

Report on Trend and Progress of Banking in India for the year ended June 30, 1978.
Submitted to the Central Government in terms of Section 36(2) of the Banking Regulation
Act, 1949.



REPORT ON TREND AND PROGRESS OF
BANKING IN INDIA
1977-78

LETTER OF TRANSMITTAL

GOVERNOR



Reserve Bank of India
Central Office
Bombay

August 28, 1978
Bhadra 6, 1900 (Saka).

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

Dear Sir,

In pursuance of the provisions of Section 36(2) of the Banking Regulation Act, 1949, I transmit herewith two copies of the Report on Trend and Progress of Banking in India for the year ended June 30, 1978.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'I. G. Patel'.

(I. G. Patel)

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CHAPTER 1

INTRODUCTION

The aspects of commercial banking development in 1977-78 that need to be highlighted are: a major thrust in rural branch expansion, a downward shift of the structure of interest rates and the widening of the area of concessional lending to what can be broadly described as the small-scale sector.

1.2 The number of new bank branches opened in 1977-78 (July-June) was 3,222 as against 3,596 offices in the previous year. But, 70.5 per cent of the new branches were opened in rural areas as against 51.3 per cent in the previous year. Taking the three years 1975-76 to 1977-78 together, over one-half (53.3 per cent) of the new branches opened were in the rural areas. Thus branch expansion of commercial banks (CBs) in more recent years has made considerable progress in penetrating into the rural areas.

1.3 Next, a downward adjustment in the interest rates structure was brought about during the year. Basically, the abolition by the Government of India (GOI) of the tax on interest income of banks required that the benefit of this relief to banks was passed on to borrowers. While this provided the opportunity, the phase of relative stability in prices may be said to have provided the environment to reduce lending rates. Thus, a reduction in the lending rates of banks was brought about on March 1, 1978. The underlying approach was that sizeable reduction should take place in the upper ranges of interest rates, while reduction in the lower ranges could be relatively less. Along with lending rates, there was a realignment of CBs' deposit rates also. Similar adjustments were also made in the interest rates structure of the co-operative sector.

1.4 The third important development relates to the widening of the area of concessional lending to the small sector. In order to stimulate capital investment in the small-scale sector in general, banks were asked to charge a rate of interest not exceeding 11 per cent on term loans with maturity of not less than three years to certain specified small-scale units. Similarly, for promoting investment in the agricultural sector, banks were required to charge a rate of interest not exceeding 10.5 per cent on term loans with maturity of three years or more given to farmers for the purpose of minor irrigation and land development; and further a rate not exceeding 11 per cent on similar term loans to farmers for what are called diversified purposes—that is, dairy farming, poultry, etc. In this context, an innovative scheme was the establishment of a "Small Farmers Window" in the Reserve Bank of India (RBI) with a view to providing an incentive to banks to increase their lending to small farmers. This window relates to refinance facilities available with the RBI at Bank Rate for loans to small farmers for amounts not exceeding Rs. 2,500 extended as

short, medium or long-term credit. Taken together, these new measures, which came into operation since January 1978, are designed to enable banks to channel sizeably larger credit to the small sector at concessional rates.

1.5 The trends in deposits and credit may now be seen. As compared with an increase of 24.5 per cent recorded in 1976-77 (July-June), in 1977-78 (July-June) deposits grew at 21.3 per cent. Also, while demand and time deposits accounted for 31.8 per cent and 68.2 per cent of incremental deposits in 1976-77, the corresponding proportions were 46.4 per cent and 53.6 per cent, respectively, in 1977-78. In so far as deployment of the banking sector's resources is concerned, gross bank credit rose by 14.6 per cent in 1977-78, as compared to 17.1 per cent during the previous year. In part, this was a result of the decline in food procurement credit during 1977-78, in sharp contrast to a significant rise witnessed during the previous year. The gross credit-deposit ratio at 68 per cent at end-June 1978 was significantly lower as compared to a ratio of 72 per cent a year ago.

1.6 Advances to priority sectors showed a significant increase ; at the end of June 1978, priority sector advances constituted 27.5 per cent of total bank credit, as compared to a level of 25.8 per cent a year ago. There is a wide variation amongst banks in respect of the share of priority sector lending in total advances. In fact, some banks have even marginally exceeded the target already whereas there are many which have to bridge a considerable gap. However, special efforts will have to be made if the banking sector's target of lending to priority sector should reach a level of not less than one-third of outstanding credit by March 1979. Similar is the case in respect of the target relating to the credit deposit-ratio of at least 60 per cent to be achieved by rural and semi-urban branches by March 1979. At end-December 1977, the credit-deposit ratios of rural and semi-urban areas were 55.6 per cent and 47.2 per cent, respectively.

1.7 In the co-operative banking sector, a significant development during the year was the change introduced by the RBI in the interest rates on refinance facilities to co-operatives with the objective of reducing the cost of credit to the ultimate borrowers. A reference has already been made to this aspect. Measures were also taken to strengthen the co-operative credit structure with a view to reducing regional imbalances and ensuring increased flow of credit particularly to the weaker sections of the rural population.

1.8 Finally, a word about the future banking policy. There are two features of the draft Five Year Plan 1978-83 which may be said to set the tone for future development of banking : these are the strategy of growth and the emphasis placed on increasing the share of credit from the public credit system to small farmers and small industrial enterprises.

INTRODUCTION

The draft Plan accords priority to sectors, which generate maximum employment and which have a significant impact on the standard of living of the poorest, like agriculture and allied activities and village, cottage and small industries. Secondly, the draft Plan emphasises the need for increasing the share of small farmers and small industrial enterprises in the total credit of the public credit system. Broadly speaking, future development of banking both in terms of structure and in terms of deployment of credit will have therefore to be guided by the consideration of attaining this two-fold objective. Increasing attention will have to be given to the kind of shape that the banking infrastructure, which would include the co-operative sector, regional rural banks (RRBs) and CBs, will have to take if it were to support the dispersed pattern of development envisaged in the Plan. Of course, it is assumed that other economic policies would create an appropriate environment in which banking institutions could function more effectively. The various recommendations of special Committees/Working Groups which have made detailed studies of different aspects of banking—like RRBs and public sector banks—are available. Broadly on the basis of these recommendations the banking infrastructure will have to be so developed in future that it will subserve the broader objective of supporting the development programme.

CHAPTER 2

COMMERCIAL BANKING

Branch Expansion : Recent Trends

2.1 The policy of systematic branch expansion by CBs designed to achieve a progressive reduction in regional imbalances in bank development was continued during 1977-78. At the same time, in view of the vast branch expansion which had already taken place, paying attention to the process of consolidation became as important as reducing inter-State and inter-district disparities. The future plan of expansion would no doubt be determined in the context of the recommendations of the following Committees which were recently appointed by the RBI to look into specific aspects of banking : the James Raj Committee, the Dantwala Committee and the Kamath Working Group¹. In the meantime, with a view to facilitating branch expansion in the short run, it was decided, in January 1978, to call for perspective plans from banks only for the year 1978. Banks were also advised that, in order to enable them to consolidate their existing position, there need not be an unduly large expansion during 1978 and the issue of branch licences by the RBI would, therefore, be limited. In preparing the perspective plans they were advised to select unbanked centres from "deficit districts", viz., districts where the average population per bank office is sizeably more than the national average, priority being given to such districts in States where the average population coverage per bank office for the State as a whole is also higher than the national average. In regard to urban centres too, banks were advised to confine their selection of centres for opening of branches to "deficit districts" only. The allotment of urban and metropolitan centres would be restricted and would be at the discretion of the RBI.

2.2 During the calendar year 1977, commercial banks opened 3,348 offices as compared to 3,217 in the previous year. In the result, the average population per bank office for the country as a whole declined from 23,000, at the end of December 1976 to 20,000, at the end of December 1977 (Table 2.1). The progress in terms of territorial spread has been remarkable as can be seen from the fact that prior to nationalisation of 14 banks, the population per bank office was 65,000 (as at the end of June 1969). The population per bank office was above the national average in 14 States/Union Territories at the end of 1977 ; it, however, continued to be above 50,000 in one State, namely, Mizoram—a hilly region with widely dispersed population—in December 1977, as compared to three States in December 1976.

1. The Committees and the years of their appointment are :

(a) Committee to study Functioning of Public Sector Banks (James Raj Committee), 1977.

(b) Committee on Regional Rural Banks (Dantwala Committee), 1977.

(c) Working Group to study Problems Arising out of the Adoption of Multi-Agency Approach in Agricultural Financing (Kamath Working Group), 1976.

COMMERCIAL BANKING

2.3 During 1977-78 (July to June), CBs opened 3,222 offices as against 3,596 offices in the previous year (*i.e.* July 1976 to June 1977) raising the total number of bank offices to 28,016, as at the end of June 1978, as against 24,802 as at the end of June 1977 (Table 2.2). Of the new offices opened during the year, 647 offices were opened by State Bank of India and its associate banks, 1,205 by 14 nationalised banks, 742 by private sector Indian banks and 627 by RRBs and one by a foreign bank.

2.4 Two aspects need to be underlined in this context : first, the thrust of expansion was primarily in unbanked areas ; secondly, branch expansion was planned in such a manner as to reduce regional disparities in banking development. During 1976, out of 3,217 new offices opened, 1,336 (41.5 per cent) were in unbanked places. In 1977, when emphasis was laid on opening new offices in unbanked places, of 3,348 offices opened 2,183 (65.2 per cent) were in unbanked places. Similarly, underbanked States like Assam, Andhra Pradesh, Uttar Pradesh, Madhya Pradesh, Rajasthan, Bihar, Orissa and West Bengal accounted for nearly half the new offices opened in unbanked centres. Of the 19,858 offices opened since nationalisation, *i.e.*, from July 1969 till June 1978, nearly one-half (9,998 offices or 50.3 per cent) were in unbanked centres. The underbanked States of Andhra Pradesh, Assam, Bihar, Madhya Pradesh, Manipur, Meghalaya, Nagaland, Orissa, Rajasthan, Tripura, Uttar Pradesh and West Bengal and the underbanked Union Territories of Arunachal Pradesh and Mizoram accounted for 43.6 per cent of these offices. As a result the average population per bank office among them, which ranged between 69,000 in Rajasthan and 3,11,000 in Tripura, as on July 19, 1969, the date of nationalisation of 14 banks, was brought down considerably and nearer to the national average by the end of 1977, as may be seen from Table 2.1.

2.5 It was recognised that, despite these achievements, there was still scope for further improvement. Hence priority was accorded to the implementation of the decision of the GOI that each unbanked community development block in the country should be provided with a bank office by the end of June 1978. This target has almost been achieved. Thus, till the end of June 1978, out of the 697 unbanked community development blocks in the country, offices were opened in 619 blocks, and licences/allotments for opening offices in another 62 blocks were pending with banks. The task of opening of offices in the remaining 16 blocks is being actively pursued. The proportion of bank offices in rural areas to the total which was 22.3 per cent at the time of nationalisation of 14 major banks in July 1969 increased to 38.4 per cent at the end of June 1977 and further to 42.1 per cent at the end of June 1978 (Table 2.3). At the end of 1977, about two-thirds of the branches were accounted for by rural and semi-urban areas.

2.6 While the number of RRBs remained at 48 at the end of June 1978, the number of their branches increased from 780, at the end of June 1977, to 1,405 at the end of June 1978 (Table 2.4).

TABLE 2.1.: STATE-WISE DISTRIBUTION OF BANK OFFICES AS AT THE END OF JUNE 1976, JUNE 1977, DECEMBER 1977 AND JUNE 1978

State/Union Territory	No. of offices as at the end of				Opened during 1976-77 (July to June 1977)	Of which at unbanked centres	Opened during 1977-78 (July to June 1978)	Of which at unbanked centres	Population per bank office (in thousands)		
	June 1976	June 1977	December 1977	June 1978					June 1977	December 1977	June 1978
	1	2	3	4	5	6	7	8	9	10	11
Andhra Pradesh	1,550	1,844	2,041	2,134	296	146	291	220	24	21	20
Assam	263	354	386	414	91	52	60	44	41	38	35
Bihar	953	1,176	1,306	1,397	223	116	222	162	48	43	40
Gujarat	1,711	1,883	2,043	2,077	172	53	194	143	14	13	13
Haryana	530	604	660	674	74	38	70	50	17	15	15
Himachal Pradesh	209	253	283	292	44	25	39	32	14	12	12
Jammu & Kashmir	232	285	325	337	53	41	52	41	16	14	14
Karnataka	1,905	2,138	2,278	2,339	233	109	202	133	14	13	13
Kerala	1,473	1,705	1,945	2,011	232	152	306	238	13	11	11
Madhya Pradesh	1,050	1,247	1,373	1,465	197	85	218	175	33	30	28
Maharashtra	2,381	2,671	2,839	2,913	291	116	243	123	19	18	17
Manipur	13	23	25	32	10	6	9	9	47	43	34
Meghalaya	30	41	43	49	11	6	8	6	25	24	21
Nagaland	14	22	24	29	8	4	7	5	23	22	18
Orissa	382	529	616	660	147	94	131	104	41	36	33
Punjab	1,107	1,271	1,379	1,425	166	44	155	118	11	10	10
Rajasthan	877	1,022	1,121	1,150	146	78	128	94	25	23	22
Tamil Nadu	2,093	2,307	2,481	2,552	216	87	246	181	18	17	16
Tripura	24	49	67	67	26	19	18	12	32	23	23
Uttar Pradesh	2,218	2,714	2,916	3,055	498	217	341	220	33	30	29
West Bengal	1,317	1,626	1,741	1,804	310	141	179	97	27	25	25
Andaman & Nicobar Islands	6	7	10	12	1	1	5	4	16	12	10
Arunachal Pradesh	10	11	11	13	1	1	2	2	43	43	36
Chandigarh	57	71	72	74	14	3	3	1	4	4	3
Dadra & Nagar Haveli	4	4	4	4	—	—	—	—	19	19	19
Delhi	619	709	748	768	92	28	60	7	6	5	5
Goa, Daman & Diu	153	190	208	216	37	25	26	21	5	4	4
Lakshadweep	4	5	5	5	1	1	—	—	6	6	6
Mizoram	2	4	5	6	2	1	2	—	83	67	55
Pondicherry	33	37	41	42	4	1	5	3	13	12	11
TOTAL	21,220	24,802	26,996	28,016	3,596	1,690	3,222	2,245	22	20	20

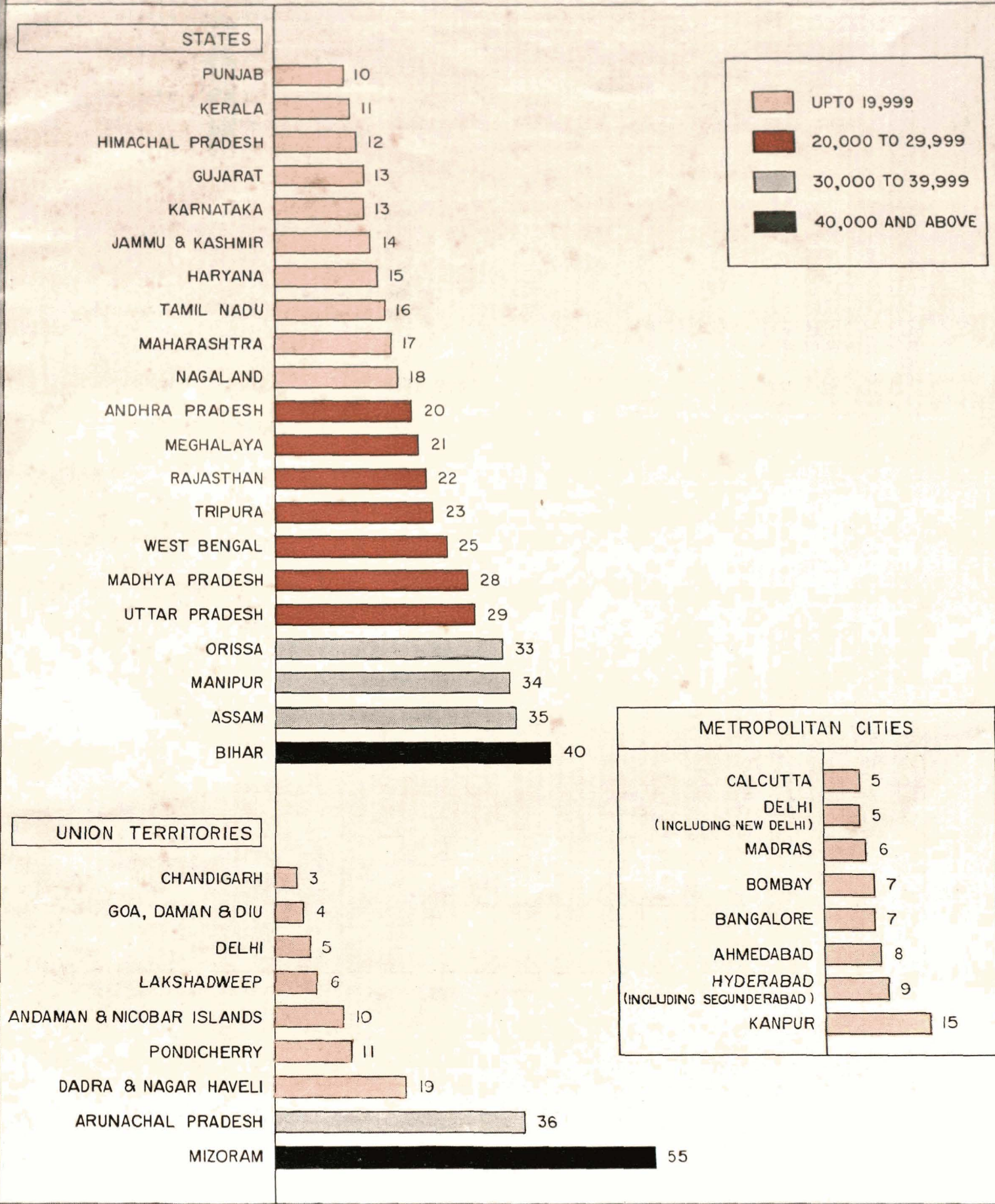
Note: (1) 14 offices were closed during the period July 1976 to June 1977.
(2) 8 offices were closed during the period July 1977 to June 1978.
(3) Data for Sikkim are not readily available.

(Source: Department of Banking Operations and Development, R. B. I.)

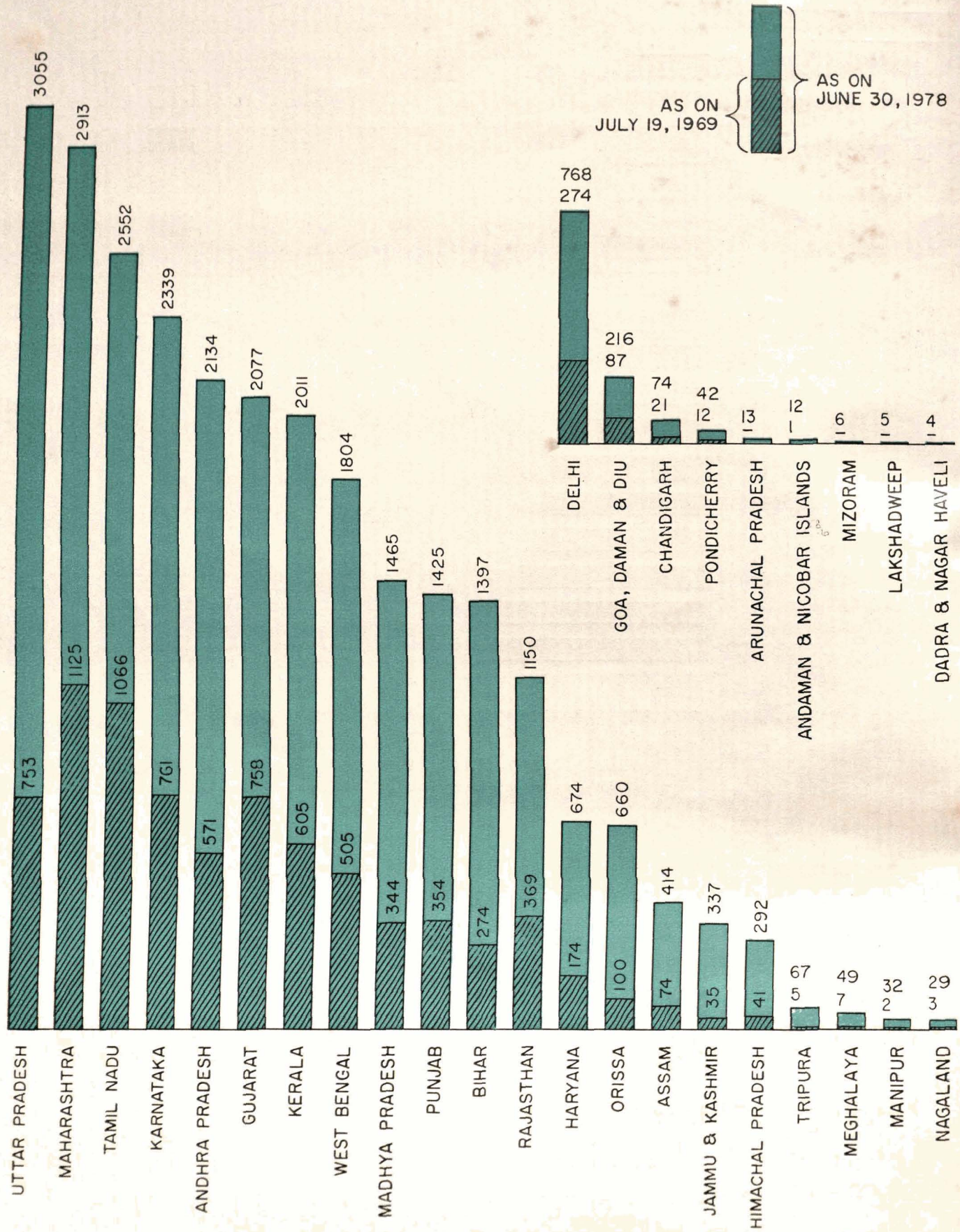
AVERAGE POPULATION PER COMMERCIAL BANK OFFICE

AS ON JUNE 30, 1978

(FIGURES ARE IN THOUSANDS)
DATA BASED ON 1971 CENSUS



NUMBER OF OFFICES OF COMMERCIAL BANKS STATE-WISE



COMMERCIAL BANKING

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TABLE 2.2—BANK GROUP-WISE DISTRIBUTION OF OFFICES OPENED DURING 1976-77 AND 1977-78

Bank Group	New Offices opened by Commercial Banks						Bank Offices as on		
	1976-77			1977-78			June 30, 1977	December 31, 1977	June 30, 1978
	July-December 1976	January-June 1977	July-June 1976-77	July-December 1977	January-June 1978	July-June 1977-78			
	1	2	3	4	5	6	7	8	9
1. State Bank of India	323 (191)	116 (39)	439 (230)	309 (200)	145 (93)	454 (293)	4,359	4,668	4,813
2. Associate Banks of State Bank of India	89 (29)	63 (18)	152 (47)	142 (92)	51 (22)	193 (114)	2,000	2,141	2,192
3. 14 Nationalised Banks	1,119 (357)	419 (231)	1,540 (588)	820 (553)	385 (254)	1,205 (807)	12,543	13,362	13,745
4. Regional Rural Banks	391 (298)	277 (219)	668 (517)	394 (346)	233 (214)	627 (560)	780	1,172	1,405
5. Other Scheduled Commercial Banks	499 (172)	252 (112)	756 (284)	519 (350)	203 (104)	722 (454)	4,858	5,456	5,659
6. Foreign Banks	—	—	—	1 (—)	—	1 (—)	130	131	129
7. All Scheduled Commercial Banks ..	2,421 (1,047)	1,127 (619)	3,555 (1,666)	2,185 (1,541)	1,017 (687)	3,202 (2,228)	24,670	26,930	27,943
8. Non-Scheduled Commercial Banks ..	25 (13)	20 (11)	41 (24)	13 (12)	7 (5)	20 (17)	132	66	73
9. All Commercial Banks	2,446 (1,060)	1,147 (630)	3,596 (1,690)	2,198 (1,553)	1,024 (692)	3,222 (2,245)	24,802	26,996	28,016

Note : Figures in brackets are numbers of unbanked centres in which offices were opened.
(Source : Department of Banking Operations and Development, R. B. I.)

TABLE 2.3—POPULATION GROUP-WISE DISTRIBUTION OF COMMERCIAL BANKS' OFFICES

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

	June 1974	% to total	December 1974	% to total	June 1975	% to total	December 1975	% to total
	1	2	3	4	5	6	7	8
Rural	6,165	36.4	6,631	36.5	6,806	36.3	7,385	36.1
Semi-Urban	5,089	30.0	5,434	29.8	5,569	29.7	6,164	30.1
Urban	2,899	17.1	3,144	17.3	3,267	17.5	3,569	17.6
Metropolitan/Port town	2,783	16.5	2,971	16.4	3,088	16.5	3,308	16.2
Total	16,936	100.0	18,180	100.0	18,730	100.0	20,446	100.0

	June 1976	% to total	December 1976	% to total	June 1977	% to total	December 1977	% to total	June 1978	% to total
	9	10	11	12	13	14	15	16	17	18
Rural	7,687	36.2	8,839	37.4	9,532	38.4	11,092	41.0	11,802	42.1
Semi-urban	6,387	30.1	7,024	29.7	7,211	29.1	7,493	27.8	7,586	27.1
Urban	3,739	17.6	4,135	17.5	4,263	17.2	4,445	16.5	4,542	16.2
Metropolitan/Port town	3,407	16.1	3,657	15.4	3,796	15.3	3,966	14.7	4,086	14.6
Total	21,220	100.0	23,655	100.0	24,802	100.0	26,996	100.0	28,016	100.0

Note : Rural Centres : Places with population up to 10,000. Semi-Urban Centres : Places with population over 10,000 and up to 1,00,000. Urban Centres : Places with population over 1,00,000 and up to 10,00,000. Metropolitan Centres : Places with population over 10,00,000.
(Source : Department of Banking Operations and Development, R.B.I.)

TABLE 2.4—STATE-WISE OFFICES OF REGIONAL RURAL BANKS

(As on June 30, 1978)

States	No. of	No. of
	RRBs	branches
	1	2
1. Andhra Pradesh	3	184
2. Assam	1	25
3. Bihar	7	152
4. Haryana	2	46
5. Himachal Pradesh	1	13
6. Jammu & Kashmir	1	39
7. Karnataka	3	89
8. Kerala	2	87
9. Madhya Pradesh	4	99
10. Maharashtra	1	27
11. Orissa	4	129
12. Rajasthan	3	114
13. Tamil Nadu	1	42
14. Tripura	1	22
15. Uttar Pradesh	10	249
16. West Bengal	4	88
TOTAL	48	1,405

(Source : Department of Banking Operations and Development, R. B. I.)

Offices of Indian Commercial Banks in Foreign Countries

2.7 The branch expansion programme of Indian banks abroad was mainly dictated by factors like the earning of foreign exchange, furtherance of India's trade with other countries and assistance to Indian entrepreneurs in the setting up of joint ventures abroad. Priority was continued to be assigned to the West Asian region and international financial centres. The number of Indian banks' offices abroad [excluding non-functioning offices in Pakistan (17) and Bangladesh (22)] which had risen from 76 at the end of 1975 to 90 at the end of 1976 rose further to 105 at the end of 1977. Out of the 15 offices opened during the calendar year 1977, four were in the U.K., three in Hong Kong, two in U.S.A. and one each in Singapore, Bahrain, South Korea, Umm-Al-Quwain (U.A.E.), Fujeirah (U.A.E.) and Ras-Al-Khaimah (U.A.E.). Among the 11 Indian banks which have their offices abroad, Bank of Baroda alone accounted for 45 offices, followed by Bank of India with 20 offices. Country-wise, the largest concentration of Indian banks' offices was in the U.K. (31) followed by Hong Kong (13), Fiji Islands (10), Kenya (9), Singapore (7) and Mauritius (6). During January-June 1978, Central Bank of

India opened two and Bank of Baroda opened three more offices in the U.K. while Bank of Baroda and Punjab National Bank opened their second branches in Oman and U.K. respectively. Besides, the foreign subsidiary of Bank of Baroda had a total of three offices in Uganda.

2.8 The aggregate deposits of these offices abroad increased from Rs. 864.74 crores, at the end of December 1976, to Rs. 1,232.71 crores (+ 42.6 per cent), as on the last Friday of November 1977. Credit extended by these offices increased by 72.1 per cent, *i.e.*, from Rs. 494.00 crores, at the end of December 1976, to Rs. 849.99 crores as on the last Friday of November 1977.

Deposits : Policy on Interest Rates

2.9 The revised structure of interest rates on deposits, announced on May 27, 1977, along with the credit policy for 1977-78, came into effect from June 1, 1977 except in respect of those on savings deposits, which were effective from July 1, 1977. Savings deposits accounts were bifurcated into transactions-oriented accounts (with cheque facilities) and savings-oriented accounts (without cheque facilities). The former with cheque facilities were allowed a lower rate of interest of 3 per cent per annum and the latter 5 per cent per annum. The previous rate on savings banks account was 5 per cent per annum. The spread between rates of interest on short-term and long-term deposits was widened (Table 2.5).

TABLE 2.5—INTEREST RATES ON DEPOSITS

Class of Deposits	(Per cent per annum)		
	Effective from		
	July 23, 1974	June 1, 1977	March 1, 1978
	1	2	3
I. Current Deposits	Nil	Nil	Nil
II. Savings Deposits	5.00	3.00* 5.00*	4.50
III. Fixed Deposits			
1. Up to 14 days	Nil	Nil	Nil
2. 15 days to 45 days	3.00	3.00	2.50
3. 46 days to 90 days	3.50	3.50	3.00
4. 91 days and above but less than 6 months	5.50	4.00	4.00
5. 6 months and above but less than 9 months	6.00	4.50	4.50
6. 9 months and above but less than 1 year	7.00	5.00	5.00
7. 1 year and above but less than 3 years	8.00	6.00	6.00
8. 3 years and above but up to and inclusive of 5 years	9.00	8.00	7.50
9. Above 5 years	10.00	10.00	9.00

Note : With effect from February 1, 1975, banks with demand and time liabilities of less than Rs. 25 crores were allowed to pay, at their discretion, a rate higher by 0.25 per cent per annum on term deposits up to and inclusive of five years. From October 2, 1975, RRBs were allowed to pay interest at rates higher by 0.50 per cent per annum on savings and fixed deposits up to and inclusive of five years; this was amended to cover the deposits for periods above five years also effective January 1, 1977. However, from June 1, 1977, banks with demand and time liabilities of less than Rs. 25 crores, as also RRBs, have been allowed to pay a rate higher by 0.25 per cent per annum and 0.50 per cent per annum, respectively, on term deposits up to and inclusive of five years.

Savings deposits: (a) effective July 23, 1974, banks with demand and time liabilities of less than Rs. 10 crores were allowed to pay a rate higher by 0.50 per cent, (b) with effect from February 1, 1975, banks with demand and time liabilities between Rs. 10 crores and Rs. 25 crores were allowed to pay a rate higher by 0.25 per cent, and (c) from July 1, 1977, banks with demand and time liabilities of less than Rs. 25 crores, as also RRBs, have been allowed to pay a rate higher by 0.25 per cent per annum and 0.50 per cent per annum, respectively.

*3 per cent for deposits with cheque facilities and 5 per cent for those without cheque facilities.

(Source : Department of Banking Operations and Development, R.B.I.).

2.10 The interest rate structure was further revised on March 1, 1978, the main change introduced being a reduction in deposit rates in the case of deposits with longer maturity. Opportunity was also taken to introduce a more even spread in the rates as between short, medium and long-term deposits. The two categories of savings deposits accounts, introduced on July 1, 1977 were merged into a single savings deposit account with limited cheque facilities (50 cheques for six months) and carrying interest at 4.5 per cent per annum. Interest rates on deposits made under Non-Resident (External) Rupee Accounts (NRER Accounts) and Foreign Currency (Non-Resident) Accounts (FCNR Accounts) were also placed on a par with the interest rates on local rupee deposit accounts, effective March 1, 1978. Further, deposits in FCNR Accounts would be accepted thereafter for a minimum period of one year and a maximum period of five years.

Trends in Deposits

2.11 Between June 24, 1977 and June 30, 1978 deposits mobilised by banks increased by Rs. 4,029.40 crores (+ 21.3 per cent), as compared with Rs. 3,724.93 crores (+ 24.5 per cent) during the corresponding period of 1976-77 (Table 2.6). There was also a significant change in the relative contribution of demand and time deposits; while between end-June 1976 and end-June 1977 demand and time deposits accounted for 31.8 per cent and 68.2 per cent of incremental deposits, respectively, in the corresponding period of 1977-78 the proportions were 46.4 per cent and 53.6 per cent, respectively. The growth rate of demand deposits accelerated from 19.4 per cent to 25.6 per cent, while that of time deposits decelerated from 28.0 per cent to 18.6 per cent.

2.12 There was a significant increase in both categories of non-resident deposits as can be seen from Table 2.7.

Credit Policy

2.13 The credit policy for 1977-78 announced on May 27, 1977 continued to be directed towards restraining monetary expansion but at the same time promoting investment, aiding production and exports and augmenting supplies of essential consumer goods and industrial raw materials through imports. Refinance and rediscount accommodation with RBI were made selective and discretionary. Consequent on the adjustment in deposit rates, banks were advised to reduce lending rates. On December 12, 1977, specific measures to benefit small farmers and to promote capital investment in the agricultural and small-scale sector were taken. The "Small Farmers Window" for refinancing of small loans advanced by banks to farmers was opened by the RBI. In the package of credit policy measures announced on February 28, 1978, in view of the relative stability achieved in price level and the abolition of tax on interest income of banks, a downward revision of lending rates was brought about. In the credit policy for the conventional 1978 slack season, brought into force on June 1, 1978, the emphasis was on tackling

TABLE 2.6—SCHEDULED COMMERCIAL BANKS' DATA

	(Rs. Crores)				
	Outstanding as on			Variations during	
	June 25, 1976	June 24, 1977	June 30, 1978*	1976-77 (2-1)	1977-78* (3-2)
	1	2	3	4	5
1. Aggregate Deposits	15,177.62	18,902.55	22,931.95	+3,724.93	+4,029.40
(a) Demand Deposits	6,106.18	7,289.82	9,159.15	+1,183.64	+1,869.33
(b) Time Deposits	9,071.44	11,612.73	13,772.80	+2,541.29	+2,160.07
2. Total Bank Credit	11,476.05	13,491.02	15,487.55	+2,014.97	+1,996.53
(a) Of which for Food Procurement	2,185.01	2,535.78	2,524.80	+ 350.77	— 10.98
(b) Bank Credit excluding food credit	9,291.04	10,955.24	12,962.75	+1,664.20	+2,007.51
3. Bills rediscounted with the R.B.I.	144.04	116.37	101.32	— 27.67	— 15.05
4. Gross Bank Credit (2+3)	11,620.09	13,607.39	15,558.87	+1,987.30	+1,981.48
5. Investments in Government and other approved securities	4,879.06	6,180.28	7,543.19	+1,301.22	+1,362.91
(a) Government securities	3,443.54	4,352.12	5,493.73	+ 908.58	+1,141.61
(b) Other approved securities	1,435.52	1,828.16	2,049.46	+ 392.64	+ 221.30
6. Cash and Balances with the R.B.I.	979.35	1,562.55	2,667.96	+ 583.20	+1,105.41
7. Borrowings from the R.B.I.	760.34	562.78	334.71	— 197.56	— 228.07
8. Credit-Deposit Ratio	75.6	71.4	67.5		
9. Gross Credit-Deposit Ratio	76.6	72.0	68.0		
10. Credit (excluding food credit)—Deposit Ratio	61.2	58.0	56.5		
11. Gross Credit (excluding food credit)—Deposit Ratio	62.2	58.6	57.0		
12. Investment-Deposit Ratio	32.1	32.7	32.9		

* Provisional.

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

TABLE 2.7—NUMBER OF ACCOUNTS AND OUTSTANDING BALANCES UNDER NON-RESIDENT (EXTERNAL) RUPEE ACCOUNTS AND FOREIGN CURRENCY (NON-RESIDENT) ACCOUNTS

Non-resident (External) Rupee Accounts			
As at the end of	No. of accounts	Amount (In Crores of Rs.)	
March 1978	2,45,307	319.76	
March 1977	1,40,925	185.45	
Foreign Currency (Non-resident) Accounts			
As at the end of	Foreign Currency	No. of accounts	Amount of deposits ('000)
December 1977	£ Stg.	4,658	6,357
December 1976	£ Stg.	2,175	2,015
December 1977	U.S. \$	23,140	115,856
December 1976	U.S. \$	9,455	44,746

(Source : Exchange Control Department, R.B.I.)

the emerging excess liquidity in the banking system. The details of the credit policy measures are reviewed below.

2.14 The credit policy for 1977-78, announced on May 27, 1977, continued to stress on restraining overall monetary expansion in view of the large expansion in money supply which had taken place in 1976-77. In the early part of 1977, there was also some pressure on the general price level, which supported a cautious approach to monetary growth. The prescribed cash reserve and liquidity requirements remained unchanged. The rate of interest on impounded deposits payable by the RBI to banks was enhanced from 5.5 per cent to 6.0 per cent per annum, effective June 1, 1977. As there was a greater need to restrict the use of created money, refinance and rediscount accommodation with the RBI were made selective and at the discretion of the RBI¹. Effective June 1, 1977 the base level of food procurement credit not eligible for refinance was raised from Rs. 1,000 crores to Rs. 1,500 crores. In view of the need for further stimulus to long-term capital investment, banks were advised to lower the rate of interest on term loans granted for capital investment to industry for periods of not less than three years from the existing ceiling of 14-15 per cent to 12.5 per cent. Banks were called upon to pass on the benefit of interest savings on deposits and higher earnings on additionally impounded deposits to their borrowing constituents, particularly in the priority sectors, by appropriate reductions in their lending rates.

2.15 The RBI advised scheduled CBs on December 12, 1977 that while there was a continuing need for vigilance on the credit front, some further expansion of credit to the commercial sector was necessary to sustain production and trade during the coming months. As an inducement to banks to increase their lending to small farmers, a "Small Farmers Window" was opened : direct individual loans granted to small farmers after January 1, 1978, for an amount not exceeding Rs. 2,500 each, whether extended as short, medium or long-term credit would be eligible for refinance up to 50 per cent of the loan from the RBI at Bank Rate, *i.e.*, 9 per cent. Banks were required to charge not more than 11 per cent on such loans, irrespective of whether refinance was obtained from RBI or not. These loans were eligible for inclusion under priority sector lending by banks.

2.16 In order to stimulate capital investment in the small-scale sector in general, banks were told to charge a rate of interest not exceeding 11 per cent on term loans of maturity of not less than three years to small-scale units covered under the Credit Guarantee Scheme and units promoted by technician-entrepreneurs covered by the Special Guarantee Scheme, small road transport operators and small units in specified backward districts/backward areas. For promoting private farm investment in the agricultural sector, banks were advised to charge a rate of interest not exceeding 10.5 per cent on term loans with maturity of not less than three years given to farmers for purposes of minor irrigation and land development and

1. For details see *Reserve Bank of India, Annual Report 1976-77*, p. 9.

a rate not exceeding 11 per cent on term loans with a maturity of not less than three years granted to farmers under the category of "diversified purposes", as defined by Agricultural Refinance and Development Corporation (ARDC) (including dairy farming, poultry, fisheries, horticulture, etc). Irrespective of whether a bank utilised refinance facility from the Industrial Development Bank of India (IDBI) or the ARDC, the maximum lending rates were applicable to all new loans issued after January 1, 1978. Such loans were eligible for inclusion under priority sector advances.

2.17 Basically, the abolition by the GOI of the tax on interest income of banks in the budget proposals for 1978-79 required that the benefit of this relief to banks was passed on to borrowers. The price level had declined marginally during the year ; on a point-to-point basis, wholesale prices recorded a fractional decline of 0.9 per cent during the period March 26, 1977 to February 11, 1978 in sharp contrast to a rise of 12.2 per cent during the same period in the previous year.¹ In this context it was felt that some reduction in the lending rates, which had earlier been raised due to rapidly rising prices, was warranted. Thus, a downward revision in lending rates of banks was brought about as part of the credit policy package announced on February 28, 1978 (Appendix). The underlying approach to reduction of lending rates was that sizeable reduction should take place in the upper ranges of interest rates. At the same time, banks were cautioned that the reduction should not be construed as a move towards a cheap money policy. It was expected to have, through a reduction in cost of production, a salutary impact on the price level. The general framework in which monetary and credit policies would operate would continue to be one of restraint. Thus, the Bank Rate remained unchanged at 9 per cent and access to the RBI for refinance was further restricted (see next para). However, there was a reduction from 10 to 9 per cent in the rate of interest at which food credit refinance would be made available. Similarly, the rate of interest on export refinance was also reduced from 10.5 per cent to 10.0 per cent. These were intended to facilitate some reduction in the lending rates of banks.

2.18 Sizeable increases in money supply which had taken place for two successive years — 18.8 per cent in 1976-77 and 15.4 per cent in 1977-78 — were certainly high in relation to the growth of national income. Further, towards the beginning of the financial year 1978-79, certain symptoms of excess liquidity build-up began to manifest themselves. These trends in the surge in liquidity had, further, to be seen in the context of only a moderate growth in national income which seemed likely for 1978-79. In view of the excess liquidity with banks the magnitude of refinance facilities available from the RBI was restricted. This was done as part of credit policy for the conventional slack season brought into effect on June 1, 1978. In regard to food credit, for example, the level at which refinance would become available was raised from Rs. 1,500 crores to Rs. 2,000 crores. As banks hardly made any use of the "DTL

1. Data on wholesale prices were available up to February 11, 1978 at the time of formulation of credit policy.

refinance" under which banks were entitled to refinance to the extent of 1 per cent of their demand and time liabilities as on the last Friday of March 1977, provided the borrowings were against Government securities and other approved securities, it was decided to do away with the facility. Where purely temporary accommodation for meeting clearing imbalances was required, the RBI could arrange to provide it at the Bank Rate under discretionary or stand-by arrangements. Besides the above two measures, which were brought into effect from June 1, 1978, a third measure was introduced requiring banks to deposit with the RBI, in terms of rupees, the equivalent of one-half of the net aggregate amount accruing after June 1, 1978 to each bank under the NRER Accounts and FCNR Accounts. This was decided in order to ensure that at least the secondary impact on money supply due to inflow of resources into these accounts from abroad was neutralised. These special deposits would carry an interest of 6.5 per cent per annum. It was further decided that, with effect from June 1, 1978, the interest on cash reserves of banks with the RBI above the statutory minimum (including 10 per cent incremental reserve) would be raised from 6.0 per cent to 6.5 per cent.

2.19 The GOI formulated a scheme of rupee finance to cover import of capital goods to ensure that the non-availability of rupee finance does not come in the way of implementation of projects for which Government is willing to allocate foreign exchange. As a support to this policy, the RBI extended on April 27, 1978 a special refinance facility at Bank Rate to the full extent of the loan provided by CBs. The period of the loan should not exceed 10 years and the rate of interest chargeable by banks is restricted to 11 per cent per annum.

Credit Trends

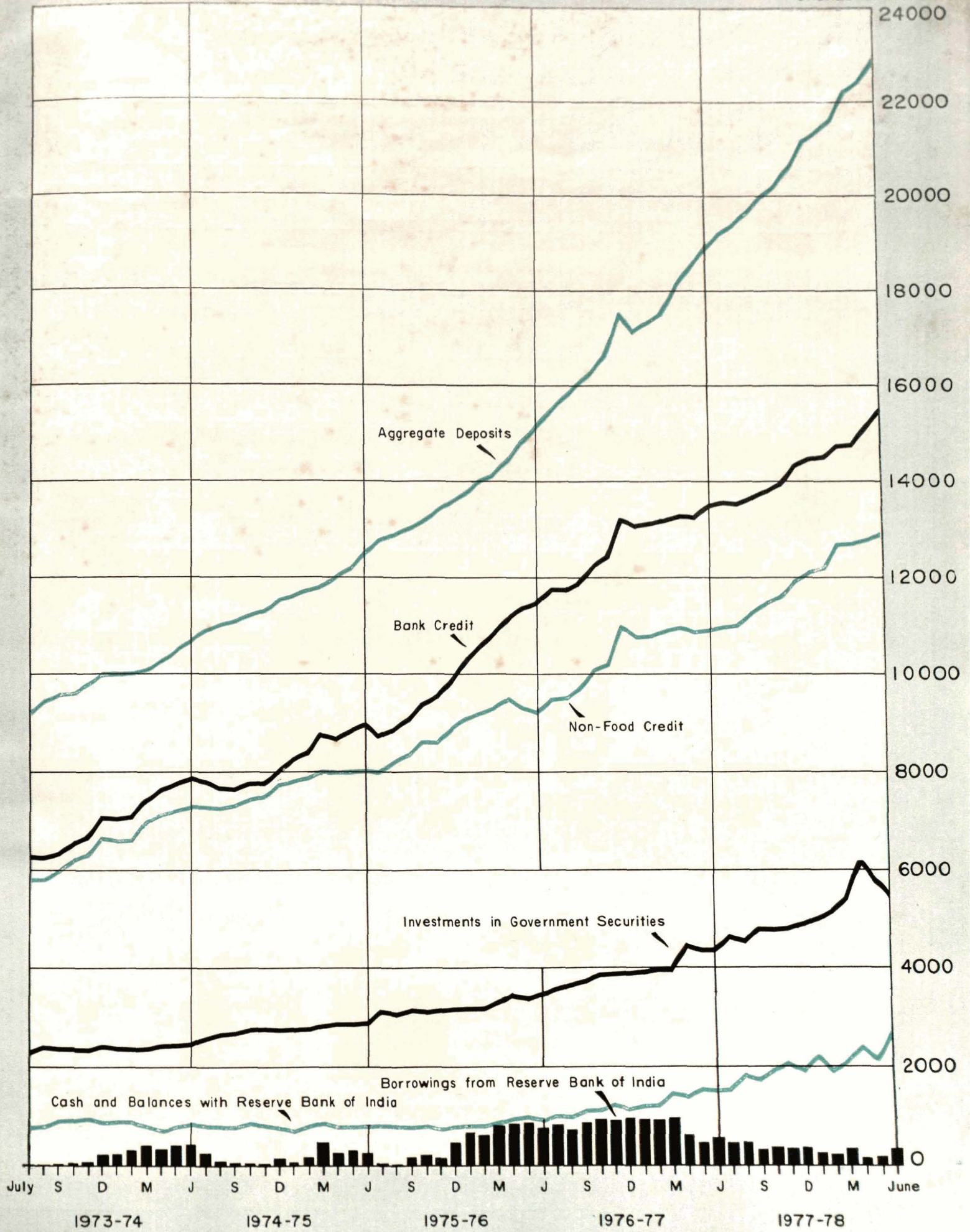
2.20 During the year end-June 1977 to end-June 1978, the rise in gross bank credit at Rs. 1,981.48 crores (+ 14.6 per cent) was marginally lower compared to Rs. 1,987.30 crores (+ 17.1 per cent) during the same period in the previous year (Table 2.6). While food procurement credit declined by Rs. 10.98 crores in sharp contrast to a rise of Rs. 350.77 crores in the previous year, the non-food credit rose by Rs. 1,992.46 crores during the year as compared to an increase of Rs. 1,636.53 crores during the same period earlier. Consequently, the gross credit-deposit ratio at 68.0 per cent, as on June 30, 1978, was lower by four percentage points over the level a year ago (72.0 per cent).

Term Lending by Commercial Banks

2.21 The RBI has taken from time to time certain measures to encourage term lending by CBs. As a result, their involvement in term lending has grown considerably. The total number of term-loan accounts increased from 89 thousands, at the end of December 1972, to 196 thousands at the end of June 1976, recording a rise from 21.4 per cent to 30.5 per cent of the total number of all accounts (Table 2.8). Total credit limits sanctioned for term loans were slightly more than doubled from Rs. 840

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

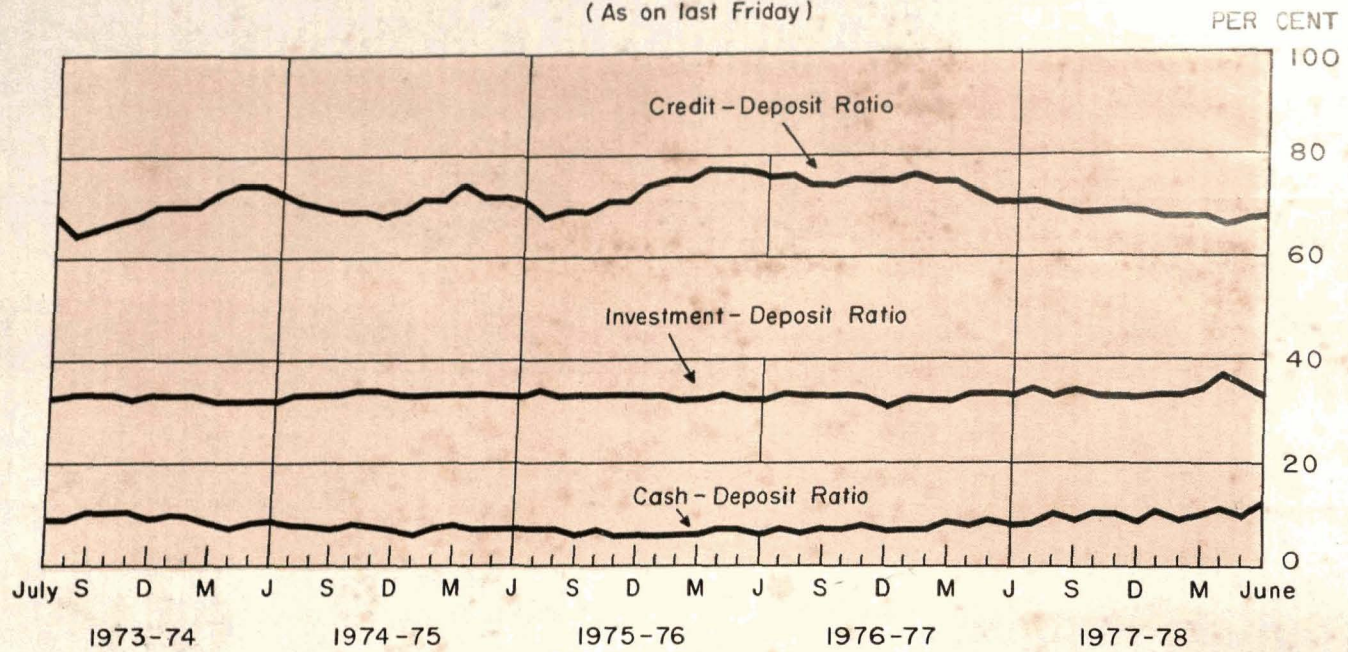
CRORES OF RUPEES
24000



4

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

(As on last Friday)



5

SECTORAL DEPLOYMENT OF GROSS BANK CREDIT VARIATIONS DURING 1976-77 AND 1977-78 (JULY-JUNE)

(PERCENTAGES)

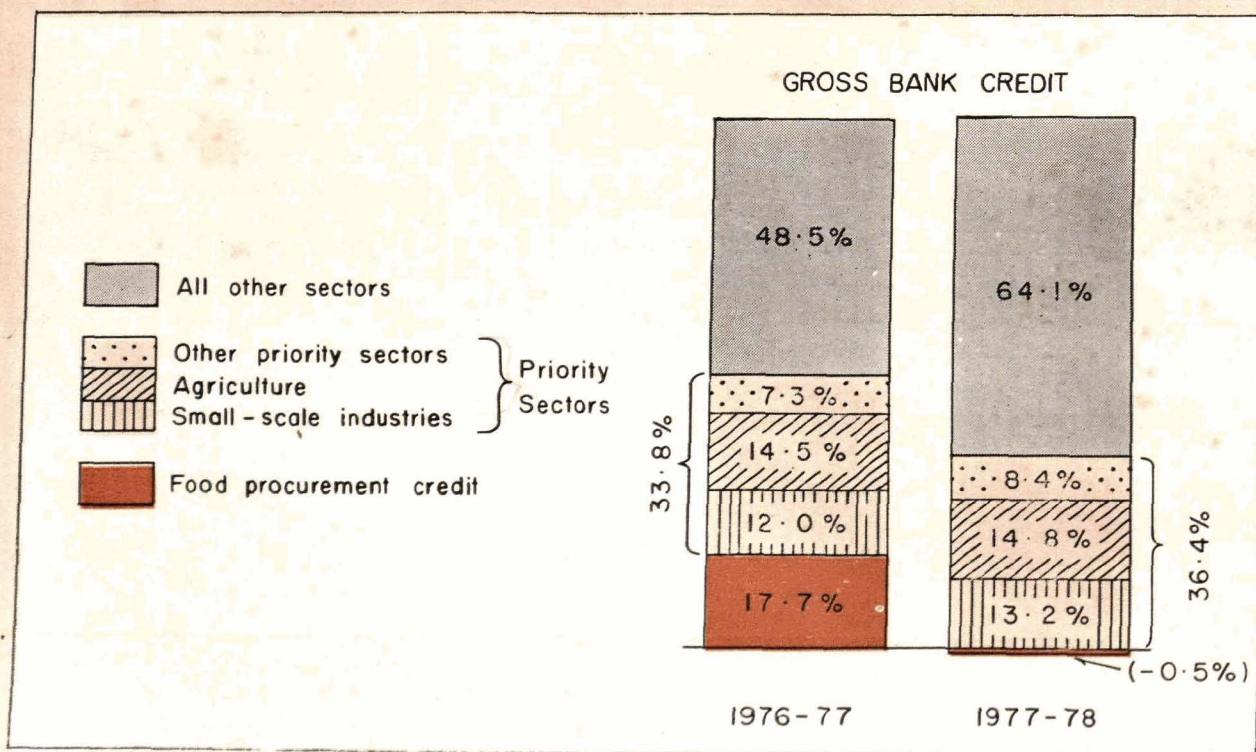


TABLE 2.8—SCHEDULED COMMERCIAL BANKS' TERM LOANS (OUTSTANDING) 1972-76

(Amount in Crores of Rupees)

As on last Friday	No. of Accounts		Credit Limit		Amount Outstanding		Total Bank Credit excluding food procurement advances
	Term Loans	Total of all accounts	Term Loans	Total Bank Credit	Term Loans	Total Bank Credit	
	1	2	3	4	5	6	
December 1972	89,231 (21.4)	416,567	839.5 (8.7)	9,702.0	601.1 (11.9)	5,051.4	4,892.8 (12.3)
June 1973	103,340 (22.4)	460,384	973.8 (9.3)	10,427.6	705.7 (12.2)	5,771.1	5,303.4 (13.3)
December 1973	119,385 (23.4)	509,424	1,067.4 (9.4)	11,369.8	832.3 (13.0)	6,395.9	6,044.9 (13.8)
June 1974	129,894 (24.3)	535,204	1,279.8 (9.9)	12,880.7	924.0 (12.7)	7,288.8	6,765.3 (13.7)
December 1974	141,701 (25.7)	550,330	1,354.1 (11.0)	12,361.5	1,020.9 (13.9)	7,359.1	7,142.6 (14.3)
June 1975	152,999 (26.7)	572,306	1,554.7 (11.4)	13,589.3	1,148.3 (14.0)	8,180.2	7,384.8 (15.6)
December 1975	171,536 (28.4)	605,046	1,611.5 (11.1)	14,468.2	1,307.0 (14.5)	9,029.8	8,093.5 (16.2)
June 1976	196,123 (30.5)	643,382	1,840.0 (11.0)	16,739.7	1,516.4 (14.4)	10,568.2	8,383.2 (18.1)

Note : Figures in brackets indicate percentage of term loans to total in cols. 2, 4 and 6 as the case may be. Figures in brackets under col. 7 indicate percentage of term loans under col. 5 to total in col. 7. (Source : Basic Statistical Returns)

crores at end-December 1972 to Rs. 1,840 crores at end-June 1976. The outstanding term loans were at Rs. 601 crores accounting for 11.9 per cent of total bank credit, at the end of December 1972; they rose to Rs. 1,516 crores constituting 14.4 per cent of total credit at the end of June 1976.

Selective Credit Control

2.22 The general framework of Selective Credit Control was kept unchanged and banks were required to keep tight control on advances against commodities in short supply. At the same time, attempts were made during the year to relax the regulations on advances against commodities, the supply position of which was comfortable, or for maintaining production. The main changes introduced during the year are briefly indicated below.

2.23 In November 1977, scheduled CBs were advised to ensure that the credit made available by them against stocks of pulses and edible oils (including *vanaspati*) was in consonance with the stock limits prescribed by the GOI. The amount of credit outstanding against the security of any of these commodities to any individual party should not exceed the

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value of the maximum stocks thereof, prescribed by Government, or 100 per cent of the peak level of credit maintained by the party with the bank in any of the three preceding years, *viz.*, 1975-76, 1974-75, 1973-74 (November-October), whichever is lower.

2.24 The exemption limit in respect of minimum margin and level of credit stipulation for advances covered by a credit guarantee scheme of the Credit Guarantee Corporation of India Ltd., and coming within the purview of the directive on advances against foodgrains, was raised to Rs. 50,000/- from the previous level of Rs. 25,000/-. A similar relaxation was provided in respect of advances against foodgrains covered by the Credit Guarantee Organisation and those granted to processing/manufacturing units covered under Rural Industries Projects. It was also decided that the relevant period for determining the permissible level of credit in respect of a party would be related to the peak level of advances against foodgrains and cotton and *kapas* outstanding per party during any of the preceding three years (November-October) *viz.*, 1975-76, 1974-75 and 1973-74 instead of the years 1974-75, 1973-74 and 1972-73.

2.25 The *vanaspati* manufacturers appeared to be facing difficulties in their production activities due to the minimum margin requirements on advances against imported vegetable oils. Hence, advances to them against the security of imported oils, used as raw materials in the manufacture of *vanaspati*, were exempted in March 1978 from the minimum margin requirement.

2.26 In view of the decline in the prices of *gur* and *khandsari*, the minimum margin for advances against them was reduced from 60 per cent to 35 per cent for manufacturers of those commodities and from 75 per cent to 45 per cent in respect of other borrowers in March 1978. The minimum margin for advances against warehouse receipts covering these commodities was reduced from 55 per cent to 30 per cent.

Credit Planning

2.27 Credit planning has been undertaken in recent years to ensure that bank credit flows into areas and sectors in consonance with the objectives and targets laid down in Five Year Plans. This planning exercise involves discussions with individual CBs for a meaningful assessment of supply of funds as well as their deployment besides taking a macro-view, on the part of the RBI, on the trends in, and prospects for, the economy. Banks on their part are also expected to hold discussions with their major borrowers so that their projections reflect business intentions more accurately. On the demand side, the RBI holds discussions with major users—in the public and private sectors—with a view to obtaining an idea of the demand for credit. The three major instruments in long-term planning designed to bring about certain structural changes in CBs' operations are national targets for bank lending to priority sectors and in rural areas, Credit Authorisation Scheme (CAS) and Lead Bank Scheme. These are dealt with below.

Sectoral Deployment of Credit

2.28 During the year end-June 1977 to end-June 1978, gross bank credit increased by Rs. 2,118 crores, as compared with an increase of Rs. 1,987 crores during the corresponding period in 1976-77 (Table 2.9). There was a decline of Rs. 11 crores in public food procurement credit in contrast to an increase of Rs. 351 crores during the corresponding period of 1976-77. Non-food gross credit increased by Rs. 2,129 crores as against Rs. 1,636 crores in the earlier year.

TABLE 2.9 : SECTORAL DEPLOYMENT OF GROSS BANK CREDIT

Items	(Rs. Crores)				
	June 1976	June 1977	Variation (2-1)	June 1978	Variation (4-2)
	1	2	3	4	5
I. Gross Bank Credit	11,620	13,607	+1,987	15,725	+ 2,118
Of which					
(a) Public Food Procurement Credit	2,185	2,536 (18.6)	+ 351	2,525 (16.1)	- 11
(b) Priority Sectors	2,815	3,486 (25.6)	+ 671	4,256 (27.0)	+ 770
(i) Agriculture	1,092	1,381 (10.1)	+ 289	1,694 (10.6)	+ 313
(ii) Small Scale Industries	1,222	1,460 (10.7)	+ 238	1,740 (11.1)	+ 280
(iii) Other Priority Sectors	501	645 (4.8)	+ 144	822 (5.3)	+ 177
(c) Industry (medium & large)	5,039	5,372 (39.5)	+ 333	6,209 (39.5)	+ 837
(d) Wholesale Trade (other than food procurement)	809	1,053 (7.8)	+ 244	1,395 (8.9)	+ 342
(e) Other Sectors	772	1,160 (8.5)	+ 388	1,340 (8.5)	+ 180
II. Non-food Gross Bank Credit	9,435	11,071 (81.4)	+1,636	13,200 (83.9)	+2,129
III. Export Credit (included under item II)	977	1,077 (7.9)	+ 100	1,204 (7.7)	+ 127

Note : (1) Data for June 1978 are provisional and relate to major banks which account for about 95 per cent of gross bank credit. These data besides taking into account the bills rediscounted with the RBI, also include bills rediscounted with the IDBI and other approved institutions and participation certificates and hence are not strictly comparable with the data given for the corresponding months of the previous years and with those given in Table 2.6.

(2) Figures in brackets are percentages to totals.

(Source : Credit Planning and Banking Development Cell, RBI).

2.29 Advances to the priority sectors increased by Rs. 770 crores as compared with Rs. 671 crores in the corresponding period of the previous year. At the end of June 1978, priority sector advances constituted 27.5 per cent of total (net) bank credit as against 25.8 per cent a year ago. Advances to priority sectors, however, formed a higher proportion of the incremental credit during 1977-78 (36.4 per cent) than in the previous year (33.8 per

cent). Advances to agriculture at the end of June 1978 amounted to Rs. 1,694 crores and formed 39.8 per cent of the total priority sector advances, compared to 39.6 per cent a year ago. Advances to small-scale industries rose from Rs. 1,460 crores at the end of June 1977 to Rs. 1,740 crores at the end of June 1978 and accounted for 40.9 per cent of the total priority sector advances on the latter date.¹

2.30 It may be recalled that with a view to enlarging the flow of bank credit to neglected sectors, banks were advised by GOI that their priority sector lending should reach a level of not less than one-third of their outstanding credit by March 1979. Special efforts will have to be made if this target is to be attained, because the present ratio is only 27.5 per cent. There is a wide variation amongst banks in respect of the share of priority sector lending in total advances. In fact, some banks have even marginally exceeded the target already whereas there are others which have to bridge a considerable gap.

Regional and Rural/Urban Pattern of Credit Deployment

2.31 As a part of credit planning exercise, considerable attention has been given in the recent years to the reduction in regional imbalances in the deployment of credit. State-wise credit-deposit ratios of bank offices, according to population groups, are given in Table 2.10. It may be pointed out that they do not by themselves reflect the extent to which resources raised by banks in a State are lent or invested therein. Thus, they do not take into account the amount of investment of bank funds in securities of State Governments, debentures of State-level institutions, etc., which help the financing of developmental and infrastructural projects. Further, one should take a note of "migration of credit" also, that is, loans sanctioned by bank offices in a given area and outstanding in their books and hence included in the figure of total credit for the area, may not in all cases relate to the financing of activities in that area. Also, such ratios may tend to be high in some cases because of the low magnitudes of deposits on which they are worked out. Keeping these limitations in view, it may be seen from Table 2.10 that the credit-deposit ratio for the States/Union Territories ranged from 3.2 per cent in Sikkim to 283.7 per cent in Chandigarh at the end of December 1977. Region-wise, the ratio exceeded 60 per cent in all the Regions except the Central Region (46.7 per cent) and North-Eastern Region (40.4 per cent). The variations in this regard between States within each Region are marked with the exception of Central Region wherein the ratio was 54.8 per cent for Madhya Pradesh as against 44.0 per cent in Uttar Pradesh.

2.32 The other aspect of imbalance is that between rural and semi-urban areas, on the one hand, and the urban/metropolitan areas, on the other. At the end of December 1977, the credit-deposit ratio in rural and

1. These data are provisional and are based on a quick return covering broad aspects of deployment of funds received in the Credit Planning and Banking Development Cell of the RBI. The Industrial Finance Department of the RBI receives another return with more details, the data from which are given in the section on "Term Lending by Banks" in Chapter 4.

semi-urban areas for the country as a whole was 55.6 per cent and 47.2 per cent, respectively, as against 82.6 per cent for urban/metropolitan areas (Table 2.10). Among the Regions, it was only in the Southern Region that the ratios in rural and semi-urban areas were as high as 85.5 per cent and 63.9 per cent, respectively; in the remaining Regions the ratios were below 52 per cent.¹ Here too, there are marked variations between States and Union Territories in each Region. By way of illustration, it may be pointed out that the ratio for rural areas (excepting Chandigarh and Delhi) areas varied between 21.2 per cent in Himachal Pradesh and 74.5 per cent in Rajasthan in the Northern Region. The ratio for semi-urban areas in the same Region ranged between 28.8 per cent in Himachal Pradesh and 63.6 per cent in Rajasthan. The unusually low ratios in certain areas have given rise to apprehensions that rural branches could siphon off resources from rural to urban areas. Banks, therefore, have been advised that by March 1979 their rural and semi-urban branches separately should achieve a credit-deposit ratio of at least 60 per cent. The banking system will need to make intensive efforts to reach this target.

Credit Authorisation Scheme

2.33 The CAS was introduced by the RBI in November 1965 as an additional regulatory measure to facilitate the linking of increase in bank credit with Plan priorities. It has played a significant role as a measure of credit regulation in the context of the RBI's policy of credit restraint to curb inflationary pressures in the economy. The Bank has continued its efforts to ensure speedy and smooth switch-over to the new method of lending recommended by the Study Group to frame guidelines for follow-up of bank credit.

Modifications in the Scheme

2.34 On a review of the working of the Scheme, the RBI effected, in May 1978, certain modifications with a view to further streamlining the procedures, delegating more authority to the banks themselves, introducing greater flexibility and facilitating quick decisions. The scope of exemption from the RBI's prior authorisation was modified as under.

2.35 Whenever an application is made to the RBI for authorisation for higher limits, banks may release, pending authorisation, an amount up to Rs. 25 lakhs as hitherto. If 10 per cent of the authorised working capital limit (*i.e.* excluding the categories of limits exempted from prior authorisation) exceeds Rs. 25 lakhs, banks may allow up to that amount (*i.e.* 10 per cent) subject to an over-all ceiling of Rs. 50 lakhs; or banks may allow temporary excess drawings in the limits for short periods, or may allow temporary facilities for a maximum period of three months, without prior authorisation up to 10 per cent of the authorised working capital limits or Rs. 50 lakhs, whichever is less.

1. The names of States included in the various Regions are given in Table 2.10.

TABLE 2.10—STATE-WISE CREDIT-DEPOSIT RATIOS OF OFFICES OF SCHEDULED COMMERCIAL BANKS ACCORDING TO POPULATION GROUPS

(As on last Friday of December, 1977)

Region/State/Union Territory	Rural	Semi-Urban	Urban/ Metropolitan	Total
	1	2	3	4
Northern Region	40.7	50.0	111.0	92.8
Haryana	62.2	59.4	66.1	61.5
Himachal Pradesh	21.2	28.8	—	24.4
Jammu and Kashmir	30.6	50.6	34.5	35.5
Punjab	30.3	42.9	48.9	42.3
Rajasthan	74.5	63.6	57.9	62.0
Chandigarh	9.4	—	284.3	283.7
Delhi	475.0	—	123.7	123.9
North-Eastern Region	29.8	32.9	63.7	40.4
Assam	30.7	38.4	64.8	45.5
Manipur	40.7	—	50.8	47.8
Meghalaya	22.8	18.3	—	18.7
Nagaland	4.5	31.9	—	25.8
Tripura	63.9	30.3	—	36.1
Arunachal Pradesh	8.1	—	—	8.1
Mizoram	11.1	6.1	—	6.3
Sikkim	—	3.2	—	3.2
Eastern Region	48.0	28.8	73.5	61.2
Bihar	68.6	30.3	43.0	39.5
Orissa	57.5	56.7	58.0	57.5
West Bengal	29.2	21.4	79.3	69.1
Andaman and Nicobar Islands	29.2	17.7	—	19.4
Central Region	51.4	45.9	45.9	46.7
Madhya Pradesh	66.5	51.6	54.1	54.8
Uttar Pradesh	47.6	43.8	43.1	44.0
Western Region	44.8	43.7	77.1	69.5
Gujarat	33.5	35.9	71.2	54.1
Maharashtra	73.4	53.4	78.3	76.1
Dadra and Nagar Haveli	116.0	—	—	116.0
Goa, Daman and Diu	25.2	47.2	—	40.1
Southern Region	85.5	63.9	88.5	81.3
Andhra Pradesh	113.1	69.9	65.5	72.5
Karnataka	84.1	76.9	85.4	83.4
Kerala	50.5	45.9	86.0	61.3
Tamil Nadu	101.0	68.9	105.8	96.7
Lakshadweep	5.3	—	—	5.3
Pondicherry	103.3	42.7	71.4	70.9
ALL INDIA	55.6	47.2	82.6	72.2

(Source : Basic Statistical Returns)

2.36 The total facilities under these two heads by all the financing banks should not exceed Rs. 50 lakhs. Such facilities sanctioned by banks other than temporary excess drawings for short periods should be immediately reported to the RBI.

2.37 Term loans up to Rs. 50 lakhs from the entire banking system in a period of a year (July-June) to a borrower engaged in industries listed under high-priority category for investment in capital assets would not require prior authorisation, irrespective of whether the party is covered under the CAS or not.

2.38 Term loans allowed on a *pari passu* basis with the Industrial Finance Corporation of India (IFCI) and/or the Industrial Credit and Investment Corporation of India Ltd. (ICICI) have been exempted from the requirement of prior authorisation, besides those to be allowed on a *pari passu* basis with the IDBI and the ARDC.

2.39 Banks were advised that all individual term-loan proposals for amounts exceeding Rs. 50 lakhs should normally be made in consultation with the IDBI or other concerned term-lending institutions. If the IDBI or the IFCI or the ICICI participates in the term loans, prior authorisation will not be required, but, if there is no participation of any of the aforesaid term-lending institutions, prior authorisation will be required.

2.40 In cases where the share of the banking system in term loans and deferred payment guarantee facilities to be allowed for a project is more than Rs. 25 crores, prior authorisation therefor would be required hereafter, though the term loans, etc., may be allowed in participation with the IDBI, the IFCI or the ICICI or the ARDC.

Scheme for Rupee Finance to Cover Import of Capital Goods

2.41 As regards rupee term loans allowed by banks, if the loans are for an *ad hoc* import of certain specific items of machinery which are not part of an over all project or expansion/modernisation scheme financed by the bank, the RBI's prior authorisation therefor will not be necessary.

2.42 All term loans allowed by banks in terms of the discretion vested in them as above have to be reported to the RBI immediately.

Working of CAS

2.43 During the period from July 1977 to March 1978, the number of parties covered under the scheme increased from 890 (at the end of June 1977) to 950 (at the end of March 1978), inclusive of public sector undertakings numbering 173 as against 159 at end-June 1977. The total limits in force relating to the parties covered under the CAS at Rs. 10,114 crores, at the end of March 1978, showed an increase of Rs. 275 crores during the period end-June 1977 to end-March 1978 as against

an increase of Rs. 711 crores in the corresponding period of the last year, reflecting a substantial fall of Rs. 436 crores. This decline in the additional credit sanctioned was under trading account : the food procurement advances declined by Rs. 183 crores during the period in contrast to an increase of Rs. 128 crores in the previous year and, further, the additional credit authorised for raw cotton and fertilizer distribution at Rs. 10 crores and Rs. 29 crores, respectively, was lower compared with Rs. 139 crores and Rs. 151 crores, respectively, in the previous year. The credit limits in respect of public sector undertakings showed a decline of Rs. 43 crores as against a rise of Rs. 496 crores in the previous year. The share of private sector in the incremental credit amounted to Rs. 317 crores compared to Rs. 215 crores in the same period in 1976-77.

2.44 The pattern of purpose-wise distribution of the total limits in force at the end of March 1978 remained more or less unchanged from the previous year position, *i.e.*, 89.1 per cent were for working capital purposes (including packing credit and bills), 7.6 per cent for term finance and 3.3 per cent for sale of machinery on deferred payment basis. Activity-wise, of the total limits in force of Rs. 10,114 crores at the end of March 1978, trading accounted for about Rs. 3,767 crores (37.2 per cent). Under trading food procurement alone claimed Rs. 2,580 crores or 25.5 per cent of the total limits in force. Among industries which together accounted for Rs. 5,686 crores (56.2 per cent), engineering and cotton textiles claimed Rs. 1,606 crores (15.9 per cent) and Rs. 770 crores (7.6 per cent) respectively of the total limits. Of the total credit limits in force of Rs. 5,466 crores relating to public sector, trading accounted for about 63.1 per cent (the share of food procurement being 47.2 per cent), engineering 8.7 per cent, electricity undertakings 5.0 per cent and basic metal and metal products (iron and steel) 3.9 per cent.

Lead Bank Scheme

2.45 The High Power Committee, appointed in March 1976 by the RBI for the purpose of examining the progress of the Lead Bank Scheme, considered the question of adoption by lead banks of a common methodology for the implementation of credit plans. It was also decided that since the guidelines prepared by State Bank India for its offices were comprehensive enough, these could be adopted by other lead banks also to the extent feasible. The Committee also discussed the role expected to be played by the officers of the RBI in the implementation of the Scheme, particularly at the meetings of District Consultative Committees.

2.46 Banks prepared district credit plans in respect of 377 districts, of which plans in respect of 359 districts were launched by June 30, 1978. The work relating to the preparation of credit plans of the remaining five districts was expected to be completed by March 31, 1978.¹

1. District credit plans were completed in respect of three more districts by end-July 1978.

2.47 The Union Territory of Goa, Daman and Diu was also brought within the purview of the Lead Bank Scheme. The lead responsibility in respect of Goa and Daman was assigned to State Bank of India and that for Diu to State Bank of Saurashtra.

2.48 At the fourth meeting of the Regional Consultative Committee for the Central Area held on November 19, 1977, it was decided that the RBI should conduct a random check on how the district credit plans are being implemented by the lead banks and other participating institutions/agencies. Accordingly, it was proposed to launch surveys in three districts, viz., Farukhabad (Uttar Pradesh), Seoni (Madhya Pradesh) and Jaisalmer (Rajasthan).

Credit to Industries

2.49 In this section the flow of bank credit to certain selected industries is taken up for discussion.

(i) Sugar Industry

2.50 The policy for extending bank finance to sugar mills during the 1977-78 crushing season remained largely the same as in the previous season and banks were allowed to sanction credit limits to individual sugar mills on merits to the extent of the maximum outstandings under the regular limits sanctioned to them for the 1976-77 season, without obtaining RBI's prior authorisation under the CAS. Besides, banks were also allowed to sanction additional credit limits up to Rs. 25 lakhs for a maximum period of three months without prior authorisation. Subsequently in May 1978, this ceiling was further relaxed and banks were allowed to sanction temporary excess drawings in the limits/additional limits for a maximum period of three months without prior authorisation up to 10 per cent of the authorised working capital limits or Rs. 50 lakhs, whichever is less. If any further limit was considered necessary, or if the temporary limit was required to be extended beyond three months, banks could do so after obtaining prior authorisation, where such borrowers were covered under the Scheme. In the case of borrowers falling outside the purview of the Scheme, it would be open to the banks to consider sanctioning of credit limits on merits, without reference to the RBI, after satisfying themselves of the genuineness of the need for such limits.

2.51 With a view to ensuring prompt payment of cane dues to sugarcane growers, the RBI advised banks to watch the position from the control data to be obtained by them from the sugar units. In the case of sugar mills which proved to be habitual defaulters in making payment to sugarcane growers, banks were advised to obtain such monitoring data preferably once a week. It was reiterated that dues of the cane growers would have a first charge on the drawing power against the stocks of sugar and that funds from the cane price payable account should not be allowed to be utilised by the mills for other requirements. Certain sugar mills had made a demand for clean loans on account of a fall in sugar prices

resulting in inadequate margin cover for borrowings, and the accumulation of stocks due to higher production and lower exports. The RBI permitted banks to grant temporary clean loans to deserving sugar mills to a limited extent not exceeding Rs. 15 lakhs in the case of each unit, without prior reference to it, provided (i) the basic viability of the mill was not in doubt, (ii) the mill had not diverted the funds for other purposes, (iii) it was observing financial discipline and (iv) the phenomenon of cash losses was of a temporary nature. These relaxations were valid till November 30, 1977. These clean loans were, however, to be repaid as soon as possible and in any case not later than May 31, 1978.

(ii) *National Textile Corporation (NTC) Mills*

2.52 The question of providing adequate credit to the NTC Mills continued to receive the RBI's attention. The arrangements with banks for grant of reasonable *ad hoc* limits to these mills, related to their production plans, without prior authorisation, was further extended up to the end of June 1977. The availability of adequate credit limits to these mills has a bearing on their dues to the Cotton Corporation of India (CCI) for cotton supplied to them. The guidelines issued to banks in June 1977, in the light of the discussions then held between NTC representatives and certain banks financing the NTC mills were further modified in March 1978, with a view to ensuring the necessary credit support to the NTC mills, and enabling them to lift cotton from CCI against cash payment.

(iii) *Jute Industry*

2.53 Taking into consideration the recent revival of demand for jute goods, the RBI advised scheduled CBs in August 1977, to consider re-assessing the working capital limits of jute mills keeping in view their viability, genuine production requirements, etc. Banks were also advised that any additional credit provided should not lead to double financing since a substantial part of their credit requirements is met through trade credits, and additional bank credit should be related to additional production and not to finance cash losses. In deserving cases, they might consider fixing margin on a lower level, consistent with normal banking prudence and take a sympathetic view on the request of jute mills for credit facilities against the export subsidy receivable from Government.

2.54 With a view to reducing the scope for the hoarding of raw jute, which was reported to be widely prevalent in Calcutta, and as an immediate measure to regulate the trade in raw jute, all CBs were advised in March 1978 to regulate their advances to jute mills strictly in consonance with the directive regarding stock-holding issued by the Jute Commissioner in February 1978. Banks were directed to undertake urgently a case-by-case review of advances to traders to ensure that bank credit was not used for speculative holding of raw jute. It was also reiterated that banks might take a liberal view in extending finance to weak jute mills.

Financing of Sick Industrial Undertakings

2.55 The Special Cell on sick units in the RBI monitors the performance of CBs in taking corrective measures in regard to the rehabilitation of sick units.¹ In order to have a broad idea of the overall trends in the working of major industry groups and incipient sickness, if any, developing in them, banks have been advised to forward to the Cell quarterly reports indicating the performance of assisted units separately in respect of engineering, textile, sugar, rubber, cement and others. The reports are also to indicate the performance achieved vis-a-vis budgeted estimates, reasons for good or bad performance, industrial relations, profitability, etc. Banks have also been advised to indicate the problems faced by them in reviving sick units.

2.56 In terms of instructions issued to banks in November 1976, they are submitting to the Cell quarterly statements giving brief particulars of all sick units enjoying aggregate bank credit of Rs. 1 crore and above. The data contained in these statements are analysed/reviewed not only as a follow-up measure but also to examine the overall trends of sickness in different industry groups. The information contained in the quarterly statements as at the end of December 1977 revealed that the number of large and medium-sized sick units (*i.e.* those enjoying aggregate bank credit of Rs. 1 crore and above) identified by banks had increased to 289 involving total bank finance of Rs. 858.45 crores as against 241 units involving bank finance of Rs. 609 crores, at the end of December 1976 (These exclude sick textile units taken over by N.T.C.). Engineering/electricals and iron and steel industries were the worst affected (96 units with Rs. 267.35 crores involved) closely followed by textiles [73 units (excluding units taken over by N.T.C.) with Rs. 260.40 crores], jute (30 units with Rs. 79.85 crores), sugar (27 units with Rs. 40.49 crores), chemicals (17 units with Rs. 94.75 crores), rubber (5 units with Rs. 21.22 crores), cement (3 units with Rs. 10.90 crores) and 38 units in the miscellaneous group involving Rs. 83.49 crores.² State-wise, West Bengal and Maharashtra together accounted for 134 units involving Rs. 437.84 crores. This was due to the concentration in these two States of engineering, textile and jute industries which were passing through difficult times.

2.57 The main causes for sickness among medium and large-scale industrial units are mismanagement, power shortage, outmoded machinery, fluctuations in supplies of raw materials and deficiency of demand. Because of forward and backward linkages, sickness in an industry has a tendency to spread to other industries too. The principal causes for sickness among small units are lack of managerial experience, technical incompetence and decline in demand for their products from medium and large-scale industrial units, which are themselves affected by stagnancy in output and demand recession. Many small units face the pro-

1. A unit is considered sick if it has incurred cash losses for one year and, in the judgement of the financing bank, is likely to incur cash losses for the current as well as following year and/or there is an imbalance in the unit's financial structure, that is, when the ratio of current assets to current liabilities is less than 1:1 and debt-equity ratio (total outside liabilities as a ratio of net worth) is worsening.

2. The amount of bank credit involved is given in brackets.

blem of delay in payment of supply bills by Government Departments and large industrial units. Lack of quality consciousness and poor marketing methods are the other contributory factors.

2.58 To ensure that the sick units in the small-scale sector receive proper and timely support, CBs were advised in May 1978 to review the organisational arrangements at their regional offices and at centres where the financing of small-scale industries is concentrated and establish regional cells, having experienced and qualified staff to render monitoring and counselling assistance to small-scale units. CBs were also advised that it is essential not only to detect sickness at incipient stage, but also to provide timely assistance in deserving cases, as delays in decision making might damage the prospects of revival.

2.59 CBs and financial institutions were advised to undertake programmes for nursing most of the sick accounts back to health. Measures were taken to strengthen this attitude in CBs and financial institutions and to help in the formulation of joint programmes for dealing with the problem of sick industries.

Recovery of Agricultural Loans

2.60 The all-India percentage of recovery to amount demanded for repayment in respect of direct agricultural advances granted by public sector banks, which had shown improvement since June 1973 and stood at 50.3 at the end of June 1976, fell to 48.6 at the end of June 1977. A similar trend in the recovery position of all Indian scheduled CBs was observed — from 51.9 per cent, as at the end of June 1976, to 49.8 per cent, as at the end of June 1977.

2.61 The deceleration in the recovery performance of the public sector banks during 1976-77 was observed in all the Regions except the Eastern Region where the percentage of recovery to amount demanded for repayment, rose marginally from 39.9 in June 1976 to 40.2 in June 1977 and in the Northern Region where it remained unchanged at 58.8. An improvement in recovery performance was noticed in the States of Jammu and Kashmir, Punjab, Assam, West Bengal and Tamil Nadu and in the Union Territories of Arunachal Pradesh, Chandigarh and Mizoram.

Bank Finance for Special Purposes

(A) Advances against Fixed Deposit Receipts

2.62 Since April 1969, banks had been allowed to extend credit limits against fixed deposits with them to parties falling within the purview of the GAS without prior authorisation from the RBI, but subject to such limits being reported to the Bank subsequently. This exemption from prior authorisation was withdrawn in October 1977 in order to ensure that the total credit to a borrower was reasonable in relation to his production requirements.

(B) *Bank Finance for Payment of Bonus*

2.63 Consequent on the GOI's decision to restore the minimum bonus of 8.33 per cent to the workmen staff in all industrial units, the need to permit bank finance to industries for making payment of such statutory bonus to their employees became urgent ; and hence the RBI advised banks to consider cases of individual borrowers on merits. In cases where prior authorisation under the CAS was necessary, banks were advised to approach the RBI by furnishing the minimum data in support thereof. Sixty three applications for an amount of Rs. 12.08 crores were received up to December 1977 from banks in this regard and were cleared by the RBI.

(C) *Advances against Gold and Gold Ornaments*

2.64 In the light of gold auctions undertaken by the RBI, the policy towards advances against gold and gold ornaments was further reviewed. Since it is likely that some of the buyers of gold at the auction would approach banks for accommodation against security of such bullion, banks were asked to ensure that no advances are granted against gold bullion and outstanding advances, if any, against gold bullion should be recovered as early as possible, but not later than 30th September 1978. In respect of advances against gold ornaments, they should ensure that such advances are not for speculative purposes.

(D) *Role of Banks in clearing Provident Fund Arrears*

2.65 In the light of one of the recommendations made in a conference of Regional Provident Fund Commissioners convened by the GOI in 1976, the RBI advised all scheduled CBs that, when industrial undertakings approached them for financial assistance, they should ensure that provident fund and similar other statutory dues were paid by the borrowing companies promptly. Wherever necessary, they should obtain a 'No Provident Fund Arrears Due Certificate' from the concerned Provident Fund Commissioner. It was, however, clarified to banks that it would be sufficient to obtain a declaration from the borrowers to the effect that all such dues had been paid, and that only in doubtful cases, they might call for a proof in the form of a receipt of the payment of the dues or a certificate from the auditors of the borrowers or any other similar documents. In the case of sick units, however, where there are arrears for reasons beyond the control of the borrowers, banks may continue to consider such cases on merits.

Regional Rural Banks

2.66 The deposits and advances of 48 RRBs aggregated Rs. 37.11 crores and Rs. 52.27 crores, respectively, on the last Friday of March 1978. Advances granted to small/marginal farmers, landless labourers and rural artisans amounted to Rs. 48.39 crores, that is, 92.6 per cent of the total advances as on that date. The number of Farmers Service Societies (FSS) sponsored/financed by RRBs was 94 at end-December 1977.

2.67 The Refinance Scheme for RRBs introduced in October 1976 continued to be in operation during 1977-78 also. The total refinance limit for each RRB was fixed, as in the preceding year, on the basis of a prescribed formula at 15:50:35 indicating the proportion of RRB deposits, the RBI refinance and the sponsor bank's advances, respectively, in the aggregate lending programme of each RRB. The banks began availing of the facility from the RBI from November 1, 1976. For the refinance year 1977-78, credit limits of Rs. 21.72 crores were sanctioned to 33 RRBs. The amounts outstanding against these limits aggregated Rs. 16.91 crores as on the last Friday of June 1978.

2.68 In terms of a notification issued by the RBI, the provisions of the proviso to sub-section (1) of Section 42 of the RBI Act, 1934 are not applicable to RRBs for a further period of one year with effect from October 2, 1977.¹ As a result, the cash reserve to be maintained by each RRB will be 3 per cent of its total demand and time liabilities (as specified in sub-section (1) of Section 42 of the RBI Act, 1934) as against 6 per cent maintained by other scheduled CBs. Besides, RRBs have been exempted from the purview of the RBI directive requiring the scheduled CBs to maintain with it 10 per cent of the incremental demand and time liabilities from January 14, 1977 onwards. RRBs have also been exempted from maintaining the liquid assets at the enhanced rate of 33 per cent under Section 24 of the Banking Regulation Act, 1949 (BR Act) and the liquid assets to be maintained by these banks are, therefore, 25 per cent, as specified in the Act. As many of the RRBs are still very young institutions, it has been decided to continue these concessions for the time being.

Commercial Banks' Participation in ARDC/IDA/IBRD Programmes

2.69 The involvement of CBs in the implementation of normal ARDC schemes and projects assisted by International Development Association (IDA)/International Bank for Reconstruction and Development (IBRD) through the ARDC is steadily deepening. Up to June 30, 1978, the ARDC sanctioned 4,256 schemes to CBs involving a total financial assistance amounting to Rs. 824.97 crores, of which the Corporation's commitment was to the extent of Rs. 677.93 crores. The disbursements made by the Corporation to CBs amounted to Rs. 341.43 crores up to June 30, 1978. Minor irrigation and farm mechanisation schemes continued to account for a major share in the schemes submitted by banks, the number of such schemes and financial assistance involved therein being 2,267 and Rs. 526.70 crores, respectively. During the year ended June 1978, banks availed themselves of refinance aggregating Rs. 120.26 crores as against Rs. 111.94 crores by the State Land Development Banks (SLDBs) which signifies an increasing involvement of CBs in the formulation of schemes for ARDC refinance.

1. According to Section 42(1) of RBI Act, 1934, every scheduled CB is required to maintain with the RBI on the close of business on any day an average daily balance the amount of which shall not be less than 3 per cent of its demand and time liabilities in India. The Bank may increase the rate to not more than 15 per cent of the total demand and time liabilities. Effective November 13, 1976, under Section 42(1) of the RBI Act, 1934 every scheduled CB is required to maintain with the RBI 6 per cent of its demand and time liabilities in India.

Farmers' Service Societies

2.70 In pursuance of the recommendations of the National Commission on Agriculture, FSS are being organised and financed by CBs, central co-operative banks (CCBs) and RRBs for providing agricultural credit in rural areas. The societies, which are multi-purpose in character, are expected to function as the single contact point for providing credit, other services covering supply of inputs and consumer goods, marketing of produce, custom service for maintenance of agricultural equipments and veterinary assistance as also guidance for adoption of improved agricultural practices, etc. By the end of March 1978, 191 FSS had been set up in 13 States by 18 public sector banks and two private sector banks.

Village Adoption Scheme

2.71 Banks continued to follow the area approach and adopted villages under the Village Adoption Scheme for extending financial assistance for an integrated development of the rural economy. As at the end of June 1977, banks had adopted 49,700 villages and financed 1.3 million farmers to the extent of Rs. 249.79 crores.

Differential Rates of Interest Scheme

2.72 The public sector banks made substantial progress in lending under the Differential Interest Rates Scheme during the period April 1976 to March 1977. There was an increase of 5,83,760 in the number of borrowal accounts from 5,29,204 to 11,12,964 while the amount of loans outstanding increased by Rs. 27.52 crores, from Rs. 24.58 crores to Rs. 52.10 crores. The average amount of loans per account increased marginally from Rs. 464 at the end of March 1976 to Rs. 468 at the end of March 1977. The large increase in lending is attributable to the vigorous steps taken by public sector banks to step up their lendings under the economic programmes for the weaker sections.

2.73 The scheme has now been extended to the entire country with special emphasis for financial assistance to people in rural areas and to scheduled castes and scheduled tribes in particular, as against its restricted operation earlier to selected backward districts and project areas covered by Small Farmers Development Agencies (SFDA)/Marginal Farmers and Agricultural Labourers Agencies (MFAL). It was hitherto being implemented by all public sector banks and three private sector banks with lead responsibilities (*viz.*, Punjab and Sind Bank Ltd., Andhra Bank Ltd., and Bank of Rajasthan Ltd.) only. Under the revised guidelines, apart from the public sector banks and the non-nationalised banks having lead responsibilities which will continue to implement the Scheme, the other non-nationalised banks may also implement it, on a voluntary basis. In terms of the changes recently introduced, banks can enter into agency arrangements with State-sponsored corporations established for the welfare of scheduled castes and scheduled tribes for granting loans to the members of scheduled castes and tribes, subject to certain conditions.

Duty Drawback Credit Scheme 1976

2.74 This Scheme was introduced by the RBI in February 1976 for the grant of interest-free advances up to 90 days by banks to exporters against their duty drawback entitlements, as provisionally certified by customs authorities. The banks, in turn, are eligible to obtain interest-free refinance from the RBI. The Scheme has been working satisfactorily. During the period commencing from November 1, 1977, to June 29, 1978 limits aggregating Rs. 24.60 crores were sanctioned to 34 banks and 26 banks availed themselves of refinance to the extent of Rs. 20.89 crores as on June 29, 1978, the amount outstanding being Rs. 3.63 crores.

2.75 In October 1977, the RBI convened a meeting of the representatives of the leading banks and the Customs Department/GOI to review the working of the Scheme. It was then suggested that the customs authorities may make the payment of the final duty drawback direct to the banks concerned which, in turn, would repay to the RBI the corresponding amount of refinance availed of by them. The suggestion has since been accepted by the Government.

Bills Rediscounting Scheme

2.76 The bill rediscounting facilities to CBs were placed on a discretionary basis with effect from June 1, 1977. The total amount sanctioned by way of bill rediscounting limits as at the end of June 1978 amounted to Rs. 187 crores as against Rs. 138 crores last year. The amount outstanding against these limits, as at the end of June 1978, was Rs. 101 crores as against Rs. 116 crores in June 1977. The rediscount accommodation to CBs was extended at rates of interest ranging between 9 per cent and 12 per cent. The ceiling rate of 12 per cent on the bills rediscounted by the banks with other CBs as well as certain approved institutions prescribed in June 1977 was reduced to 10 per cent with effect from March 1, 1978.

Export Finance

2.77 The Standing Committee on Export Finance, set up in the RBI in 1975, under the Chairmanship of the Deputy Governor in charge of the Department of Banking Operations and Development, met twice during the year and formulated various measures particularly with a view to facilitating the export of capital goods. The commission on bid bonds and export guarantees, issued by banks, was reduced to 1/24th of 1 per cent per month for amounts up to Rs. 1 crore and 1/48th of 1 per cent for larger amounts in cases where the bank guarantees were backed by counter-guarantees of Export Credit and Guarantee Corporation Ltd. (ECGC), covering risk to the extent of 90 per cent of the guarantee value. If ECGC cover was less than 90 per cent, the commission was fixed at 0.05 per cent per month up to Rs. 1 crore and at 0.025 per cent per month for larger amounts. The banks were also advised to refund 75 per cent of the commission charged by them in respect of cancelled bid bonds.

2.78 The Sub-Group, constituted to go into the special features of overseas construction contracts and to frame suitable guidelines for such contracts, finalised the guidelines and published them in September 1977 for the use of banks and exporters.

2.79 In regard to the export refinance, the RBI made some changes in the refinance scheme. Under the policy announced in March 1978, the rate of interest on export refinance was reduced from 10.5 per cent to 10 per cent with effect from March 2, 1978. Further, in May 1978 it was stipulated that refinance would be provided up to 50 per cent of the increase in export credit over the annual average export credit during the calendar year 1977. The bank could avail of the limits either under the Export Bills Credit Scheme or Pre-shipment Credit Scheme. These limits are valid up to March 31, 1979. The availment of export refinance from the RBI by scheduled CBs as at the end of June 1978 was Rs. 22 crores, as against the entitlement of Rs. 87 crores.

2.80 An amount of Rs. 10.10 crores was disbursed to 50 banks towards interest subsidy under the Export Credit (Interest Subsidy) Scheme, 1968, during the period July 1977—June 1978. Of this amount, subsidy in respect of pre-shipment credit amounted to Rs. 5.58 crores and that on post-shipment credit, Rs. 4.52 crores. Up to June 30, 1978, the total amount of subsidy disbursed under this Scheme amounted to Rs. 59.20 crores.

2.81 In addition to the above subsidy, special subsidy from the funds allotted by the Ministry of External Affairs continued to be paid to the IDBI, United Commercial Bank and United Bank of India, on special bank credit extended by them to certain financial institutions in Bangladesh, in respect of shipment of specified capital goods from India.

2.82 The Working Group for clearing proposals for export of engineering goods on deferred payment terms and turnkey projects considered 302 proposals relating to exports on deferred payment basis as also construction contracts and turnkey projects abroad.

Housing Finance

2.83 A Working Group to study the role of commercial banking system in providing finance for housing schemes was set up by the RBI in January 1977 (A reference to this was made in the previous year's Report). The major recommendations of the Group, which has since submitted its Report, are given below.

2.84 Depending upon the resources and the absorptive capacity of the housing market, banks may earmark a certain amount for housing every year. Roughly an additional amount of Rs. 100 crores per annum may be advanced by the banking system as a whole to the housing sector. This will include normal increase of Rs. 25 crores per annum in banks'

(i) housing loans mainly to their own employees and (ii) subscription to guaranteed bonds/debentures of Housing and Urban Development Corporation Ltd. (HUDCO), State Housing Boards, etc. The RBI may allocate to each individual bank the amount that it will invest in, or lend to the housing sector, on the basis of its deposits.

2.85 Banks should not finance construction of private commercial, Government and semi-Government offices and infrastructural construction. However, banks may grant loans (a) for activities which will be eligible for refinance from institutions like the ARDC, and the Rural Electrification Corporation (REC) and (b) to companies or individuals who contract to undertake infrastructural constructions. They may finance certain categories of construction on commercial considerations, but such amount should not form a part of housing finance recommended by the Group. Banks may grant loans as a part of housing finance for construction of (a) residential houses to be built by public housing agencies like HUDCO, Housing Boards, local bodies, individuals, co-operative societies or employers, priority being accorded for financing construction of houses meant for EWS, LIG and MIG¹ (b) educational, health, social, cultural or other institutions which are part of housing project and which are necessary for the development of settlements or townships, (c) shopping complexes, markets and such other centres catering to the day-to-day needs of the residents of the housing colonies and forming part of a housing project and (d) construction meant for improving the conditions in slum areas. As part of housing finance, credit should also be extended (i) to the bodies constituted for undertaking repairs and (ii) for repairs or additions undertaken by individuals in buildings owned and occupied by themselves.

2.86 The cost of raising funds for all CBs has been estimated at 11.5 per cent and hence the Group feels that banks should get an average return of 11.5 per cent on their funds lent for housing purposes. In channelising the funds, 70 per cent of the proposed housing credit of Rs. 75 crores per annum, to start with, may be extended through intermediaries like HUDCO, Housing Boards and other statutory housing agencies, which cater to the housing requirements of less well-to-do sections of the society, at the rate of interest of 10.5 per cent per annum and the rest of the amount (30 per cent) be given as direct finance to other borrowers at an average rate of interest of 13.8 per cent per annum. This combination will ensure an average rate of return of 11.5 per cent per annum to banks on their total housing finance. While the bank credit for meeting the needs of EWS, LIG and MIG could be given by way of indirect finance, within the quantum earmarked for direct finance, banks should give loans to the deserving borrowers at a concessional rate of interest of 11 per cent, provided such credit does not exceed 10 per cent

1 The groups are as below :

- (i) EWS = Economically Weaker Section with income upto Rs. 350 per month.
- (ii) LIG = Low Income Group with income between Rs. 351 and Rs. 600 per month.
- (iii) MIG = Middle Income Group with income between Rs. 601 and Rs. 1,500 per month.

of the total funds earmarked for housing and the amount of an individual loan does not exceed Rs. 2,500/-.

2.87 The Group has expressed a view that the Life Insurance Corporation can, in collaboration with the General Insurance Corporation, contribute more effectively by developing a scheme of insurance of mortgage loans and in creation of a secondary mortgage market. This would encourage the financial institutions to invest more in insured mortgages, since they would be in a position to discount the mortgage papers in the market in case they need funds urgently.

2.88 The Group has recommended the establishment of specialised housing finance institutions at the apex as well as regional/district level to mobilise fresh savings and to impart a thrust to the solution of housing problem. The HUDCO could be strengthened organisationally and financially to perform the functions of a specialised institution at the apex level. It should sponsor the local institutions at the regional or district level to provide credit at reasonable rates and to mobilise savings linked with housing. The Group has also recommended the creation of a Housing Fund by the RBI on the lines of National Agricultural Credit (Long-term Operations) Fund and National Industrial Credit (Long-term Operations) Fund.

2.89 The recommendations of the Group are being processed.

Participation Certificate Scheme

2.90 The Participation Certificate Scheme was placed on a permanent footing from July 1, 1977 and made applicable to all scheduled CBs. The total amount of certificates issued by 23 banks and outstanding, as at the end of March 1978, at Rs. 259.6 crores compared favourably with the outstandings at Rs. 153.5 crores, at the end of March 1977.

Banking Legislation/Regulation

2.91 Following the recommendation of the RBI, the Central Government issued an order amending Regulation 8(1) of the State Bank of India General Regulations, 1955, so that Sikkim and Lakshadweep fall under the jurisdiction of the Local Head Offices at Calcutta and Madras, respectively.

Inspection

2.92 In pursuance of the RBI's programme of periodical inspection of CBs to assess their financial position as well as methods of operation, 29 scheduled CBs, 2 non-scheduled banks and 6 RRBs were inspected or taken up for inspection, under Section 35 of the BR Act 1949, during 1977-78. The comparative position in regard to the financial inspections of banks and bank offices and centre-wise inspections for the last three years (July-June) is indicated in Table 2.11. Besides, the inspection of branches in Thailand and Japan was also completed.

TABLE 2.11—INSPECTION OF COMMERCIAL BANKS

	1975-76	1976-77	1977-78
	1	2	3
Financial Inspection			
Number of banks inspected/taken up for inspection	31	26	37*
Number of offices inspected	787	823	978*
Centre-wise Inspection			
Number of centres	1,492	1,476	1,058
Number of offices	2,328	2,362	1,759

*Excludes banks/offices inspected for the purpose of annual appraisal.

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

2.93 Since the introduction of the programme of study of systems and procedures in banks in 1971, studies of six banks in the public sector and three in the private sector have been completed. The reports are being followed up with the concerned banks to ensure early implementation of the suggestions made therein.

2.94 It has recently been decided to institute a new type of inspection, *viz.*, annual appraisal of banks. Under this, it is proposed to undertake a quick and overall assessment of the working of banks. In a way, it is a sort of management audit and emphasis will be given on examining the organisational set-up, manpower planning, machinery for supervision of and control over branches, funds management and management of credit etc., of banks. This type of inspection will thus include the study of systems and procedures followed by banks. As a result, no separate studies will be made of the systems and procedures followed by banks, in cases where annual appraisal inspection is undertaken. Initially, it is proposed to restrict this type of inspection to all the 22 banks in the public sector and eight large private sector banks. The study of the systems and procedures in respect of the remaining banks in the private sector will be taken up during the course of their financial inspection. The inspection of one public sector bank in Bombay Area, for the purpose of annual appraisal, was taken up on a pilot basis during April-June 1978. Besides its head office, 16 regional managers' offices and 17 major branches spread over the country were inspected.

2.95 A note indicating the major fraud-prone areas, as also the safeguards considered essential for prevention of frauds, compiled in the RBI, was circulated to all CBs with a view to serving as guidelines to them for making a fresh assessment of the steps to be taken for the prevention of frauds.

Bank Mergers and Liquidations(i) *Amalgamations*

2.96 The GOI sanctioned schemes of amalgamations in respect of 49 banks under Section 45 of the BR Act, 1949 about which a reference was made in the last year's Report. In terms of the provisions of the relative schemes, the transferee banks were required to make final valuation of the assets of the transferor banks after a period of 6/12 years or such earlier period as might be sanctioned by the GOI in consultation with the RBI. By the end of June 1978 the final valuation of the assets of 28 banks as provided in the relative schemes was completed, while in the case of ten banks the reports were under consideration. Of the remaining 11 banks, final valuation in respect of seven banks was being pursued.

(ii) *Liquidations*

2.97 During the period under review, ten banks were dissolved including three banks which were dissolved during the earlier periods but the advices in respect of which were received during 1977-78. A certificate under Section 44(1) of the BR Act, 1949 was issued to one bank to enable it to go into voluntary liquidation.

Licensing of Commercial Banks

2.98 During July 1977 to June 1978, licences under Section 22 of the BR Act, 1949, were granted to two banks, viz., Oriental Bank of Commerce Ltd., New Delhi and Dhanalakshmi Bank Ltd., Trichur, raising the number of licensed CBs to 48 (including National Bank of Pakistan, which is under the Custodian of Enemy Property). The 22 public sector banks do not require licences.

2.99 The name of the Dhanalakshmi Bank Ltd., Trichur, was included in the Second Schedule to the RBI Act, 1934.

2.100 As on June 30, 1978, nine banks (including four scheduled banks) were functioning without a licence under Section 22 of the BR Act, 1949.

Clearing House Facilities

2.101 During the period under review, 140 new clearing houses were set up, bringing the total number to 604 as on June 30, 1978. Of these, 11 are managed by the RBI, 482 by State Bank of India and 111 by the Associate Banks of State Bank of India.

2.102 With a view to facilitating admission of new members to clearing houses managed by the RBI, an amendment of the existing rules has been recommended by the RBI. The Bank has issued instructions in order to have uniformity in the practice followed at the offices of the RBI for allowing banks to withdraw against the day's favourable clearing balance. The Managers of the RBI Offices at centres where clearing houses are

managed by the Bank were also advised to initiate steps for making necessary amendments to the relative rules and regulations of the clearing houses, in order to enable non-scheduled CBs and co-operative banks to join as members/sub-members.

Credit Information

2.103 The Department of Banking Operations and Development of RBI continued to assist banks and other notified financial institutions by furnishing information on credit facilities allowed to individual borrowers. During the year July 1977-June 1978, credit information, in respect of 890 applications, was furnished to the applicant banks/notified financial institutions, as against 1,358 applications during the period July 1, 1976 to June 30, 1977.

Inter-Institutional Group on Lending Operations

2.104 The RBI set up an Inter-Institutional Group to elucidate and review the points relating to co-ordination of the lending operations of term lending institutions and CBs. The points for examination by the Group covered the following :—criteria for sharing term loans between term-lending institutions and banks; provision of adequate and timely working capital finance to units to whom term loans (including soft loans) have been sanctioned by the institutions; problems connected with disbursement of soft loans by institutions in cases involving banks; establishment of letters of credit by banks for large amounts before a project is appraised; sharing of securities between institutions and banks; standardisation of documents to reduce the time lag between sanction and disbursement of loans; guarantees by banks for bridging finance; sharing of cash flows; nursing of sick units—in particular financing of cash losses; exchange of information between institutions and banks; and need for an ongoing mechanism for co-ordination. The Group submitted its Report on May 18, 1978.

Working results of Scheduled Commercial Banks

2.105 The working results of 62 scheduled CBs as available in their published profit and loss accounts for the calendar year 1977 along with those for 1975 and 1976 are presented in Table 2.12. In their profit and loss accounts, banks have followed different procedures for providing bonus to staff. Some banks have treated it as an item of expenditure and clubbed the amount with salaries, wages, etc. Some others have stated that the amount payable as bonus as and when disbursed would be paid out of contingency reserves and for this have made provision out of the profits for the year. It is possible that a part of this category of reserves could be for purposes other than bonus payments. Such breakdown of information, however, is not readily available from published accounts. Since bonus payment is a statutory requirement, for purpose of analysis, it would be appropriate to treat it as a part of establishment expenses. Assuming further that the entire provision for the contingency reserves made during the year was for bonus payments,

TABLE 2.12 : WORKING RESULTS OF SCHEDULED COMMERCIAL BANKS

	(Amount in Rupees Crores)								
	State Bank Group			Nationalised Banks					
	1975	1976	1977	1975	1976	1977	1975	1976	1977
I. Total Earnings	451.61	543.38	675.49	853.80	1,064.94	1,263.59			
	(25.9)	(20.3)	(24.3)	(25.1)	(24.7)	(18.7)			
<i>Of which :</i>									
Interest and discount	370.26	449.24	563.47	762.41	946.32	1,132.81			
	(24.4)	(21.3)	(25.4)	(26.7)	(24.1)	(19.7)			
II. Total Expenditure	444.16	534.59	666.63	838.40	1,045.34	1,247.35			
	(25.7)	(20.4)	(24.7)	(24.7)	(24.7)	(19.3)			
<i>Of which :</i>									
(a) Interest paid on deposits, borrowings, etc.	251.08	317.77	409.84	495.87	684.18	829.81			
	(33.1)	(37.5)	(28.9)	(27.6)	(37.9)	(21.3)			
(b) Salaries, allowances, provident fund and bonus/ex-gratia payment to staff	169.97	165.41	196.19	262.84	261.11	301.32			
	(17.1)	(-2.7)	(18.6)	(20.5)	(-0.7)	(15.4)			
III. Profits after provision for taxation and bonus/ex-gratia payment to staff	7.45	8.79	8.86	15.40	19.60	16.24			
	(42.7)	(18.0)	(0.8)	(48.4)	(27.3)	(-17.1)			

	Other Indian Scheduled Commercial Banks@			Foreign Banks			Total		
	1975	1976	1977	1975	1976	1977	1975	1976	1977
I. Total Earnings	126.64	165.35	209.93	119.49	125.75	130.66	1,551.54	1,899.42	2,279.67
	(35.5)	(30.6)	(27.0)	(13.7)	(5.2)	(3.9)	(25.2)	(22.4)	(20.0)
<i>Of which :</i>									
Interest and discount	110.59	143.01	182.64	96.71	98.59	102.06	1,339.97	1,637.16	1,980.98
	(36.4)	(29.3)	(27.7)	(17.7)	(1.9)	(3.5)	(26.1)	(22.2)	(21.0)
II. Total Expenditure	123.54	161.35	206.46	114.23	118.36	125.37	1,520.33	1,859.64	2,245.81
	(36.2)	(30.6)	(28.0)	(15.6)	(3.6)	(5.9)	(25.1)	(22.3)	(20.8)
<i>Of which :</i>									
(a) Interest paid on deposits, borrowings, etc.	66.93	93.35	121.66	49.51	53.43	57.12	843.39	1,148.73	1,418.43
	(40.6)	(39.5)	(30.3)	(9.4)	(7.9)	(6.9)	(28.7)	(36.2)	(23.5)
(b) Salaries, allowances, provident fund and bonus/ex-gratia payment to staff	39.41	44.34	55.75	23.64	23.22	25.99	495.86	494.08	579.25
	(26.6)	(12.5)	(25.7)	(3.6)	(-1.8)	(11.9)	(18.8)	(-0.4)	(17.2)
III. Profits after provision for taxation and bonus/ex-gratia payment to staff	3.10	4.00	3.47	5.26	7.39	5.29	31.21	39.78	33.86
	(12.3)	(29.0)	(-13.3)	(-16.5)	(40.5)	(-28.4)	(26.6)	(27.5)	(-14.9)

@Figures relate to 28 comparable Indian commercial banks in the private sector with deposits of Rs. 10 crores and over.

Note : Figures in brackets indicate percentage variation over the previous year ; figures for 1976 are revised.
(Source : Profit and loss accounts of banks)

the following picture of banks' working results during the year 1977 emerges. Profits for the 62 banks showed a decline of Rs. 5.9 crores or 15 per cent in 1977. This is in contrast to the consistently rising trend noticed in the past. During 1975 and 1976, for example, profits of these banks had increased by about 27 per cent and 28 per cent, respectively.

2.106 Earnings increased during 1977 by Rs. 380 crores to Rs. 2,280 crores. Although this rise was somewhat larger than that in 1976 (Rs. 348 crores), the rate of increase in total earnings was lower at 20 per cent in 1977 as compared with 22 per cent in 1976 and 25 per cent in 1975. Total expenses of these banks also increased by Rs. 386 crores to Rs. 2,246 crores or by 21 per cent during 1977 (Rs. 339 crores or 22 per cent in 1976). As a result, profit after tax and bonus to staff declined from Rs. 40 crores in 1976 to Rs. 34 crores in 1977 (—15 per cent).

2.107 The slower growth in earnings may be attributed to the relatively lower bank credit expansion — the ratio of average outstanding credit to average deposits of scheduled CBs moved down from 76 per cent in 1976 to 73 per cent in 1977—increase in liquidity requirements of banks (in November 1976) and impounding of a part of the incremental deposits from January 1977. Among major heads of expenditure, establishment expenses which had shown a marginal decline of Rs. 2 crores (0.4 per cent) in 1976 shot up by Rs. 85 crores in 1977 to Rs. 579 crores or by 17 per cent. The increase in establishment expenses, may be attributed partly to the larger staff following continued branch expansion and extension of other activities of banks and increase in emoluments of employees such as on dearness allowance. Interest payments which had increased by Rs. 305 crores or by 36 per cent in 1976 rose further by Rs. 270 crores to Rs. 1,418 crores or by 24 per cent in 1977. The slowing down of the rate of increase in interest payments possibly reflects the revision of deposit rates effective June 1977.

2.108 The drop in profit was shared by all bank groups except the group representing State Bank and its Associates. The sharpest decline in profits was recorded by foreign banks (28 per cent) followed by 14 nationalised banks (17 per cent) and other Indian scheduled banks (13 per cent). State Bank and its Associates as a group showed a marginal rise in profit from Rs. 8.79 crores in 1976 to Rs. 8.86 crores in 1977. The rate of increase in profits was, however, down from 18 per cent to barely 1 per cent.

Multi-Agency Approach to Agricultural Financing

2.109 Until the introduction of Social Control over banks in 1968, it was the official policy to develop the co-operative system as the sole agency for meeting agricultural credit requirements. Since 1968, and particularly after nationalisation of 14 banks in 1969, CBs have also been very much involved in purveying agricultural credit. Special institutions like RRBs have also been set up to meet the requirements of specific areas. Thus in view of the scope for more than one agency to operate in the field

of agricultural credit and the weakness of the co-operative structure in certain parts of the country, the multi-agency approach to agricultural financing has been in operation for nearly a decade. A number of problems bearing on the overlapping and duplication of banking facilities have however arisen calling for some measure of co-ordination. The RBI constituted a Working Group in August 1976 to study the problems arising out of the adoption of multi-agency approach in agricultural financing and make appropriate recommendations. Another Committee was set up by the RBI in June 1977 to review the working of RRBs and make recommendations with regard to the scope, methods and procedure of their functioning and other matters germane to the enquiry. Some of the major recommendations of the Working Group/Committee are indicated below. The views taken by the RBI on them are given in the section on "Follow-up of Recommendations".

Working Group on Multi-Agency Approach in Agricultural Financing (Kamath Working Group)

2.110 According to the Group, a geographical demarcation rather than a functional jurisdiction for each of the credit agencies is considered more appropriate and practical. In providing credit for agriculture and allied activities, the prime role would have to be that of the co-operatives in view of the fact that only the co-operatives possess the organisational potential to reach out to the millions of small and scattered farmers and establish grass root contacts; the co-operative network is already vast and can be further extended/strengthened/improved with comparatively greater ease and at lower cost. CBs/RRBs have, therefore, to play a supplementary role; until the co-operatives at the field level are well established and placed on a viable footing, however, CBs/RRBs will have to supplement the credit disbursal of the weak co-operatives and also finance such other rural development activities as are not normally undertaken by them. To facilitate area demarcation between different institutional lending agencies, there is need for compiling an objective report for each district on the efficiency/efficacy of co-operative institutions.

2.111 The Group has made recommendations on the role of CBs in financing societies classified into different categories based on their viability and the strength of the concerned CCBs. While CBs/RRBs may lend directly to farmers wherever necessary in the areas served by primary co-operative credit societies but without entering into competition *inter se*, it should be ensured that members of societies are not financed in such a way as to weaken the co-operative structure. In areas covered by societies which are totally mismanaged or moribund, with no prospect of early revival, CBs/RRBs shall lend directly to farmers. However, efforts should also be made to organise new societies in such areas. As regards areas where more than one CB/RRB operate, they should mutually allocate villages between themselves to avoid competition *inter se*.

2.112 In defining the respective roles of RRBs and CBs the Group has emphasised that the former are to be preferred because they are better

suited to direct financing of farmers owing to their low cost structure and rural ethos. CBs would continue to extend refinancing facility to RRBs. As regards farmers (such as large and medium) not eligible to get credit from RRBs, the Group has recommended that RRBs may be allowed to allocate a part of their resources for making advances to such categories of farmers also. In areas where RRBs/CBs finance directly and land development banks (LDBs) are also providing term loans, the former will extend term loans on the same principle as enunciated for short-term loans.

2.113 As CBs are to play a supplemental/supporting role in relation to co-operatives in providing agricultural credit, the future branch expansion of CBs/RRBs should be strictly regulated to prevent unnecessary proliferation/multiplication of branches in rural/semi-urban areas where the network of co-operatives is fairly adequate. Since the activities and operations of CBs in the field of agricultural credit will be mainly to strengthen the co-operatives, the future expansion of CB offices, particularly in rural/semi-urban areas, will have to be viewed in the context of the over-all objective of the multi-agency approach recognising co-operatives as the primary channel of credit and CBs/RRBs as only supplementary agencies.

Committee on Regional Rural Banks (Dantwala Committee)

2.114 The main conclusion of this Committee is that with some modifications in their organisation and functions, RRBs can become a very useful component in the totality of rural credit structure. The Committee is convinced that within a short span of two years, RRBs have demonstrated their capability to serve the purpose for which they were established. They have established their image as a new type of institution catering to the credit needs of a class of borrowers to whom institutional credit was hitherto not available. Hence, the Committee does not approve the idea of scrapping the RRB structure. RRBs are well suited for the purpose of progressively filling up the credit gap in the rural sector and the programme for the establishment of more RRBs deserves to be accelerated. In the Committee's scheme, the co-operative credit structure will not be disturbed at the base level. It is assumed that the reorganised PACS and FSS, wherever they can be effectively organised, will constitute the base of the rural credit structure. RRBs should function at the intermediate level. As regards RRB's relationship with the co-operative credit structure, where the co-operative institutions at the intermediate level (CCBs) and at the retail level (PACS and FSS) are weak and inadequate, RRBs can fill up the gap.

2.115 In the first instance, RRBs should be extended to such areas where CCBs are not able to adequately serve PACS within their jurisdiction. Where the co-operative structure at the intermediate level is fairly strong the question arises whether RRB pattern and the co-operative pattern at the intermediate level (CCB) can co-exist. The Committee feels that the credit gap, both quantitative and qualitative, is so large that given a spirit of understanding both RRBs and CCBs can function side by

side without a clash of interests. The most relevant criterion for the selective extension of RRBs is the state of the co-operative credit structure at the district level. In as many as 182 districts, CCBs are weak. The 48 RRBs established so far cover 55 of these districts. To start with, the programme of establishing new RRBs may be implemented in the remaining 127 districts. The programme of selection of areas for the establishment of new RRBs should be jointly chalked out by the Agricultural Credit Department and the Department of Banking Operations and Development of the RBI in consultation with the State Governments and CBs. CBs operating in the "command area" of an RRB should be persuaded to progressively entrust their rural credit business, which their rural branches are currently doing, to RRB and its branches keeping in view RRB's capability to shoulder the responsibility. In the impression of the Committee, the total replacement of rural branches of CBs by RRBs and their branches over a period of time would be acceptable to CBs and be welcomed by the rural clientele.

2.116 There has been a rapid expansion of rural branches of CBs. The Committee has suggested that the RBI may discuss with CBs the policy on the extension of their rural branches during the first phase of selective establishment of RRBs. The GOI and the RBI may take steps to initiate the process of making RRBs an integral part of the rural credit structure.

2.117 Ideally, the jurisdiction of a rural bank should be confined to one district. Since the size and the state of economic development of districts vary a great deal, it is advisable to retain some flexibility in this and other related matters. Normally, an RRB should cover a population of 10 to 15 lakhs. From the angle of financial viability and managerial efficiency, the reasonable number of branches (per district) of each RRB will be between 50-60. Each RRB would cover approximately a population of about 20,000.

Follow-up of Recommendations

Committees and Working Groups

Committee on RRBs and Working Group on Multi-Agency Approach in Agricultural Financing

2.118 Some of the broad views taken by the RBI on the recommendations of the Kamath Working Group and the Dantwala Committee are set out below :

(i) The RBI accepts the view that RRBs have a significant role to play in the financing of the rural sector. Accordingly, establishment of new RRBs and expansion of the branches of existing RRBs will be encouraged whenever the need for such agencies is felt. In order to identify the areas, where new RRBs could be established, a district-wise study will be made, priority being given to districts having weak commercial and co-operative banking structure. An Inter-Departmental Committee has

been set up in the RBI for guiding the conduct of these district-wise studies and for laying down the criteria to be adopted for selection of areas for establishment of new RRBs.

(ii) In order to develop a closer linkage between apex co-operative banks and RRBs, wherever possible, joint sponsorship of RRBs by apex co-operative banks and CBs will be encouraged.

(iii) As regards the area of operation, a flexible approach will be adopted; the jurisdiction of an RRB will depend mainly on the strength of the banking structure in the given area.

(iv) As a means of strengthening the RRB system in the rural credit structure, the question of progressively taking over of the business of the existing rural branches of CBs in the command area of RRBs by the concerned RRBs will be taken up in consultation with CBs.

(v) In the matter of branch expansion in rural areas, while priority will be given to RRBs over CBs, there will not be any ban on CB's opening offices in areas where no RRBs are functioning. Preference, however, will be given to the lead banks in their lead districts for opening offices in rural areas, so that transfer of such branches at a future date to RRBs, when established, will be smooth.

(vi) Since the responsibility of overseeing the functioning of CBs as well as the co-operative credit system rests with the RBI, it is only appropriate that the operations of RRBs are also guided by the RBI, as suggested by the Committee. It is proposed to set up, for this purpose, a Committee of Direction in the RBI in lieu of the existing Steering Committee. This Committee will consider the modifications in the statute and regulations of RRBs and also decide upon the steps to be taken for bringing about changes in operational matters relating to RRBs, including introduction of element of local participation, their lending policies, co-ordination between RRBs and co-operatives, etc., in the light of the recommendations of various committees.

(vii) A comprehensive review of the functioning of RRBs and their role in the rural banking system, will be taken up after two to three years, to decide upon future policy.

Committee on Transfer of Loan Accounts

2.119 A mention was made in the last year's Report of the acceptance by the RBI of the recommendations of the Committee on Transfer of Loan Accounts and the guidelines issued by the Bank in the matter. Procedure to be followed by banks in the matter of transfer of accounts was modified in May 1978 as indicated below.

2.120 The cut-off point for the purpose of restrictions regarding transfer of accounts was raised to Rs. 50 lakhs from Rs. 25 lakhs. There would

thus be no restriction on transfer of accounts with credit limits of less than Rs. 50 lakhs except that in these cases the transferee bank would, before effecting the transfer or granting additional credit facilities to the borrower of the other bank be required to obtain a credit report from the existing bank and satisfy itself that the transfer/additional facilities are not sought with a view to avoiding financial discipline.

2.121 Whenever a customer indicates to his existing banker a desire to transfer his account to another bank and the existing banker does not wish to allow such a transfer, the existing banker should promptly advise the customer the reasons for not agreeing to the proposed transfer.

Working Group on Customer Service in Banks

2.122 A task force comprising representatives of the Banking Division of the Ministry of Finance, the RBI and the Indian Banks' Association (IBA) examined the recommendations of the Working Group on Customer Service in Banks with a view to implementing them expeditiously. Such of the recommendations as have been accepted by Government can be straightaway implemented by banks. The RBI has advised all scheduled CBs to take early and effective steps at various levels which would help remove customers' dissatisfaction. Such of the recommendations as would involve discussions with trade unions and require consultation with or action by the RBI/IBA/GOI are under consideration of the respective establishments.

Expert Group on State enactments having a bearing on commercial banks' lending to agriculture

2.123 With a view to facilitating the smooth flow of agricultural credit from CBs, the Expert Group on State enactments having a bearing on commercial banks' lending to agriculture (Talwar Committee) recommended (in 1970) the enactment of legislation by all States on the lines of a model bill prepared by it, together with initiation of certain administrative measures. Fifteen States, viz., Assam, Bihar, Haryana, Himachal Pradesh, Karnataka, Madhya Pradesh, Maharashtra, Manipur, Meghalaya, Nagaland, Orissa, Rajasthan, Tripura, Uttar Pradesh and West Bengal have so far enacted legislation to give effect to the Group's recommendations. As regards the administrative measures, the position is as follows :—

Stamp duty : In addition to the above-mentioned States, the States of Andhra Pradesh, Jammu and Kashmir and Punjab have also exempted farmers from stamp duty for loans granted by CBs up to prescribed levels which vary from State to State.

Registration fee : The States of Andhra Pradesh, Bihar, Gujarat, Haryana, Himachal Pradesh, Jammu and Kashmir, Karnataka, Madhya Pradesh, Maharashtra, Manipur, Meghalaya, Orissa, Rajasthan, Tamil Nadu and West Bengal have exempted loans granted by CBs to farmers from payment of registration fee.

Issue of Pass Books : The Talwar Committee recommended that, as and when land records are brought up-to-date, pass books may be issued by the State Governments to owners and tenants so that such a pass book can serve as *prima facie* evidence to the rights in land of an agriculturist and as a starting point to banks to verify such rights and details pertaining to encumbrances thereon. The States of Gujarat, Haryana, Himachal Pradesh, Karnataka, Rajasthan, Uttar Pradesh, Madhya Pradesh, Maharashtra, Punjab, Tamil Nadu and Pondicherry have introduced such pass books.

Study Group on Follow-up of Bank Credit (Tandon Committee)

2.124 A mention was made in the last year's Report about the constitution of a Committee of Direction by the RBI in 1975 for ongoing review of the lending norms, examining the problems faced by the affected industries in complying with the discipline and by the banks in implementing the decisions taken in the light of the various recommendations of the Report of the Study Group to frame guidelines for follow-up of bank credit and advise the RBI from time to time on the modifications required to avoid hardships. The Committee, which consists of representatives of major banks and the RBI, has been serving as a useful means to maintain flexibility in the operation of the new policies.

2.125 During the period under review, the Committee held four meetings to examine and give its views on a number of issues raised by banks, industries and their representative associations in regard to application/modification in lending norms, in general, as well as with reference to particular industries. Banks have been allowed to permit deviations in cases, where it has been virtually impossible for the units to work within the norms, because of special circumstances under which they operate and which do not obtain generally in other units of the industry group. The norms for inventory and receivables in respect of fertilizer and automobile tyre industries and cotton spinning mills were modified, after a review, for temporary periods. A simple format has been devised to obtain certain essential data on monthly basis from borrowers to watch their compliance with the inventory and receivable norms as also to see whether they are operating at the estimated/projected levels.

2.126 In order to bring in more flexibility, the discretion allowed to banks to permit deviations from inventory/receivable norms to individual units has further been relaxed and banks could now permit such deviations, without prior reference to the RBI, to borrowers enjoying aggregate credit limits from the banking system up to Rs. 2 crores as against Rs. 50 lakhs earlier.

2.127 In pursuance of the recommendations of the Study Group that select banks should take up special studies on certain industries, the Committee selected the industries to be taken up for study and also suggested the essential aspects to be covered by such study and the framework of

the study note for the guidance of banks. Special studies on three industries were completed by the end of June 1978.

2.128 The Committee finalised its views on the following matters referred to it : (i) documentation problems in relation to the new style of credit recommended by the Study Group, (ii) treatment of preference share capital redeemable within 12 years and long-term debentures and long-term incentive loans granted by State Governments for the purpose of debt-equity ratio and (iii) treatment of export credit in the context of the new lending method.

Working Group to Study the Problems of Bank Credit in the North Eastern Region

2.129 Following the submission of the Report by the above Working Group, a Committee was constituted to ensure speedy implementation of the recommendations. The Bank is monitoring the follow-up action taken by the State Governments/Union Territories and the banks.

Working Group on Planned Participation of Commercial Banks in Rural Electrification Schemes

2.130 The RBI appointed a Working Group in August 1977 to examine, among others, the question of more effective co-ordination between CBs, the ARDC and the REC with a view to facilitating their planned participation in schemes of rural electrification aimed at area development and/or energisation of pumpsets. It submitted the final Report in May 1978. The Group has recommended a programme of energisation of six lakh pumpsets involving financial assistance to the State Electricity Boards (SEBs) of the order of Rs. 360 crores during the five-year period of the Sixth Plan to be financed from the combined resources of CBs, the ARDC and the REC. According to its recommendation the ARDC will provide funds through CBs in the form of refinance to the extent of 50 per cent of the loans given by CBs.

2.131 A relatively modest programme has been fixed for 1978-79 involving an outlay of Rs. 60 crores, each of the participating agencies taking a share of Rs. 20 crores. The programme for the remaining year of the Plan will be considered in the light of the performance during 1978-79.

2.132 CBs were advised to make adequate provision in their annual credit budgets for the proposed pumpset energisation programme and also to make arrangements for delegation of powers to state-level officers for sanctioning the schemes under this programme, entering into agreement with the SEBs (and REC where necessary), financing the schemes and releasing instalments as and when required.

Other Committees

2.133 The following Committees/Groups also submitted their Reports and their recommendations are being processed.

1. Working Group on Operational Efficiency and Profitability of Banks.
2. Expert Group on Agricultural Credit Schemes of Commercial Banks.
3. Committee to study Functioning of Public Sector Banks.

One-Man Committee on Selective Credit Controls

2.134 With a view broadly to preventing speculative holding of stocks of commodities with the help of bank credit, the RBI has been operating certain controls on bank credit for selected commodities since 1956. The controls cover the level of such advances by banks, the margins and the rates of interest. More recently, the manner of operation of these controls has also undergone some modifications in the context of the rationalisation of the general credit policy. In a few cases like that of raw cotton, physical controls on the holding of stocks by mills introduced by Government have been taken into account in the formulation of credit control policy. In the light of these developments, a One-Man Committee was constituted to go into the working of Selective Credit Controls. The terms of reference of the Committee are :

- (i) to evaluate the effectiveness of the existing system of Selective Credit Control including the process of implementation by CBs, with particular reference to its influence on : (a) the stocks held with the help of bank finance, and (b) the prices of respective commodities ;
- (ii) in the light of such evaluation, to suggest changes in the system and the process of implementation, both at the level of the RBI and of CBs, as may be necessary to improve effectiveness of Selective Credit Controls and to bring them in line with recent changes in the Bank's approach to credit planning and control ;
- (iii) to suggest an early warning system for the Bank to enable it to initiate action on its own in respect of Selective Credit Controls before prices of sensitive commodities get out of hand ; and
- (iv) to make recommendation on any other matter considered germane to the subject of investigation.

Education and Training

Regional Rural Banks

2.135 The fourth training programme for Branch Managers of RRBs was organised at the RBI's College of Agricultural Banking, Pune. This programme in which 32 Branch Managers of RRBs participated was conducted from August 1, 1977 for 12 weeks. It included two weeks for imparting on-the-job training to participants in the branches of their respective sponsoring banks and two weeks for conducting a survey of certain villages falling within the area of operation of a branch of their respective RRBs. In the eight courses conducted till 1977-78, 251 Branch Managers were trained.

Lead Bank Scheme

2.136 In order to promote a better appreciation of the objectives of the Lead Bank Scheme and ensure more effective implementation, a three-tier training programme for officials of State Governments and CBs was instituted. The National Institute of Bank Management, which was entrusted with the task of conducting the programme initially in the States of U.P. and West Bengal, convened workshops in five districts of Uttar Pradesh, viz., Varanasi, Etawah, Sultanpur, Bulandshahar and Uttar Kashi.

Credit Guarantee Corporation

2.137 Training facilities were provided at the CGC to officials of credit institutions. In addition to the training programmes, seminars, etc., the participants were also briefed about the method of compilation of claims which could help in the expeditious settlement of the claims.

Use of Hindi in Public Sector Banks

2.138 With a view to watching the progressive use of Hindi by the public sector banks, quarterly progress reports, annual assessment reports and copies of the proceedings of Official Languages Implementation Committees constituted by the banks are obtained by the Department of Banking Operations and Development of the RBI.

2.139 An exhibition depicting the progress made in the use of official languages was held under the auspices of the Department of Official Languages, Ministry of Home Affairs, at New Delhi from March 1 to 3, 1978. At the instance of the Government, the RBI participated in the exhibition on behalf of all the public sector banks and displayed the publications, forms, posters and other publicity material in Hindi and other regional languages.

APPENDIX

CHANGES INTRODUCED IN LENDING RATES OF SCHEDULED COMMERCIAL BANKS
WITH EFFECT FROM MARCH 1, 1978

1. *Maximum Lending Rate on Advances* : The maximum rate of interest chargeable by banks on short period advances (without prejudice to penal charges) will be as follows :

Banks with Demand and Time Liabilities of	Previous rates	Revised rates
	Per cent	Per cent
(a) Over Rs. 50 crores and banks incorporated outside India ..	16½	15
(b) Between Rs. 25 crores and Rs. 50 crores	17½	15
(c) Below Rs. 25 crores	No ceiling	16

2. *Food Credit* : The rate of interest charged by banks on credit extended for food procurement by Government and Government authorised agencies will be reduced from 12 per cent to 11 per cent.

3. *Term Loans* : Rates on term loans for priority purposes have been reduced in the recent past. No significant change in these is, therefore, proposed. However, as a measure of rationalisation, the scheme of term loans has been slightly adjusted as follows :

	Previous rates	Revised rates
	Per cent	Per cent
(a) Term loans of not less than 3 years for capital investment in priority areas	12.50	12.50
(b) Term loans of not less than 3 years for all other purposes		
(i) Between 3 and 7 years	15.00	} 14.00
(ii) Above 7 years	14.00	

4. The maximum lending rates specified above will also apply to advances against commodities subject to selective credit control.

5. For purposes of compounding, the rests shall be quarterly or longer.

6. The Bank Rate will remain unchanged at 9 per cent. However, the rate charged by the Reserve Bank on refinance given for food advances is reduced from 10 per cent to 9 per cent.

Consequent to the changes in lending rates prescribed as above, the banks have been asked to reduce the lending rates broadly on the following lines :

- For banks with deposit liabilities in excess of Rs. 25 crores, all rates of 16½ per cent and above to be brought down to 15 per cent. For banks with deposit liabilities less than Rs. 25 crores, similar adjustment of the higher rate to 16 per cent.
- For existing rates between 13½ and 15 per cent, reduction should work out, on an average, to 1 per cent, with reductions in the upper ranges being more than the average.
- Existing rates of interest over 12½ per cent and upto 13½ per cent should be brought down close to 12½ per cent; and if reductions imply going to rates marginally below 12½ per cent (i.e. minimum lending rate), banks may do so and inform the Reserve Bank accordingly.
- For the existing rates of 12½ per cent and below, some reduction should be effected.
- The existing rates charged under the Differential Rates of Interest Scheme remain unchanged.
- The concessional term lending rates for small-scale industry, agriculture, etc, and for crop loans below Rs. 2,500 announced on December 12, 1977 will remain unchanged.
- The minimum lending rates of 14 to 15 per cent in respect of advances against commodities subject to selective credit control remain the same as at present ; such advances are also subject to the new ceiling rates.

Food Credit

The rate of interest on food credit is reduced from 12 per cent to 11 per cent. As regards the rates on the refinance facilities by the Reserve Bank, the food refinance rate has been reduced from 10 to 9 per cent.

Export Credit

The rates of pre-shipment credit should be reduced by ½ per cent, i.e. from 11½ and 13½ per cent to 11 and 13 per cent, respectively, and the rate on post-shipment credit from 11½ per cent to 11 per cent. The rates on deferred payment exports continue unchanged at 8 per cent. The export refinance rate is also reduced from 10½ per cent to 10 per cent.

CHAPTER 3

CO-OPERATIVE BANKING

3.1 A significant development in co-operative banking during the year under review was the change introduced by the RBI in the interest rates on its refinance facilities to co-operatives in order to reduce the cost of credit to the ultimate borrowers. Besides, in continuation of efforts made in the previous years, measures were taken to strengthen the co-operative credit structure with a view to reducing regional imbalances and ensuring increased flow of credit, particularly to the weaker sections of the rural population.

3.2 The progress of co-operative credit during the three years ended June 30, 1977 and the credit facilities provided by the RBI can be seen from Tables 3.1 and 3.2, respectively. The RBI took a number of measures, in line with its general credit and monetary policy, to help in achieving major national objectives in the field of co-operative banking. These are dealt with in the following sections.

Deposit Rates

3.3 The changes brought about in the deposit rates structure of CBs effective March 1, 1978, have been referred to in Chapter 2. The co-operative banks were allowed to pay, at their discretion, over and above the rates prescribed for CBs additional interest as below :¹

Category of co-operative bank	Excess rate permissible over and above the rate prescribed for commercial banks
(a) State Co-operative Banks (SCBs) other than those specified in item (b).	1/4 per cent
(b) SCBs in Union Territories and in Manipur, Tripura, Nagaland, Meghalaya and Arunachal Pradesh	1/2 per cent
(c) Central Co-operative Banks (CCBs)	1/2 per cent
(d) Primary Co-operative Banks (PCBs)	1 per cent

1. Earlier, i.e., on September 21, 1977, the RBI issued a directive stipulating that the interest payable on recurring deposits, cumulative deposit accounts or such other accounts accepted or renewed by co-operative banks with effect from October 1, 1977 would be governed by the provisions relating to the payment of interest on term deposits as contained in the directive of May 31, 1977 read with the directive of August 16, 1974 and June 21, 1976 on the subject. However, the directive would not affect the rate of interest payable under the existing accounts of the type referred to above.

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

(Amount in Rupees Crores)

Type of institutions	Co-operative Years		
	1974-75	1975-76	1976-77 (Provisional data)
	1	2	3
(a) State Co-operative Banks			
(i) Number (actuals)	26	26	26
(ii) Owned Funds	142.45	158.71	183.59
(iii) Deposits	546.39	723.68	834.92
(iv) Borrowings from the RBI	376.92	246.94	375.20
(a) Of which: S. T. Agricultural	212.15	146.60	229.17
(v) Working capital	1,186.53	1,287.26	1,525.39
(vi) Loans issued	1,382.17	1,514.81	1,962.31
(vii) Loans outstanding	919.96	893.60	1,088.35
(b) Central Co-operative Banks			
(i) Number (actuals)	341	344	344
(ii) Owned Funds	314.98	360.49	422.95
(iii) Deposits	805.31	984.92	1,153.63
(iv) Borrowings from the RBI/apex banks	537.98	513.36	699.39
(v) Working capital	1,842.83	2,047.58	2,514.11
(vi) Loans issued	1,552.01	1,721.66	1,988.42
(vii) Loans outstanding	1,347.22	1,428.16	1,795.93
(c) State/Central Land Development Banks			
(i) Number (actuals)	19	19	19
(ii) Owned Funds	134.32	154.32	163.62
(iii) Debentures outstanding	1,253.94	1,383.82	1,590.52
(iv) Working capital	1,502.18	1,667.29	1,917.96
(v) Loans issued	183.84	204.93	248.93
(vi) Loans outstanding	992.54	1,068.70	1,210.73
(d) Primary Agricultural Credit Societies			
(i) Number (in thousands)	153	135	124
(ii) Membership (in thousands)	3,64,42	3,95,21	4,46,44
(iii) Owned Funds	393.31	436.88	522.88
(iv) Deposits	101.04	113.31	136.29
(v) Borrowings	1,040.70	1,154.44	1,414.85
(vi) Loans issued	900.82	1,023.45	1,202.68
(vii) Loans outstanding	1,176.63	1,299.21	1,585.09

(Source : Agricultural Credit Department, RBI).

TABLE 3.2—RESERVE BANK CREDIT TO CO-OPERATIVES 1976-77 AND 1977-78

(Amount in Rs. Crores)

Purpose of finance	1976-77 (July-June)				1977-78 (July-June)			
	Limits sanctioned	Drawals	Repay-ments	Outstan-dings	Limits sanctioned	Drawals	Repay-ments	Outstan-dings
	1	2	3	4	5	6	7	8
I. Short-term								
(i) Seasonal agricultural operations	696.34	818.77	736.20	229.17	748.83	994.24	934.14	289.27
(ii) Marketing of crops other than cotton and kapas	9.15	4.60	4.35	0.25	0.50	0.47	0.25	0.47
(iii) Marketing of cotton and kapas (1)	22.33	—	0.16	—	13.50	1.11	1.11	—
(iv) Purchase & distribution of fertilizers (2)	33.26	21.15	31.21	9.85	12.55	23.64	30.53	2.96
(v) Production & marketing of handloom products (3)	26.42	35.83	32.22	15.01	43.77	167.28	158.62	23.67
(vi) Financing of other cottage and small scale industries (3)	6.72	3.94	2.37	3.87	7.12	4.69	3.87	4.69
(vii) Purchase & sale of yarn (2)	0.56	0.25	0.12	0.19	1.62	0.94	0.67	0.46
(viii) Loans to ARDC	10.00	—	1.70	—	10.00	—	—	—
(ix) Against pledge of sugar	7.75	20.16	18.75	1.41	7.50	35.61	34.02	3.00
II. Medium-term								
(i) Agricultural purposes (2)	14.89	9.32	7.69	16.95	21.34	12.23	7.00	22.18
(ii) Conversion of short-term loans into medium-term loans in scarcity affected areas (4)	130.40	77.79	39.55	116.99	95.38	102.85	81.36	138.48
(iii) Purchase of shares in co-operative sugar factories/processing societies (2)	1.67	0.54	0.34	0.82	1.00	0.13	0.35	0.60
III. Long-term								
(i) Loans to State Governments for contribution to share capital of co-operative credit institutions	31.33	30.53	7.89	98.34	21.13	20.81	8.36	110.79
(ii) Loans to ARDC	50.00	50.00	15.80	172.60	65.00	65.80	20.80	216.80

1. Including credit for monopoly procurement of cotton.

2. Data relate to calendar years 1976 and 1977.

3. Data relate to financial year.

4. Including rephasing and rescheduling.

(Source : Agricultural Credit Department, R.B.I.)

Further, in partial modification of the directives to co-operative banks to calculate interest on quarterly or longer rests, from June 1978 onwards the banks have been allowed to pay interest on fixed deposits on monthly basis, subject to the condition that the amount of interest paid monthly does not exceed discounted value of interest for one month.

Lending Rates

3.4 During the year the interest rate structure of the co-operative sector was altered as a consequence of the reduction in the rate of interest on refinance facilities from the RBI to SCBs. The details are given in Table 3.3. The benefit of the reduction in the rate of interest on refinance and the gains accruing to scheduled SCBs from the abolition by the GOI of the tax on interest income were expected to be passed on to the ultimate borrowers, particularly the small farmers and the weaker sections, through reduction in the lending rates.

TABLE 3.3—RATES OF INTEREST ON REFINANCE FACILITIES FROM RBI

Section of the RBI Act, 1934	Purpose	Duration	Rate of interest on refinance	
			Old Rate	New Rate
	1	2	3	4
17(2)(b) read with 17(4)(c)/ Section 17(4)(c)	Financing of seasonal agricultural operations	Short-term	2% below Bank Rate	3% below Bank Rate@
17(2)(b) read with Section 17(4)(c) or 17(4)(c)	Financing of marketing of crops	Short-term	3% above Bank Rate	At Bank Rate*
17(4)(c)	Distribution of fertilizers	Short-term	3% above Bank Rate	1% above Bank Rate*
17(2)(bb) read with 17(4)(c)	Financing production and marketing activities of handlooms, powerloom (cotton, silk and woollen) weavers societies, and industrial co-operative societies (other than weavers) and units outside the co-operative fold engaged in any one of the approved 22 broad groups of cottage and small-scale industries.	Short-term	1½% below Bank Rate**	2½% below Bank Rate@
17(2)(bb) read with Section 17(4)(c)	Financing of weavers and other rural artisans engaged in activities covered under 22 broad groups of approved cottage and small-scale industries through PACS/FSS/LAMPS	Short-term	2% below Bank Rate	3% below Bank Rate@
17(4AA) read with 46A(2)(b)	Agricultural purposes	Medium-term	1½% below Bank Rate	2½% below Bank Rate@
17(4AA) read with 46B(2)	Assistance to SCBs to enable them to pay arrears in respect of short-term accommodation obtained for financing seasonal agricultural operations which they are not able to repay owing to drought, famine and other natural calamities.	Medium-term	1½% below Bank Rate	2½% below Bank Rate@

@Effective March 1, 1978

*Effective June 1, 1978

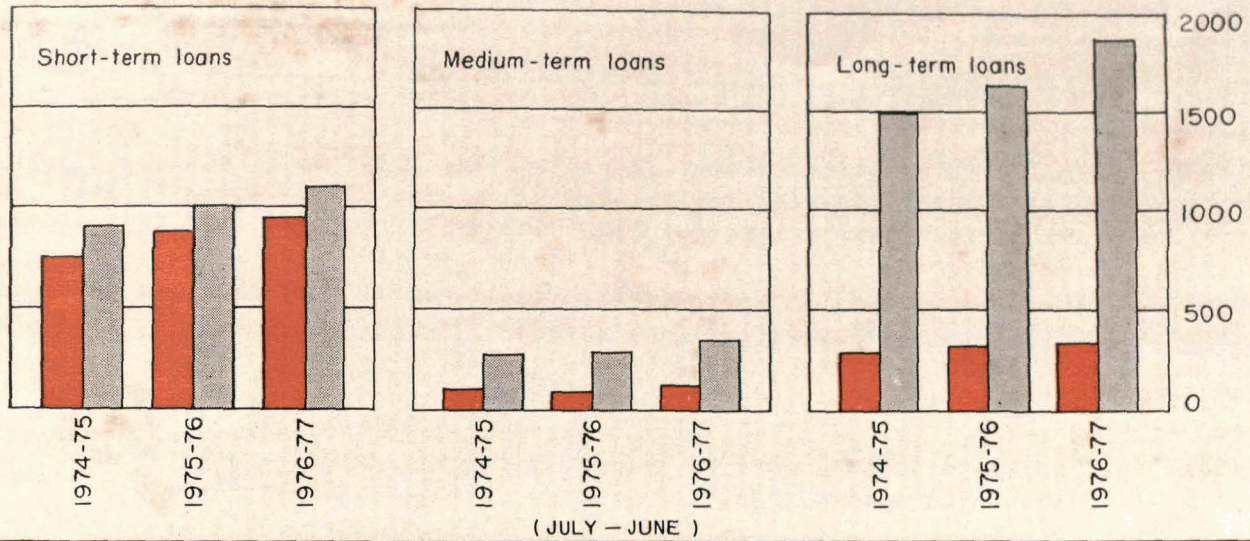
**Rate was reduced from Bank Rate to 1½% below Bank Rate with effect from July 1, 1977 in respect of 22 broad groups of cottage and small-scale industries.

(Source : Agricultural Credit Department, R.B.I.)

6

CO-OPERATIVE LOANS FOR AGRICULTURAL PURPOSES (CRORES OF RUPEES)

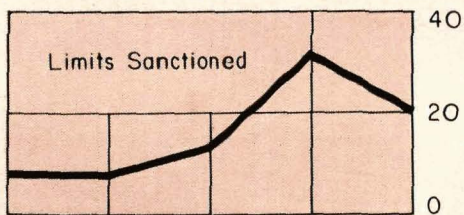
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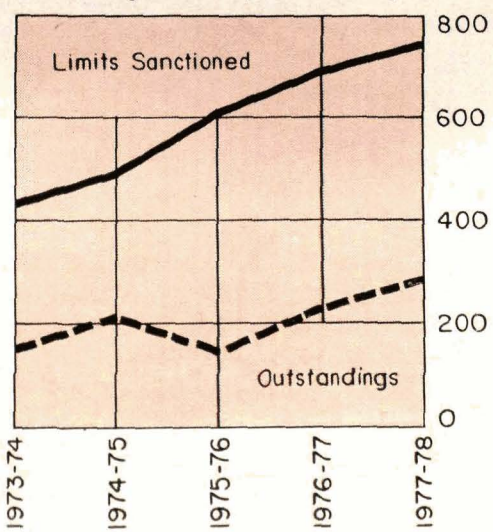
7

R.B.I. CREDIT FOR AGRICULTURAL PURPOSES (CRORES OF RUPEES)

Loans to State Governments for contribution to share capital of co-operative credit institutions (April-March)







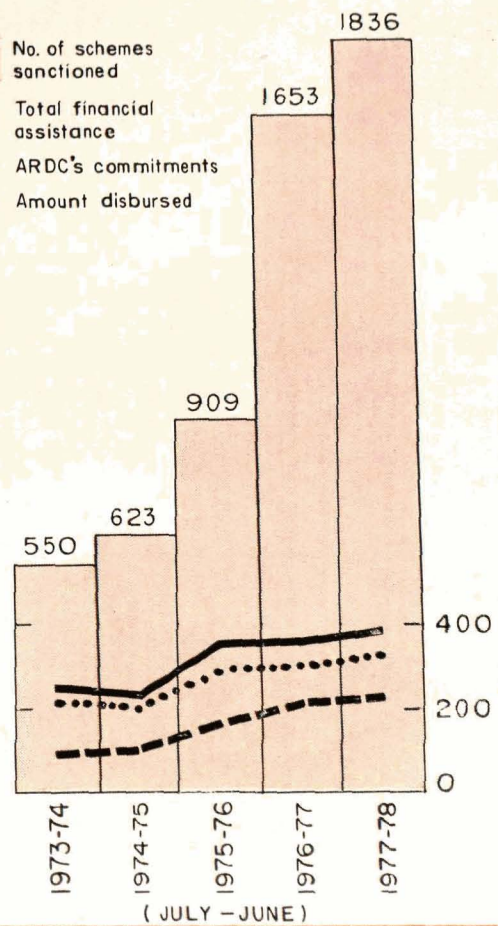
Short-term loans provided to State Co-operative Banks for seasonal agricultural operations (July-June)



8

OPERATIONS OF AGRICULTURAL REFINANCE AND DEVELOPMENT CORPORATION (CRORES OF RUPEES)

 No. of schemes sanctioned
 Total financial assistance
 ARDC's commitments
 Amount disbursed



AGRICULTURAL CREDIT

A. *Short-term Credit*(a) *Short-term Credit for Seasonal Agricultural Operations*

3.5 As in the previous year, the concessional rate of interest was available to banks only to the extent of their borrowings within the aggregate levels fixed separately for each CCB in this regard, under the scheme of linking borrowings from the Bank with efforts at deposit mobilisation. During 1976-77, 29 CCBs did not get the full benefit of concessional rate of interest as compared with 32 CCBs in 1975-76, since their borrowings exceeded their aggregate levels fixed for them. From 1977-78, the Scheme has been extended to cover 44 more CCBs and 3 SCBs operating as central financing agencies, the loaning business of which has since exceeded Rs. 1 crore. Thus, 290 CCBs and 6 SCBs were covered by the Scheme at the end of 1977-78, as against 246 CCBs and 3 SCBs at the end of the previous year.

3.6 To ensure that CCBs regulated their lending operations in tune with the harvesting-cum-marketing cycle of crops, the RBI reiterated its instruction to banks to recover a specified part of their *kharif* advances by March 31, 1978 and the bulk of the *rabi* advances and overdues of the preceding year by June 30, 1978. SCBs were advised not to permit drawals by CCBs from April 1, 1978 unless the concerned CCBs had recovered from societies and remitted to the apex bank at least 40 per cent of the advances of the preceding *kharif* season, including the overdues as at the close of the previous co-operative year, *viz.*, as on June 30, 1977. The drawals on the credit limits from 1978-79 are to be permitted by SCBs from July 1, 1978, only after CCBs recover and remit to the apex bank by June 30, 1978, 50 per cent of the total 'demand' for recovery of short-term agricultural advances for the whole year.

3.7 In June 1978, the scope of short-term credit limits sanctioned for pisciculture under section 17(4)(c) of the RBI Act, 1934 was extended to cover the purchase of diesel oil, spare parts, servicing facilities, fishery requisites etc., through the primary fisheries societies by those fishermen who have availed themselves of financial assistance for purchase of mechanised/country boats, etc., from term-financing agencies under integrated projects refinanced by the ARDC.

3.8 The short-term credit limits sanctioned by the RBI to SCBs during 1977-78 (up to June 30) for financing seasonal agricultural operations amounted to Rs. 749 crores as against Rs. 696 crores in the previous year. The increase of Rs. 53 crores may be attributed to the enlargement of coverage by co-operatives, programme of reorganisation of societies and the improvement in the recovery of short-term agricultural loans by CCBs in some States.

(b) *Financing of Weaker Sections*

3.9 The RBI continued its efforts at reorienting the lending policies and procedures of CCBs in favour of small farmers. As mentioned in the last year's Report, from 1975-76 co-operative banks have been required to ensure that not less than 20 per cent of their short-term agricultural loans to PACS were issued for financing small/economically weaker farmers. For this purpose, an SCB is not allowed to draw in excess of 70 per cent of the limit sanctioned to a CCB unless the requisite proportion of advances to small farmers to the total advances is maintained. During 1976-77, the percentage of advances by CCBs to societies for small farmers to the total advances exceeded 20 per cent in respect of 260 banks out of a total of 334 banks. Fifty two banks were granted relaxation of this condition, of which 34 banks fulfilled the condition as relaxed. Four banks were exempted from the discipline. There were 46 banks which failed to fulfil the condition, original or relaxed.

3.10 A reference was made in the last year's Report to PACS issuing consumption loans to the weaker sections of the rural population in terms of the recommendations of the Expert Committee on Consumption Credit (Sivaraman Committee), liberalisation of refinance facilities from the RBI to enable CCBs to obtain higher refinance facilities from the Bank for short-term agricultural purposes and use their own resources for issuing consumption loans, for which no refinance facilities from the RBI are available. Further, to enable CCBs to avail themselves of the full benefit of the concessional finance, it was decided by the Standing Committee of the Agricultural Credit Board at its meeting held on July 27, 1977 to reckon a CCB's involvement in consumption credit to weaker sections on a par with that in short-term agricultural loans for determining the aggregate level of borrowings eligible for concessional finance at 2 per cent below the Bank Rate (raised to 3 per cent below the Bank Rate, since March 1, 1978), under the scheme of linking borrowings from the RBI with efforts at deposit mobilisation by co-operative banks.

(c) *Short-term Credit for Marketing of Crops and Selective Credit Control*

3.11 The sanction of credit limits for marketing of crops was subject to the various selective credit control measures in force. The advances granted by co-operative banks against the security of sensitive commodities, viz., groundnut, mustard seed/rapeseed, castorseed, linseed and oils thereof, *vanaspati*, sugar, *gur*, *khandsari* and cotton textiles continued to be governed by the Bank's directives, particularly in regard to the minimum margin to be maintained and the rate of interest charged.

3.12 A directive was issued in July 1977 to primary (urban) co-operative banks relaxing the ceiling on advances against specified commodities, viz., foodgrains, selected oilseeds/oils (including *vanaspati*), sugar, *gur*, *khandsari* and cotton textiles (including yarn) to new borrowers who had not borrowed during any of the preceding three years from Rs. 25,000 to Rs. 1 lakh. The relaxation was extended to old borrowers also in September 1977.

3.13 In view of the sharp decline in the prices of *gur* and *khandsari*, a directive was issued to SCBs and CCBs on March 20, 1978 reducing the minimum margin on advances against their security from 60 per cent to 35 per cent of the value of stocks in respect of co-operative societies engaged in the manufacture of these commodities and from 75 per cent to 45 per cent in respect of others. Further, for advances against warehouse receipts covering stocks of these commodities, the minimum margin was reduced from 50 per cent to 30 per cent. In the case of advances by urban co-operative banks, the minimum margin was reduced from 50 per cent to 35 per cent of the value of stocks in the case of manufacturers, 45 per cent in the case of others and 30 per cent against the security of warehouse receipts.

3.14 The limits on marketing of crops sanctioned in 1977-78, aggregated Rs. 14.00 crores as against Rs. 31.48 crores in 1976-77 (July-June). These limits comprised Rs. 2.75 crores for cotton and *kapas* covered by the Bank's directive, Rs. 10.75 crores not covered by it and Rs. 0.50 crore for marketing of crops other than cotton. Due to the general weakness of marketing societies in several States and absence of proper linking of marketing with production credit the number of banks applying for marketing limits during 1977-78 (12 CCBs) and eligible for sanction by the RBI (9 CCBs) was small. In the previous year, the figures were 16 CCBs and 14 CCBs, respectively.

(d) *Distribution of Fertilizers*

3.15 In October 1976, SCBs and CCBs were advised to waive margin requirements in respect of credit extended to marketing federations/societies for distribution of fertilizers from the central fertilizer pool, provided the State Governments guaranteed the advances by such banks, the letters of credit of which are accepted by the GOI. The above concession of waiver of margins was extended in September 1977 to non-pool fertilizers also.

B. *Medium-term Credit*

3.16 In July 1977, the RBI recognised 'cross-bred calf (heifer) rearing' undertaken by small/marginal farmers and agricultural labourers, covered under the Centrally-Sponsored Cross-bred Calf Subsidy Programme as a part of 'dairy farming' which is already an "approved purpose" for medium-term loans under Section 17(4AA) read with Section 46A(2)(b) of the RBI Act, 1934.

3.17 The security for medium-term loans for purchase of bullocks was relaxed in the light of the recommendations made by the National Commission on Agriculture. Accordingly, co-operative banks were permitted in September 1977 to advance loans up to Rs. 2,000 against personal security, loans between Rs. 2,001 and Rs. 3,000 against security of charge on, or mortgage of, land and loans exceeding Rs. 3,000 against mortgage of land. These norms also applied to medium-term loans for purchase of camels from October 1977.

3.18 In the context of increase in income that is expected to accrue to small/marginal farmers/agricultural labourers following the implementation of the various schemes introduced by Central and State Governments, the RBI permitted co-operative banks in February 1978 to grant medium-term loans for purchase of bullocks and bullock carts at the same time to these borrowers, provided they were eligible for subsidy for the purpose from SFDA or any other agency and the banks were satisfied about the capacity of the borrowers to repay the loan within five years.

Conversion Loans

3.19 With a view to reducing the heavy reliance on the Bank's National Agricultural Credit (Stabilisation) Fund and ensuring effective participation of the co-operative banks and State Governments in the stabilisation arrangements, the Bank stipulated, on a recommendation made by the Agricultural Credit Board at its meeting held on July 18, 1977, a revised formula for sharing the financial burden of conversion loans. In terms of this formula, SCBs, CCBs and State Governments have to meet at their level 10 per cent, 15 per cent and 15 per cent, respectively, of the conversions granted by CCBs, the refinance from the RBI being confined to 60 per cent only. However, as State Governments may find difficulties in meeting their share, their funds in the V Plan having been already committed, it was decided to insist on their share only during the VI Plan and provide refinance from National Agricultural Credit (Stabilisation) Fund up to 75 per cent of the conversion loans in 1977-78.

3.20 A study of conversion loans conducted in a few States revealed that State Governments had not adopted a scientific methodology in declaring *annawari* estimates as recommended by the Report of the Study Team on Overdues of Co-operative Credit Institutions. State Governments were, therefore, advised to implement this recommendation by June 30, 1978, failing which the Bank would insist on a more concrete evidence such as suspension/remission of land revenue by State Government as a pre-condition for providing assistance from National Agricultural Credit (Stabilisation) Fund for conversions.

C. Long-term Credit

3.21 During the year, the Central Land Development Banks (CLDBs) were permitted to provide long-term loans for the installation of gobar gas plants for 2 cubic metres and above, which is treated as an easily identifiable productive purpose. The banks were advised to prepare suitable schemes for the purpose for refinance facilities from the ARDC and bring under their ordinary debenture programme only such sporadic loaning which they would be compelled to provide. The CLDBs were permitted to advance loans for non-identifiable non-productive purposes to the extent of 10 per cent of the total loans issued during a year. It has, however, been decided that, if necessary, marginal relaxations could be considered in cases where loans are required to be granted to tenant cultivators for acquiring ownership rights.

3.22 With a view to enabling CLDBs to play an important role in the matter of preparation and financing of schemes of agricultural development, the RBI had conducted studies in certain States, viz., Andhra Pradesh, Kerala, Madhya Pradesh, Uttar Pradesh and the Union Territory of Goa, Daman and Diu. On the basis of the findings of these studies, guidelines were issued to all State Governments and CLDBs in September 1976 for the preparation and implementation of schemes of agricultural development. One of the important suggestions was the constitution of groups at each district level for collection of basic village data which would be useful for preparation of schemes suitable to the needs of the local areas. CLDBs were again requested to take appropriate action in this direction so that they would play an important role in financing schemes of agricultural development.

Land Development Banks — Ordinary Debenture Programme—Performance during 1977-78

3.23 The total lending programme of CLDBs for the financial year 1977-78 was fixed at Rs. 328.05 crores, of which Rs. 190.00 crores was under ARDC-refinanced schemes and the balance of Rs. 138.05 crores under ordinary lending. The ordinary lending programme of Rs. 138.05 crores was to be financed to the extent of Rs. 18.05 crores by the banks from their own resources and the balance of Rs. 120.00 crores through issue of ordinary debentures (including 10 per cent excess subscription). As against the approved ordinary debenture programme of Rs. 120.00 crores, fixed for the financial year 1977-78, ordinary debentures floated by the CLDBs amounted to Rs. 92.76 crores, i.e., 77.3 per cent of the total programme.

3.24 The total lending programme of CLDBs for the year 1978-79, both under normal and ARDC-refinanced schemes, has been fixed at Rs. 419.35 crores. The ordinary lending programme at Rs. 148 crores is envisaged to be financed to the extent of Rs. 23 crores by the banks from out of their internal resources and Rs. 125 crores is to be raised by way of floatation of ordinary debentures (including 10 per cent excess subscription). The ordinary debenture programme is expected to be supported by the following agencies.

		(Rs. crores)
(i)	Central and State Governments	.. 12.00
(ii)	Life Insurance Corporation	.. 32.50
(iii)	Commercial Banks (through IBA)	.. 10.00
(iv)	State Bank of India Group	.. 5.00
(v)	Mutual support and self help	.. 65.50
		<hr/> 125.00 <hr/>

Floitation of Rural Debentures during 1977-78

3.25 Following the decisions taken in the meeting of the Agricultural Credit Board held on August 7, 1975, the scheme of rural debentures was made voluntary and CLDBs were advised to issue rural debentures without State Government guarantee. During 1977-78, no proposal was received from any CLDB for issue of rural debentures, perhaps because the banks had not amended the existing legal framework to provide for issue of debentures without Government guarantee.

NON-AGRICULTURAL CREDIT

(a) *Industrial Finance*

3.26 In August 1977, the RBI decided to extend refinance facilities at 2 per cent below the Bank Rate¹ to SCBs on behalf of CCBs for the advances made by them to the PACS/FSS/LAMPS for financing the working capital requirements of weavers and other rural artisans engaged in any activity covered under the 22 broad groups of cottage and small-scale industries earlier approved by the Bank. The financial accommodation was made available only to viable primary societies placed in 'A' and 'B' classes under audit, which had full-time and competent paid Secretary/Managing Director/Manager. 'C' class societies were eligible for finance only on the special recommendations of the Registrar of Co-operative Societies.

(b) *Working Capital to Consumers' Stores*

3.27 As a national policy, consumers' co-operatives have been assigned an important role in the distribution of essential commodities. The GOI has also enlarged the scope of the Government Guarantee Scheme for facilitating increased flow of working capital finance from co-operative and commercial banks to a greater number of consumers' co-operatives. In deference to the suggestions made at the All-India Conference of Consumers' Co-operatives, convened by the Ministry of Civil Supplies and Co-operation in September 1976, for reduction in the rate of interest on working capital finance to consumers' co-operatives, the Bank advised the Registrars of Co-operative Societies, in August 1977, that SCBs and CCBs might provide cash credit/overdrafts to consumers' co-operatives under the Central Government Guarantee Scheme at a rate of interest not exceeding 12.5 per cent per annum irrespective of the source of funds. It has also been suggested that direct lending by an SCB to state-level federations of consumer co-operatives may also be at a rate of interest not exceeding 12.5 per cent per annum. Subsequently in December 1977, following a suggestion made by the Conference of the State Registrars of Co-operative Societies convened by the GOI in November 1977, the rate of interest at 12.5 per cent was extended to all consumers' co-operatives, whether covered by the Government Guarantee Scheme or not, and also to such of the reorganised PACS as are engaged in the distribution of consumer goods.

1. Changed to 3 per cent below the Bank Rate, effective March 1, 1978.

(c) Coir Co-operatives in Kerala

3.28 During 1977-78, credit limits aggregating Rs. 230.60 lakhs, consisting of Rs. 121.75 lakhs to central coir societies, Rs. 70.35 lakhs to primary coir societies and Rs. 38.50 lakhs to primary mat and matting societies were sanctioned by the RBI. As against this, the utilisation was to the extent of Rs. 126.37 lakhs. A study of the working of the primary coir societies in Kerala, conducted in March 1977, revealed that low utilisation of refinance facilities was due, among other reasons, to the non-viability of a large number of societies and inability of societies to work up to their full capacity due to short supply of raw material.

STRENGTHENING OF CO-OPERATIVE STRUCTURE

Reorganisation of PACS

3.29 The reorganisation of PACS on a viable basis is more or less complete in Andhra Pradesh, Assam, Haryana, Karnataka, Kerala, Orissa, Rajasthan, Tamil Nadu and Uttar Pradesh. In the remaining States, much still remains to be done. In view of the difficulties experienced in following the norms for reorganisation of PACS in hilly and tribal areas, for these areas these norms were modified. The programme of reorganisation of PACS in these areas could be drawn up on the basis of a credit potential of Rs. 1.50 lakhs, instead of Rs. 2 lakhs as in other areas.

3.30 A detailed study of the bye-laws of PACS in different States, undertaken by the RBI, revealed lack of uniformity and non-observance of progressive features like universal membership, representation to small farmers, etc. A set of model bye-laws of PACS, incorporating important progressive features prepared by the Bank and approved by the Agricultural Credit Board on July 18, 1977, was circulated among all the States and Union Territories for immediate adoption.

Rehabilitation of Central Co-operative Banks

3.31 Efforts to rehabilitate certain CCBs were continued during the year. Five SCBs in States having the two-tier structure and 182 CCBs were under the programme of rehabilitation and the GOI had released, under the New Central Sector Plan Scheme, assistance of Rs. 6.37 crores on behalf of 3 SCBs and 136 CCBs. Considerable progress was made by these banks during the last four to five years. During 1972-73 to 1976-77, their deposits increased from Rs. 193.67 crores to Rs. 336.51 crores and loans advanced from Rs. 265.75 crores to Rs. 417.54 crores, while the percentage of overdues to demand was reduced in the case of 45 out of 74 banks in respect of which data are available. As many as 121 banks had a loan business of more than Rs. 100 lakhs.

Integration of Co-operative Credit Institutions

3.32 The recommendations of the Committee on Integration of Co-operative Credit Institutions (Hazari Committee) together with the views

of State Governments and other concerned parties like SCBs were considered by the Agricultural Credit Board at its meeting held on July 18, 1977 and it was decided that in view of the divergent views of the concerned parties, the recommendation relating to the integration of the co-operative credit structure may be deferred for consideration. The Board accepted the other recommendations, as mentioned below.

- (i) The PACS may act as agents of LDBs in disbursing long-term credit.
- (ii) In Union Territories and States, where there are no LDBs, viz., Andaman and Nicobar Islands, Arunachal Pradesh, Delhi, Goa, Daman and Diu, Manipur, Meghalaya, Mizoram, Nagaland and Sikkim, the concerned Governments may be advised not to organise such banks.
- (iii) All the other procedural and other administrative recommendations of the Committee, except the one on electoral colleges, were accepted. These decisions were communicated to State Governments/Union Territories for implementation.

Agricultural Credit-Intensive Development (ACID)

3.33 A mention was made in the last year's Report of the introduction of ACID scheme in 41 selected districts for strengthening co-operatives through concentration of efforts and resources. A sub-committee was set up by the Agricultural Credit Board in its meeting held on July 18, 1977 with Prof. M. L. Dantwala as Chairman to guide the Bank in matters of policy and implementation. The main activity during the year, under the scheme, pertained to the preparation of Credit and Action Programmes for the selected districts. In these programmes an effort is made to

- (i) identify the on-going bankable schemes financed by various agencies and also those that might be formulated in the near future,
- (ii) assess their credit requirements in a realistic manner,
- (iii) suitably adjust the credit programmes of the concerned financial institutions operating in the district, and
- (iv) specify the action that is necessary to implement the programme.

3.34 a) Such programmes have already been prepared in respect of nine districts, viz., Quilon (Kerala), Dhule and Aurangabad (Maharashtra), Mehsana (Gujarat), Rae Bareilly (Uttar Pradesh), Madurai (Tamil Nadu), Raipur and Jabua (Madhya Pradesh) and Purnea (Bihar). Steps have also been initiated in 13 other districts for preparation of these programmes. In pursuance of the scheme's objective to strengthen the banks organisationally and operationally, staffing pattern studies of SCBs and CCBs were undertaken in Gujarat, Kerala and Haryana in consultation with the State Governments and SCBs. The notes on Kerala and Gujarat have been finalised and sent to concerned State Governments and SCBs for implementation.

b) As decided by the sub-committee in its second meeting held on April 28, 1978 top priority under the Action Programme is being given to (i) reduction of overdues, (ii) full coverage of small farmers and (iii) increase in borrowing members.

OTHER DEVELOPMENTS

Credit Authorisation Scheme

3.35 In September 1974, the RBI introduced the scheme requiring SCBs and CCBs to obtain the RBI's prior authorisation for granting advances above Rs. 25 lakhs for meeting block capital requirements of manufacturing/processing units. During 1977-78 (up to June 30, 1978) eight SCBs approached the Bank for prior authorisation in regard to 65 proposals involving block capital. Four proposals were rejected and authorisation for an amount of Rs. 73.14 crores, on behalf of 61 manufacturing/processing units were granted as against Rs. 26 crores on behalf of 26 manufacturing/processing units in the previous year.

3.36 The scheme requiring the RBI's prior authorisation for the granting of working capital finance above Rs. 2 crores by SCBs and that above Rs. 1 crore by CCBs to co-operative marketing/processing societies and consumers' stores/societies, which was introduced in April 1975, was continued during 1977-78. Twelve SCBs and 26 CCBs submitted 307 proposals for working capital loans on behalf of co-operative marketing/processing societies and consumers' stores/societies. Authorisation was granted to 12 SCBs and 26 CCBs for 306 proposals covering an amount of Rs. 515.35 crores on behalf of co-operative marketing/processing societies and consumers' stores/societies till June 30, 1978. One proposal was rejected.

Financing of Societies by Commercial Banks

3.37 The scheme of financing of 3,036 PACS in 116 districts by 24 CBs through their 588 branches was in operation in 12 States, viz., Andhra Pradesh, Assam, Bihar, Haryana, Jammu and Kashmir, Karnataka, Madhya Pradesh, Maharashtra, Orissa, Tripura, Uttar Pradesh and West Bengal, as at the end of December 1977. The average number of societies per branch in all the States taken together worked out to five as against the norm of ten societies per branch for operational viability of the scheme and optimum utilisation of the field staff. During 1977-78 (up to December 1977), CBs financed 2,066 societies, or 68 per cent of societies taken over by them, and provided short-term agricultural loans of Rs. 19.55 crores to 2,066 societies and medium-term loans of Rs. 2.10 crores to 476 societies.

3.38 The average short-term loan disbursed to societies increased from Rs. 0.34 lakh in 1970-71 to Rs. 0.93 lakh in 1976-77 and declined to Rs. 0.89 lakh in 1977-78 which was still below the norm of Rs. 2.0 lakhs of loan business envisaged for a society to attain viability. The overdues

at the society level increased from Rs. 14.8 crores (48 per cent of demand) in June 1976 to Rs. 21.1 crores in June 1977 (56 per cent of demand).

Banking Regulation and Inspection

3.39 With the issue of licences to one SCB and thirteen PCBs under Section 22 of the BR Act, 1949 authorising them to carry on banking business in India, the total number of licenced co-operative banks stood at 130, comprising 7 SCBs, 14 CCBs and 109 PCBs, as on June 30, 1978. Licences were refused to two PCBs during the year.

3.40 During the period July 1, 1977 to June 30, 1978, 131 licences were issued to SCBs and PCBs for opening new offices, as against 107 licences granted during 1976-77. The number of offices of co-operative banks, which stood at 7,771 as on December 31, 1976, increased to 8,309 (348 offices of SCBs, 6,175 of CCBs, 1,592 of primary (urban) co-operative banks and 194 of PCBs of salary earners' type) as on December 31, 1977.

3.41 As at the end of June 1978, there were 1,569 co-operative banks (29 SCBs, 353 CCBs and 1,187 PCBs) coming under the purview of the BR Act, 1949 as against 1,544 co-operative banks, as at the beginning of the year.

3.42 There were 35 co-operative banks comprising three SCBs, seven CCBs and 25 primary (urban) co-operative banks not complying with the provisions of Section 11(1) of the BR Act, 1949. Of these, seven CCBs in Assam continued to be under the scheme of amalgamation with the Assam Apex State Co-operative Bank Ltd. Out of these seven banks, six banks were placed under moratorium by the GOI on October 18, 1977. Of the 25 primary (urban) co-operative banks, which failed to comply with Section 11(1) of the BR Act, 1949, one bank was amalgamated with another primary co-operative bank in May 1978 and four banks were placed under moratorium.

3.43 During the period July 1977 to June 1978, 733 co-operative banks were inspected and 620 inspection reports issued.

STUDY TEAMS

Jammu and Kashmir and Himachal Pradesh

3.44 The Bank constituted, in August 1977, two Study Teams, one each for the States of Jammu and Kashmir and Himachal Pradesh under the Chairmanship of the Executive Director in charge of the Agricultural Credit Department (ACD) of the RBI for undertaking an in-depth study of the institutional arrangements for agricultural credit in these States. The work of the Teams is in progress.

Study Group on Handloom Finance

3.45 The Government of India, in their Resolution dated October 28, 1977, set up a Study Group under the Chairmanship of the Chief Officer of the ACD of the RBI, to review the working of the RBI Scheme for Handloom. The Study Group visited several States in the country and held discussions with the representatives of State Governments, the handloom sector and co-operative banks with the object of getting a first-hand idea of the problems faced by them in getting refinance from the RBI under the scheme and the measures necessary to strengthen the weavers' societies and the co-operative banks for the purpose. The Group finalised its report on May 17, 1978 and submitted it to GOI on June 6, 1978. The GOI constituted an Inter-Ministerial Committee to examine the report and recommendations of the Study Group.

Committee on Urban Co-operative Banks

3.46 The RBI constituted in September 1977, a committee under the Chairmanship of the Executive Director in charge of the ACD in the RBI to make an objective study of the working of urban co-operative banks in the country. The committee is required to evaluate the role of primary (urban) co-operative banks in the banking system, to indicate their future role and, in particular, to assess whether any additional facilities or assistance is needed and to examine aspects such as viability, lending policies and procedures, professional management, adequacy of training facilities, etc. The work of the committee is in progress.

Study Group on Interest Rate Structure of Co-operatives

3.47 At the instance of the GOI, the RBI appointed, in November 1977, a Study Group under the Chairmanship of the Executive Director in charge of the ACD in the RBI, to review the existing structure of interest rates of co-operatives. Besides reviewing the structure of interest rates obtaining in co-operative banks dealing with short-term and medium-term credit at all levels, the Study Group was also to examine and suggest appropriate margins which may be retained at various levels of the short-term and medium-term co-operative credit structure and the rates of interest to be charged to the ultimate borrowers after taking into account factors such as the cost of raising resources, cost of administration, supervision and other services. The Group was further advised to examine the question as to whether a differential rate can be charged in favour of small farmers and examine any other related issues. The Group submitted its report in June 1978.

Committee on Interest Rates Spreads

3.48 In terms of the Development Credit Agreement for the Second ARDC Credit Project, the GOI was required to arrange for a study to examine the interest spreads with particular reference to agricultural lendings by LDBs in India. Accordingly, the RBI, in consultation with

the GOI, constituted in April 1978, a Committee under the Chairmanship of the Executive Director in charge of the ACD in the RBI, to study the "Interest Rates Spreads in Agricultural Lending Sector" with particular reference to the needs of LDBs. The terms of reference include, *inter alia*, an examination of the possibility of reduction in the rate of interest charged to the ultimate borrowers and charging of a differential rate of interest in favour of small farmers.

Staff Development Programmes for Co-operative Banks

3.49 At the instance of State Governments and SCBs, staff development studies of SCBs and CCBs were conducted earlier by the RBI in the States of Andhra Pradesh, Madhya Pradesh, Uttar Pradesh and Karnataka. The objective of these studies was to identify weaknesses in the existing staffing pattern and to suggest suitable measures for their rectification and suitable norms for staff development plans for CCBs and SCBs to cope with the increasing volume of business. It was decided, in September 1977, that similar studies in seven other States, *viz.*, Rajasthan, Haryana, Tamil Nadu, Kerala, West Bengal, Orissa and Gujarat should be taken up on a priority basis. The studies in Gujarat, Haryana and Kerala have since been completed and reports for implementation are being finalised in consultation with the State Governments and the SCBs concerned. Studies in West Bengal and Orissa are expected to be completed shortly.

AGRICULTURAL REFINANCE AND DEVELOPMENT CORPORATION

3.50 The ARDC's activities have expanded significantly since 1974, primarily in the context of the World Bank assisted programmes. The ARDC refinance, since inception (1963) up to June 1974, amounted to only Rs. 317 crores. In the four years' period from July 1974 to June 1978, it was as much as Rs. 732 crores. By the end of June 1978, the aggregate disbursements of refinance assistance, since inception, amounted to Rs. 1,049 crores.

3.51 During 1977-78 (July-June), the number of schemes sanctioned and funds committed were 1,836 and Rs. 330 crores, respectively, as against 1,653 and Rs. 307 crores, respectively, in the previous year. Schemes, sanctioned for purposes other than minor irrigation, numbered 1,335 accounting for the Corporation's commitment of Rs. 153 crores. Of the total disbursement of Rs. 234 crores, the amounts availed of by LDBs, CBs and SCBs formed 47.8 per cent, 51.7 per cent and 0.5 per cent, respectively, of the total. The relative percentages for the previous year were 57.4 per cent, 42.1 per cent and 0.5 per cent, respectively. The level of availment of refinance by LDBs has gone down chiefly due to lower lendings consequent to poor recovery performance of some of the primaries/branches of CLDBs/SLDBs during 1976-77. At the end of June 1978, the cumulative total of schemes sanctioned by the Corporation was 6,221 with a total commitment of Rs. 1,770 crores.

3.52 The efforts of the ARDC towards the reduction of regional imbalances in the availment of its refinance were continued during the year. The Central Region comprising Uttar Pradesh and Madhya Pradesh, where such efforts were extensive, now account for a little over one-fourth of total ARDC disbursement. Thus, of the total disbursement of Rs. 234.30 crores made during 1977-78, the proportions accounted for by the Southern, Central, Eastern and North-Eastern (together), Northern and Western Regions were 27.5 per cent, 25.5 per cent, 17.0 per cent, 15.6 per cent and 14.4 per cent, respectively.

3.53 The Uttar Pradesh Agricultural Credit Project was fully implemented during the year. In Madhya Pradesh, Kreditanstalt für Wiederaufbau of West Germany sanctioned a line of credit for command area development in Hoshangabad district. Under the Bihar Agricultural Credit Project, a sizeable part of the programme has been completed and the closing date has been extended up to March 1980. With the speedy implementation of the West Bengal Agricultural Development Project, sizeable disbursements are now being made in that State. The progress has been satisfactory in Rajasthan also. In the North-Eastern States, though availment of refinance has improved somewhat as in Assam, considerable progress is yet to be made. With the slight improvement in the financial position of the Assam State Land Development Bank, the first scheme was sanctioned by the ARDC on its behalf. At the end of June 1978, as many as 2,673 schemes had been sanctioned in the less developed/under-banked areas involving ARDC commitment of Rs. 770 crores. Of this a sum of Rs. 400 crores was availed of by the financing institutions.

3.54 Another main objective of the Corporation is to cover as many small farmers as possible under its schemes. Under the first ARDC Credit Project, sanctioned by the IDA, the disbursement of funds to small farmers accounted for nearly 54 per cent (Rs. 66 crores) out of the total ARDC disbursement (Rs. 123 crores). The programmes of SFDA which benefit small and marginal farmers, were till recently outside the purview of the World Bank assistance in view of the availability of capital subsidy to borrowers in these schemes. The IDA has now agreed to the inclusion of these schemes also for reimbursements subject to certain conditions. At the end of June 1978, 357 schemes involving the Corporation's commitment of Rs. 72 crores were sanctioned to SFDA; of these, financing institutions have so far availed themselves of refinance of Rs. 33 crores as on June 30, 1978. Recently the GOI have decided to provide subsidy to small and marginal farmers for minor irrigation works under ARDC schemes in all areas, not covered by centrally assisted special programmes like SFDA, DPAP and CAD etc.

3.55 The commitment of funds by the IBRD/IDA is also reaching the \$1,500 million mark. During 1977-78, the IDA sanctioned the Maha-

rashtra Irrigation and Command Area Development Composite Project, the Orissa Irrigation Project, the Jammu and Kashmir Horticulture Project, Andhra Pradesh Fisheries Project, Karnataka Irrigation Project and National Seed Project (Phase II). The Haryana Irrigation Project was negotiated during the year.

3.56 Thirty five projects are now being implemented with assistance from the World Bank Group comprising 12 agricultural credit projects, seven command area development projects, three dairy development projects, two market yard projects, three seeds projects, two apple processing and marketing projects, two fisheries projects, an integrated cotton development project, one irrigation project and two general lines of credit to ARDC. Of these, nine agricultural credit projects, one seeds project and ARDC Credit Project I have been fully implemented. The Uttar Pradesh Agricultural Credit Project and the Tarai Seed Project were completed during the year.

3.57 In view of the importance of bullock and other animal-drawn carts in the Indian rural economy and the advantages of the improved carts fitted with pneumatic tyres for transport of agricultural produce and agricultural inputs, the Corporation has agreed to provide refinance to the schemes for financing commercial carts with wheels of steel rims as well as improved carts fitted with pneumatic tyres and drawn by bullocks, horses, camels, etc. The Corporation is already financing schemes for purchase of bullocks.

3.58 During 1976-77, a programme of construction of godowns by private parties under a scheme formulated by the Food Corporation of India (FCI) for augmenting storage facilities for foodgrains was supported with refinance from the Corporation. Storage capacity of 4.0 million tonnes is estimated to have been created with refinance assistance amounting to Rs. 37 crores upto June 30, 1978. The FCI has now come up with proposals for a second phase of godowns in selected areas for the construction of godowns with a capacity of 2 million tonnes. The ARDC has agreed to finance the second phase also on the same terms and conditions as prescribed for the first phase. The Corporation has also agreed to assist banks for the construction of godowns under the scheme drawn up by the Jute Corporation of India (JCI) for the storage of raw jute. Such godowns should be built according to specifications and designs approved by the JCI which will also guarantee occupation of the godowns for a minimum period co-terminous with the repayment of loans from the financing institutions.

3.59 The Evaluation Cell of ARDC took up five schemes for evaluation during the second phase of the programme. Five more projects are proposed to be taken up for evaluation during the third phase.

3.60 In the context of the Plan objective, the ARDC proposes to adopt as a guideline, during the next Plan period, a 25 per cent annual growth rate which would involve a lending programme of Rs. 3,070 crores. However, based on potential available, institutional capabilities etc., the programme which is broadly feasible is as under :

Year	Perspective Programme
	(Rs. crores)
1978-79	345
1979-80	485
1980-81	565
1981-82	625
1982-83	675
	<hr/>
	2,695
	<hr/>

In drawing up this programme, the ARDC has kept in view the need to reduce regional imbalances and the special requirements of the North-Eastern Region and larger coverage of small farmers.

CHAPTER 4 OTHER FINANCIAL INSTITUTIONS

4.1 The RBI continued to assist in the development of industries by providing credit and rediscounting facilities to term-lending institutions and through the Credit Guarantee Scheme. The activities of the RBI in the sphere of industrial finance, as also those of other financial institutions like the IDBI, State Financial Corporations (SFCs), Credit Guarantee Corporation of India Ltd. (CGCI), Deposit Insurance Corporation (DIC) and Unit Trust of India (UTI) are reviewed in this Chapter. This brief review indicates that the flow of credit to the industrial sector, including the small-scale sector, was sizeably larger in 1977-78 than in the previous year.

RBI Assistance to Term-lending Institutions

4.2 The RBI sanctioned a loan of Rs. 180 crores to the IDBI out of the National Industrial Credit (Long-term Operations) Fund during 1977-78, as against Rs. 150 crores in the previous year. The outstanding amount of the IDBI's borrowings from the Bank stood at Rs. 688.45 crores, as on June 30, 1978. The IDBI was also sanctioned a short-term borrowing limit of Rs. 35 crores during the year against the security of eligible bills rediscounted by it.

4.3 The RBI renewed the borrowing limit of Rs. 3 crores sanctioned to the IFCI for a further period of one year. Five SFCs were sanctioned fresh limits aggregating Rs. 7.69 crores against their *ad hoc* bonds during the period July 1977 to June 1978. The total borrowing limits in force, as at the end of June 1978, in respect of 11 SFCs amounted to Rs. 19.03 crores. Besides, 14 SFCs (*i.e.* all SFCs excepting those in Assam, Delhi and Himachal Pradesh and Tamil Nadu Industrial Investment Corporation) were allowed to borrow from the market through issue of bonds for an aggregate amount of Rs. 41 crores (notified), as against Rs. 38.3 crores allowed in the previous year.

Progress of Credit Guarantee Scheme

4.4 The number of credit institutions eligible for facilities under the Scheme increased from 692, at the end of June 1977, to 721 at the end of June 1978. The number of institutions participating in the Scheme increased by 17 to 281 during the period. The amount of outstanding guarantees which stood at Rs. 1,950 crores, at the end of June 1976, increased to Rs. 2,195 crores, at the end of June 1977, and further to Rs. 2,526 crores at the end of June 1978, reflecting a steady increase in the flow of institutional credit to the small-scale industrial sector (Table 4.1). An industry-wise analysis of the amount of guarantees outstanding at the end of June 1977 shows that the food manufacturing industry (except beverages) accounted for the largest share (12.3 per cent), followed by

textiles (11.1 per cent), metal products (10.6 per cent), chemical products (8.4 per cent), manufacture of machinery except electrical machinery (6.7 per cent), electrical machinery and equipment (6.5 per cent) and basic metals (5.2 per cent). However, a disturbing feature in this financing is the growing number of defaulting units and the amounts involved in such loans. At the end of June 1977 there were 16,275 defaulting units involving Rs. 91.43 crores. The number of defaulting units increased by 3,612 to 19,887 by end-June 1978 and the amount involved went up by Rs. 34.35 crores to Rs. 125.78 crores. The average amount per defaulting unit rose from Rs. 56,000 to Rs. 63,000 and the percentage of the amount involved in defaults to total outstanding guarantees rose from 4.2 per cent to 5.0 per cent. Since the inception of the Scheme in July 1960 till the end of June 1978, claims aggregating Rs. 332.86 lakhs were paid in respect of 2,711 units; of these, the payments made during July 1977 to June 1978 amounted to Rs. 86.92 lakhs in respect of 472 units. Out of the aggregate amount of Rs. 332.86 lakhs paid as claims, a sum of Rs. 59.07 lakhs has since been recovered, placing the net amount of claims paid till end-June 1978 at Rs. 273.79 lakhs. (Table 4.1)

TABLE 4.1—PROGRESS OF CREDIT GUARANTEE SCHEME FOR SMALL-SCALE INDUSTRIES FROM JUNE 1976 TO JUNE 1978

(Amount in rupees crores)

As at the end of	Guarantees outstanding	Advances under default		Claims paid on account of invocation of guarantee		Guarantee Organisation share of recoveries in respect of claims
		No. of units	Amount	No. of units	Amount	
	1	2	3	4	5	6
June 1976	1,949.8	12,439	60.0	1,201	1.7	0.3
June 1977	2,195.1	16,275	91.4	2,239	2.5	0.4
June 1978	2,526.4	19,887	125.8	2,711	3.3	0.6

(Source : Industrial Finance Department, RBI.)

4.5 During the year 1977-78 (July-June), a sum of Rs. 2.35 crores was received as guarantee fees and transferred to the Central Government.

Scheduled commercial banks' advances (a) to small-scale industries, (b) to small road and water transport operators and (c) for setting up of industrial estates

(a) *Small-Scale Industries*

4.6 Between July and December 1977, the total credit (including term loans and advances to craftsmen and other qualified entrepreneurs) extended by scheduled CBs to small-scale industries increased by Rs. 242.6 crores to Rs. 1,702.8 crores as compared to a rise of Rs. 199.3 crores in the corresponding period of the preceding year. Following a similar trend, the total credit limits sanctioned by the banks moved up

during the period under review by Rs. 193.5 crores to Rs. 2,273.4 crores as against an increase of Rs. 182.2 crores in July-December 1976. The number of units assisted also went up from 4.46 lakhs to 4.77 lakhs during this period.

4.7 The share of small industries in the total outstanding bank credit (excluding food procurement advances) stood higher at 14.2 per cent in December 1977 as against 12.9 per cent a year ago. As at the end of December 1977, the average amount of credit limits sanctioned per unit was Rs. 0.48 lakh, as against Rs. 0.50 lakh in December 1976 and Rs. 0.64 lakh in December 1975.

4.8 The share of the public sector banks to total outstanding bank credit to small-scale industries was 89.3 per cent (Rs. 1,520.0 crores) as at the end of December 1977. Of this, the State Bank Group accounted for 34.3 per cent and the nationalised banks 55.0 per cent. Their respective share at end-June 1977 was 34.1 per cent and 56.0 per cent making a total of 90.1 per cent for the public sector banks as a whole. Statewise, Maharashtra claimed nearly one-fifth (Rs. 335.7 crores or 19.7 per cent) of the total outstanding credit to small-scale industries as at the end of December 1977; the largest number of such units financed was, however, in Tamil Nadu (73,393 or 15.4 per cent).

4.9 During the half-year ended December 1977, term loans (including instalment credits) sanctioned by scheduled CBs recorded a rise of Rs. 35.5 crores to Rs. 343.2 crores, the number of units financed having increased from 86,272 to 93,391. The amount of loans outstanding also went up during the period from Rs. 259.4 crores to Rs. 291.7 crores constituting 17.1 per cent of the total bank credit to small industries sector.

4.10 Out of the total credit limits (Rs. 2,273.4 crores) sanctioned by the scheduled CBs to small industries sector as at end-December 1977, those to craftsmen and other qualified entrepreneurs covering 79,024 units accounted for Rs. 94.4 crores. The balance outstanding at Rs. 75.9 crores showed a net rise of Rs. 13.1 crores over the first half-year of 1977 as against a rise of Rs. 10.0 crores in the corresponding period of the previous year. The public sector banks accounted for 97.2 per cent of the outstanding credit to these categories of borrowers, the shares of State Bank Group and the nationalised banks being 39.8 per cent and 57.4 per cent, respectively. The average amount of limits sanctioned per unit in this group went up marginally from Rs. 10,493 in June 1977 to Rs. 11,940 in December 1977.

(b) Small Road and Water Transport Operators

4.11 Scheduled CBs sanctioned total credit to small road and water transport operators to the extent of Rs. 420.5 crores spread over 1,96,293 units as at the end of December 1977 showing a net increase of Rs. 51.6 crores over June 1977 level as against a rise of Rs. 46.8 crores during

the same period of the previous year. The amount outstanding there-against also moved up by Rs. 40.8 crores to Rs. 338.9 crores and the number of units financed in the category rose by 16,160 to 1,96,293 during the period July-December 1977.

(c) *Industrial Estates*

4.12 As at end-December 1977, 21 scheduled CBs including 14 public sector banks, sanctioned credit limits aggregating Rs. 26.1 crores covering 130 units for the setting up of industrial estates and the amount outstanding in the relative accounts was Rs. 22.5 crores as against Rs. 21.1 crores, as at the end of June 1977.

INDUSTRIAL DEVELOPMENT BANK OF INDIA

IDBI's Operations

4.13 The IDBI's operations, as measured by assistance utilised, registered a substantial increase during 1977-78, the utilisation in the year being Rs. 474.5 crores as against Rs. 393.1 crores in the previous year. The increase in utilisation was mainly under direct industrial assistance where disbursements spurred from Rs. 96.8 crores in 1976-77 to Rs. 181.7 crores in 1977-78. At the same time, there was a much lower increase of 6 per cent in total sanctions over the substantial increase of 56 per cent achieved in the previous year. The assistance sanctioned in 1977-78 aggregated Rs. 741.7 crores covering 15,108 applications, compared to Rs. 701.5 crores covering 14,299 applications in the previous year. (Table 4.2)

Normal Direct Assistance Schemes

4.14 Sanctions under normal direct assistance schemes aggregated Rs. 223.0 crores in respect of 114 projects in 1977-78 as against Rs. 229.9 crores covering 137 projects in 1976-77. Around 95 per cent (Rs. 212.3 crores) of the sanctioned assistance was for setting up of fresh capacities by way of new projects and diversification and expansion of existing units. Assistance of Rs. 10.7 crores was also sanctioned in respect of 8 modernisation cases (Table 4.3). Sector-wise, public and joint sectors together accounted for 44 per cent of the assistance sanctioned, co-operative sector 11 per cent and private sector projects for the balance 45 per cent. The industry-wise break-up shows that about 60 per cent of the direct assistance was in respect of four priority industries; viz., fertilizers, paper and power generation. Direct industrial assistance of Rs. 60.7 crores was sanctioned on concessional terms to 42 units in specified backward districts.

Other Schemes of Assistance

4.15 Besides normal direct assistance, several other schemes of assistance designed to meet special requirements of various sectors continued to be in operation. Details of the IDBI operations under these schemes are given in the following paragraphs.

TABLE 4.2— ASSISTANCE SANCTIONED BY THE IDBI AND UTILISED BY THE ASSISTED CONCERNS DURING 1976-77 AND 1977-78 (JULY-JUNE) AND SINCE INCEPTION

(Rupees in crores)

Type of Assistance	Sanctions				Disbursals		Cumulative disbursement since inception up to end of June 1978	Amount outstanding as on June 30, 1978		
	1976-77		1977-78		1976-77	1977-78				
	No. of applications	Amount	No. of applications	Amount	Amount	Amount				
					Cumulative sanctions since inception up to June 1978					
					No. of applications	Amount				
1. Direct Industrial Assistance	260	269.4	242	283.9	1,125	1,043.0	96.8	181.7	579.0	492.8
(a) Direct loans to industrial concerns (other than for exports)										
(i) Normal	122	201.5	106	202.8	594	820.2	87.8	156.9	505.1	424.9
(ii) Soft loan assistance	44	37.0	63	56.5	107	93.4	0.9	9.5	10.4	10.4
(iii) Technical Development Fund	18	2.5	36	4.4	54	6.9	—	2.8	2.8	2.8
(b) Underwriting of & direct subscriptions to shares & debentures of industrial concerns	76	28.4	37	20.2	370	122.5	8.1	12.5	60.7	54.7
2. Refinance of industrial loans@	12,996	235.6	13,910	244.4	49,307	939.6	141.4	145.5	636.6	352.8
3. Rediscounting of Bills	995	151.3	920	133.4	3,394	781.2	113.3	99.6	617.7	338.7
4. Subscriptions to shares & bonds of financial institutions	23	10.6	18	32.7	31	115.4	12.8	28.4	110.0	96.5
Total Project Assistance (1 to 4)	14,274	666.9	15,090	694.4	53,857	2,879.2	364.3	455.1	1,943.3	1,280.8
5. Export Finance	25	34.6	18	47.3	221	253.0	28.8	19.4	153.9	88.5
(a) Direct loans for exports	8	8.7	8	18.1	88	119.5	17.9	11.0	83.0	49.9
(b) Refinance of export credits	12	5.8	7	6.6	114	59.0	3.0	4.0	50.1	18.1
(c) Overseas buyer's credit	2	7.6	1	3.1	8	22.1	5.1	3.6	9.0	8.7
(d) Foreign lines of credit	3	12.4	2	19.5	11	52.4	2.8	0.7	11.8	11.8
Total of 1 to 5	14,299	701.5	15,108	741.7	54,078	3,132.2	393.1	474.5	2,097.2	1,369.3
6. Guarantees for loans & deferred payments	—	—	—	—	15	26.7	—	—	19.5	—
7. Export guarantees	12	41.9	42	50.0	67	96.6	25.1	51.5	81.3*	—

@Inclusive of assistance sanctioned under the Seed Capital Assistance Scheme.

*Guarantees executed.

Notes : (1) The number of applications in respect of item 3 relates to the number of purchaser/users and in respect of item 4 to the number of financial institutions.

(2) In the case of Bills Rediscounting Scheme, amount sanctioned represents face value of bills rediscounted, while amount utilised indicates the net disbursals after deduction charges from the face value of bill.

TABLE 4.3—PURPOSE-WISE CLASSIFICATION OF IDBI'S ASSISTANCE SANCTIONED DURING 1977-78 (JULY-JUNE)

Schemes	Purpose			Total
	New	Expansion/ Diversification	Modernisation/ Rehabilitation	
	1	2	3	
1 Normal direct assistance	143.4 (64)	68.9 (42)	10.7 (8)	223.0 (114)
2 Refinance of industrial loans	200.9 (12,480)	43.5 (1,430)	—	244.4 (13,910)
3 Rediscounting of bills	2.5 (52)	—	130.9 (868)	133.4 (920)
Total	346.8 (12,596)	112.4 (1,472)	141.6 (876)	600.8 (14,944)

Note: Figures in brackets in respect of item 1 indicate the number of projects, in respect of item 2 number of applications and in respect of item 3 number of purchaser-users.

(Source: Industrial Development Bank of India.)

(a) *Soft Loan Assistance*

4.16 Sanctions under Soft Loan Scheme to selected industries, gained further momentum during 1977-78 — Rs. 56.5 crores in respect of 63 units as against Rs. 37.0 crores in respect of 44 units in the previous year. Industry-wise, the largest share of assistance sanctioned was in respect of cotton textiles (56 per cent) followed by engineering industries (15 per cent), sugar (13 per cent), jute (12 per cent) and cement (4 per cent). In November 1977, the Soft Loan Scheme was exempted from the purview of conversion guidelines by the GOI.

(b) *Technical Development Fund (TDF) Scheme*

4.17 Under the Technical Development Fund (TDF) Scheme, during 1977-78 the IDBI sanctioned a sum of Rs. 4.4 crores to 36 industrial units in respect of import licences issued by the TDF Cell in Department of Heavy Industry for providing rupee resources by way of direct loans.

(c) *Refinance of Industrial Loans*

4.18 Sanctions under refinance of industrial loans were Rs. 244.4 crores in respect of 13,910 applications as compared to Rs. 235.6 crores on 12,996 applications in 1976-77. Around 62 per cent of refinance sanctions in terms of value and 93 per cent in terms of number of applications was in respect of small-scale industries and small road transport operators. Refinance assistance of Rs. 97.8 crores was sanctioned at concessional refinance rates to units in the specified backward districts.

(d) Bills Rediscounting Scheme

4.19 Under the Bills Rediscounting Scheme, sanctions during the period at Rs. 133.4 crores, was lower as compared to Rs. 151.3 crores during the previous year. The number of purchaser-users was also lower at 920 as compared to 995 last year. Rediscounting assistance availed of by the public sector utilities, like SEBs, State Road Transport Operators, etc., amounted to Rs. 33.5 crores. Rediscounting assistance of Rs. 2.7 crores was sanctioned on concessional terms to three State Road Transport Corporations from the Himalyan Hill Regions. With effect from April 17, 1978, interest rates under the Bills Rediscounting Scheme were reduced from 11.75 per cent to 10.50 per cent, in respect of bills with unexpired usance of 6 to 36 months and from 10.5 to 10.0 per cent, in respect of bills with longer unexpired usance. As a measure of relief to the small-scale sector, concessional rates of rediscount were introduced during the year for the purchaser-users/seller-manufacturers in that sector.

(e) Seed Capital Assistance

4.20 Out of the 21 State Industrial Development Corporations/State Industrial Investment Corporations, 17 have complied with all the requirements necessary for the operations of the scheme including the constitution of Screening Committees under the IDBI Seed Capital Assistance Scheme. Up to June 30, 1978, 52 applications for seed capital assistance of Rs. 196.3 lakhs, were received by the IDBI and assistance to the tune of Rs. 84.3 lakhs in respects of 25 projects, (including three direct seed capital assistance cases for Rs. 13.2 lakhs) was sanctioned.

(f) Export Finance Scheme

4.21 Sanctions under export finance scheme (excluding guarantees), went up from Rs. 34.6 crores to Rs. 47.3 crores during 1977-78. These include two foreign lines of credit of an aggregate amount of Rs. 19.5 crores sanctioned : (a) Rs. 2.0 crores to Kenya for export of engineering and capital goods from India and (b) Rs. 17.5 crores to Socialist Republic of Vietnam for export of railway wagons, coaches and locomotives. Besides, 42 export guarantees for Rs. 50.0 crores were also sanctioned.

(g) Assistance to Backward Areas

4.22 The IDBI's assistance to projects in the specified backward districts/areas aggregated Rs. 313.5 crores during 1977-78. The total assistance—direct, refinance and rediscounting—sanctioned on concessional terms during the year amounted to Rs. 175.7 crores, as compared to Rs. 211.2 crores, in the previous year. Total concessional assistance disbursed since the introduction of the concessional scheme in July 1970, till the end of June 1978, aggregated Rs. 338.8 crores. (Table 4.4)

TABLE 4.4— ASSISTANCE SANCTIONED (EFFECTIVE) AND DISBURSED BY IDBI TO UNITS IN THE SPECIFIED BACKWARD DISTRICTS@

(Amount in crores of rupees)

Year	Assistance sanctioned			Assistance Disbursed		
	Total	Backward districts	% of Col. 3 to 2	Total	Backward districts	% of Col. 6 to 5
1	2	3	4	5	6	7
Since inception up to the end of June 1970	276.3	44.6 (—)	16.1	274.0	36.1 (—)	13.2
1970-71	85.0	20.9 (0.3)	24.6	54.2	9.4 (0.1)	17.3
1971-72	135.1	45.0 (17.5)	33.3	73.7	15.1 (1.5)	20.5
1972-73	122.1	41.0 (13.9)	33.6	97.6	23.5 (8.6)	24.1
1973-74	165.2	58.8 (42.3)	35.6	142.9	49.4 (18.0)	34.6
1974-75	270.1	94.7 (52.8)	35.1	186.8	68.8 (25.7)	36.8
1975-76	392.1	174.7 (117.7)	44.6	249.6	98.7 (53.3)	39.5
1976-77	656.3	350.2 (211.2)	53.4	351.5	144.4 (98.7)	41.1
1977-78	661.6	313.5 (175.7)	47.4	426.7	218.3 (132.9)	51.2
Total	2,763.8	1,143.4 (631.4)	41.4	1,857.0	663.8 (338.8)	19.5

@Comprising assistance under Direct, Soft Loan, Technical Development Fund, Refinance and Bills Rediscounting Schemes.

Note : Figures in brackets refer to assistance sanctioned/disbursed on concessional terms.

(Source : Industrial Development Bank of India.)

(h) *Subscriptions to shares and bonds*

4.23 During the year, the IDBI subscribed Rs. 3.9 crores to private share capital issues of SFCs and Rs. 1.0 crore to special capital of SFCs. The IDBI also subscribed Rs. 5 crores to the bond issues of the IFCI by way of support for its participation in the Soft Loan Scheme and Rs. 2.5 crores to IRCI by way of advance deposit towards its rights issue. The IDBI contributed Rs. 16.0 crores to the ICICI special debentures — Rs. 10.0 crores by way of resource support to the ICICI for participation in the Soft Loan Scheme and Rs. 6.0 crores against sanction of the U.K. line of credit. With this, the total assistance provided by the IDBI to the ICICI since November 1966 up to the end of June 1978, amounted to Rs. 54.6 crores. Total IDBI holdings of ICICI debentures, as at end-March 1978, amounted to Rs. 44.7 crores.

Line of Credit for Imports

4.24 The World Bank sanctioned, in December 1977, a new line of credit of US \$25 million for financing the foreign exchange requirements of the medium-sized State Public and Joint Sector Projects, *i.e.*, projects with investment in fixed assets (excluding land) between Rs. 1 crore and Rs. 20 crores. Besides, three separate lines of credit obtained by the IDBI from IDA/World Bank are already under operation — two lines of credit for US \$25 million and US \$40 million were for on-lending to SFCs and third line for US \$28 million for assisting specific fertilizer projects in their scheme of pollution control, debottlenecking etc. During the year under review, the IDBI disbursed Rs. 2.3 crores under the line of credit of US \$25 million bringing total disbursements to Rs. 22.1 crores as on June 30, 1978. As regards the World Bank line of credit of US \$40 million, the refinance assistance sanctioned and disbursed during the year 1977-78 aggregated Rs. 14.7 crores and Rs. 4.4 crores, respectively. Total sanctions and disbursements under this World Bank line of credit, as at the end of June 1978, amounted to Rs. 25.8 crores and Rs. 6.4 crores, respectively. During 1977-78 the IDBI sanctioned Rs. 8.7 crores to three projects under the US \$28 million line of credit for assisting certain specific fertilizer projects bringing the total amount sanctioned to Rs. 13.3 crores as at the end of June 1978.

Promotional Activities

4.25 The IDBI has so far set up Technical Consultancy Organisations (TCOs) in States of Kerala, Bihar, Orissa, Andhra Pradesh, Uttar Pradesh, Jammu & Kashmir and North-Eastern Region. The IFCI has established two TCOs in Himachal Pradesh and Rajasthan and a third TCO is being set up in Madhya Pradesh. During 1977-78, the Uttar Pradesh Industrial Consultancy Organisation and Bihar Industrial Technical Consultancy Organisation undertook, in association with and under the guidance of the IDBI, Industrial Potential Survey of Badaun and Bhagalpur districts, respectively. The financial institutions have agreed in principle for the establishment of TCO in Gujarat to help rapid growth of rural and small industries and their decision has been communicated to Government of Gujarat. In addition to the existing 17 Inter-Institutional Groups (IIGs), one more IIG was constituted during the year for the Union Territory of Mizoram.

4.26 Under the new industrial policy, the IDBI has been envisaged to co-ordinate the working of institutions engaged in promotion, development and financing of tiny, small and village industries. In pursuance of this, the IDBI has set up a new wing called Small and Village Industries Wing to evolve appropriate policy framework, identify immediate action areas for promoting the growth of such industries and monitor the entire range of credit facilities offered by the various agencies for this sector.

OPERATIONS OF STATE FINANCIAL CORPORATIONS

4.27 The operations of 18 SFCs including Tamil Nadu Industrial Investment Corporation Ltd., showed further improvement during 1977-78 (April-March). The total loans sanctioned at Rs. 166.1 crores and disbursed at Rs. 107.4 crores by these Corporations, during this period were higher as compared with those at Rs. 163.3 crores and Rs. 105.3 crores, respectively, during the same period in 1976-77 (Table 4.5). Total loans outstanding, as at the end of March 1978, stood at Rs. 482.8 crores showing a rise of Rs. 35.0 crores over the level a year ago. A major portion of the assistance sanctioned continued to flow in favour of small-scale industrial units including small road transport operators. In fact, their share in the total assistance sanctioned since inception increased from 57.6 per cent as at the end of March 1977 (Rs. 521.5 crores out of Rs. 905.2 crores) to 65.2 per cent as at the end of March 1978 (Rs. 622.4 crores out of Rs. 954.4 crores).

TABLE 4.5—OPERATIONS OF STATE FINANCIAL CORPORATIONS

	(Amounts in rupees crores)	
	1976-77 (April-March)	1977-78 (April-March)
	1	2
Loans Sanctioned (effective)	163.3	166.1
Loans Disbursed	105.3	107.4
Loans Outstanding (as at the end of March)	447.8	482.8

(Source : Industrial Development Bank of India)

4.28 Out of the 18 SFCs, 17 raised special capital aggregating Rs. 5.7 crores, as at the end of March 1978. The sanctions under the scheme, as at the end of March 1978, amounted to Rs. 52.75 lakhs in respect of 91 units and the disbursement Rs. 10.14 lakhs to 13 units.

4.29 Pursuant to the decision taken at the 18th Conference of SFCs, held in October 1976, the IDBI constituted three working groups on (i) Co-ordination between banks and SFCs (ii) amendments to SFCs Act and related statutes and (iii) reduction of arrears of SFCs. The main recommendations of the working groups are given below.

4.30 The recommendations of the first Group include introduction of common application forms, joint/simultaneous appraisal, collection of data during inspection, joint action in follow-up and recovery, nursing of difficult accounts, etc. Other important recommendations relate to the need for pooling and disseminating of information regarding various aspects of projects coming up for consideration, acceptance of equitable mortgage by SFCs for loans up to Rs. 10 lakhs, routing of disbursement of term loans by SFC through the bank providing working capital, consulta-

tion and mutual assistance by banks and SFCs in effecting recovery of overdues, etc. On July 8, 1978, the RBI conveyed to CBs specific guidelines for implementation of the recommendations. The SFCs have also been advised by the IDBI to convene Seminar/Workshop for working out specific steps to facilitate the implementation of the recommendations and to adopt a time-bound programme therefor. Two such workshops have already been held.

4.31 The second Working Group on amendments to SFCs Act, etc., has recommended raising of the upper limit on the authorised capital of SFCs, streamlining and simplifying of the existing provisions and procedures in regard to their raising of paid-up capital, making the Boards of the SFCs more cohesive and purposeful, easier availability of resources to SFCs and changes in the procedures regarding borrowings from market as also from the RBI.

4.32 The third Working Group on reduction of arrears made an in-depth study of the problems of overdues with SFCs. The suggestions include measures for more effective and intensive follow-up, amendments to SFCs Act, extension of revenue recovery proceedings to SFCs and better utilisation of credit guarantee scheme for small-scale industries operated by the RBI as also measures for building up adequate reserve for bad and doubtful debts. The comments from SFCs on the recommendations of the Second and Third Working Groups have been obtained and are being sent to the GOI with the observations of the IDBI.

CREDIT GUARANTEE CORPORATION OF INDIA LTD.

4.33 During the year, the Corporation amended the provisions of its guarantee schemes so as to enlarge its scope and benefits to facilitate small borrowers' obtaining easy access to institutional credit. Thus, the cover under Small Loans Guarantee Scheme was extended to persons holding minor salary positions but mainly engaged in any of the activities already covered by the Scheme. The stipulation regarding maximum period of repayment of term-loans for agriculture was extended from 10 years to 15 years. The period of repayment of crop loans for pineapple was enhanced from 15 months to four years taking into account the peculiarities of pineapple cultivation. Repairs to farm assets in the case of agricultural advances and repairs to, or reconstruction of, houses or tenements in regard to housing loans were included among the eligible purposes to encourage banks to grant advances to rehabilitate small borrowers affected by the recent floods in several parts of the country. General consumption as such — up to Rs. 75 per year — was included among the eligible purposes for consumption credit.

4.34. In the case of retail traders, professional and self-employed persons and business enterprises, advances granted jointly to more than one individual were brought within the purview of the Small Loans Guarantee Scheme.

4.35 The total advances covered by the three guarantee schemes of the Corporation increased by 17.21 per cent from Rs. 1,294.38 crores, as at the end of December 1976 to Rs. 1,517.12 crores, as at the close of December 1977. During the five years ended December 1977, the total advances covered by the guarantee increased from Rs. 265.30 crores to Rs. 1,517.12 crores, indicating a substantial fulfilment of the objective in setting up the Corporation, *viz.*, facilitating an increased flow of institutional credit to the weaker sections of the community. Advances to farmers and agriculturists constituted about two-thirds of the total guaranteed advances.

4.36 The inflow of claims accelerated, the claims received during the year under reporting exceeding, both in number and amount, the total claims lodged in all the previous years. During the year ended June 1978, as many as 20,258 claims for a total amount of Rs. 605.21 lakhs were lodged as against a total of 12,001 claims for Rs. 382.28 lakhs received in all the preceding years. The administrative machinery was strengthened and the scrutiny procedures and contents were further simplified to cope with this very large volume of claims. As many as 11,400 claims for a total amount of Rs. 301.18 lakhs were disposed of during July 1977-June 1978 as against, 6,229 claims for a sum of Rs. 178.60 lakhs settled during all the preceding years.

Number of banks covered by the Scheme

4.37 With 27 RRBs joining the Small Loans Guarantee Scheme during the year, the total number of scheduled CBs participating in the Scheme increased to 121.

4.38 Three co-operative banks were excluded from the list of banks participating in the Service Co-operative Societies Guarantee Scheme, as they did not execute the necessary agreement. However, with four more co-operative banks and 13 RRBs joining the Scheme, 115 banks are participating in the Scheme.

4.39 The number of Financial Corporations participating in the Financial Corporations Guarantee Scheme remained unchanged at 18.

DEPOSIT INSURANCE CORPORATION

4.40 The number of insured CBs and RRBs remained unchanged at 78 and 48, respectively. The number of insured co-operative banks in the States of Andhra Pradesh, Jammu and Kashmir, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Rajasthan, Tripura and West Bengal and the Union Territories of Delhi, Goa, Daman and Diu and Pondicherry to which the Deposit Insurance Scheme had been extended so far, increased from 848, as at the end of June 1977, to 859, as at the end of June 1978. The Deposit Insurance Scheme has been extended to the State of Orissa with effect from July 1, 1978 covering 27 co-operative banks. The question of extending the scheme to the remaining States was under active consi-

deration. Thus, as on June 30, 1978, the total number of insured banks stood at 985, as against 974 a year earlier. The limit of insurance cover and the rate of insurance premium remained unchanged at Rs. 20,000/- per depositor and 4 paise per hundred rupees per annum, respectively. The total amount of assessable deposits, as on the last Friday of September 1977, aggregated Rs. 19,982.46 crores.

4.41 The total claims paid or provided for by the Corporation since its inception amounted to Rs. 113.01 lakhs, in respect of 14 insured CBs and Rs. 21.84 lakhs, in respect of five co-operative banks. The total repayments received in respect of the subrogated claims relating to CBs amounted to Rs. 72.72 lakhs, including a sum of Rs. 2.28 lakhs received during the year. No repayments have been received so far in respect of co-operative banks.

Transfer of CGCI to DIC

4.42 Since the objectives of DIC and CGCI are cognate in that both seek to protect banks and depositors, it was considered advantageous to transfer the undertaking of CGCI to DIC. The Deposit Insurance Corporation (Amendment and Miscellaneous Provisions) Bill, 1978, seeking to provide for the acquisition of CGCI by DIC was passed by the Lok Sabha on April 29, 1978 and became an Act on receipt of the assent of the President on May 27, 1978. The provisions of the Act, except Section 9, came into effect from July 15, 1978.¹ The salient features of the Act are mentioned below.

4.43 With the merger of the two institutions, the name of the Corporation has been changed to Deposit Insurance and Credit Guarantee Corporation. For the purpose of administering the functions of Credit Guarantee Corporation of India and Deposit Insurance Corporation, the Act provides for increase in the authorised capital of the Corporation from Rs. 5 crores to Rs. 15 crores. The paid-up capital of the Corporation has since been raised to Rs. 10 crores which stands allotted to the RBI. There is a provision for the Chairman being either the Governor or a Deputy Governor of the RBI. The Act seeks to insert a new section for cancellation of registration of an insured bank in the event of continuous default for three consecutive quarters in payment of premium. The Corporation may restore the registration of a bank on payment of the overdue premium with interest thereon. The Corporation would be empowered to guarantee credit facilities given by any credit institution and also to indemnify credit institutions in respect of credit facilities granted by them. The Act also provides for the Corporation to act as an agent for the Central Government in guaranteeing credit facilities granted to small-scale industrial concerns by credit institutions. This function is now carried on by the Industrial Finance Department of the RBI.

1. Section 9 relates to the take-over of functions of the Credit Guarantee Organisation by the Deposit Insurance and Credit Guarantee Corporation.

UNIT TRUST OF INDIA

4.44 The year 1977-78 witnessed an unprecedented increase in sales of units: sales in respect of Unit Scheme 1964 and Unit Linked Insurance Plan 1971 during the year shot up to Rs. 73.58 crores from the earlier high of Rs. 34.59 crores. The Unit Linked Insurance Plan, which was introduced by the Trust in 1971, showed a spectacular growth during the year. The business received under this plan during the year exceeded the aggregate business received during the previous six years of its operation. As many as 16,812 applications were received under this plan for a target amount (amount to be received over the 10 year period of the plan) of Rs. 15.87 crores, against 12,728 applications for a target amount of Rs. 10.87 crores, during 1971-72 to 1976-77. (Table 4.6)

TABLE 4.6 SCHEME-WISE SALES, REPURCHASES AND OUTSTANDINGS OF UNITS OF UNIT TRUST OF INDIA

(Rs. Crores)

Schemes	SALES		REPURCHASES		OUTSTANDING AS ON	
	1976-77	1977-78@	1976-77	1977-78@	June 30, 1977	June 30, 1978@
Unit Scheme 1964	33.51	70.91	7.80	9.74	183.35	244.51
Unit Scheme 1971	1.07	2.67	0.03	0.03	2.73	5.37
Unit Scheme 1976	*	*	0.20	0.32	7.26	6.94
TOTAL	34.59	73.58	8.03	10.10	193.34	256.82

*Sales suspended since April 1976
(Source: Unit Trust of India)

@ Provisional

4.45 Repurchases of units by the Trust at Rs. 10.10 crores were higher than those (Rs. 8.03 crores) during the previous year. As a proportion of unit capital, repurchases were lower at only 3.9 per cent against 4.2 per cent in the earlier year. Net sales of units under all the schemes amounted to Rs. 63.48 crores — an increase of 139 per cent over those (Rs. 26.56 crores) during the previous year.

4.46 The phenomenal growth in unit sales during the year was mainly attributable to the downward revision of interest rate structure for bank deposits (first in June 1977 and subsequently in March 1978) which made dividend on units more attractive and inclusion of units as one of the eligible assets for claiming exemption from income tax in respect of long-term capital gains under Section 54E of Income Tax Act. The revision of guidelines for company deposits also contributed to the growth in sales of Units. Moreover, the intensive and systematic promotional and publicity measures undertaken by the Trust were responsible for the

growing popularity of units. Stepping up of the dividends under the Unit Scheme 1964 from 8.75 per cent for 1975 -76 to 9 per cent for 1976-77 and under the Unit Scheme 1971 (Unit Linked Insurance Plan) from 7 per cent to 8 per cent was the other favourable factor for the increased popularity of units. The dividend for the year 1977-78 under all the schemes, viz., Unit Scheme 1964, Unit Scheme 1971 and Unit Scheme 1976, was maintained at 9 per cent, 8 per cent and 3 per cent, respectively.

4.47 As on June 30, 1978, units sold and outstanding with the public, amounted to Rs. 256.82 crores under about 7.7 lakh applications. Sales of units under Unit Scheme 1976 (Capital Units) continued to remain suspended.

Investments

4.48 As on June 30, 1978, the total investible funds of the Trust amounted to Rs. 286.54 crores. Of these, ordinary shares accounted for Rs. 111.71 crores (39.0 per cent), preference shares for Rs. 14.54 crores (5.0 per cent), and debentures for Rs. 65.58 crores (22.9 per cent). The balance of Rs. 94.71 crores (33.1 per cent), mainly represented money at call and short notice, advance deposits against commitments and other deposits