para 2.34)

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

Reply of Government

The Committee have observed that the progress in the implementation of the performance budgeting system in banks has been slow. In this connection, it may be stated that, as pointed out in the earlier note submitted in this behalf to the Committee, commercial banks in India have had a long tradition of operating on the basis of *ad hoc* targets fixed for short-terms for the busy season and slack season. Further, such *ad hoc* targets were often fixed by the top management without any prior dialogue with the operative units at various levels of the bank's hierarchy. Performance budgeting in its proper sense, however, involves a complete overhauling of this traditional system. Under the performance budgeting system, while the top management has to shoulder the responsibility of issuing broad guidelines within the broad frame of which the performance budgets of individual branches or areas are to be prepared, a well-integrated performance budget can emerge only through a participative process in which the operating units at various levels set before themselves specific levels of achievement in each key performance area. Thus, for example, at the branch level, the branch manager has, in consultation with and with the help and cooperation of his staff, to demarcate the command area for his branch, collect the environmental data relating to the command area, analyse the data, identify the various business possibilities, plan out the proper strategies and quantify the targets in different market segments. This process has to be built up from the lowest branch level upwards, through the Regional/ Divisional level, to the top level. The emphasis all along has to be on critical analysis, consultation, persuasion and a willing consensus on goals to be reached rather than on a pre-emptory fixation of targets from above. A proper system of controls, based more on self-appraisal than surveillance from above, has also to be built into the system. Thus, the ethos, emphasis and methodology of a proper system of performance budgeting is totally different from the traditional system.

As recognised by the Committee, preparation of performance budget involves a special effort. The burden of various preparatory steps before the system of performance budgeting could be implemented effectively in a bank as a whole is quite onerous. One of the most important pre-requisites for implementation of this system is training and orientation of staff at all levels for proper appreciation of the new concepts and methodology of business planning and execution. It was, therefore, felt that if the system was introduced and universalised in every bank in a hurry and without adequate preparation, there would be a grave risk of the system degenerating into a mechanical exercise of filling up certain forms and statements ordained from the top and the real objective of introducing the system getting frustrated. The view, therefore, taken was that the proper course would be to implement the system in a phased manner, with its initial introduction in one or two Divisions/Regions of a bank in a year and its extension in stages, in two or three years, to the bank as a whole, as the preparation, training etc. proceed and allow each bank to learn by its experience how to overcome the possible difficulties and pitfalls.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74/ PS, dated 23rd October, 1974].

Recommendation (S. No. 17, Para 2.39)

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

Reply of Government

The date set out in para 2.22 of the Committee's report as also the percentages indicated in this recommendation relate to public sector banks' advances to large and medium industries and wholesale trade as a whole. In this connection it may be mentioned that, in analysing the trend of advances to large borrowers, it will be more appropriate to exclude advances for exports and Government agencies for food procurement purposes which stand on a special footing. The relevant percentages, worked out on the basis of such a more detailed break-up of advances of the scheduled commercial banks as a whole, would be as under:

Sectoral distribution of scheduled Commercial banks' credit.

(Rs. in crores)

	June 1969		June 1970		June 1973*	
	Amount	% to the total	Amount	% to the total	Amount	%to the total
1. Total bank credit	3399	100·0	4213	100·0	6412	100·0
(of which exports)	(263)	(7·7)	(320)	(7·6)	(565)	(8·8)
2. Food procurement operations	233	6·9	207	4·9	468	7·3
3. Agriculture	188	5·5	342	8·1	532	8·3
4. Small scale industries	286	8·4	414	9·8	723	11·3
5. Other priority sector including retail trade	31	0·9	114	2·7	222	3·4
Total Priority Sectors (3+4+5)	505	14·8	870	20·6	1477	23·0
6. Bank credit to large and medium industry, wholesale trade, others**	2661	78·3	3136	74·4	4467	69·7

*Provisional.

**Estimated. Inclueds advances for exports other than those advanced to small scale industries.

2. It is submitted that the rates of decline/increase in credit to the different sectors have to be judged in relation to the fast expanding over all credit base compared to the narrower base of credit in June, 1969, besides taking into account other economic factors.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74/ PS, dated the 23rd October, 1974].

Recommendation (Serial No. 23, Para 2.58)

The Committee note that there has been disparity in the disbursal of bank credit among the various States under every sector. While some States got larger share of banks credit others lagged far behind. Of the total advances given to agricultural sector upto September 1972, about 42 per cent had been given in the three States of Tamil Nadu, Andhra Pradesh and Maharashtra. Similarly in small scale industries sector 35 per cent were given in Tamil Nadu and Maharashtra, in professional and self-employed sector 39 per cent were given in Maharashtra and Karnataka; in education sector 73 per cent were given in the four States of Gujarat, Maharashtra, Karnataka and Tamil Nadu etc. The Committee realise that to a certain extent this may have been due to inherent difficulties of availability of infrastructure etc. in certain States. But this alone should not have resulted in such wide disparities. Moreover, the nationalised banks were made responsible to disburse credit in such a manner as to bridge these disparities and not to accentuate the same. The plea that in certain States the number of small scale units was larger and hence greater amount of advances were given is also not wholly tenable, as the banks could have attracted small scale industries to under-developed States by offering credit on easy terms and in co-ordination with State Government helped in the creation of necessary infrastructure.

Reply of Government

This is covered in the reply to Recommendation No. 34, paragraph 3.28.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74/ PS, dated the 23rd October, 1974].

Recommendation (Serial No. 24, Para 2.59)

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

Reply of Government

This is covered in the reply to Recommendation No. 34, paragraph 3.28.

[Ministry of Finance, Department of Banking O.M. No. 26(8)/74/ PS, dated the 23rd October, 1974].

Recommendation (Serial No. 33, Para 3.27)

The Committee note that there has not been much improvement in the credit-deposit ratio of several States (like Assam, Bihar, Rajasthan, Orissa, Uttar Pradesh, Madhya Pradesh, Haryana) as was expected at the time of bank nationalisation in 1969 and it continues to be less than 50 per cent in most of these States. In fact, in some of these and other States (Orissa, Uttar Pradesh, Madhya Pradesh, Himachal Pradesh, etc.) it has registered a declining trend.

Reply of Government

This is covered in the reply to Recommendation No. 34, paragraph 3.28.

[Ministry of Finance, Department of Banking O.M. No. 26(8)74/ PS, dated the 23rd October, 1974].

Recommendation (Serial No. 34, Para 3.28)

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

Reply of Government

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

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

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

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

[Ministry of Finance, Department of Banking O.M. No. 26(8)/74/ PS, dated the 23rd October, 1974].

Recommendation (S. No. 51—Para 4.4)

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

Reply of Government

The banks are taking steps to adopt more and more villages under the strategy of area approach. Upto the end of June, 1973 about 19000 villages are reported to have been adopted by the different public sector banks.

According to the information furnished by the public sector banks, the banks have so delegated powers to their branch managers that they could dispose of about 80 per cent of the loan applications at their level. Only loan proposals involving larger amounts are required to be referred to the higher authorities. The loan applications are normally disposed of within a period of 2—6 weeks depending upon the type and quantum of loan applied for and the extent to which the required information is furnished by the applicants. For schemes which have special features, more time is taken.

By and large, the public sector banks adopt the credit norms for different crops as are advised by Field Workers Conference/Technical Group constituted at the district level for the Central Cooperative Banks, with reference to the use of fertilizers and other inputs and adoption of improved agricultural practices in that area. But Field Officers of the banks often improve upon these norms in special cases, where the circumstances so justify, provided the borrowing farmer expects to improve his repaying capacity by the increased investment.

As regards consultancy service to small farmers, the banks' field staff are more active in the adopted villages. This, incidentally, is the primary function of the block extension personnel.

[Ministry of Finance, Department of Banking O.M. No. 26(8)/74/ PS, dated the 23rd October, 1974].

Recommendation (S. No. 53—Para 4.6)

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

Reply of Government

Banks have only recently started providing consultancy facilities/ technical advice, particularly in the field of agriculture. Further, the Lead Bank Consultative Committee meetings also serve as a forum for coordinating the efforts of the banks and of the Government departments, concerned with the various development schemes, including those in the field of agriculture. As such there is not much possibility of overlapping of efforts with those of the concerned Government Departments.

As regards participating of bank agents in block/district level meetings, it may be mentioned that in most of the branches in rural areas, the staff strength being limited, the branch agent would not be able to leave the office often for attending the outside meetings without causing serious inconvenience to his customers. The intention, behind the Committee's suggestion, namely that of securing fuller coordination, is being achieved through the forum of the Lead Bank Consultative Committee meetings.

[Ministry of Finance, Department of Banking O.M. No. 26(8)/74/ PS, dated the 23rd October, 1974].

Recommendation (S. No. 57—Para 4.16)

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

Reply of Government

It has been the constant endeavour of each public sector bank to step up its advances to priority sectors. The position is periodically reviewed by the top management as well as the Board of Directors of each bank. These banks also submit to the Reserve Bank and to Government detailed progress reports every quarter setting out the progress achieved in lending funds to the different priority sectors in the various States and Union Territories. It may be mentioned in this connection that whereas on the eve of nationalisation the proportion of the bank advances to the priority sectors varied from 6 per cent to 36 per cent (average 14.9), the position as at the end of March, 1974 has shown substantial improvement *i.e.* from 17.7 per cent to 39.5 per cent (average 25.8).

[Ministry of Finance, Department of Banking O.M. No. 26(8)/74/ PS, dated the 23rd October, 1974].

Recommendation (S. No. 63—Para 4.31)

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

Reply of Government

On a reference, our Embassy in Japan has reported that there are no one-man service branches of either cooperatives or commercial banks functioning in Japan. Sometimes, about 10 to 15 farmers following similar farming practices nominate one farmer from amongst their group for conducting negotiations with the primary society for their credit requirements. This group functions purely on an informal basis.

Finance for agriculture, forestry and fisheries in Japan can roughly be classified into three categories by the kind of lending institutions. The first is the finance given by the "Co-operative system", *e.g.* primary agricultural cooperatives and primary fishery co-operatives located in villages, towns or cities; their federations at the prefectural level and at the national-level, and the Central Co-operative Bank for Agriculture and Forestry. The second is the finance given by the Government financial institutions, *e.g.* the Agriculture, Forestry and Fisheries Finance Corporations, People's Bank, etc. The third one is the credit issued by the private banking institutions, *e.g.*, city or local commercial banks, credit associations etc. Apart from these lending institutions, farmers do a certain amount of borrowing from the individuals, but the amount is relatively small. Between themselves, the agricultural co-operatives and the Agriculture, Forestry and Fisheries Finance Corporation account for 95 per cent of credit advanced to the farmers.

[Ministry of Finance, Department of Banking O.M. No. 26(8)/74/ PS, dated the 23rd October, 1974].

Recommendation [S. No. 65—Para 4.32(ii)]

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

Governments, if necessary, and issue detailed instructions to the banks in the matter.

Reply of Government

All the bank branches in the rural areas are neither so equipped with the staff nor have the requisite legal authority and support from the field extension agencies to undertake such a task.

[Ministry of Finance, Department of Banking O.M. No. 26(8)/74/ PS, dated the 23rd October, 1974].

Recommendation [S. No. 67—Para 4.32(iv)]

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

Reply of Government

The four State Governments were written to by the Department for details of the scheme under which loans are said to be given to Adivasi tribal cultivators on "contract basis". Despite reminders, the details of the scheme have not so far been received from Andhra Pradesh, Madhya Pradesh and Maharashtra States while Orissa State has reported that no such system of contract lending in co-operatives exists in that State. After the details are received from the remaining States, it will be examined whether, and to what extent, similar scheme could be initiated by the public sector banks.

[Ministry of Finance, Department of Banking O.M. No. 26(8)/74/ PS, dated the 23rd October, 1974].

Further information called for by the Committee

Please State the final action taken by the Department of Banking in the matter.

Further reply of Government

The four State Governments mentioned have reported that the type of "contract" lending system referred to in the Recommendation does not exist in these States. It is presumed that the underlying objective stressed in the recommendation is that commercial banks should treat the Tribal cultivators somewhat more liberally than the others. This view point is acceptable and to the extent feasible is currently being pursued. Commercial banks finance these cultivators on a somewhat liberal basis under their normal schemes. With the enactment of laws based upon the Model Bill recommended by Talwar Committee (being persued with the States), the disability to alienate the land in favour of financing institutions by the Tribals would be gradually removed, and the flow of investment credit to these categories of cultivators should further improve in the States as and when these States pass the relevant law. Of the four States, Madhya Pradesh and Maharashtra have already enacted the law.

[Ministry of Finance, Department of Banking O.M. No. 26(8)/74/ PS, dated the 25th April, 1975].

Recommendation (S. No. 72—Para 4.52)

The Committee note that guidelines issued by the R.B.I. in March, 1971 for giving finance to professionals and self-employed sectors 'have been taken up for implementation by the banks' with some modification in the guideline for providing technical assistance in an integrated manner. They also note that simplified application forms have been made available in regional languages 'in some of the branches' and that no data regarding the generation of employment, accretion output, etc. as a result of the bank assistance, is available.

Reply of Government

This is covered in the reply to Recommendations Nos. 73 (Para No. 4.53) and 98 (Para No. 6.28).

[Ministry of Finance, Department of Banking O.M. No. 26(8)/74/ PS, dated the 23rd October, 1974].

Recommendation (S. No. 73—Para 4.53)

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

Reply of Government

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

[Ministry of Finance, Department of Banking O.M. No. 26(8)/74/ PS dated the 23rd October, 1974].

Comments of the Committee

The Committee would like to be apprised of the result of the sample studies of the contribution made by the banks for the development of specific areas.

Recommendation (S. No. 77, Para 4.57)

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

Reply of Government

The public sector banks have various schemes for assisting small borrowers, particularly for setting up self-employment ventures. These schemes figure under the appropriate priority sector category. The terms offered may differ from bank to bank, depending upon their cost of raising funds and cost of servicing; and also from scheme to scheme within a bank depending upon the degree of importance attached to each scheme and the kind of incentives that are considered necessary. It is open to the borrowers to opt for one or other of the schemes, whenever he has a choice, depending upon which scheme he considers to be more favourable. For instance, an entrepreneur who might normally have taken assistance under the scheme for small scale industries, might clect to avail of credit under the Half-a-Million-Jobs Programme or under the professional and self-employed category, if he considers that the terms offered under the latter schemes are more favourable. Thus, a certain amount of overlapping in classification of small units becomes unavoidable.

[Ministry of Finance, Department of Banking O.M. No. 26(8)/74/ PS, dated the 23rd October, 1974].

Recommendation (S. No. 78, Para 4.60)

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

Reply of Government

This is covered in the reply to Recommendation No. 79, paragraph 4.61 of the Committee's Report.

[Ministry of Finance, Department of Banking O.M. No. 26(8)/74/ PS, dated the 23rd October, 1974].

Recommendation (S. No. 79, Para 4.61)

The Committee are not impressed at the manner in which the Government's plan for creating Half-a-Million-Jobs opportunities on urgent basis has been dealt with by banks. They need hardly point out that had there been full involvement right from the inception of the scheme, there would have been more concrete results to show.

The Committee would like the Department/banks to see that while all viable schemes which are resources generating and labour-intensive are encouraged, the objective is not got defeated by casual examination and acceptance of schemes which are not viable and would result in waste of funds. The Committee would like the Department/banks to have a close follow up of the implementation of the schemes in order to achieve the objective of creating at least 3.75 lakhs schemes in 1974-75 and laying a sound condition for accelerating the pace of implementation in succeeding years. The Committee would also suggest that the achievements under this scheme should be prominently mentioned in the Annual Report and the difficulties encountered and measures taken to overcome them mentioned to some length.

Reply of Government

The public sector banks have been extending credit support in an increasing measure for professional and self-employed ventures ever since nationalisation. Towards this end, the banks have formulated special schemes, *e.g.*, the Bineds Programme of Bank of India, NAYE Programme of Punjab National Bank, the MSA Scheme of Bank of Baroda, the self-employment Clinics of the Syndicate Bank and so on. The credit extended for such ventures generally figures under the appropriate priority sector categories, including the category entitled "professional and self-employed." As will be seen from the following data relating to "professional and self-employed" category, there has been a phenomenal increase both in terms of the numbers of accounts as also the amount involved since June 1972 in the self-employment ventures financed by the banks:—

Advances by Public Sector Banks to professional and self-employed persons

Period ending	No. of accounts	Amount outstanding (Rs. crores)
June 1969	7,769	1·91
June 1970	28,929	6·64
June 1971	41,554	8·61
June 1972	57,208	12·16
June 1973*	1,07,343	21·21
March 1974*	1,71,831	29·25*

*Provisional

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

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

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

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

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

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

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

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

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

(vi) Projects are not viable.

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

[Ministry of Finance, Department of Banking O.M. No. 26(8)/74/ PS, dated the 23rd October, 1974].

Comments of the Committee

The Committee desire that the achievements made with regard to the "Half a Million Job Programme" should be specifically and in sufficient detail mentioned in the Annual Report.

Recommendation (S. No. 80, Para 4.67)

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

Reply of Government

Improving the content and coverage of banking statistics, is an area which has been receiving sustained attention of the Government and the Reserve Bank of India. A new system called, the "Basic Statistical Returns" was recommended by a Committee on Banking Statistics set up by the Reserve Bank of India in 1972. The system envisages six-monthly returns by all commercial bank branches on deposits, advances, agricultural advances recovery performance in respect of direct agricultural advances etc. Details of the system are set out in the Department's reply to the Committee's Recommendation No. 112 para No. 6.63.

In devising this system, the Committee on Banking Statistics had to strike a balance between the demand and supply factors. On the demand side are the data requirements of banks, the Reserve bank itself, and most important, the Government who have been anxious to have detailed statistics on diverse aspects of banks' operations for framing suitable policies as also for assessing the progress made towards achieving the goals of bank nationalisation. On the supply side however are the difficulties of recording accurate data under the supervision of responsible officers mainly due to the mounting workload at the branch level and also because of a general apathy to statistical reporting on the part of bank employees. The fact has, therefore, to be recognised that it is not possible to obtain, on a regular basis, elaborate details of the flow of crtdit such as banks' lending to various sub-groups in a sector or small areas or assets created out of the credit disbursed etc. without jeopardising the entire statistical reporting system by endangering the accuracy and timely submission of the data. The current statistical reporting system, therefore, seeks to obtain maximum possible data on the essential features of banks' operations, commensurate with the reporting capacity of the individual branches.

The idea underlying the Estimates Committee's observations on the subject, *viz.* that we should periodically assess the impact of banks' operations in new areas is appreciated. Public sector banks and other financial institutions are also keen to have periodical evaluation in this regard so as to bring about necessary changes in their schemes and area policies with a view to increase the effectiveness of their lending operations. It is considered that this objectives could be satisfactorily achieved through periodical sample surveys. The Agricultural Refinance Corporation has recently set up an evaluation cells which has initiated certain studies covering, *inter alia*, studies of the type envisaged by the Committee. Recently, the Division of Rural Surveys, Economic Department, Reserve Bank of India, has also made an evaluation of the operations of 13 selected Small Farmers' Development Agencies. Banks also periodically undertake studies of this type in respect of some of the special schemes which they are operating particularly in their lead areas.

[Ministry of Finance, Department of Banking O.M. No. 26(8) 74|PS dated 23rd October, 1974]

Recommendation (S. No. 86—Para 5.8)

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

Reply of Government

The recovery of bank advances is primarily watched by the banks themselves. The banks review from time to time the outstanding advances and in respect of cases in which the securities available are not adequate, they make a suitable provision to cover such bad and doubtful debts. The statutory auditors at the time of annual audit have to satisfy themselves that such provisions made by the banks to meet any shortfall in the recovery of the loans advanced by them are adequate. The Reserve Bank of India while scrutinising the Advance Accounts during its periodical inspections of banks *inter alia* looks into the recoverability of such advances.

According to the prescribed proforma of the balance sheet and profit & loss account in the Third Schedule of the Banking Regulation Act, the banks are authorised to disclose their income only after deducting therefrom "the provision made during the year for bad and doubtful debts and other usual and necessary provisions." Again Section 13(I) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, Section 44 of the State Bank of India Act, 1955 and Section 52 of the State Bank of India (Subsidiary Banks) Act, 1959 *read* with Section 29 of the Banking Regulation Act, 1949 prohibit the disclosure of individual accounts.

In the circumstances, the Committee will kindly appreciate that the Government and banks are not in a position to divulge details of bad debts of the banks in their annual reports.

[Ministry of Finance, Department of Banking O.M. No. 26(8) 74|PS dated 23rd October, 1974]

Recommendation (S. No. 95—Para 6.21)

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

Reply of Government

The Committee's aforesaid recommendation is in two parts, namely:—

(i) that there should be a periodical review of the performance of the members of Board of every nationalised bank; and

(ii) that the desirability of laying down minimum qualifications for the membership of a Board of nationalised bank may be considered.

Regarding the first part, while no efforts are spared to select the proper type of persons to serve on the Boards, Government at the time of renewal of tenure of existing Directors, do take into account, amongst other things, the interest evinced by the Director concerned in the functioning of the Board.

As regards the second part of the recommendation relating to the desirability of laying down minimum qualifications for appointment as a Director of a nationalised bank, it may be stated that the "Nationalisation Act" and the "Scheme" framed thereunder provide for the appointment of, among others, the representatives of various interests, namely farmers, workers and artisans and of the employees and depositors of the bank concerned, on the Board of each nationalised bank. The intention is that, in accordance with the national policy and objectives of nationalisation, the sectors and interests which were hitherto neglected and to which bank credit is sought to be increasingly channelised should get proper representation on the highest policy-making body of every nationalised bank. For this purpose, as the Committee have themselves observed in paragraph 6.20 of their Report, the Government have to select the best persons available. It is felt that that the best persons in this context would be those who can be considered, on the basis of their knowledge and/or practical experience in the field concerned, as most suitable to represent the interests of the group concerned on the Board. As Government are keen that by prescribing minimum academic or professional qualifications persons otherwise suitable should not be shut out from serving on the Boards, they would not like to attempt laying down minimum qualifications for the membership of the Board of a nationalised bank.

[Ministry of Finance, Department of Banking O.M. No. 26(8)
74|PS dated 23rd October, 1974]

Recommendation (S. No. 109—Para 6.59)

The Committee note that half-yearly progress reports are obtained by the Department from banks covering various aspects of their working. As these reports are quite voluminous the Committee are not sure whether the Department of Banking finds them useful for informing themselves about problems of the banks or assessing their performance. The Committee therefore recommend that the Department should review the proforma prescribed for these half-yearly reports and the information received in response thereto so as to cut out non-essential information and to concentrate on items which are important for the exercise of check at key points and for providing Government with timely information about the true picture of functioning of a bank.

Reply of Government

The prescribed format of the half-yearly reports obtained by the Department of Banking from the public sector banks has been evolved after carefully indentifying the various aspects of banks' operations which are of immediate concern to the Government. All the data received from the banks in these reports are made full use of by the various functional Divisions of the Department of Banking. In the circumstances, there is not much scope for abridging these reports as suggested by the Committee.

[Ministry of Finance, Department of Banking O.M. No. 26(8)
74|PS dated 23rd October, 1974]

CHAPTER IV

RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation (S. No. 6—Para 2.12)

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

Reply of Government

This is covered in the reply to Recommendation No. 8, Para No. 2.14.

[Ministry of Finance, Department of Banking O.M. No. 26(8) 74|PS dated 23rd October, 1974]

Recommendation (S. No. 7—Para 2.13)

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

Reply of Government

This is covered in the reply to Recommendation No. 8, Para No. 2.14.

[Ministry of Finance, Department of Banking O.M. No. 26(8) 74|PS dated 23rd October, 1974]

Recommendation (S. No. 8—Para 2.14)

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

Reply of Government

How best to organise studies of the type suggested by the Committee is a question which requires careful examination. There can be several facets of the studies. Also the techniques that may be pressed into service for undertaking these studies and the degree of sophistication that may be desired at different levels may vary considerably depending upon the area to be studied, the sectors in respect of which studies are to be undertaken and the limits in respect of administrative and organisational costs that may be set, having regard to all other relevant considerations.

Some work to identify areas in which the availability of bank credit can play a useful catalyst role has already been done. Thus each of the survey reports, conducted as part of the Lead Bank Scheme, does indicate important areas of credit gaps. Admittedly, this by itself cannot be regarded as adequate in relation to requirements. Work of this type is not a once-for-all job; it has to be undertaken on a continuing basis. The banks operating in each area are expected to make a continuous study of savings potential on the one hand and advances for credit disbursal on the other. The Lead Bank consultative machinery and other developmental agencies also apply their mind to this job of assessment of credit gaps and banks do draw upon their assessment.

The introduction of the performance budgets and the indepth studies now being undertaken in an increasing number of areas, would enable the banks to determine the credit potential of the command areas of their branches. In all these exercises, emphasis will be on identifying viable schemes for which banks could extend credit. This would enable the banks to progress in a planned manner not only towards the overall target of 33-1/3 per cent advances to the priority sectors but also towards the specific targets as visualised for the agriculture and small scale industries sectors in the Fifth Plan document.

[Ministry of Finance, Department of Banking O.M. No. 26(8) 74|PS dated 23rd October, 1974]

Comments of the Committee

Please see paras 3 to 5 of the Report—Chapter I.

Recommendation (S. No. 9—Para 2.19)

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

Reply of Government

This is covered in the reply to Recommendation No. 10, Para 2.20.

[Ministry of Finance, Department of Banking O.M. No. 26(8) dated 23rd October, 1974].

Recommendation (S. No. 10—Para 2.20)

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

Reply of Government

As stated in paragraph 2.15 of the Committee's report, the term 'priority sectors' refers to such sectors as agriculture, small scale industries, road and water transport operations, professionals and self-employed persons, retail trade and small business and education. The rationale behind according priority to these sectors and focussing attention on the problems relating to them was explained in the oral evidence that the Department tendered before the Committee and the same is briefly set out in paragraph 2.16 of the Committee's report. An important feature of these sectors is that before nationalisation they hardly, if ever, attracted the attention of the commercial banks and thus they were what might be called the 'neglected sectors'. Export sector is also accorded priority but what distinguishes export credit from the credit to the so-called priority sectors is the fact that even before nationalisation banks were assisting the cxport sector on a fairly sizeable scale.

It is recognised that the priorities should not remain constant; with the passage of time and with the change of circumstances, some particular sector may be relegated to a lower priority and some other sector may have to be taken up on a preferred basis. This is quite logical and is accepted. The question with, however, arises is: whether the time has come to recast the list of priority sectors and to exclude some of the sectors currently included and to bring in some other sectors currently left out? Taking into account the nature of the problems faced by the priority sectors, the view at this stage is that no basic change is currently called for. However, within the priority sectors itself, there is indeed need for differentiation so as to give preferential treatment to certain classes of borrowers having a somewhat lower than the average economic status. To the extent possible, this differentiation is being currently attempted, some specific examples being as follows:

(i) In the case of agriculture, differentiation is currently made on the basis of the land holding of the borrowers. Thus, those with smaller land holdings are treated differently from the others, both in the matter of rate of interest as well as terms and conditions relating to margins.

(ii) Under the Differential Interest Rate Scheme, the borrowers with weak economic status are given loans at a concessional rate of 4 per cent.

(iii) In the case of loans to small scale industries, some banks differentiate on the basis of credit limits; borrowers with lower credit limits are given funds at somewhat lower rate of interest.

(iv) Lendings to agriculture not exceeding Rs. 50,000 per borrower and to small scale industry not exceeding Rs. 2 lakhs per borrower as also other priority sector advances eligible for Credit Guarantee cover are exempted from the operation of the minimum rate of interest prescribed by the Reserve Bank of India. A differential treatment is given to these categories in the matter of margin requirements too. The essential idea of these exemptions is to encourage the flow of funds to smaller borrowers within each omnibus priority sector grouping.

(v) The credit guarantee cover provided by the Credit Guarantee Corporation visualises financial ceilings for loans for which coverage is provided. Here again the idea is that even within the priority sectors, accommodation to smaller borrowers should be encouraged.

It will thus be seen that the question of identifying weaker sectors of the community and treating them somewhat differently from the others is constantly being pursued.

[Ministry of Finance, Department of Banking O.M. No. 26(8) 74|PS dated 23rd October, 1974]

Comments of the Committee

Please see para 8 of the Report—Chapter I.

Recommendation (S. No. 25—Para 2.60)

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

Reply of Government

Public sector banks have been and are being constantly urged to pay special attention to the less advanced States in the matter of branch expansion and meeting the credit needs in the rural sector, particularly in the field of agriculture. Periodic reviews of the progress achieved by the public sector banks in this regard are made both by the Boards of the respective banks and by the Department. Because of the unavoidable time-lag in compiling relevant data from thousands of branches all over the country, it may not be possible to give upto date data in the Annual Reports.

[Ministry of Finance, Department of Banking O.M. No. 26(8) 74|PS dated 23rd October, 1974]

Comments of the Committee

The Committee would like to stress that the data highlighting the progress and achievements of banks available at the time of publication of the Annual Report should be given in the Annual Reports.

Recommendation (S. No. 44—Para 3.61)

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

Reply of Government

The level of economic activity which determines the degree of backwardness or otherwise of any region, is inturn determined by a number of factors such as natural endowment, availability of infrastructural facilities like transport, power, communication etc., the size of markets and most important by the entrepreneurial talent in the local inhabitants. Any effort aimed at forcing the pace of economic development in such backward regions, therefore, presupposes, a capacity and willingness of that region to undertake heavy long term, often non-recoverable, investment in creating basic pre-requisites for development. The magnitude and complexity of the task and the degree of expertise needed to draw-up and implement different projects is such that only sustained Government-implemented plan programmes can make any discernible impact on the problem. Besides undertaking massive investment in building up of infrastructure facilities, the Central and the State Governments will also have to offer incentives like capital subsidy, transportation subsidy, concessional price for land etc., sufficient enough to compensate entrepreneurs for the disadvantage of location and encourage them to set up industrial ventures in these backward regions. These tasks are clearly beyond the capacity and the objectives of commercial banks, whether in the private or public sector. It is true that concessional finance for investment can also be one of the incentives. But here again it must be recognised that the banks, given the short-term nature of their resource base and the cost of mobilising these resources, would not be able to contribute substantially to such long-term investments.

All this, however, does not mean that banks cannot or are, not undertaking any development finance in backward pockets. Through expanding their branch network and actively associating themselves with the district authorities in formulating special schemes, the banks have been able to step up their advances to the small borrowers in the different priority sectors in these areas. They have also geared up their machinery to ensure that no viable development scheme suffers for want of credit. The banks are also investing an increasing share of their funds in the securities of these State Governments and State associated bodies. All these efforts would go a long way in raising the level of economic activity of these areas by enabling the beneficiaries to enlarge their production base and generate surplus incomes.

[Ministry of Finance, Department of Banking O.M. No. 26(8)/74/ PS, dated the 23rd October, 1974].

Recommendation (S. No. 45—Para 3.62)

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

Reply of Government

This is covered in the reply to Recommendation No. 44 paragraph 3.61.

[Ministry of Finance, Department of Banking O.M. No. 26(8)/74/ PS, dated the 23rd October, 1974].

Comments of the Committee

Please see para 11 of the Report—Chapter I.

Recommendation (S. No. 55—Para 4.14)

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

Reply of Government

As the commercial banks have entered this sector in a big way only after nationalisation, it may be desirable to watch for sometime more before an expert-body is set up to go into the working of different schemes. However, the Reserve Bank has started collecting and compiling information in some detail relating to purpose-wise classification of advances granted for various agricultural and allied operations. The Agricultural Credit Board of the Reserve Bank of India as well as the Department of Banking review the achievements periodically.

[Ministry of Finance, Department of Banking O.M. No. 26(8)/74/ PS, dated the 23rd October, 1974].

Recommendation (S. No. 56—Para 4.15)

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

Reply of Government

The kind of appraisal suggested by the Committee can be undertaken only on a sample basis with reference to compact identifiable areas. A few banks have so far undertaken very modest and limited studies in selected areas to evaluate the impact of their schemes. These studies attempt an analysis of the impact of the schemes in terms of the volume of employment generated, improvement brought about in the economic condition of the borrowers and net accretion to their output consequent upon the banks' assistance under the schemes.

The Agricultural Refinance Corporation has recently set up an Evaluation Cell which has initiated certain studies envisaged by the Committee. Reports on some of these studies have been circulated to all the banks.

The Reserve Bank of India has also a separate Division of Rural Survey which undertakes sample surveys. Depending upon the scope of the studies, findings of the study are made available to the banking institutions.

[Ministry of Finance, Department of Banking O.M. No. 26(8)/74/PS, dated the 23rd October, 1974].

Comments of the Committee

Please see paras 14 and 15 of the Report—Chapter I.

Recommendation (S. No. 58—Para 4.19)

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

Reply of Government

While advances to plantations are included in the sector 'Agriculture and Allied Activities' while presenting the sectoral deployment of bank credit, the data published by the Reserve Bank of India on advances of public sector banks and scheduled commercial banks to various priority sectors comprising the weaker sections of the society, are exclusive of advances to plantations.

The Reserve Bank of India are now publishing district-wise and centre-wise distribution of deposits and advances of the scheduled commercial banks on a six-monthly basis. Data regarding advances of the branches of the scheduled commercial banks in not only capital towns but also in respect of all centres having two or more branches of commercial banks is, thus, available in the statistical publications of the Reserve Bank, based on the Basic Statistical Returns.

[Ministry of Finance, Department of Banking O.M. No. 26(8)/74/ PS, dated the 23rd October, 1974].

Comments of the Committee

Please see para 21 of the Report—Chapter I.

Recommendation (S. No. 91, Para 6.10)

The Committee also note that Government do not consider it necessary to spell out the social and economic obligations of the nationalised banks as 'the two go together'. The Committee, however, feel that for a proper appraisal of the performance of the banks, and avoid any uniformed criticism about their working as also to make the management well aware of their social and economic responsibilities, it would be desirable if Government make a comprehensive and clear statement on the objectives and obligations of the nationalised banks, laying down *inter alia* their social obligations, return expected on capital, generation of surpluses etc. The Committee would like Government to lay the statement defining in detail the objectives and obligations of the nationalised banks on the Tables of the two Houses of Parliament so that the parameters for judging the performance of the banks become clear.

Reply of Government

The objectives for which the major banks were nationalised were indicated by the Prime Minister in her broadcast to the Nation on 19th July, 1969 and in the statement made by her in both the Houses of Parliament on 21st July, 1969. The policies and priorities, which the managements of the banks will need to follow to conform to the broad objectives of nationalisation were spelt out by the Prime Minister on 30th September, 1969, and subsequently by the Finance Minister on 22nd July, 1970 in their respective addresses to the Chief Executives of the public sector banks. Government are of the view that the guidelines contained in these statements are adequate for the purpose of judging the performance of public sector banks.

[Ministry of Finance, Department of Banking O.M. No. 26(8)/74/ PS, dated the 23rd October, 1974].

Comments of the Committee

Please see para 24 of the Report—Chapter I.

CHAPTER V

RECOMMENDATIONS IN RESPECT OF WHICH FINAL REPLIES OF GOVERNMENT ARE STILL AWAITED

Recommendation (S. No. 71, Para 4.44)

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

Reply of Government

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

[Ministry of Finance, Department of Banking O.M. No. 26(8)74|PS dated 23rd October, 1974].

Comments of the Committee

The Committee would like to be apprised of the action taken in pursuance of the recommendations of the Sivaraman Committee regarding Handloom Industry.

Recommendation (S. No. 87, Para 5.15)

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

Reply of Government

The recommendation of the Committee is under consideration in consultation with the Ministry of Industrial Development and the Reserve Bank of India and the action taken would be reported in due course.

[Ministry of Finance, Department of Banking O.M.No. 26(8)74|PS dated 23rd October, 1974]

Further information called for by the Committee

Please state the final action taken by the Department of Banking in the matter.

Further Reply of Government

The working of the Credit Guarantee Corporation of India is reviewed by Reserve Bank of India periodically with a view to extending the scope and coverage of the Corporation consistent with the policy of encouraging bank assistance to weaker sections and suitable modifications are made in the policy from time to time. Thus, substantial liberalisation of the ceiling limits for the coverage of the loans by the Corporation was introduced with effect from 1st January, 1972. For example, in the case of farmers and agriculturists, ceiling limits earlier prescribed for loans to be covered under the Corporation's scheme, have been removed. The scope of the scheme has also been extended to cover all loans granted after 1st March 1973 under the Differential Interest Rate Scheme as well as all loans granted by non-scheduled commercial banks with effect from 1st April, 1974. In addition to these liberalisation, some incentives have also been provided for the grant of loans to weaker sections of the community. Hypothecation charges are waived where the loan does no exceed Rs. 2,000|- and stock statements, insurance of stocks and periodical inspcctions are not insisted upon where the loan does not exceed Rs. 10,000|-. Since October, 1972, unsecured loans covered by the Corporation are not reckoned as unsecured loans for the purposes of norms in regard to the grant of unsecured loans. Advances to the level of Rs. 20,000/- covered by the Credit Guarantee Corporation have been exempted from directives in regard to selective credit controls. All advances and other credit facilities covered by the Corporation are also exempt from the RBI directive regarding minimum lending rates. In case any advance to an industrial unit guaranteed by the Corporation is to be refinanced to the lending institution by drawing funds from the Industrial Development Bank of India, a concessional rate of interest at 7 per cent as compared to the IDBI's normal rate of 8.50 per cent for other advances, is made applicable. These changes in the scope and coverage of the programme, over the last few years, have resulted in substantial increase in the volume of loans and advances granted by the commercial banks and covered by the Credit Guarantee Corporation.

2. In so far as the Committee's recommendation to bring the credit guarantee scheme for small scale industries administered by the RBI within the ambit of the Credit Guarantee Corporation is concerned, the matter is under consideration in consultation with the Ministry of Industry and Civil Supplies and the Reserve Bank of India.

[Ministry of Finance, Department of Banking O.M. No. 26(8)/74/ PS, dated the 25th April, 1975].

Comments of the Committee

The Committee would like to be apprised of the final decision taken by Government in the matter.

NEW DELHI;
August 25, 1975.
Bhadra 3, 1897 (*S*).

R. K. SINHA,
Chairman,
Estimates Committee.

APPENDIX I

(*Vide* Para 3.5 Chapter II)

RESERVE BANK OF INDIA

CENTRAL OFFICE

DEPARTMENT OF BANKING OPERATIONS AND DEVELOPMENT
BOMBAY 400001.

Telegrams:
"RESERVE BANK"
Bombay.

Please Quote in Reply:

September 25, 1974.
Asvina 3, 1896 (Saka)

Ref. DBOD. No. B.L.B.C.99/C.168—74.

To

All Indian scheduled commercial banks.

Dear Sir,

Perspective Plan for branch expansion in 1975—77

A target of 5,000 branches was set for the opening of new offices by the commercial banks during the 3-year period 1972 to 1974. Banks have opened 3989 office during the 2 1|2 year period ended June 1974, raising the total number of branches to 16,936. We trust that, by the end of 1974, they would achieve the above overall target.

2. A Statement showing the number of offices, population per bank office, etc. in respect of the different States in the country as on 30th June 1974 is given in Annexure I. It will be seen that the All-India average population per bank office was 32,000 on 30th June 1974 and this is expected to be reduced further to 28,000, when banks open new offices in respect of about 2,500 licences issued to them but not utilised as of that date. The momentum of the branch

expansion has to be maintained in the next few years. Accordingly, we feel that it would be realistic to expect commercial banks to open another 5,000 branches approximately during the three years 1975, 1976 and 1977. We shall be glad if you will please send us your plans of branch expansion for the above three year period, so as to reach us on or before 30th November 1974, in the form given in Annexure II.

3. While drawing up the plans, banks should ensure that a larger number of offices falling in the unbanked/underbanked rural and semi-urban areas, unbanked Block/Taluk/Tehsil headquarters and in under-banked districts/States are included therein, so as to minimise the inter-State and inter-district disparities in the provision of banking facilities. Further, centres with high deposit potential and those where the State Governments are keen on having bank offices for the purpose of implementation of various development schemes formulated by them, should also be kept in view. Besides, centres which are unbanked and identified as potential growth centres by the Lead Bank Survey Teams should also be considered for inclusion in the plans. It will be seen from Annexure I that the population per bank office continues to be comparatively high in the case of Assam, Bihar, M.P., Manipur, Meghalaya, Nagaland, Orissa, Tripura, U.P., West Bengal, Arunachal Pradesh and Mizoram. It will also be seen from Annexure III that, as on 30th June 1974, there were still a large number of districts in which the population per bank office was over 75,000. Special efforts will have to be made in opening as many offices as possible in these districts.

4. It has been our experience that banks, after submitting their perspective plans, approach the Reserve Bank for permission to open office at centres other than those included in their plans. While circumstances may, no doubt, arise necessitating the making of such applications, we expect that such requests would not be made as a matter of course.

5. It is our intention to consider the plans of all the banks together. As such, it is necessary that plans from all the banks are received by us within the prescribed time. Such of the plans as are not received in time may have to be considered separately after the allotment of centres to others. In view of this, claims of such banks may receive consideration only in the context of the allotments already made. We would, therefore, like to emphasise that it would be in the interest of the banks themselves to submit their plans within the prescribed time. Banks are also advised that, if they so desire, they may include in their plans for 1975, such centres for

which applications have been made by them outside their plans for 1974 and about which they have not so far heard from us. . . . . .

6. Please acknowledge receipt.

Yours faithfully,

Sd/- P. N. Khanna,

Addl. Chief Officer.

ANNEXURE I

Statement showing Statewise distribution of offices of commercial banks and population per bank office as on 30th June 1974

Name of State/ Union Territory	No. of offices as on 30-6-74	Population per bank office in thousands	
		30-6-74	Projected on the basis of pending licences/ allotments
(1)	(2)	(3)	(4)
1. Andhra Pradesh	1234	35	32
2. Assam	184	81	60
3. Bihar	672	84	68
4. Gujarat	1436	18	17
5. Haryana	390	26	23
6. Himachal Pradesh	159	22	18
7. Jammu & Kashmir	164	28	24
8. Karnataka	1621	18	16
9. Kerala	1163	19	17
10. Madhya Pradesh	820	51	42
11. Maharashtra	2005	25	22
12. Manipur	9	119	83
13. Meghalaya	18	56	33
14. Nagaland	7	74	43
15. Orissa	255	86	67

1		2	3	4
16.	Punjab	869	16	14
17.	Rajasthan	743	35	31
18.	Tamil Nadu	1784	23	21
19.	Tripura	18	86	71
20.	Uttar Pradesh	1673	53	45
21.	West Bengal	987	45	35
22.	Andaman & Nicobar Islands	5	23	13
23.	Arunachal Pradesh	6	68	36
24.	Chandigarh	44	6	5
25.	Dadra & Nagar Haveli	4	19	19
26.	Delhi	502	8	7
27.	Goa, Daman & Diu	133	6	6
28.	Lakshadweep	4	8	6
29.	Mizoram	1	332	83
30.	Pondicherry	26	18	17
	TOTAL	16936	32	28

ANNEXURE II

Programmes of branch expansion for the years 1975 to 1977

Name of bank:

I. Programme of branch expansion for 1975:

A—Centres in respect of which the bank holds licences:

Name of State	Classifications of Centres				Total
	Rural	Semi-urban	Urban	Metro-politan	
1.					
2.					
3.					
etc.					

B—Particulars of centres for opening branches in 1975 for which licences are sought :

Name of Centre	Population*		District	State	Remarks @
	1971 Census	1975 Estimate			
(1)	(2)	(3)	(4)	(5)	(6)
(a) *Rural*†					
1.					
2.					
3.					
etc.					
(b) Semi-urban†					
1					
2					
3					
etc.					
(c) *Urban*†					
1.					
2.					
3.					
etc.					
(d) *Metropolitan/Port towns*†					
1.					
2.					
3.					
etc.					

*Where population figures are not available in the 1971 Census Report, such information may be obtained from the concerned revenue authorities and given.

@Please indicate in column 6 for Rural Centres whether the centre is identified under the lead bank survey.

†Details under these may be given on separate sheets of paper with the bank's name typed on top.

C—Summary of centres in respect of which Licences are sought for opening offices in 1975:

Name of State	Classifications of Centre				Total
	Rural	Semi-urban	Urban	Metro-politan port Town	
1.					
2.					
3.					
etc.					
Total of A+C					

II. Number of centres for opening branches in 1976 and 1977:

State-wise and population group-wise distribution

Name of State	No. of offices proposed to be opened in									
	1976					1977				
	Rural	Semi Urban	Urban	Metropolitan/port Town	Total	Rural	Semi Urban	Urban	Metropolitan/Port Town	Total
1.										
2.										
3.										
4.										
5.										
6.										
etc.										
Total:										

ANNEXURE III

List of districts/Union Territories in which population (as per 1971 Census) per bank offic was over 75000 as on 30-6-1974

State/District	Population per bank office as on 30-6-1974
1	2
Andhra Pradesh	
Mahbubnagar	81,000
Nalgonda	76,000
Assam	
Cachar	132,000
Darrang	109,000
Goalpara	93,000
Lakhimpur	143,000
Nowgong	93,000
Sibsagar	80,000
Mikir Hills	189,000
North Cachar Hills	76,000
Bihar	
Aurangabad	127,000
Bhagalpur	84,000
Bhojpur	91,000
Darbhanga	95,000
Gaya	106,000
Giridih	86,000
Gopalganj	221,000
Katihar	162,000
Madhubani	189,000
Monghyr	92,000
Muzaffarpur	80,000
Nalanda	100,000
Nawadah	179,000
Paschim Champaran	88,000
Purnea	78,000
Rohtas	85,000
Saharsa	124,000
Samastipur	152,000
Santhal Parganas	103,000
Saran	107,000
Siwan	209,000
Sitamarhi	158,000
Vaishali	122,000
Madhya Pradesh	
Balaghat	109,000
Bastar	84,000
Bhind	79,000
Bilaspur	87,000
Mandla	125,000
Morena	90,000
Raigarh	98,000
Seoni	83,000
Shahdol	94,000
Sidhi	86,000
Surguja	133,000
Maharashtra	
Bhir	76,000
Manipur	119,000
Meghalaya	
Garo Hills	203,000
Jaintia Hills	114,000
Khasi Hills	79,000
Nagaland	
Mokokchung	84,000
Tuensang	173,000
Orissa	
Balasore	108,000
Bolangir	126,000
Boudh-Khondmals	124,000
Cuttack	89,000
Dhenkanal	76,000
Ganjam	82,000
Kalahandi	129,000
Keonjhar	96,000

1	2
Koraput	108,000
Mayurbhanj	159,000
Rajasthan	
Jaisalmer	83,000
Tripura	
North Tripura	95,000
West Tripura	97,000
Uttar Pradesh	
Azamgarh	87,000
Bahraich	108,000
Ballia	88,000
Banda	79,000
Barabanki	96,000
Basti	119,000
Budaun	87,000
Deoria	140,000
Faizabad	92,000
Gonda	115,000
Hardoi	130,000
Jaunpur	87,000
Mainpuri	80,000
Pratapgarh	118,000
Sitapur	90,000
Sultanpur	137,000
Unnao	93,000
West Bengal	
Bankura	102,000
Cooch-Behar	101,000
Jalpaiguri	92,000
Malda	179,000
Midnapur	122,000
Murshidabad	105,000
Purulia	107,000
West Dinajpur	109,000
Union Territories	
Arunachal Pradesh	78,000
Mizoram	382,000

APPENDIX II

(Vide Para 3.52 Chapter II)

RESERVE BANK OF INDIA

CENTRAL OFFICE

DEPARTMENT OF BANKING OPERATIONS AND DEVELOPMENT

BOMBAY-400-001.

TELEGRAMS
"RESERVE BANK"
BOMBAY

POST BOX NO. 1080

REF: DBOD. No. B.L.B.C. 106/BL.67-75

January 18, 1975
Pausa 28, 1896 (Saka)

To

All Public Sector Banks and Chairman of Andhra Bank Ltd.,

Bank of Rajasthan Ltd. and Punjab and Sind Bank Ltd.

Dear Sirs,

Reorganisation of districts in various states—Re-allocation of districts under the Lead Bank Scheme.

Please refer to our circular letter DBOD. No. B.D. 4327|C. 168-69 dated the 23rd December, 1969 in terms of which, allotment of districts under the Lead Bank Scheme had been made. Since then, a number of districts in as many as 12 States has been reorganised as a result of which, certain new districts have been created/formed. It has, therefore, become necessary to allot these new districts to some of the banks under the Lead Bank Scheme. Opportunity has also been taken to make a few other adjustments in the allocation of districts with a view to securing a more efficient operation of the scheme. We accordingly, enclose three lists, one showing the names of newly formed districts together with the bank which have been allocated the lead responsibility (Annexure-I), second, showing the names of four districts in Madhya Pradesh and Uttar Pradesh, for which two banks have been appointed as the Lead Bank jointly with each other (Annexure II) and the third, showing the names of districts in Andhra Pradesh, Karnataka and Maharashtra for which the State Bank of India has been appointed as the Lead Bank (Annexure III).

2. Please acknowledge the receipt.

Yours faithfully,

Sd/-

Additional Chief Officer.

DEOD No. B.L.107/BL.67-75 of date

Copy, together with enclosures, forwarded for information to:—

1. the Secretary to the Government of India, Department of Banking, Ministry of Finance, New Delhi. This has reference to his letter No. 1(38)/74-Dev. dated the 16th November, 1974.
2. the Chief Secretary to the Government of Assam, Bihar, Haryana, Himachal Pradesh, Punjab, Jammu and Kashmir, Madhya Pradesh, Uttar Pradesh, Tamil Nadu, Meghalaya, Nagaland, Tripura, Andhra Pradesh, Karnataka and Maharashtra.
3. The Regional Offices.
4. The Director Incharge, Credit Planning Cell.

Sd/-

Encls. 4

Deputy Chief Officer.

ANNEXURE—I

Names of divided districts and the names of their lead banks

Original district and lead bank for the same	Name of the divided districts	Name of bank appointed as Lead Bank for the divided district
1	2	3
1. ASSAM		
1. Lakhimpur (United Bank of India)	1. Lakhimpur	United Bank of India
	2. Dibrugarh	United Bank of India
2. United Mikir & North Cachar Hills (State Bank of India)	1. Mikir Hills	State Bank of India
	2. North Cachar Hills	State Bank of India
2. BIHAR		
3. Champaran (Central Bank of India)	1. Champaran Purwa	Central Bank of India
	2. Champaran Paschim	Central Bank of India
4. Darbhanga (Central Bank of India)	1. Samastipur	Central Bank of India
	2. Madhubani	Central Bank of India
	3. Darbhanga	Central Bank of India
5. Gaya (Punjab National Bank)	1. Gaya	Punjab National Bank
	2. Aurangabad	Punjab National Bank
	3. Nawadah	Punjab National Bank

1	2	3
6. Hazaribagh (Bank of India)	1. Hazaribagh	Bank of India
	2. Giridih	Bank of India
7. Monghyr (United Commercial Bank)	1. Monghyr	United Commercial Bank
	2. Begusarai	United Commercial Bank
8. Muzaffarpur (Central Bank of India)	1. Muzaffarpur	Central Bank of India
	2. Vaishali	Central Bank of India
	3. Sitamarhi	Central Bank of India
9. Patna (Punjab National Bank)	1. Patna	Punjab National Bank
	2. Nalanda	Punjab National Bank
10. Purnea (Central Bank of India)	1. Purnea	Central Bank of India
	2. Katihar	Central Bank of India
11. Saran (Central Bank of India)	1. Saran	Central Bank of India
	2. Sewan	Central Bank of India
	3. Gopalganj	Central Bank of India
12. Shahbad (Punjab National Bank)	1. Bhojpur	Punjab National Bank
	2. Rohtas	Punjab National Bank
5. HARYANA		
13. Hissar (Punjab National Bank)	1. Bhiwani	Punjab National Bank
	2. Hissar	Punjab National Bank

14. Karnal (Punjab National Bank)	1. Karnal	Punjab National Bank
	2. Kurukshetra	Punjab National Bank
15. Rohtak (Punjab National Bank)	1. Rohtak	Punjab National Bank
	2. Sonepat	Punjab National Bank
4. HIMACHAL PRADESH		
16. Kangra (Punjab National Bank)	1. Kangra	Punjab National Bank
	2. Hamirpur	Punjab National Bank
	3. Una	Punjab National Bank
	4. Kulu	Punjab National Bank
17. Simla and Mahasu (United Commercial Bank)	1. Simla	United Commercial Bank
	2. Solan	United Commercial Bank
5. JAMMU & KASHMIR		
18. Poonch & Rajouri (State Bank of India)	1. Poonch	State Bank of India
	2. Rajouri	State Bank of India
6. MADHYA PRADESH		
19. Durg (Dena Bank)	1. Durg	Dena Bank
	2. Rajanandgaon	Dena Bank
20. Sehore (Bank of India)	1. Sehore	Bank of India
	2. Bhopal	Bank of India

1	2	3
7. MEGHALAYA		
21. United Khasi & Jainti a Hill (State Bank of India)	1. Jaintia Hills	State Bank of India
	2. Khasi Hills	State Bank of India
	3. Shillong	State Bank of India
8. NAGALAND		
22. Kohima (State Bank of India)	1. Kohima	State Bank of India
	2. Phek	State Bank of India
23. Mokokchung (State Bank of India)	1. Mokokchung	State Bank of India
	2. Wokha	State Bank of India
24. Tuenganga (State Bank of India)	1. Tuensang	State Bank of India
	2. Zuncheboto	State Bank of India
	3. Men	State Bank of India
9. PUNJAB		
25. Bhatinda (State Banks of India)	1. Bhatinda	State Bank of India
26. Ferozpur (Punjab National Bank)	2. Ferozepur	Punjab National Bank
	2. Faridkot	Punjab Sind Bank Ltd.
10. TAMIL NADU		
27. Thanjavur (Indian Overseas Bank)	1. Thanjavur	Indian Overseas Bank

28. Tiruchirapalli (IOB)	2. Tiruchirapalli	Indian Overseas Bank
	3. Pudukkottai	Indian Overseas Bank
11. TRIPURA		
29. Tripura (United Bank of India)	1. West Tripura	United Bank of India
	2. South Tripura	United Bank of India
	3. North Tripura	
12. UTTAR PRADESH		
30. Jhansi (Punjab National Bank)	1. Jhansi	Punjab National Bank
	2. Lalitpur	Punjab National Bank

ANNEXURE—II

Names of districts for which two banks have been appointed as Lead Bank Jointly.

Name of the District	*Name of the Lead Banks*	
MADHYA PRADESH		
1. Rewa 2. Satna 3. Sidhi	Allahabad Bank Jointly with Union Bank of India.	These were with Allahabad Bank previously.
UTTAR PRADESH		
4. Mirzapur	Allahabad Bank jointly with Union Bank of India.	

ANNEXURE III

Names of districts in respect of which the lead bank responsibility has been transferred from the State Bank of Hyderabad to State Bank of India

ANDHRA PRADESH

1. Mahboobnagar
2. Medak
3. Warangal

KARNATAKA

4. Bidar
5. Gullarga

MAHARASHTRA

6. Bhi
7. Nanded
8. Osmanabad
9. Parbhani

APPENDIX III

Analysis of action taken by Government on the recommendations contained in the 62nd Report of Estimates Committee (Fifth Lok Sabha)

1. Total number of recommendations 111

2. Recommendations which have been accepted by Government (*vide* recommendations Nos. 3—5, 13, 15, 16, 18—22, 26—29, 30, 31, 32 35—43, 46—50, 52, 54, 59—62, 64, 66, 68, 69, 70, 74—76, 81—85, 88—90, 92—94, 96—108, 110—114 included in Chapter II).

   Number . . 75

   Percentage to total . . . . 65·8%

3. Recommendations which the Committee do not desire to pursue in view of Government's replies (*vide* recommendations Nos. 1, 2, 11, 12, 14, 17, 23, 24, 33, 34, 51, 53, 57, 63, 65, 67, 72, 73, 77, 78, 79, 80, 86, 95 & 109 included in Chapter III)

   Number . . 25

   Percentage to total . . 22 %

4. Recommendations in respect of which replies of Government have not been accepted by the Committee (*vide* recommendations Nos. 6—8, 9—10, 24, 44—45, 55, 56, 58, 91 included in Chapter IV).

   Number 12

   Percentage to total . . 10·5 %

5. Recommendations in respect of which final replies of Government are still awaited (*vide* recommendations Nos. 71, 87 included in Chapter V).

   Number .

   Percentage to total . . . 1·7 %

GMGIPND—LS II—1209LS—28-8-75—1024.