Report on Trend and Progress of Banking in India for the year ended June 30, 1979. 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
1978-79

LETTER OF TRANSMITTAL

GOVERNOR

Reserve Bank of India
Central Office
Bombay
September 22, 1979
Bhadra 31, 1901 (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, 1979.

Yours faithfully,

(I. G. Patel)

CONTENTS

INDEX TO TABLES

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

ABBREVIATIONS

The following abbreviations have been used in the Report :

ACID	—	Agricultural Credit Intensive Development
ARDC	—	Agricultural Refinance and Development Corporation
CAB	—	College of Agricultural Banking, Pune
CAS	—	Credit Authorisation Scheme
CCB	—	Central Co-operative Bank
CGCI	—	Credit Guarantee Corporation of India Ltd.
CRR	—	Cash Reserve Ratio
DCC	—	District Consultative Committee
DIC	—	Deposit Insurance Corporation
DICGC	—	Deposit Insurance and Credit Guarantee Corporation
DPAP	—	Drought Prone Areas Programme
EDPs	—	Entrepreneurial Development Programmes
FSS	—	Farmers' Service Societies
GOI	—	Government of India
HPC	—	High Power Committee
HUDCO	—	Housing and Urban Development Corporation
ICICI	—	Industrial Credit and Investment Corporation of India
IDA	—	International Development Association
IDBI	—	Industrial Development Bank of India
IFCI	—	Industrial Finance Corporation of India
KITCO	—	Kerala Industrial and Technical Consultancy Organisation Ltd.
LAMPS	—	Large-sized Adivasi Multi-purpose Society/Societies
LDB	—	Land Development Bank
LIC	—	Life Insurance Corporation
NEITCO	—	North Eastern Industrial and Technical Consultancy Organisation Ltd.
NIBM	—	National Institute of Bank Management
PACS	—	Primary Agricultural Credit Societies
PC	—	Participation Certificate
PLDB	—	Primary Land Development Bank
RBI	—	Reserve Bank of India
RRB	—	Regional Rural Bank
SBI	—	State Bank of India
SCB	—	State Co-operative Bank
SFC	—	State Financial Corporation
SFDA	—	Small Farmers' Development Agency
SIDC	—	State Industrial Development Corporation
SIIC	—	State Industrial Investment Corporation
SLR	—	Statutory Liquidity Ratio
SLDB	—	State Land Development Bank
TAF	—	Technical Assistance Fund
TCO	—	Technical Consultancy Organisation
UCB	—	Urban Co-operative Bank
UPICO	—	Uttar Pradesh Industrial Consultants Ltd.
UTI	—	Unit Trust of India
WCTL	—	Working Capital Term Loans

CHAPTER 1

INTRODUCTION

Three features of the banking scene in 1978-79 deserve to be highlighted : the sustained growth in deposits and credit, enlargement of banks' involvement in lending to the weaker sections, and the initiation of a three-year branch expansion policy specifically directed towards reduction of regional imbalances. Two national targets had been set earlier for public sector banks to be reached by March 1979 : firstly, banks should strive to reach a level of not less than one-third of their outstanding credit to priority sectors. And secondly, banks were required to deploy 60 per cent of their total deposit mobilisation from rural and semi-urban areas in the respective areas. Considerable progress was achieved in 1978-79 in these matters also.

1.2 Aggregate deposits of scheduled commercial banks recorded a rise of Rs. 4,556 crores in 1978-79 (July-June), which was, marginally larger than the rise of Rs. 4,410 crores witnessed in 1977-78. In terms of rates of growth, however, aggregate deposits growth decelerated from 23.3 per cent in 1977-78 to 19.5 per cent. This was partly for the reason that national income, which had risen by as much as 7.2 per cent in 1977-78, rose in 1978-79 by only 4 to 4.5 per cent.

1.3 The trends in credit during 1978-79 showed two distinct phases, the first one, during the early part of the year, of a rapid build-up in liquidity followed by a period of rapid expansion in credit. In particular, the expansion in non-food gross bank credit during the eight successive weeks ended November 17, 1978 was at an unusually high rate of about Rs. 100 crores per week. In terms of incremental credit-deposit ratios, the ratio for these eight weeks worked out to nearly 100 per cent. Following this extraordinary spurt in bank credit the Reserve Bank of India (RBI) prescribed a policy of limiting the incremental (gross) non-food credit-deposit ratio to 40 per cent for the period December 1, 1978 to end-March 1979. In actual fact, however, expansion in such credit up until the last week of January 1979 continued to be very large. For the year 1978-79 as a whole non-food (gross) bank credit recorded an increase of 17.7 per cent ; this was on top of an increase of nearly 20 per cent witnessed during the previous year. Even making allowance for a relatively higher industrial growth of about 7.6 per cent in 1978-79 as against 3.9 per cent in 1977-78 and the need for supporting larger inventories in some sectors like sugar, the expansion in non-food (gross) bank credit in 1978-79 was much greater than warranted. The credit policy measures taken during this period has to be viewed against this background.

1.4 The experience of the last year has brought into sharp relief the deficiencies in the existing system of monitoring data/information on credit or banking indicators generally. Credit planning at the *macro* level has to be adequately supported by an information system at the individual bank's level which enables it to monitor the functioning of its branches promptly and effectively. Measures to streamline the monitoring system at the individual bank's level to achieve this objective have already been initiated.

1.5 According to the targets laid down by the Government of India (GOI) advances to priority sectors like agriculture, small-scale industries and small borrowers by public sector commercial banks should reach a level of not less than one-third of their outstanding credit by March 1979. At the end of March 1979 advances to priority sectors by 50 banks which account for about 95 per cent of the total bank credit formed 30.5 per cent of their total (net) bank credit as compared with the level of 28.2 per cent a year ago. The share of priority sectors in the total incremental (net) credit was lower at 43.0 per cent in 1978-79 (April-March) than the corresponding share of 46.9 per cent in 1977-78.

1.6 In respect of the target relating to rural lending, however, the banking system has a long way to go. Public sector banks were expected to achieve by March 1979 a credit-deposit ratio of at least 60 per cent in respect of their rural and semi-urban branches separately. For the country as a whole, the ratios for the rural and semi-urban areas were 52.5 and 47.4, respectively, at the end of June 1978. The fact that the all-India ratios were low does not mean that all regions/districts have remained well below the target. In fact the Southern Region as a whole has exceeded the target in respect of rural areas with the ratio of 76.3 per cent and has nearly reached the target for semi-urban areas with the ratio of 59.7 per cent. Similarly, 38 per cent of districts covered by rural bank branches and 33 per cent of districts covered by semi-urban bank branches showed credit-deposit ratios of 60 per cent or above. This underlines the uneven progress in this respect, both region-wise and even district-wise.

1.7 Such an approach to the lending pattern of commercial banks, implicit in these national targets has brought about, over the years, a significant structural transformation in the composition of credit. The share of large and medium industries in total bank credit, for instance, has declined over the years, at the same time as the relative share of priority sectors like agriculture has gone up. The pace at which such a transformation is taking place may perhaps receive further impetus from some of the guidelines recently issued to banks following the recommendations of the Five Working Groups constituted by the GOI in October 1978. Furthermore, banks are being increasingly involved in block development plans and more recently in the District Industries Centres (DICs). The success of the banking system in tackling these somewhat new and complex tasks would depend upon the speed with which they could adapt their lending attitudes, procedures and skills to the new tasks.

1.8 A comprehensive branch expansion policy for the three years 1979-81, formulated in the broader framework of a reduction in regional imbalances and strengthening of a multi-agency approach to rural credit, was announced in September 1978. The basic objective of the multi-agency approach is to facilitate greater effectiveness of all the agencies involved in rural credit—commercial banks, regional rural banks (RRBs) and co-operative banks—an avoidance of disparate policies and enlargement of the total availability of institutional finance to the rural sector. The branch licensing policy is basically guided by considerations of evolving a well-differentiated structure of the banking system and reducing regional imbalances in banking development. The programme envisages the opening of about 6,500 branches in the rural and semi-urban areas during the three years 1979-81. For this purpose, district-wise plans are being chalked out. Special efforts are being made to facilitate the establishment of RRBs wherever the situation warrants them.

CHAPTER 2

COMMERCIAL BANKING

Branch Expansion : Policy and Progress

2.1 In the first decade after the nationalisation of the 14 major commercial banks, over 21,900 new bank offices were opened throughout the country, raising the total number of functioning offices from 8,262 in June 1969 to 30,202, at the end of June 1979. Of the new offices, over half (11,476) were opened in centres where there had previously been no commercial bank office. The average population per bank office declined from 65,000 in June 1969 to about 18,000 in June 1979. This remarkable progress notwithstanding deficiencies in the availability of banking infrastructure persist in some areas. At the end of June 1979, the population per bank office was above average in 13 States/Union Territories (Table 2.1).

2.2 An important development during the year was the formulation, in September 1978, of a new branch licensing policy for the three year period 1979-81. While the overall objective of the policy continues to be the expansion of banking facilities in deficit areas and the reduction of inter-State and inter-district disparities in this regard, other factors such as the emphasis given to rural development, the support necessary for developmental activities and the recommendations of the Dantwala Committee, the James Raj Committee and the Kamath Working Group, have also been taken into account.[1] The policy is based on the multi-agency approach with emphasis on coordination between financial institutions viz., commercial banks, co-operatives and RRBs to avoid wasteful competition and duplication of effort. An outline of the policy is given below:

(*i*) The areas —States and districts—which are deficit in commercial banking services, as indicated by population per office that is higher than the national average of 20,000 at the end of June 1978 have been identified. To bring these areas on a par with the national average, it is considered necessary to open about 6,500 new offices in rural and semi-urban centres in the period 1979-81. State/district-wise lists of offices that are required to be opened have been issued to all banks. Further, district-wise plans of expansion are being drawn up by the RBI in consultation with the State Governments and the concerned banks. The allotment of centres in the various States/Union Territories has been taken up and up to 30th June 1979, about 2,000 rural/semi-urban centres have been allotted to various banks for establishing offices in the three year period. Of the total allotments made during the period for opening of branches, 76 per cent were accounted for by backward States of Bihar, Madhya Pradesh, Uttar Pradesh, Orissa and West Bengal.

---

1. The reference is to :
(*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.

(*ii*) The policy accords top priority to the opening of bank branches in all the community development block headquarters in the country in view of the special position they occupy in the Government's scheme of developmental administration. A time-bound programme has been drawn up so as to ensure that such block headquarters are provided with a bank office by end-June 1979.

TABLE 2.1 — STATE-WISE DISTRIBUTION OF BANK OFFICES AS AT THE END OF JUNE 1977, JUNE 1978, DECEMBER 1978 AND JUNE 1979

State/Union Territory	No. of offices as at the end of				Opened during 1977-78 (July 1977 to June 1978)	Of which at unbanked centres	Opened during 1978-79 (July 1978 to June 1979)	Of which at unbanked centres	Population per bank office (in thousands) as at the end of		
	June 1977	June 1978	December 1978	June 1979					June 1978	December 1978	June 1979
	1	2	3	4	5	6	7	8	9	10	11
Andhra Pradesh	1,844	2,134	2,314	2,366	289	218	232	162	20	19	18
Assam	354	414	437	446	60	44	32	24	35	33	33
Bihar	1,176	1,397	1,498	1,594	222	162	198	151	40	38	35
Gujarat	1,883	2,077	2,143	2,162	194	143	85	43	13	12	12
Haryana	604	674	695	720	71	50	46	32	15	14	14
Himachal Pradesh	253	292	311	313	39	32	21	14	12	11	11
Jammu & Kashmir	285	337	356	371	52	41	34	30	14	13	12
Karnataka	2,138	2,339	2,480	2,531	204	135	193	132	13	12	12
Kerala	1,705	2,011	2,059	2,098	306	238	87	59	11	10	10
Madhya Pradesh	1,247	1,465	1,578	1,626	218	175	162	122	28	26	26
Maharashtra	2,671	2,913	3,062	3,113	243	123	200	98	17	16	16
Manipur	23	32	33	35	9	9	3	1	34	33	31
Meghalaya	41	49	53	53	8	6	4	4	21	19	19
Nagaland	22	29	32	33	7	5	4	3	18	16	16
Orissa	529	660	698	718	131	104	59	46	33	31	31
Punjab	1,271	1,425	1,461	1,469	154	118	44	22	10	9	9
Rajasthan	1,022	1,150	1,277	1,317	128	94	167	136	22	20	20
Tamil Nadu	2,307	2,552	2,635	2,675	246	181	123	87	16	16	15
Tripura..	49	67	69	69	17	11	2	2	23	23	23
Uttar Pradesh	2,714	3,055	3,246	3,369	342	221	313	239	29	27	26
West Bengal	1,626	1,804	1,866	1,910	179	97	106	52	25	24	23
Andaman & Nicobar Islands	7	12	12	12	5	4	—	—	10	10	10
Arunachal Pradesh	11	13	17	17	2	2	4	3	36	28	28
Chandigarh	71	74	75	76	3	1	2	1	3	3	3
Dadra & Nagar Haveli ..	4	4	4	4	—	—	—	—	19	19	19
Delhi	709	768	810	820	60	7	54	2	5	5	5
Goa, Daman & Diu	190	216	223	225	26	21	9	7	4	4	4
Lakshadweep	5	5	5	5	—	—	—	—	6	6	6
Mizoram	4	6	12	12	2	—	6	6	55	28	28
Pondicherry	37	42	43	43	5	3	1	—	11	11	11
TOTAL	**24,802**	**28,016**	**29,504**	**30,202**	**3,222**	**2,245**	**2,191**	**1,478**	**20**	**19**	**18**

Note : (1) 8 Offices were closed during the period July 1977 to June 1978.
(2) 5 Offices were closed during the period July 1978 to June 1979.
(3) Data for Sikkim are not readily available.

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

TABLE 2.2 — BANK GROUP-WISE DISTRIBUTION OF OFFICES OPENED DURING 1977-78 AND 1978-79

Bank Group	New offices opened by commercial banks						Bank offices as on			Number of banks as on		
	1977-78			1978-79								
	July-December 1977	January-June 1978	July-June 1977-78	July-December 1978	January-June 1979	July-June 1978-79	June 30, 1978	December 31, 1978	June 30, 1979	June 30, 1978	December 31, 1978	June 30, 1979
	1	2	3	4	5	6	7	8	9	10	11	12
1. State Bank of India ..	309 (200)	145 (93)	454 (293)	168 (84)	73 (43)	241 (127)	4,813	4,979	5,052	1	1	1
2. Associate Banks of State Bank of India ..	142 (92)	51 (22)	193 (114)	105 (69)	38 (22)	143 (91)	2,192	2,297	2,335	7	7	7
3. 14 Nationalised Banks ..	820 (553)	385 (254)	1,205 (807)	566 (316)	224 (151)	790 (467)	13,745	14,309	14,533	14	14	14
4. Regional Rural Banks ..	394 (346)	233 (214)	627 (560)	318 (298)	243 (226)	561 (524)	1,405	1,723	1,965	48	51	56
5. Other Scheduled Commercial Banks ..	519 (350)	203 (104)	722 (454)	334 (195)	116 (68)	450 (263)	5,659	6,010	6,126	38	39	39
6. Foreign Banks	1 (—)	—	1 (—)	—	—	—	129	129	129	14	14	14
7. All Scheduled Commercial Banks	2,185 (1,541)	1,017 (687)	3,202 (2,228)	1,491 (962)	694 (510)	2,185 (1,472)	27,943	29,447	30,140	122	126	131
8. Non-Scheduled Commercial Banks ..	13 (12)	7 (5)	20 (17)	1 (1)	5 (5)	6 (6)	73	57	62	6	5	5
9. All Commercial Banks ..	2,198 (1,553)	1,024 (692)	3,222 (2,245)	1,492 (963)	699 (515)	2,191 (1,478)	28,016	29,504	30,202	128	131	136

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)

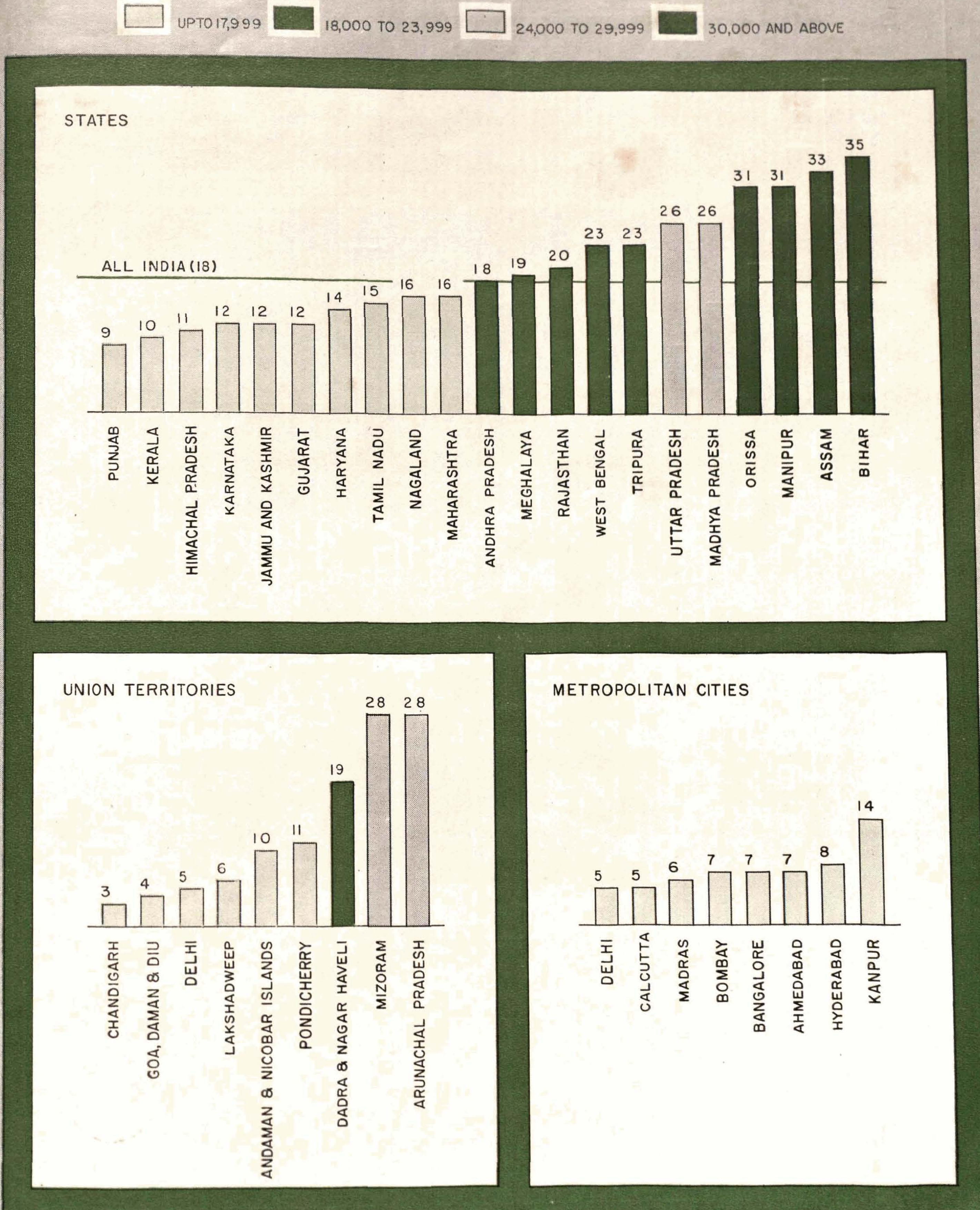
	June 1975	% to total	December 1975	% to total	June 1976	% to total	December 1976	% to total
	1	2	3	4	5	6	7	8
Rural	6,806	**36.3**	7,385	**36.1**	7,687	**36.2**	8,839	**37.4**
Semi-urban	5,569	**29.7**	6,164	**30.1**	6,387	**30.1**	7,024	**29.7**
Urban	3,267	**17.5**	3,589	**17.6**	3,739	**17.6**	4,135	**17.5**
Metropolitan/Port town ..	3,088	**16.5**	3,308	**16.2**	3,407	**16.1**	3,657	**15.4**
Total	**18,730**	**100.0**	**20,446**	**100.0**	**21,220**	**100.0**	**23,655**	**100.0**

	June 1977	% to total	December 1977	% to total	June 1978	% to total	December 1978	% to total	June 1979	% to total
	9	10	11	12	13	14	15	16	17	18
Rural	9,532	**38.4**	11,092	**41.0**	11,802	**42.1**	12,806	**43.4**	13,333	**44.1**
Semi-urban	7,211	**29.1**	7,493	**27.8**	7,586	**27.1**	7,778	**26.4**	7,845	**26.0**
Urban	4,263	**17.2**	4,445	**16.5**	4,542	**16.2**	4,668	**15.8**	4,717	**15.6**
Metropolitan/Port town ..	3,796	**15.3**	3,966	**14.7**	4,086	**14.6**	4,252	**14.4**	4,307	**14.3**
Total	**24,802**	**100.0**	**26,996**	**100.0**	**28,016**	**100.0**	**29,504**	**100.0**	**30,202**	**100.0**

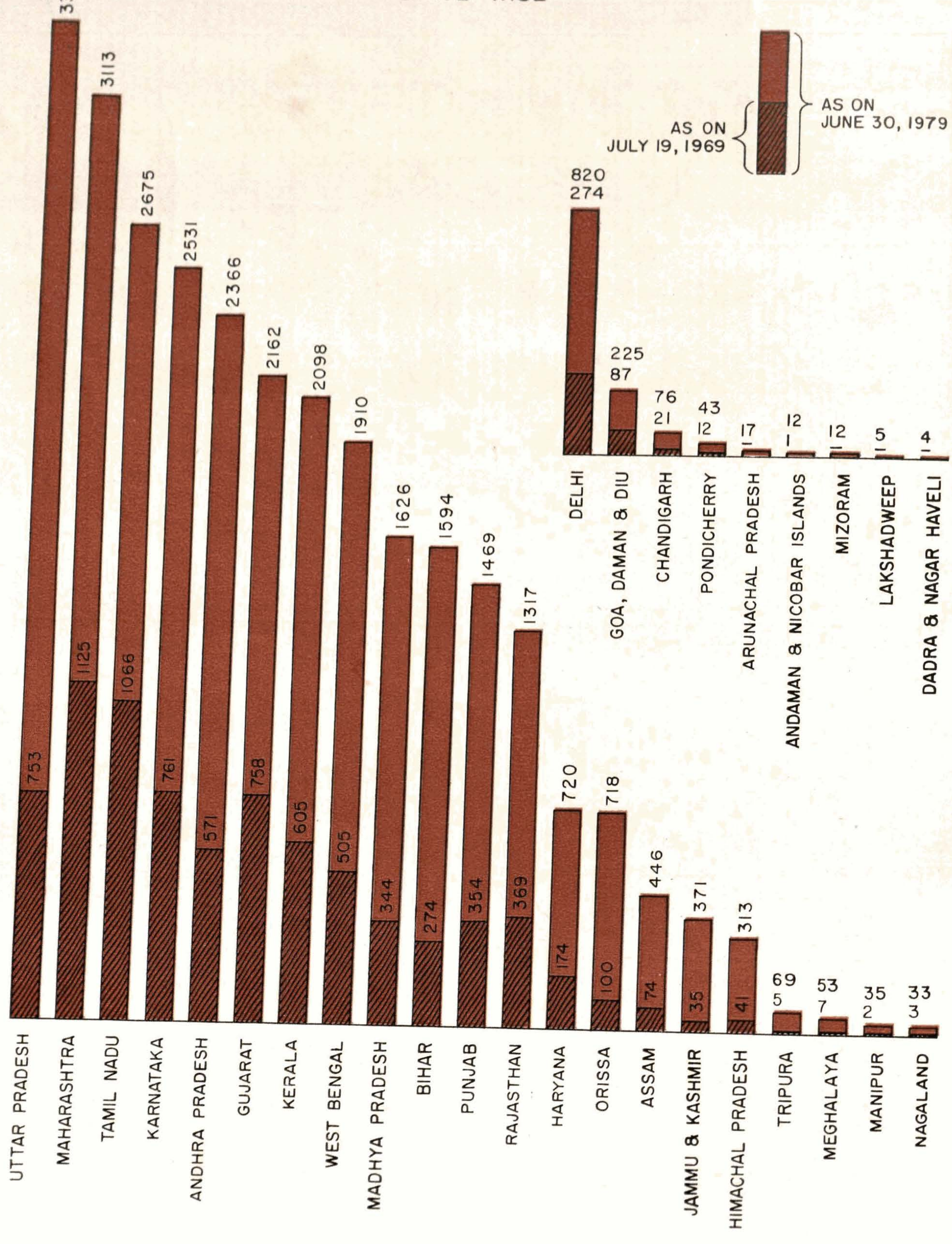
Note : Rural Centres : Places with population up to 10,000. Semi-Urban Centres : Places with population over 10,000 and up to 1,00,000. Urban Centres : Places with population over 1,00,000 and up to 10,00,000. Metropolitan Centres : Places with population over 10,00,000.
(*Source* : Department of Banking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

AVERAGE POPULATION PER COMMERCIAL BANK OFFICE

AS ON JUNE 30, 1979
(FIGURES ARE IN THOUSANDS)
DATA BASED ON 1971 CENSUS



NUMBER OF OFFICES OF COMMERCIAL BANKS STATE-WISE



(*iii*) The average population per bank office in certain districts may not always constitute an adequate criterion for the spread of banking in rural and semi-urban areas of the district, because of the bias brought in by concentration of bank offices in urban centres. In such cases, additional licences for branches in rural and semi-urban areas will be granted for reducing the imbalance.

(*iv*) It is recognised that it would not be desirable to completely stop further expansion in urban and metropolitan centres and port towns. These centres still offer scope for business which could help offset the impact that large-scale expansion in rural and semi-urban areas, particularly in backward areas, will have on the viability of banks. The new policy hence permits some further expansion in urban/metropolitan areas, on a highly selective basis. For this purpose, the existence of offices of urban co-operative banks (UCBs) will also be taken into account.

(*v*) RRBs have a significant role to play in the financing of the rural sector. The establishment of new RRBs and the expansion of the branches of existing RRBs will be encouraged. In order to identify the areas where new RRBs could be established, a district-wise study is being conducted, priority being given to districts having weak commercial and co-operative banking structure. RRBs have so far been sponsored only by commercial banks. In order to develop a closer linkage between apex co-operative banks and RRBs, wherever possible, joint sponsorship of RRBs by apex banks and commercial banks will be encouraged. In appropriate cases, sponsorship of RRBs by apex co-operative banks singly could also be considered. For the present, RRBs will continue to be organised under the existing statute. As regards the area of operations of RRBs, no rigid norms are proposed to be prescribed and a flexible approach will be adopted. In the matter of branch expansion in rural areas, in the districts where RRBs have been established or will be established hereafter, they will be accorded priority. In cases where there are special schemes of financing agriculture and where RRBs are not in a position to expand immediately, the concerned lead bank of the district will be generally allowed to open branches. However, this does not preclude commercial banks from opening new branches (including Agricultural Development Branches), wherever considered essential, or continuing their existing branches in the command areas of RRBs. In areas where no RRBs are functioning or are planned to be established, preference will be given to lead banks in their lead districts for opening offices in rural areas.

(*vi*) At present, some of the lead banks do not have an adequate branch coverage in their lead districts for effectively discharging their lead responsibility. In the future allocations of centres, the concerned lead banks will be asked to open more branches in their lead districts, within the overall objective set out earlier. Swapping of lead responsibility among the banks in the context of their regional character is also permitted.

(*vii*) Banks which have a regional character, will not be generally asked to open branches in far-flung areas but will be asked to concentrate on their own areas of operation or expand in the adjoining deficit areas on a selective basis.

2.3 During the year 1978-79 (July-June) the principal aim of branch expansion policy continued to be that of establishing bank offices in areas inadequately served by such services. However, in accordance with the decision taken by the RBI in January 1978 to slow down the pace of expansion and to place emphasis on consolidation and strengthening of the existing structure, the total number of offices opened during the year, at 2,191, was lower than that for the previous year (3,222). However, the emphasis on the thrust into unbanked areas quickened and 1,478 offices (or 67% of the total new offices) were opened in such areas. The bulk of these newly banked centres (44.2%) were in the backward States and Territories of the North Eastern Region, Bihar, Madhya Pradesh, Orissa, Uttar Pradesh and West Bengal.

Offices of Indian Commercial Banks in Foreign Countries

2.4 During the year under review, four Indian banks opened 10 offices in foreign countries; of these four were in U.K., two in U.S.A. and one each in Hong Kong, Cayman Islands, Channel Island and Bahamas. The total number of Indian bank offices abroad at the end of June 1979 was 123. Of the 11 Indian banks having offices abroad, Bank of Baroda accounted for 54 offices and Bank of India for 23 offices. Country-wise the largest concentration of Indian bank offices was in U.K. (41) followed by Hong Kong (14), Fiji Islands (10), Kenya (9), Singapore (7) and Mauritius (6).

2.5 The aggregate deposits of the Indian banks' offices abroad increased from Rs. 1,226 crores, as at the end of December 1977, to Rs. 1,396 crores, as at the end of June 1978. Credit extended by these offices increased from Rs. 850 crores as at the end of December 1977 to Rs. 977 crores as at the end of June 1978.

Deposits Growth

2.6 The deposit resources of scheduled commercial banks increased substantially during 1978-79 (July-June). Aggregate deposits of scheduled commercial banks showed a rise of Rs. 4,556 crores during the year 1978-79 which was, in absolute amount, marginally larger than the rise (Rs. 4,410 crores) in the previous year (June 24, 1977 to June 30, 1978) (Table 2.4). However, the rate of growth of deposits at 19.5 per cent during the year was lower than in the previous year (23.3 per cent). Category-wise, demand and time deposits went up by Rs. 1,162 crores (12.6 per cent) and Rs. 3,394 crores (24.1 per cent) during 1978-79, as compared with Rs. 1,929 crores (26.5 per cent) and Rs. 2,481 crores (21.4 per cent), respectively, during 1977-78.

2.7 Time deposits accounted for 74.5 per cent of the incremental deposits as against 56.3 per cent in the previous year; the relatively larger increase in time deposits was partly statistical, because of a change in procedure for determining demand/time portion of savings deposits.[1]

1. The change in procedure is indicated in the section on "Banking Legislation/Regulation."

TABLE 2.4 —SCHEDULED COMMERCIAL BANKS' DATA

(Rs. Crores)

	Outstanding as on			Variations during	
	June 24, 1977	June 30, 1978	June 29, 1979*	1977-78 (2-1)	1978-79* (3-2)
	1	2	3	4	5
1. **Aggregate Deposits**	**18,903**	**23,313**	**27,869**	**+4,410**	**+4,556**
(*a*) Demand Deposits	7,290	9,219	10,381	+1,929	+1,162
(*b*) Time Deposits	11,613	14,094	17,488	+2,481	+3,394
2. **Total Bank Credit**	**13,491**	**15,694**	**18,538**	**+2,203**	**+2,844**
Of which					
(*a*) Food procurement advances ..	2,536	2,525	2,996	— 11	+ 471
(*b*) Bank credit excluding food advances	10,955	13,169	15,542	+2,214	+2,373
3. Bills rediscounted with the R.B.I. ..	116	101	77	— 15	— 24
4. **Gross Bank Credit** (2+3)	**13,607**	**15,795**	**18,615**	**+2,188**	**+2,820**
5. Investments in Government and other approved securities	6,180	7,552	9,418	+1,372	+1,866
(*a*) Government securities	4,352	5,497	6,908	+1,145	+1,411
(*b*) Other approved securities ..	1,828	2,055	2,510	+ 227	+ 455
6. Cash and Balances with the R.B.I. ..	1,563	2,755	3,457	+1,192	+ 702
7. Borrowings from the R.B.I.	563	335	659	— 228	+ 324
8. Credit-Deposit Ratio	71	67	67		
9. Gross Credit-Deposit Ratio	72	68	67		
10. Credit (excluding food credit) —Deposit Ratio	58	56	56		
11. Gross Credit (excluding food credit) —Deposit Ratio	59	57	56		
12. Investment-Deposit Ratio	33	32	34		

* Provisional.

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

2.8 Both the categories of non-resident deposits recorded significant increases (Table 2.5). The stipulation about the minimum period of one year and the maximum period of five years applicable to deposits under the Foreign Currency (Non-Resident) Accounts Scheme was discontinued, effective June 5, 1979, thus bringing such deposits on a par with all other deposits accepted by banks.

TABLE 2.5—NUMBER OF ACCOUNTS AND OUTSTANDING BALANCES UNDER NON-RESIDENT (EXTERNAL) RUPEE ACCOUNTS AND FOREIGN CURRENCY (NON-RESIDENT) ACCOUNTS

Non-resident (External) Rupee Accounts

As at the end of	No. of accounts	Amount (In Crores of Rupees)
March 1978	2,48,621	325
March 1979	3,66,574	484

Foreign Currency (Non-resident) Accounts

As at the end of	Foreign Currency	No. of accounts	Amount of deposits ('000)
December 1978	£ Stg.	7,445	129,36
December 1977*..	£ Stg.	4,496	72,96
December 1978	U.S. $	29,690	14,24,06
December 1977*..	U.S. $	23,048	12,07,05

* Revised figures.

(*Source :* Department of Statistics and Exchange Control Department, R.B.I.)

Credit Trends

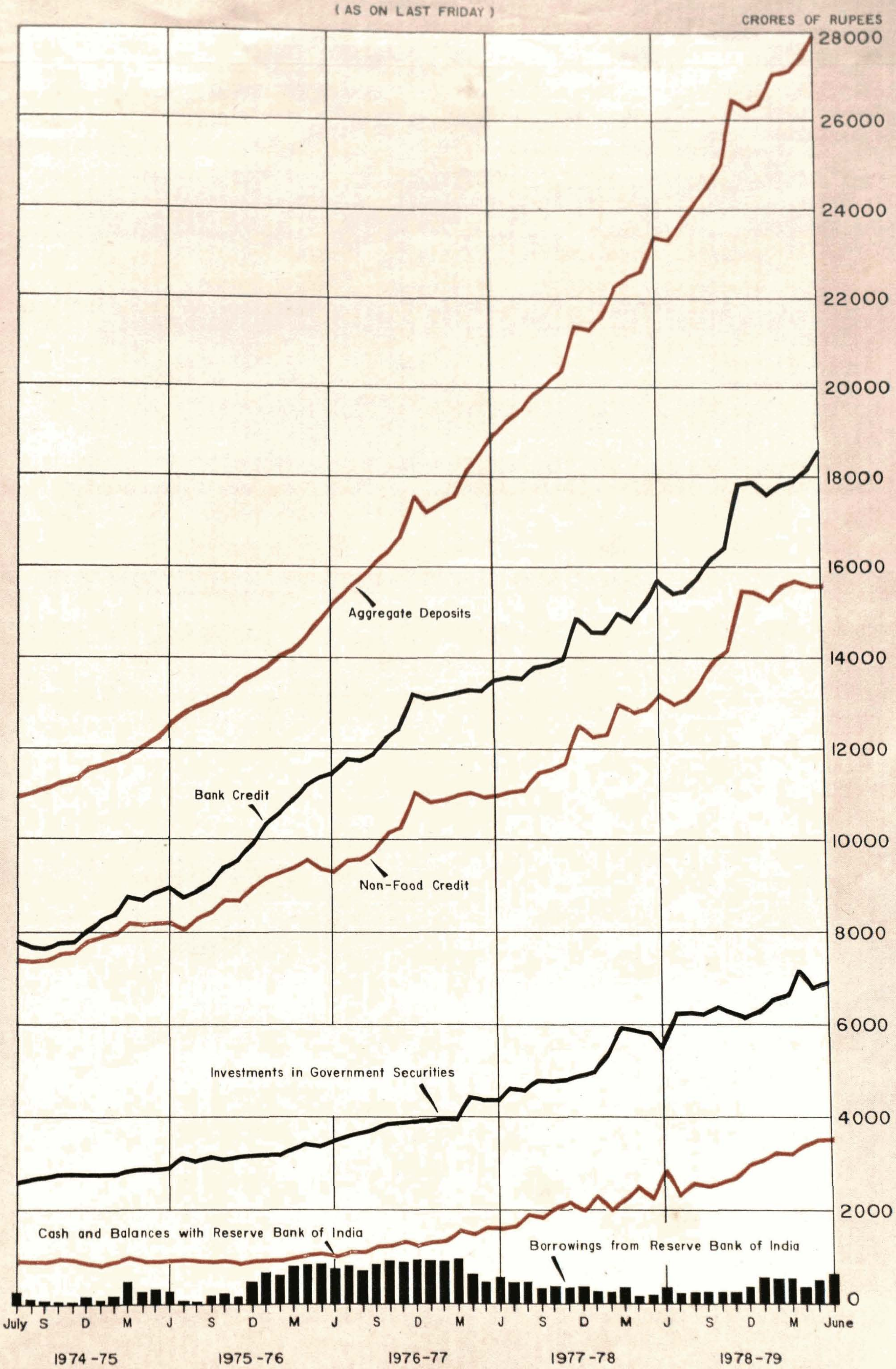
2.9 Alongside deposits, credit also recorded a high rate of growth during the year. However, the pace of increase was not uniform and two separate phases can be distinguished in the credit expansion during the year—a slackness in the early months followed by a pronouncedly rapid growth in credit, accentuated by the disruptions on account of the agitation by bank employees. Towards the end of the year the pace of increase abated under the influence of restrictive policy measures.

2.10 Over the four-month period end-June—end-October 1978, coinciding with the latter part of the conventional slack season, the expansion in gross bank credit was only Rs. 428 crores. Of this, as much as Rs. 417 crores was the expansion during the month of October 1978. During this phase, banks repaid their borrowings from the RBI; the outstandings of bills rediscounted with the RBI also declined. Credit expansion in this four-month period was thus financed mainly with banks' own resources, despite which there was so much excess liquidity in the system as indicated by the liquidity ratio of over 35 per cent at the end of October 1978.

2.11 The gross bank credit expansion between end-October 1978 and end-June 1979 was of the order of Rs. 2,392 crores. The prolonged agitation by bank employees from mid-December 1978 to the third week of January 1979 resulted in dislocation of clearing operations throughout the country and contributed in part to an abnormal inflation of credit figures. To assist banks in this period of stress, the RBI liberalised the conditions of access to it.

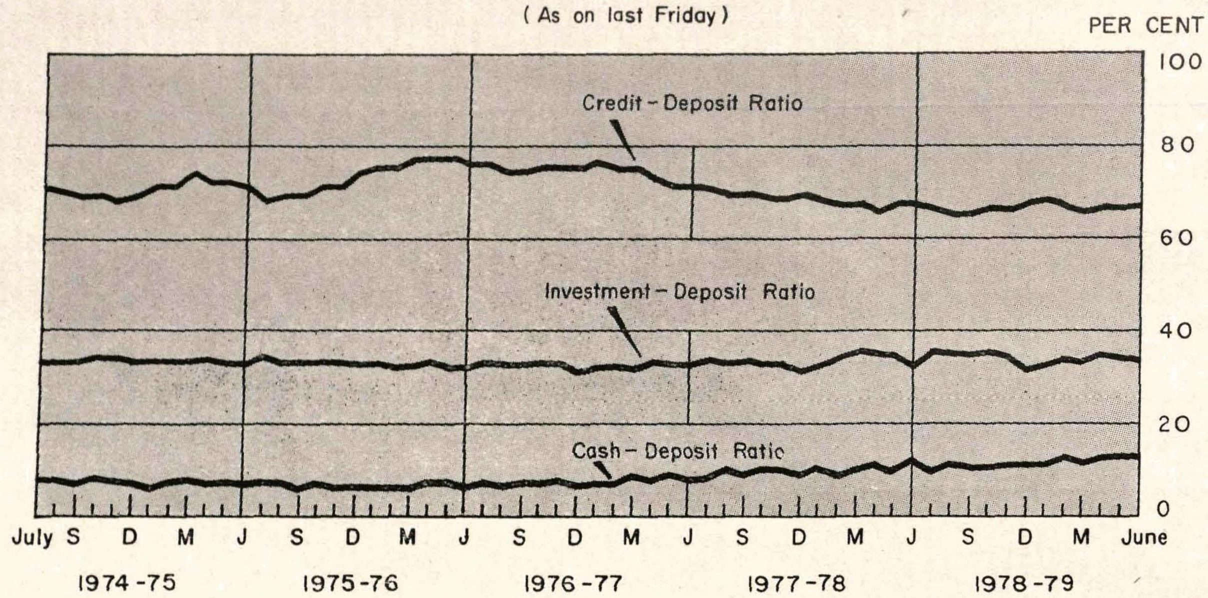
SCHEDULED COMMERCIAL BANKS — SELECTED ITEMS

(AS ON LAST FRIDAY)



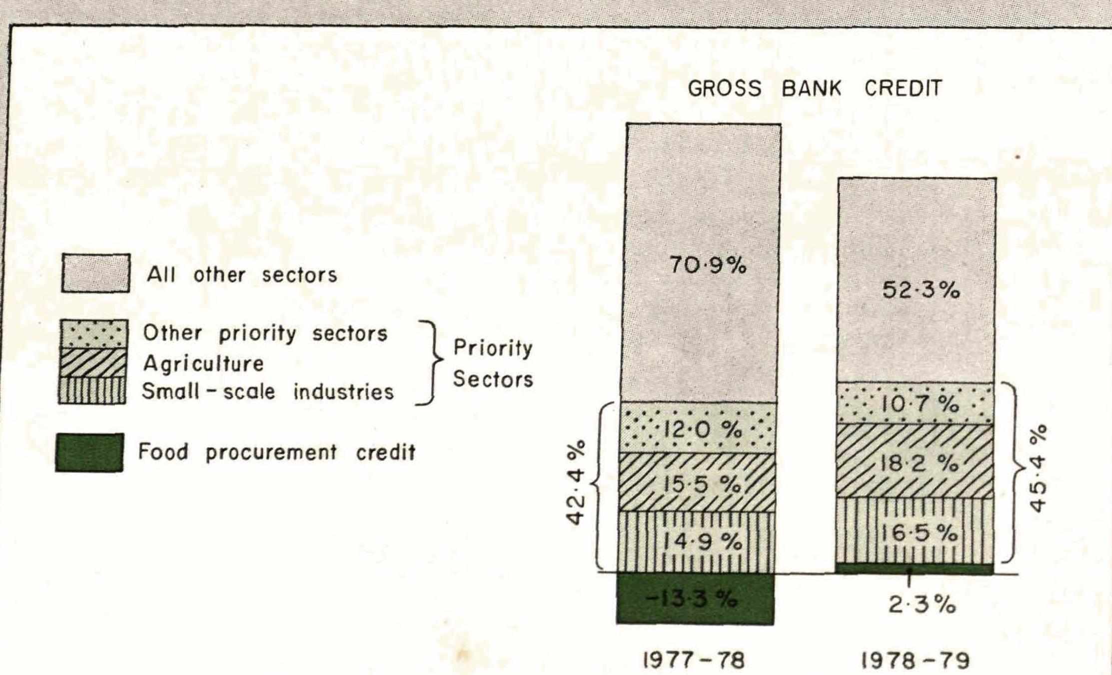
4 SCHEDULED COMMERCIAL BANKS' CASH, INVESTMENTS AND CREDIT-DEPOSIT RATIOS

(As on last Friday)



5 SECTORAL DEPLOYMENT OF GROSS BANK CREDIT VARIATIONS DURING 1977-78 AND 1978-79

(FROM LAST FRIDAY OF JUNE TO LAST FRIDAY OF MAY)



2.12 Banks' borrowings from the RBI went up from Rs. 247 crores in November 1978 (last Friday) to Rs. 357 crores in December 1978 and further to Rs. 548 crores in January 1979. The outstanding bills rediscounted by the RBI also rose from Rs. 55 crores in November 1978 to Rs. 89 crores in January 1979. This sharp increase in refinance accommodation during this period was the result both of availability of higher refinance limits as well as larger utilisation of these limits. For instance, with the increase in the level of food credit, food refinance entitlement of banks went up from Rs. 146 crores in November 1978 to Rs. 225 crores in January 1979 and the utilisation ratio went up from 11 per cent to 69 per cent. The stand-by refinance limit for meeting "clearing imbalances" (which are to be repaid within three days from the date of drawal), as well as discretionary refinance limits, had to be temporarily stepped up in order to mitigate the difficulties faced by banks on account of dislocation of clearing arrangements and also to enable them to meet the genuine seasonal demand for funds. Thus, discretionary refinance limits were enhanced from Rs. 69 crores in November 1978 to Rs. 130 crores in January 1979.

2.13 With the gradual restoration of normalcy in the banking industry, there was a decline in credit in February 1979. But thereafter, there was a renewed spurt in credit. While limits of discretionary refinance were brought down to Rs. 56 crores during March 1979 and further to Rs. 33 crores by end of June 1979,[1] banks continued to draw heavily on their automatic entitlements particularly in respect of food and export refinance. The availment of refinance under the 'small farmers' window' ranged between Rs. 3 crores and Rs. 5 crores during July to November 1978 but went up to Rs. 22 crores in March 1979 and further to Rs. 53 crores by the end of June 1979. The total refinance limits[2] of banks at the end of June 1979 were higher at Rs. 751 crores as against Rs. 435 crores in June 1978; similarly the availment of refinance against these limits as at the end of June 1979 was higher at Rs. 600 crores as against Rs. 187 crores a year ago due to increase in refinance for food, exports and small farmers' window. The bill rediscounting limits at Rs. 118 crores were, on the other hand, lower in June 1979 as compared with those in June 1978 (Rs. 187 crores). The outstanding amount, as at the end of June 1979 (Rs. 77 crores), was also somewhat lower than in June 1978 (Rs. 101 crores). The average cost of refinance availed of by banks, as at the end of June 1979 (9.24 per cent), was slightly higher than that a year ago (9.06 per cent) due to the higher utilisation of limits this year. In the case of bills rediscounted with the RBI the average rate of interest was, however, marginally lower than in June 1978.

2.14 Apart from higher utilisation of refinance limits, since December 1978 banks depleted their liquid assets, the liquidity ratio coming down from 35.7 per cent in November 1978 to 34.1 per cent in June 1979. Besides this, substantial recourse by banks to non-banking financial ins-

1. Figures of outstanding refinance/bills rediscounted as at the end of June 1979 are provisional.
2. Excluding refinance for import of capital goods, shipping loans (SAFAUNS), duty drawback and refinance to Regional Rural Banks.

titutions in the form of call money and issue of Participation Certificates (PCs) was also made for expansion of credit.

2.15 The increase in gross credit over the year as a whole was Rs. 2,820 crores (17.9 per cent) as compared with a rise of Rs. 2,188 crores (16.1 per cent) in the last year. Advances for food procurement rose by Rs. 471 crores (18.7 per cent) in 1978-79, in contrast to a decline of Rs. 11 crores in the previous year. Gross non-food credit, which stood at Rs. 13,270 crores at the end of June 1978, showed a steep increase between end-August and end-December from Rs. 13,082 crores to Rs. 15,515 crores, but declined thereafter to Rs. 15,347 crores by end-February 1979. Gross non-food credit moved narrowly thereafter and stood at Rs. 15,619 crores on June 29, 1979 showing an increase of Rs. 2,349 crores (17.7 per cent) over the year, as against Rs. 2,199 crores (19.9 per cent) in the previous year. The incremental non-food (gross) credit-deposit ratio since December 1, 1978, which worked out to 93.9 per cent at the end of December 1978, fell to 73.5 per cent by end-March 1979 and to 48.9 per cent by end-June 1979. The gross credit-deposit ratio at 66.8 per cent at end-June 1979 was lower by one percentage point over the level a year ago (67.8 per cent).

Credit Policy

2.16 In view of the sizeable expansion in money supply in two successive years 1976-77 and 1977-78 and in the light of prospects of a moderate growth of national income in 1978-79, the objective of Reserve Bank's credit policy during 1978-79 continued to be to restrain credit expansion and relate it to increases in output, economic activity and employment creation. The restrictive measures taken during the year included the raising of the Statutory Liquidity Ratio (SLR), stipulation of an incremental non-food gross credit-deposit ratio as a guideline to banks, imposition of penalty for default in maintaing SLR and Cash Reserve Ratio (CRR) and exhortation to banks to keep, at a minimum, their reliance on external resources, such as borrowings from the RBI and call money market and recourse to PCs. Simultaneously, the policy of accelerating the flow of credit to weaker sections of society was also pursued.

Measures taken in Mid-May 1978

2.17 The credit policy for the 1978 slack season announced by the RBI on May 15, 1978 was directed towards siphoning off of the excess liquidity prevailing in the banking system which was reflected in the unusually high liquidity ratio of commercial banks (around 36 per cent) throughout April 1978. To restrict the refinance facilities available from the Reserve Bank, the Bank raised the basic level at which refinance for food credit became available from Rs. 1,500 crores to Rs. 2,000 crores, effective June 1, 1978. The automatic refinance facility under which banks were entitled to refinance to the extent of one per cent of their demand and time liabilities, as on the last Friday of March 1977, provided the borrowings were against the Government or other approved securities, was also withdrawn as from June 1, 1978. However, for meeting clearing imbalances, temporary accommodation was provided under discretionary or stand-by arrangements at the Bank Rate. Further, for neutralising the impact on money supply of the inflow of resources from abroad, through Non-Resident (External) Rupee Accounts and Foreign Currency (Non-Resident) Accounts Scheme, banks were asked to deposit in terms of rupees, the equivalent of one-half of the net aggregate amount accruing after June 1, 1978 to each bank under these two categories of accounts.[1] These special deposits were to carry interest at 6.5 per cent per annum. The interest on cash reserves of banks with the Bank above the statutory minimum (including the balances kept under the 10 per cent incremental reserve ratio) was also raised from 6.0 per cent to 6.5 per cent, effective June 1, 1978.

November 1978 Measures

2.18 The period March 31, 1978 to November 10, 1978 witnessed sizeable monetary expansion, which came on top of a substantial increase in the preceding two years. In fact the rate of expansion of credit exceeded, on an average, Rs. 100 crores per week during successive eight weeks beginning from September 22, 1978. Such a rapid expansion in credit became a matter of concern particularly because the growth in national income in 1978-79 was expected to be about 3 to 4 per cent. It was, therefore, considered imperative to contain credit expansion potential. With this objective two additional measures were taken in November 1978 : the first was the stipulation of an incremental credit-deposit ratio and the second the raising of SLR. Banks were advised to so plan their non-food credit expansion that the incremental gross non-food credit-deposit ratio for the period December 1, 1978 to end-March 1979 would be well within 40 per cent. It was impressed on them that the credit provided by them should be related to increases in output, economic activity and employment creation. Secondly, the SLR was raised from 33 per cent to 34 per cent with effect from December 1, 1978 ; this percentage was to be strictly applied to additional deposits, regardless of any excess in SLR that any particular bank might have as on December 1, 1978. Banks were also advised that discretionary refinance would be limited to very special situations or situations of extreme need and recourse to Reserve Bank should be sparing and as a last resort. It was also clarified that, while the earlier emphasis on priority sectors and on utilising a substantial proportion of deposits mobilised in rural areas in those areas remained valid, it should be ensured that, even in priority sectors and in rural areas, they reached out particularly to the weaker or poorer sections including members of scheduled castes and scheduled tribes. It was also emphasised that banks should monitor the utilisation of bank credit by borrowers more closely than before and implement the norms set by the Tandon Committee. They should not extend concessions in interest charges, in particular to relatively large borrowers, as such a policy would have adverse effects on banks' profitability, and should keep a careful watch on the return flow of funds. Banks were further asked to ensure that there was no leakage of credit from large or small borrowers to socially undesirable sectors and to pay greater attention to diverting credit away from non-priority areas to priority areas.

1. The stipulation was withdrawn with effect from June 5, 1979.

March 1979 Measurers

2.19 In mid-March 1979, the Reserve Bank pointed out to banks the inflationary potential being built up in the economy and advised them that, as credit extension to the commercial sector had been the dominant factor contributing to the monetary expansion in 1978-79, it was necessary to ensure that any further increase in credit was related strictly to the needs of increase in production. As the seasonal demand in respect of commodities like foodgrains, sugar, cotton, tea and tobacco would continue and even increase in the ensuing months, it was all the more necessary that credit to other borrowers, who had already drawn heavily on the banking system, should be carefully regulated to meet only the most essential requirements. The banks were therefore asked (a) to strengthen their internal machinery of data collection and monitoring to enable them to keep a close watch over credit expansion from week to week (b) to review credit limits of Rs. 50 lakhs and above and also wherever 60 to 65 per cent of the existing cash credit limit to any party was already utilised, grant of further credit should be subject to greater scrutiny and related to clearly identifiable purposes such as increase in production or existing commitments, and (c) to keep to the minimum their reliance on external resources such as borrowings from call money market and sale of PCs.

2.20 It was also observed that inspite of the directive to banks raising the SLR from 33 per cent to 34 per cent from December 1, 1978, banks had not increased their investments in Government securities but continued to expand credit and thus used up not only their own resources but also increased their recourse to outside sources, such as call money and issue of PCs. The banks which defaulted in maintaining the stipulated SLR and CRR were asked to take immediate steps to make good the deficiency. To ensure that this was done, penalty on the non-observance of SLR and CRR was introduced. With effect from March 30, 1979, in respect of banks which did not maintain the SLR of 34 per cent of demand and time liabilities, and/or defaulted in respect of stipulated reserve ratios, access to refinance/rediscount facilities was not to be made available until such deficiencies were made good. In addition to defaulting as above, if banks had as on March 30, 1979 utilised refinance/rediscount facilities, an additional interest of 3 per cent was to be charged on the portion of refinance/rediscount accommodation equivalent to the shortfall in SLR and CRR.

Credit Policy for Slack Season, 1979

2.21 Further, in May 1979, banks were advised that their non-food credit expansion in 1979-80 should be significantly less than in the previous year, in both relative and absolute terms. As disbursement of credit for financing food procurement operations was expected to be larger in the following months, it was emphasised that banks should restrict non-food credit. They were also asked to ensure that the return flow of funds from seasonal industries, such as sugar, textiles, etc., which had borrowed heavily in the past, was accelerated. For exercising adequate control on credit at the branch level, banks were asked to evolve a set of internal guidelines on the following lines. (1) While fixing new credit limits or considering enhancement of existing credit limits, a full and detailed scrutiny of the proposals should be made and in this scrutiny, increases sought on expectations of further price rises should be disregarded. Any additional accommodation should be related strictly to increase in output or in permitted inventories. (2) For revising existing credit limits above Rs. 50 lakhs, great discretion should be exercised. The continuous and extensive dependence of large borrowers on bank credit for working capital purposes should be discouraged. (3) Special care should be exercised in sanctioning credit and monitoring its use in respect of sensitive commodities and such credit should be restricted particularly in respect of traders.

2.22 The excessive recourse by banks to PCs was the cause of some concern and the RBI constituted, in early April 1979, a Working Group to review the banks' recourse to PCs and borrowings in the call money market from financial institutions. The Working Group recommended, *inter alia*, that the funds raised through PCs be brought under the purview of the CRR and SLR. While the recommendations of the Group were under consideration, the Reserve Bank decided, to begin with, to initiate action to discourage commercial banks from excessive recourse to PCs. However with a view to ensuring that action in this regard does not disrupt the operations of banks and also does not make it difficult for other financial, institutions to shift to alternative avenues short-term investment, the Bank decided to phase out the process of bringing PCs under SLR/CRR in stages.

2.23 All scheduled commercial banks were advised on June 21, 1979, that, with effect from the last Friday of July 1979, and thereafter, the outstanding PCs issued by them would cease to be treated as contingent liabilities, but would be treated as deposits and should be subject to SLR and 6 per cent CRR requirements in phases—50 per cent from last Friday of July 1979, 75 per cent from last Friday of August 1979 and 100 per cent i.e. the entire amount of outstanding PCs from the last Friday of September 1979. Further, these banks were required to maintain with the RBI an additional average daily balance equivalent to not less than 10 per cent of any increase in PCs over the outstanding level as on the last Friday of July 1979. The amount of PCs issued should not be deducted, as was the practice so far, from the figure of their total advances ; and the amount of PCs purchased is not to be included in total advances, but should be shown as advances to banks. Deposits arising from the issue of PCs will be exempt from the purview of the Reserve Bank's directive on interest rates. The maximum rate of interest at which PCs can be issued will continue to be 10 per cent per annum.

Changes in Interest Rates

2.24 While the overall interest rates structure of commercial banks continued unchanged during the year, some adjustments were made to bring lending rates in line with those of other financial institutions.

2.25 Interest rates charged by commercial banks and RRBs on loans granted by them to co-operatives were also revised to bring them in line with the rates charged by co-operative banks. Commercial banks and

RRBs were directed to charge, with effect from March 1, 1979, interest at 9 per cent on specified loans granted to primary societies and farmers' service societies (FSS). The rate of interest was reduced to 8 per cent with effect from March 15, 1979, in respect of term loans for minor irrigation/land development and for diversified purposes to small farmers. This would enable the co-operatives to retain a margin of $1\frac{1}{2}$ per cent in the case of term loans and 2 per cent or more in the case of short-term loans and make credit available to the ultimate borrower at the same rate as those charged to agriculturists borrowing directly from commercial banks and RRBs.

2.26 Consequent to the Agricultural Refinance and Development Corporation (ARDC) reducing its refinance rates and also the maximum rates chargeable by the lending institutions to the ultimate borrowers, effective March 15, 1979, banks were advised to charge interest on loans of not less than three years to farmers (*i*) for minor irrigation and land development at a rate not exceeding 9.5 per cent (as against the earlier rate of 10.5 per cent) and (*ii*) for diversified purposes (*a*) at a rate not exceeding 9.5 per cent to small farmers and (*b*) not exceeding 10.5 per cent to other farmers (as against the earlier rate of 11 per cent for both). The refinance rates of ARDC would be 6.5 per cent for (*i*) and (*ii*)(*a*) and 7.5 per cent for (*ii*)(*b*). The revised rates are applicable to all new loans granted from March 15, 1979, irrespective of whether such loans are too small to be eligible for refinance from ARDC or not, and irrespective of whether the bank concerned actually utilised the refinance facility.

Selective Credit Control

2.27 While the general framework of Selective Credit Control continued to remain unchanged adjustments were made in the regulations governing advances against some of the commodities keeping in view the supply position and trends in prices. No changes were made in the minimum lending rates of interest which varied between 14 and 15 per cent.

(*i*) *Sugar*

2.28 In the context of the removal of control on prices, movement and distribution of sugar, effective August 16, 1978, and in view of Government's decision that the basis for the valuation of stocks need not be changed during the transition period, scheduled commercial banks were advised on August 29, 1978 not to make any change in the valuation of stocks against which advances had been granted to *parties manufacturing sugar*. They were further advised that the distinction between levy stocks and free-sale stocks—(*a*) not released for sale and (*b*) released for sale—would be continued *notionally*, and the respective margins 15 per cent or 65 per cent, as the case may be, for advances might continue to be applied. The valuation of stocks and margin stipulations governing advances against sugar to *parties other than those manufacturing sugar* remained unchanged. Further, taking into account the impact of falling sugar prices on the working of sick sugar mills and the genuine (temporary) credit needs of the sugar industry banks were advised in September 1978 to consider granting temporary clean loans to deserving sugar mills to a limited extent, not exceeding Rs. 25 lakhs, in the case of each borrower without prior reference to the RBI, subject to certain stipulations. Such loans could be granted up to November 30, 1978 to be repaid as soon as possible after the commencement of the 1978-79 season but in any case not later than May 31, 1979.

2.29 Subsequently, effective October 14, 1978, the notional distinction between levy stocks and free-sale stocks of sugar was dispensed with. In view of the comfortable supply position of sugar and good prospects of sugarcane production in the 1978-79 season the minimum margin on advances granted against stocks of sugar to parties manufacturing sugar was stipulated uniformly at 15 per cent of the value of all the stocks charged to the banks as security ; the minimum margin and the minimum rate of interest in respect of advances granted to parties other than those manufacturing sugar continued to be 65 per cent and 15 per cent per annum, respectively. While no minimum rate of interest was prescribed for advances against stocks of sugar to parties manufacturing sugar, they were subject to the general minimum lending rate on advances ($12\frac{1}{2}$ per cent per annum).

2.30 In the context of the recent rise in prices in general and in prices of some of the sensitive commodities (including sugar) in particular, despite comfortable supply position, banks were advised on June 29, 1979 to keep a strict vigilance on advances to check any tendency to utilise bank finance for hoarding those commodities. Instructions issued in relation to advances against pulses, oilseeds and vegetable oils are given in the respective sections. On sugar advances banks were advised that (*a*) clean limits of Rs. 25 lakhs permitted earlier, to sugar manufacturing units should be withdrawn and loans should be repaid expeditiously (*b*) credit drawn by sugar factories for holding stocks of sugar should be reduced in line with the release of stocks from the factories and (*c*) margin requirements on all advances against sugar should be raised by 10 per cent. Consumers' co-operatives holding stocks under scheme of public distribution organised by Government were, however, exempt from this requirement.

(*ii*) *Cotton and Kapas*

2.31 Taking into account the recent relaxation announced by the Textile Commissioner in the limits for cotton stocks held by textile mills, the Bank modified on March 29, 1979 credit control measures relating to advances to mills against raw cotton and *kapas*. Inventory levels in respect of which bank advances to mills might be made with minimum margins then in force were raised from four weeks' to three months' consumption for mills located in Bombay and Ahmedabad, from eight weeks' to four and half months' consumption for mills in Bihar and West Bengal, from six weeks' to four months' consumption for mills in other parts of India, and from six weeks' to four months' consumption for mills solely engaged in spinning yarn. The minimum margins and interest rate, however, remained unchanged except for consequential changes related to level of stocks. Credit control on advances to parties other than mills also remained unchanged with the exception that the level of credit would be 100 per cent of the peak level of credit utilised by a party with the bank in any of the three preceding years (November to October) viz., 1977-78, 1976-77 and 1975-76, instead of 1975-76, 1974-75 and 1973-74.

2.32 The Bank also reiterated that the level of inventories in respect of industries would continue to be governed by such norms as laid down, whether in pursuance of the recommendations of Study Group on Follow-up of Bank Credit, or otherwise.

(iii) Pulses, Oils and Oilseeds

2.33 On June 29, 1979 scheduled commercial banks were advised to keep minimum margins of not less than 45 per cent (as against 35 per cent earlier) on advances against pulses for processing units and of not less than 60 per cent for others as against 50 per cent earlier. The minimum margin on advances against warehouse receipts was retained at 40 per cent for processors and raised to 50 per cent from 40 per cent for others.

2.34 Banks were also advised to refrain from granting additional limits against vegetable oils and oilseeds to parties other than Government and Government supported organisations ; even in the case of such organisations strict security on drawals was required to be maintained.

Credit Planning

2.35 The mechanism of credit planning has been in operation for several years now to ensure adherence to credit policy requirements and alignment of flows of bank credit with objectives of the national development plans. The RBI has continued to hold discussions from time to time with major users of credit in the private and public sectors and commercial banks in order to get an idea of the demand for credit. While these techniques of credit planning may be regarded as more directly relevant for short-term credit planning, there are certain instruments of credit planning which are designed to bring about a structural change in commercial bank credit. Three such instruments, viz., national targets for bank lending to priority sectors and in rural areas, Credit Authorisation Scheme (CAS) and Lead Bank Scheme have been used in more recent years to bring about the desired changes in the structure of commercial bank credit.

2.36 While the share of priority sectors in total bank credit had risen to 30 per cent by March 1979 over the years this rise has been accompanied by some reduction in the relative share of large and medium industries in total credit. This gradual process of shift in sectoral distribution of credit, therefore, represents a structural change in the composition of commercial bank credit.

Sectoral Deployment of Credit

2.37 Data on sectoral deployment of gross bank credit are available up to end-May 1979. During the period end-June 1978 to end-May 1979 gross bank credit increased by Rs. 2,615 crores (+16.4 per cent) as compared with a rise of Rs. 1,768 crores (+13.0 per cent) during the corresponding period of 1977-78 (Table 2.6). There was a rise of Rs. 59 crores in public food procurement credit in contrast to a decline of Rs. 235 crores during the same period in the previous year. Non-food gross credit rose by Rs. 2,556 crores during the period as compared with an increase of Rs. 2,003 crores in the same period in 1977-78.

2.38 Advances to priority sectors increased by Rs. 1,188 crores (+27.4 per cent) as against a rise of Rs. 750 crores (+21.5 per cent) earlier. At the end of May 1979, priority sector advances constituted 30.5 per cent of the total (net) bank credit as against 28.0 per cent a year ago. Advances to priority sectors, however, constituted 48.9 per cent of the incremental (net) credit, which was higher than the position (45.9 per cent) recorded a year earlier. Of the additional advances to priority sectors, agriculture and small-scale industries accounted for Rs. 477 crores and Rs. 432 crores, respectively, compared with Rs. 274 crores and Rs. 263 crores, respectively, in the corresponding period of 1977-78. Total advances to agriculture at the end of May 1979 amounted to Rs. 2,203 crores and formed 39.9 per cent of total priority sector advances as against 39.1 per cent a year ago while advances to small-scale industries at Rs. 2,188 crores accounted for 39.6 per cent of total as against 40.7 per cent a year earlier.

2.39 Under the target laid down by the GOI priority sector advances of commercial banks in public sector should have reached a level of not less than one third of their outstanding credit by March 1979. Data available up to end-May 1979 reveal that the banks had made considerable progress towards achieving this target.

2.40 Advances to medium and large industry increased by Rs. 934 crores during end-June 1978 to end-May 1979 as against Rs. 726 crores during end-June 1977 to end-May 1978. The outstandings at the end of May 1979 stood at Rs. 7,183 crores or 38.7 per cent of gross credit; at end-May 1978 the outstanding were Rs. 6,098 crores or 39.7 per cent of gross credit. Total credit to industry (large, medium and small-scale industry) increased by Rs. 1,366 crores as compared with Rs. 989 crores in 1977-78. The increase during the period was chiefly accounted for by Engineering (Rs. 424 crores), Iron and Steel (Rs. 61 crores), Cotton Textiles (Rs. 84 crores), Chemicals (Rs. 138 crores) and SAFAUNS (Ships Acquired From Abroad Under New Schemes) (Rs. 129 crores). There was an increase of Rs. 131 crores in advances to wholesale trade (other than food procurement) during the period as compared with Rs. 320 crores during June 1977 to May 1978. In the case of wholesale trade, the advances to Cotton Corporation of India, Jute Corporation of India and 'Other Trade' went up by Rs. 69 crores, Rs. 28 crores and Rs. 70

TABLE 2.6 — SECTORAL DEPLOYMENT OF GROSS BANK CREDIT

(Rs. Crores)

Items	Outstandings		Variations	Outstandings		Variations
	June 1977	May 1978	May 1978 over June 1977	June 1978	May@ 1979	May 1979 over June 1978
	1	2	3	4	5	6
I. Public Food Procurement	2,536	2,301	— 235	2,525	2,584	+ 59
II. (*a*) Priority Sectors	3,486	4,236	+ 750 (37.4)	4,334	5,522	+1,188 (46.5)
(*i*) Agriculture	1,381	1,655	+ 274 (13.7)	1,726	2,203	+477 (18.7)
(*ii*) Small-Scale Industries ..	1,460	1,723	+ 263 (13.1)	1,756	2,188	+ 432 (16.9)
(*iii*) Other Priority Sectors ..	645	858	+ 213 (10.6)	852	1,131	+ 279 (10.9)
(*b*) Industry (medium and large) ..	5,372	6,098	+ 726 (36.3)	6,249	7,183	+ 934 (36.5)
(*c*) Wholesale Trade (Other than food procurement)	1,053	1,373	+ 320 (16.0)	1,424	1,555	+ 131 (5.1)
(*i*) Cotton Corporation of India	135	150	+ 15	138	207	+ 69
(*ii*) Food Corporation of India (Fertiliser)	75	243	+ 168	250	214	— 36
(*iii*) Jute Corporation of India	18	2	— 16	2	30	+ 28
(*iv*) Other Trade	825	978	+ 153	1,034	1,104	+ 70
(*d*) Other Sectors	1,160	1,367	+ 207 (10.3)	1,428	1,731	+ 303 (11.9)
III. Non-food Gross Bank Credit (a+b+c+d)	11,071	13,074	+2,003 (100.0)	13,435	15,991	+2,556 (100.0)
Export Credit (included under item III)	1,129	1,206	+ 77	1,142	1,447	+ 305
IV. Gross Bank Credit	13,607	15,375	+1,768	15,960	18,575	+2,615

@ Provisional

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

2 Figures in brackets are percentages to the increase in non-food gross bank credit.

(*Source* : Credit Planning and Banking Development Cell, R.B.I.)

crores, respectively, which was offset to some extent by a decline of Rs. 36 crores in fertilizer credit for Food Corporation of India.

Regional and Rural/Urban Pattern of Credit Deployment

2.41 Another aspect of credit disbursal which has acquired significance is the regional and rural/urban pattern of credit deployment. Data on state-wise credit-deposit ratios of bank offices according to population group, as on the last Friday of June 1978, are presented in Table 2.7. As pointed out in the last year's Report the limitations of these ratios for analytical purposes should be borne in mind. They do not by themelves reflect the extent to which resources mobilised by banks in a State are deployed therein since they do not take into account investment of bank funds in securities of State Governments, debentures of State-level institutions, etc., which contribute to the financing of developmental and infrastructural projects. Further, one should take a note of what is known as "Migration of Credit", that is, loans sanctioned by banks in a given area and outstanding in their books and hence included in the figure of total credit for that 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.

2.42 Credit-deposit ratios show a wide range of variations among different regions : for instance the ratios varied from 6.3 per cent in Sikkim to 346.7 per cent in Chandigarh. Region-wise the ratio exceeded 60 per cent for the Northern Region, Western Region and Southern Region. The intra-regional variations were marked except in the Central Region where the ratio was 53.7 per cent in Madhya Pradesh and 47.1 per cent in Uttar Pradesh. Although it is difficult to say whether the eventual objective should be to facilitate the raising of these ratios to a particular level, it cannot be denied that a large leeway has to be made up by banks in raising the ratios in many areas (Table 2.7).

2.43 An equally important aspect of deployment of credit is the imbalance between rural and semi-urban areas, on the one hand, and urban/metropolitan areas, on the other. The unusually low credit-deposit ratios in certain rural areas have given rise to the apprehension that rural branches might become the conduit for the flow of resources from the rural to the urban areas. In view of this factor, public sector banks were advised that by March 1979 their rural and semi-urban branches separately should achieve a credit-deposit ratio of at least 60 per cent.[1] Looked at from this point of view, the imbalances in the ratios are glaring. Thus, at the end of June 1978, for the country as a whole the credit-deposit ratios for the rural and semi-urban areas were 52.5 and 47.4, respectively. Only the Southern Region as a whole reported relatively a high credit-deposit ratio for rural (76.3 per cent) and semi-urban (59.7 per cent) areas. In the remaining regions the ratios were much lower. There were marked variations even within each region also. Banks need to make intensive efforts in realising the national target referred to earlier.

1. The private sector banks should reach the target within a specified time.

TABLE 2.7—STATE-WISE CREDIT-DEPOSIT RATIOS OF OFFICES OF SCHEDULED COMMERCIAL BANKS ACCORDING TO POPULATION GROUPS

(As on the last Friday of June 1978)

Region/State/Union Territory	Rural	Semi-urban	Urban/ Metropolitan	Total
	1	2	3	4
Northern Region	**37.2**	**47.4**	**107.9**	**89.5**
Haryana	57.3	62.1	62.6	61.4
Himachal Pradesh	25.3	24.3	—	24.8
Jammu & Kashmir	18.4	47.7	22.1	23.7
Punjab	21.9	37.4	46.3	37.0
Rajasthan	84.4	64.5	52.3	60.8
Chandigarh	19.4	—	247.4	346.7
Delhi	456.6	—	117.2	117.5
North-Eastern Region	**29.6**	**34.5**	**50.1**	**38.0**
Assam	30.9	42.1	51.4	43.4
Manipur	42.9	7.1	35.4	36.6
Meghalaya	16.6	15.9	—	16.0
Nagaland	3.5	34.7	—	27.9
Tripura	67.3	34.8	—	41.1
Arunachal Pradesh	6.8	—	—	6.8
Mizoram	13.3	7.1	—	7.4
Sikkim	—	6.3	—	6.3
Eastern Region	**52.1**	**34.1**	**67.7**	**58.7**
Bihar	70.1	38.0	41.2	43.1
Orissa	72.7	64.7	54.5	60.7
West Bengal	33.3	24.2	72.9	63.9
Andaman & Nicobar Islands	27.9	19.8	—	21.0
Central Region	**52.0**	**52.0**	**46.4**	**48.8**
Madhya Pradesh	61.6	55.2	51.3	53.7
Uttar Pradesh	49.5	50.8	44.7	47.1
Western Region	**41.0**	**42.1**	**73.4**	**65.9**
Gujarat	30.0	34.5	66.3	50.4
Maharashtra	66.9	50.6	74.9	72.5
Dadra & Nagar Haveli	83.5	—	—	83.5
Goa, Daman & Diu	25.3	48.3	—	40.5
Southern Region	**76.3**	**59.7**	**89.0**	**79.0**
Andhra Pradesh	95.5	68.1	64.0	69.0
Karnataka	76.9	67.2	88.5	81.8
Kerala	48.4	43.2	94.8	61.9
Tamil Nadu	90.5	66.5	104.1	94.2
Lakshadweep	6.6	—	—	6.6
Pondicherry	91.5	33.9	71.1	68.2
ALL INDIA	**52.5**	**47.4**	**79.9**	**69.9**

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

2.44 Data on frequency distribution of districts based on credit-deposit ratios for rural and semi-urban bank offices for June 1978 are presented in Table 2.8. According to this, rural bank branches had achieved 60 per cent and above credit-deposit ratio in 148 out of 388 districts as at end-June 1978. Semi-urban branches could achieve 60 per cent and above credit-deposit ratio in 113 out of 346 districts at the end of June 1978. Thus, 38 per cent of districts covered by rural bank branches and 33 per cent of districts covered by semi-urban bank branches showed a credit-deposit ratio of 60 per cent and above at the end of June 1978.

TABLE 2.8—FREQUENCY DISTRIBUTION OF DISTRICTS BASED ON CREDIT-DEPOSIT RATIOS FOR RURAL AND SEMI-URBAN BANK OFFICES

(As on the last Friday of June 1978)

(Amount in Rupees Crores)

Frequency (Credit-Deposit Ratio)	Rural			Semi-Urban		
	No. of Districts	Deposits@	Advances	No. of Districts	Deposits@	Advances
	1	2	3	4	5	6
Up to 20%	72	445 (6)	54	40	582 (15)	92
20% — 30%	53	491 (9)	120	57	815 (14)	195
30% — 40%	49	303 (6)	109	55	1,086 (20)	373
40% — 50%	29	137 (5)	62	46	703 (15)	324
50% — 60%	37	269 (7)	147	35	529 (15)	280
60% and above	148 (38.1)£	734 (5)	756	113 (32.7)£	1,467 (13)	1,193
Total	**388**	**2,379**	**1,248**	**346**	**5,182**	**2,457**

@ Figures in brackets represent amount of deposits per district under each size class (in crores of rupees).
£ As percentage of total number of districts

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

2.45 Data on state-wise frequency distribution of districts based on credit-deposit ratios as at end-June 1978 for rural and semi-urban bank offices are presented in Table Nos. 2.9 and 2.10, respectively. It may be seen therefrom that out of 148 districts in which rural bank offices achieved credit-deposit ratio of 60 per cent and over, 19 districts were each from Madhya Pradesh and Andhra Pradesh, 18 from Uttar Pradesh, 16 from Rajasthan, 13 from Karnataka and 11 each from Tamil Nudu and Maharashtra. Of the 113 districts in which semi-urban bank offices reached credit-deposit ratio of 60 per cent and above, 17 districts were from Andhra Pradesh, 13 each from Madhya Pradesh and Uttar Pradesh, 12 each from Bihar and Karnataka, 10 from Rajasthan, 9 from Tamil Nadu and 8 from Maharashtra.

TABLE 2.9—STATE-WISE FREQUENCY DISTRIBUTION OF DISTRICTS BASED

(As on the last Friday

Region/State/Union Territory	Frequency (Credit-Deposit Ratio)								
	Up to 20%			20% — 30%			30% — 40%		
	No. of Dis-tricts	Deposits	Advances	No. of Dis-tricts	Deposits	Advances	No. of Dis-tricts	Deposits	Advances
	1	2	3	4	5	6	7	8	9
I. Northern Region	**19**	**218,54**	**25,94**	**11**	**93,91**	**21,56**	**5**	**35,61**	**12,79**
Haryana	—	—	—	—	—	—	2	18,20	6,66
Himachal Pradesh	5	34,36	4,04	4	16,88	3,86	1	7,02	2,72
Jammu & Kashmir	7	20,87	2,53	2	11,12	2,49	—	—	—
Punjab	5	161,05	19,02	2	63,15	14,51	1	9,15	3,00
Rajasthan	1	1,95	29	3	2,76	70	1	1,24	41
Chandigarh	1	31	6	—	—	—	—	—	—
Delhi	—	—	—	—	—	—	—	—	—
II. North-Eastern Region ..	**19**	**15,58**	**1,48**	**5**	**26,71**	**6,47**	**1**	**2,61**	**87**
Assam	2	5,60	80	4	26,04	6,31	1	2,61	87
Manipur	2	29	—	—	—	—	—	—	—
Meghalaya	3	2,64	40	—	—	—	—	—	—
Nagaland	7	2,55	9	—	—	—	—	—	—
Tripura	—	—	—	—	—	—	—	—	—
Arunachal Pradesh	4	4,35	17	1	67	16	—	—	—
Mizoram	1	15	2	—	—	—	—	—	—
Sikkim	—	—	—	—	—	—	—	—	—
III. Eastern Region	**9**	**69,21**	**8,61**	**11**	**70,70**	**16,60**	**7**	**35,65**	**12,76**
Bihar	5	31,49	3,52	9	28,00	7,22	5	12,04	4,35
Orissa	—	—	—	—	—	—	1	1,64	53
West Bengal	3	37,23	5,03	2	42,70	9,38	1	21,97	7,88
Andaman & Nicobar Islands	1	49	6	—	—	—	—	—	—
IV. Central Region	**15**	**66,32**	**9,78**	**15**	**100,00**	**25,72**	**20**	**51,84**	**17,91**
Madhya Pradesh	5	12,32	1,67	1	1,98	45	12	20,44	7,05
Uttar Pradesh	10	54,00	8,11	14	98,02	25,27	8	31,40	10,86
V. Western Region	**8**	**74,19**	**8,25**	**10**	**178,26**	**43,22**	**8**	**74,73**	**27,58**
Gujarat	5	48,74	4,42	6	98,32	21,64	4	43,29	16,10
Maharashtra	2	20,70	3,68	3	15,96	4,37	4	31,44	11,48
Dadra & Nagar Haveli ..	—	—	—	—	—	—	—	—	—
Goa, Daman & Diu ..	1	4,75	15	1	63,98	17,21	—	—	—
VI. Southern Region	**2**	**85**	**5**	**1**	**21,47**	**6,17**	**8**	**102,50**	**37,37**
Andhra Pradesh	—	—	—	—	—	—	1	2,69	1,05
Karnataka	—	—	—	—	—	—	1	23,29	7,82
Kerala	—	—	—	1	21,47	6,17	4	75,18	28,03
Tamil Nadu	1	9	—	—	—	—	—	—	—
Lakshadweep	1	76	5	—	—	—	—	—	—
Pondicherry	—	—	—	—	—	—	2	1,34	47
ALL INDIA	**72**	**444,69**	**54,11**	**53**	**491,05**	**119,74**	**49**	**302,94**	**109,28**

(*Source* : Return on Aggregate Deposits and Gross Bank Credit)

ON CREDIT-DEPOSIT RATIOS FOR BANK OFFICES IN RURAL CENTRES

of June 1978)

(Amount in lakhs of rupees)

Region/State/Union Territory	Frequency (Credit-Deposit Ratio) 40% — 50%			50% — 60%			60% and above			Total		
	No. of Districts	Deposits	Advances	No. of Districts	Deposits	Advances	No. of Districts	Deposits	Advances	No. of Districts	Deposits	Advances
	10	11	12	13	14	15	16	17	18	19	20	21
I. Northern Region	**7**	**44,03**	**20,02**	**6**	**16,89**	**9,32**	**25**	**110,33**	**103,56**	**73**	**519,31**	**193,19**
Haryana	2	8,66	3,65	3	10,17	5,82	4	28,66	21,49	11	65,69	37,62
Himachal Pradesh ..	—	—	—	—	—	—	2	7,14	5,91	12	65,40	16,53
Jammu & Kashmir ..	1	2,97	1,40	—	—	—	—	—	—	10	34,96	6,42
Punjab	2	25,22	11,88	—	—	—	2	18,06	12,07	12	276,63	60,48
Rajasthan	2	7,18	3,09	3	6,72	3,50	16	54,51	55,14	26	74,36	63,13
Chandigarh	—	—	—	—	—	—	—	—	—	1	31	6
Delhi	—	—	—	—	—	—	1	1,96	8,95	1	1,96	8,95
II. North-Eastern Region ..	**3**	**67**	**29**	**2**	**1,45**	**74**	**6**	**11,24**	**7,40**	**36**	**58,26**	**17,25**
Assam	1	23	10	—	—	—	2	7,50	4,88	10	41,98	12,96
Manipur	1	31	13	2	1,45	74	1	1	1	6	2,06	88
Meghalaya	1	13	6	—	—	—	—	—	—	4	2,77	46
Nagaland	—	—	—	—	—	—	—	—	—	7	2,55	9
Tripura	—	—	—	—	—	—	3	3,73	2,51	3	3,73	2,51
Arunachal Pradesh ..	—	—	—	—	—	—	—	—	—	5	5,02	33
Mizoram	—	—	—	—	—	—	—	—	—	1	15	2
Sikkim	—	—	—	—	—	—	—	—	—	—	—	—
III. Eastern Region	**9**	**38,52**	**18,07**	**7**	**18,09**	**10,00**	**18**	**62,09**	**87,09**	**61**	**294,26**	**153,13**
Bihar	4	8,92	3,75	4	12,69	7,14	4	18,07	51,92	31	111,21	77,90
Orissa	1	3,12	1,36	2	5,09	2,70	9	26,70	21,98	13	36,55	26,57
West Bengal	4	26,48	12,96	—	—	—	5	17,32	13,19	15	145,70	48,44
Andaman & Nicobar Islands	—	—	—	1	31	16	—	—	—	2	80	22
IV. Central Region	**5**	**19,06**	**8,59**	**9**	**30,94**	**16,42**	**37**	**155,26**	**141,55**	**101**	**423,42**	**219,97**
Madhya Pradesh	2	5,09	2,34	6	14,24	7,63	19	31,35	33,45	45	85,42	52,59
Uttar Pradesh	3	13,97	6,25	3	16,70	8,79	18	123,91	108,10	56	338,00	167,38
V. Western Region	**2**	**5,16**	**2,43**	**5**	**60,78**	**32,42**	**14**	**69,12**	**75,76**	**47**	**462,24**	**189,66**
Gujarat	—	—	—	2	41,02	21,35	2	15,16	10,40	19	246,53	73,91
Maharashtra	2	5,16	2,43	3	19,76	11,07	11	53,17	64,70	25	146,19	97,73
Dadra & Nagar Haveli ..	—	—	—	—	—	—	1	79	66	1	79	66
Goa, Daman & Diu ..	—	—	—	—	—	—	—	—	—	2	68,73	17,36
VI. Southern Region	**3**	**29,28**	**12,95**	**8**	**140,80**	**77,59**	**48**	**326,47**	**340,20**	**70**	**621,37**	**474,33**
Andhra Pradesh	1	13,01	5,90	—	—	—	19	123,94	126,35	21	139,64	133,30
Karnataka	1	11,70	4,79	4	86,32	47,38	13	68,36	85,90	19	189,67	145,89
Kerala	1	4,57	2,26	1	14,62	8,01	4	47,10	34,41	11	162,94	78,88
Tamil Nadu	—	—	—	3	39,86	22,20	11	84,64	90,56	15	124,59	112,76
Lakshadweep	—	—	—	—	—	—	—	—	—	1	76	5
Pondicherry	—	—	—	—	—	—	1	2,43	2,98	3	3,77	3,45
ALL INDIA	**29**	**136,72**	**62,35**	**37**	**268,95**	**146,49**	**148**	**734,51**	**755,56**	**388**	**2378,86**	**1247,53**

TABLE 2.10—STATE-WISE FREQUENCY DISTRIBUTION OF DISTRICTS BASED

(As on the last Friday

Region/State/Union Territory	Frequency (Credit-Deposit Ratio)								
	Up to 20%			20% — 30%			30% — 40%		
	No. of Dis-tricts	Deposits	Advances	No. of Dis-tricts	Deposits	Advances	No. of Dis-tricts	Deposits	Advances
	1	2	3	4	5	6	7	8	9
I. Northern Region	**8**	**136,14**	**18,16**	**12**	**157,83**	**39,17**	**7**	**121,24**	**42,22**
Haryana	—	—	—	—	—	—	1	21,12	8,39
Himachal Pradesh	1	4,42	51	4	43,43	10,34	—	—	—
Jammu & Kashmir	1	1,66	8	1	4,64	1,34	—	—	—
Punjab	3	125,54	16,80	3	85,24	21,28	2	80,95	27,11
Rajasthan	2	4,46	77	4	24,52	6,21	4	19,17	6,72
Chandigarh	1	6	—	—	—	—	—	—	—
Delhi	—	—	—	—	—	—	—	—	—
II. North-Eastern Region ..	**7**	**43,02**	**5,99**	**5**	**42,56**	**11,12**	**5**	**40,24**	**13,87**
Assam..	1	1,04	8	5	42,56	11,12	1	17,15	5.49
Manipur	1	14	1	—	—	—	—	—	—
Meghalaya	2	33,06	5,26	—	—	—	—	—	—
Nagaland	1	1,44	15	—	—	—	1	7,57	2,98
Tripura	—	—	—	—	—	—	3	15,52	5,40
Arunachal Pradesh ..	—	—	—	—	—	—	—	—	—
Mizoram	1	3,38	24	—	—	—	—	—	—
Sikkim	1	3,96	25	—	—	—	—	—	—
III. Eastern Region	**7**	**162,42**	**28,59**	**14**	**418,90**	**95,43**	**12**	**142,44**	**46,04**
Bihar	1	3,31	65	6	281,42	61,33	4	40,71	13,00
Orissa	1	1,01	8	2	9,03	2,24	3	8,98	3,34
West Bengal	4	153,61	26,97	6	128,45	31,86	5	92,75	29,70
Andaman & Nicobar Islands	1	4,49	89	—	—	—	—	—	—
IV. Central Region	**10**	**55,76**	**9,59**	**22**	**133,60**	**33,87**	**12**	**128,27**	**46,60**
Madhya Pradesh	1	2,31	27	9	26,14	6,46	4	23,84	8,38
Uttar Pradesh	9	53,45	9,32	13	107,46	27,41	8	104,43	38,22
V. Western Region	**6**	**127,16**	**19,14**	**4**	**62,47**	**15,87**	**12**	**420,82**	**144,12**
Gujarat	5	124,38	18,88	3	46,97	11,55	5	285,04	98,13
Maharashtra	—	—	—	1	15,50	4,32	7	135,78	45,99
Dadra & Nagar Haveli ..	—	—	—	—	—	—	—	—	—
Goa, Daman & Diu ..	1	2,78	26	—	—	—	—	—	—
VI. Southern Region	**2**	**57,21**	**9,97**	—	—	—	**7**	**232,38**	**79,91**
Andhra Pradesh	—	—	—	—	—	—	—	—	—
Karnataka	—	—	—	—	—	—	2	31,70	10,69
Kerala	1	57,07	9,95	—	—	—	3	154,20	54,01
Tamil Nadu	—	—	—	—	—	—	1	41,90	13,64
Lakshadweep	—	—	—	—	—	—	—	—	—
Pondicherry	1	14	2	—	—	—	1	4,58	1.57
ALL INDIA	**40**	**581,71**	**91,44**	**57**	**815,36**	**195,46**	**55**	**1085,39**	**372.76**

(*Source* : Return on Aggregate Deposits and Gross Bank Credit)

ON CREDIT-DEPOSIT RATIOS FOR SEMI-URBAN BANK OFFICES

of June 1978)

(Amount in lakhs of rupees)

Region/State/Union Territory	Frequency (Credit-Deposit Ratio) 40% — 50%			50% — 60%			60% and above			Total		
	No. of Dis-tricts	De-posits	Advan-ces	No. of Dis-tricts	Depo-sits	Advan-ces	No. of Dis-tricts	Depo-sits	Advan-ces	No. of Dis-tricts	Depo-sits	Advan-ces
	10	11	12	13	14	15	16	17	18	19	20	21
I. Northern Region	**6**	**65,58**	**30,69**	**10**	**169,68**	**89,89**	**18**	**209,23**	**187,32**	**61**	**859,70**	**407,45**
Haryana	1	41,07	20,07	4	74,85	40,76	5	73,16	61,24	11	210,20	130,46
Himachal Pradesh.. ..	1	4,07	1,78	—	—	—	—	—	—	6	51,92	12,63
Jammu & Kashmir ..	1	6,40	2,65	1	4,03	2,40	1	2,43	2,67	5	19,16	9,14
Punjab	—	—	—	2	79,66	40,66	2	62,65	56,32	12	434,04	162,17
Rajasthan	3	14,04	6,19	3	11,14	6,07	10	70,99	67,09	26	144,32	93,05
Chandigarh	—	—	—	—	—	—	—	—	—	1	6	—
Delhi	—	—	—	—	—	—	—	—	—	—	—	—
II. North-Eastern Region ..	**1**	**3,24**	**1,54**	—	—	—	**1**	**43,51**	**26,98**	**19**	**172,57**	**59,50**
Assam	1	3,24	1,54	—	—	—	1	43,51	26,98	9	107,50	45,21
Manipur	—	—	—	—	—	—	—	—	—	1	14	1
Meghalaya	—	—	—	—	—	—	—	—	—	2	33,06	5,26
Nagaland	—	—	—	—	—	—	—	—	—	2	9,01	3,13
Tripura	—	—	—	—	—	—	—	—	—	3	15,52	5,40
Arunachal Pradesh ..	—	—	—	—	—	—	—	—	—	—	—	—
Mizoram	—	—	—	—	—	—	—	—	—	1	3,38	24
Sikkim	—	—	—	—	—	—	—	—	—	1	3,96	25
III. Eastern Region	**7**	**52,69**	**24,56**	**3**	**28,36**	**15,23**	**16**	**105,44**	**100,76**	**59**	**910,25**	**310,61**
Bihar	4	31,09	14,36	2	22,94	12,46	12	73,64	70,56	29	453,11	172,36
Orissa	2	12,21	5,67	1	5,42	2,77	4	31,80	30,20	13	68,45	44,30
West Bengal	1	9,39	4,53	—	—	—	—	—	—	16	384,20	93,06
Andaman & Nicobar Islands	—	—	—	—	—	—	—	—	—	1	4,49	89
IV. Central Region	**15**	**157,41**	**69,89**	**10**	**57,26**	**30,69**	**26**	**232,66**	**207,05**	**95**	**764,96**	**397,69**
Madhya Pradesh	8	44,11	19,61	9	48,99	26,45	13	60,30	52,34	44	205,69	113,51
Uttar Pradesh	7	113,30	50,28	1	8,27	4,24	13	172,36	154,71	51	559,27	284,18
V. Western Region	**6**	**188,26**	**90,37**	**6**	**137,69**	**72,76**	**11**	**172,60**	**124,42**	**45**	**1109,00**	**466,68**
Gujarat	—	—	—	2	71,58	36,72	3	37,09	29,37	18	565,06	194,65
Maharashtra	5	56,46	25,60	4	66,11	36,04	8	135,51	95,05	25	409,36	207,00
Dadra & Nagar Haveli ..	—	—	—	—	—	—	—	—	—	—	—	—
Goa, Daman & Diu ..	1	131,80	64,77	—	—	—	—	—	—	2	134,58	65,03
VI. Southern Region	**11**	**235,96**	**107,16**	**6**	**135,86**	**71,59**	**41**	**703,63**	**546,65**	**67**	**1365,04**	**815,28**
Andhra Pradesh	3	55,23	23,62	1	18,62	10,00	17	238,63	179,37	21	312,48	212,99
Karnataka	2	52,62	24,68	3	41,19	22,89	12	135,06	116,93	19	260,57	175,19
Kerala	3	87,82	40,07	1	49,10	24,71	3	72,71	53,21	11	420,90	181,95
Tamil Nadu	3	40,29	18,79	1	26,95	13,99	9	257,23	197,14	14	366,37	243,56
Lakshadweep	—	—	—	—	—	—	—	—	—	—	—	—
Pondicherry	—	—	—	—	—	—	—	—	—	2	4,72	1,59
ALL INDIA	**46**	**703,14**	**324,21**	**35**	**528,85**	**280,16**	**113**	**1467,07**	**1193,18**	**346**	**5181,52**	**2457,21**

Five Working Groups

2.46 Policy formulations during the year gave further impetus to the involvement of banks in the achievement of socio-economic objectives.

2.47 As a sequel to the Prime Minister's meeting with the Chief Executives of banks and term-lending institutions on October 8, 1978 five Working Groups were constituted to study in depth and make recommendations on (1) Differential Rates of Interest, (2) Small-Scale Industries, (3) Agricultural Credit, (4) Promotion of Employment and (5) Problems of Sick Industrial Units. Most of the recommendations of these Working Groups have been accepted by the GOI and the RBI and banks were advised as under regarding the action to be taken.

(1) *Differential Rates of Interest*

2.48 Banks were advised (*a*) to increase the level of advances under this scheme to weaker sections of the society for productive ventures from the existing $\frac{1}{2}$ per cent of total advances to 1 per cent and (*b*) to give minimum 40 per cent of such advances to persons belonging to scheduled castes and scheduled tribes as against $33\frac{1}{3}$ per cent hitherto. In order to facilitate the flow of funds to scheduled tribes, banks were advised to use the medium of co-operative societies/large sized multi-purpose societies (LAMPS) organised specifically for the benefit of tribal population.

(2) *Bank Credit for Small-Scale Industries*

2.49 Banks were asked to establish a scheme of composite term loans covering both equipment finance and working capital with repayment period of 7 to 10 years or even more, for artisans and village and cottage units, whose individual requirement does not exceed Rs. 25,000/-. The rate of interest on these composite loans in backward areas would be 9.5 per cent and in other areas 11 per cent. These rates were also made applicable to term loans for not less than three years granted to units in the tiny sector and other small-scale industries. In the case of the tiny sector credit limits for working capital up to Rs. 1 lakh will carry interest at a rate not exceeding 12.5 per cent. Small banks with liabilities of less than Rs. 25 crores may charge interest not exceeding 13.5 per cent.

(3) *Agricultural Credit*

2.50 Banks were advised to participate effectively in the Integrated Rural Development Programmes in 2,000 blocks selected by State Governments and in 300 additional blocks to be taken up annually during the remaining period of the Plan, and to ensure that at least 50 per cent of their total agricultural advances go to the small and marginal farmers by 1982-83. Priority would be given to these blocks in the establishment of new RRBs.

(4) *Role of Banks in Promoting Employment*

2.51 Banks were advised that they should aim at providing credit on aggregative annual basis to at least two additional borrowers per branch per month. They should concentrate on implementation of self-employment schemes in blocks for which development plans are ready and simultaneously aim at extending gradually their schemes to other blocks. Special schemes of self-employment for scheduled castes and scheduled tribes have to be drawn up.

(5) *Problems of Sick Industrial Units*

2.52 In order to tackle the problems of sick industrial units, banks were asked, among other things, (1) to explore possibilities of rehabilitating sick units, and in case they are not able to provide the assistance required, they should refer the case to the IDBI which would consider the package of measures necessary for rehabilitating the unit, and (2) to ensure that the difficulties of sick units are not compounded by the charging of penal rate of interest.

Private Sector Banks

2.53 The RBI informed commercial banks in the private sector that they were expected to progressively enlarge their credit to priority and neglected sectors to reach a minimum of 33⅓ per cent of total advances by March 31, 1980. The target applicable to public sector banks in respect of credit-deposit ratio of at least 60 per cent to be achieved separately in rural and semi-urban branches was also extended to private sector banks. The other socio-economic objectives extended to private sector banks were :

1. Lending 1 per cent of total advances under the differential interest rate scheme of which 40 per cent should go to the scheduled castes and scheduled tribes.
2. Providing credit on an aggregative annual basis to at least two additional borrowers per branch per month.
3. Reserving posts for scheduled castes/scheduled tribes on the same proportion as already applicable to public sector banks.

Lead Bank Scheme

2.54 The High Power Committee (HPC) constituted in the RBI for the purpose of keeping the progress of the Lead Bank Scheme under constant review and for issuing policy guidelines for its effective implementation met twice during the year. The important issues considered by the Committee at these meetings are indicated below.

Regional Rural Banks

2.64 During the year, eight more RRBs were set up, bringing their total number to 56 in 17 States as at the end of June 1979. Of the new RRBs, two were established in Gujarat, three in Bihar and one each in Karnataka, Rajasthan and Madhya Pradesh. The total number of branches of the RRBs rose by 560 from 1,405 at the end of June 1978 to 1,965 at the end of June 1979 (Table 2.11).

TABLE 2.11—STATE-WISE OFFICES OF REGIONAL RURAL BANKS

(As on June 30, 1979)

States	No. of RRBs	No. of Branches
	1	2
1. Andhra Pradesh	3	238
2. Assam	1	34
3. Bihar	10	266
4. Gujarat	2	—
5. Haryana	2	64
6. Himachal Pradesh	1	21
7. Jammu & Kashmir	1	43
8. Karnataka	4	156
9. Kerala	2	118
10. Madhya Pradesh	5	149
11. Maharashtra	1	48
12. Orissa	4	155
13. Rajasthan	4	166
14. Tamil Nadu	1	55
15. Tripura	1	24
16. Uttar Pradesh	10	326
17. West Bengal	4	102
Total	**56**	**1,965**

(*Source* : Rural Planning and Credit Cell and D.B.O.D., R.B.I.)

2.65 According to the progress reports received from 51 RRBs, their deposits and advances totalled Rs. 80 crores and Rs. 143 crores, respectively, as on the last Friday of March 1979. The advances granted to small/marginal farmers, landless labourers and rural artisans amounted to Rs. 134 crores.

2.66 The RRBs continued to avail of the refinance facility under the Refinance Scheme introduced by the RBI on October 1, 1976. Limits sanctioned to 31 RRBs aggregated to Rs. 34 crores, as at the end of June

1979. The total amount drawn against these limits and outstanding as on the last Friday of March 1979 was Rs. 28 crores.

2.67 A reference was made in the last year's Report of the concessions and exemptions granted to RRBs by the RBI in regard to maintenance of cash reserves, etc. The CRR continues to be 3 per cent of its total demand and time liabilities as against 6 per cent applicable to other scheduled commercial banks. The RRBs also continue to get exemption from the directive requiring the scheduled commercial banks to deposit 10 per cent of incremental demand and time liabilities with reference to a base date. The liquid assets to be maintained by the RRBs under Section 24 of the Banking Regulation Act, 1949 (BR Act, 1949) continue to be 25 per cent as against 34 per cent applicable to other banks.

2.68 In pursuance of a recommendation of the Committee on Regional Rural Banks (Dantwala Committee), a Steering Committee was constituted in the RBI and entrusted with the following functions: (*i*) to identify areas for location of RRBs and look after organisational matters such as local participation in management, composition of boards, appointment of chairman, recruitment and training of staff, etc., (*ii*) operational matters such as loaning policies etc., (*iii*) periodical review of existing relaxation and concessions in the matter of liquidity, (*iv*) monitoring and review of the progress of RRBs, (*v*) supervision over the functioning of RRBs and (*vi*) to suggest guidelines on the follow-up action on Dantwala Committee Report. The Steering Committee met thrice during the year.

Commercial Banks' Participation in ARDC/IDA/IBRD Programmes

2.69 The involvement of commercial banks in the implementation of normal ARDC schemes and projects assisted by IDA/IBRD through ARDC showed further strides during the year. As on June 30, 1979, the Corporation sanctioned 6,147 schemes to commercial banks involving total financial assistance of Rs. 1,206 crores of which the Corporation's commitment was Rs. 974 crores. The disbursements made by the Corporation amounted to Rs. 491 crores as at end-June 1979 as against Rs. 341 crores at the end of June 1978. Minor irrigation and farm mechanisation schemes continued to account for a major share in the schemes and the financial assistance involved was Rs. 751 crores, covering 3,375 schemes.

Farmers' Service Societies (FSS)

2.70 Farmers' Service Societies, which have multi-purpose functions and are expected to provide a package of agricultural credit and related services at a single contact point are organised and financed by commercial banks, Central Co-operative Banks and RRBs. By the end of June 1978, 213 FSS had been set up in 13 States and in the Union Territory of Delhi by 18 public sector banks and two private sector banks.

Clarifications :

1. Guarantees

2.79 Under the existing instructions, limits sanctioned by banks for issue of guarantees, e.g., in lieu of earnest money deposits, performance guarantees, etc., are exempt from prior authorisation. It was clarified that if by issue of any guarantee a bank undertook financial obligation to enable its constituents to acquire capital assets, it would require the Bank's prior authorisation subject to certain stipulated conditions.

2. IDBI Bills Rediscounting Scheme

2.80 Limits sanctioned by banks for financing of deferred receivables in regard to domestic sales under the IDBI Bills Rediscounting Scheme (and also outside the scheme subject to stipulated conditions) do not require prior authorisation. Banks can issue acceptances on behalf of buyers under the above Scheme up to the prescribed limit of Rs. 100 lakhs (limit for public sector borrowers being higher) in a year (July-June). It was decided that sanction of such acceptance limits by banks under the IDBI Bills Rediscounting Scheme and also those outside the Scheme will not require prior authorisation under CAS provided conformity with the terms and conditions of IDBI's Scheme and compliance with the RBI instructions are duly ensured.

3. Scheme for Rupee Finance to cover Import of Capital Goods

2.81 Under the existing instructions term loans allowed by banks under the Scheme for rupee finance to cover import of capital goods do not require our prior authorisation under CAS if the loans are for an ad-hoc import of certain specific items of machinery and not part of an overall project or expansion/modernisation scheme financed by the bank. Banks were advised that the term loans would require prior authorisation except to the extent exemptions were already granted in regard to them.

4. Working Capital Term Loans

2.82 Working Capital Term Loans (WCTL) sanctioned by banks should be treated as 'Working Capital' limits for the purpose of discipline under the CAS. Thus, in respect of parties coming under the purview of CAS, if WCTL is carved out of the existing working capital limits already authorised by the Bank, further reference is not necessary irrespective of the amount of WCTL and/or the period of its repayment. Prior authorisation will, however, be required if the WCTL involved sanction/enhancement in the existing working capital limits. In the case of non-CAS parties, reference to the Bank would be necessary only in cases where sanction of any WCTL (worked out as per the guidelines provided by the Tandon Study Group) would take the total working capital limits enjoyed by the borrower from the entire banking system to Rs. 2 crores or more (Rs. 3 crores for public sector borrowers). This relaxation will not apply to advances against commodities covered by selective credit control measures.

5. Cut-off Point for Reporting of Limits

2.83 For the purpose of reporting to the Bank the limits sanctioned to non-CAS borrowers which would take the total credit limits available from the banking system to Rs. 1 crore and upto Rs. 2 crores for private sector and Rs. 3 crores for public sector borrowers, term loans sanctioned to such borrowers for the purpose of acquisition of capital assets may be excluded for the purpose of computation of total credit limits. In other words, for computing the cut-off point of Rs. 1 crore for the purpose of reporting to the Bank, only working capital limits (including working capital term loans) sanctioned to the borrowers should be taken into account.

Term Lending by Commercial Banks

2.84 As a result of certain policy measures instituted by the RBI there has been a progressive involvement of commercial banks in term lending. Data on term lending of commercial banks are available for the period ended June 1977. The total number of term loan accounts increased from 196 thousands at the end of June 1976 to 237 thousands at the end of June 1977 recording a rise from 30.5 per cent to 32.4 per cent of the total number of all accounts (Table 2.12). Total credit limits sanctioned in respect of term loans increased from Rs. 1,840 crores to Rs. 2,337 crores during the same period—an increase of 27.0 per cent as compared to an increase of 18.3 per cent in the previous year. The outstanding term loans also went up from Rs. 1,516 crores at the end of June 1976 to Rs. 1,964 crores at the end of June 1977, amounting to an increase of 29.6 per cent over the year as compared to an increase of 32.1 per cent in the earlier year. Outstanding term loans at the end of June 1977 constituted 16.3 per cent of the total bank credit as against 14.4 per cent a year ago.

Credit to Sugar Industry

2.85 As stated in the section on Selective Credit Control, a temporary clean loan facility up to Rs. 25 lakhs per borrower without prior reference to the RBI, subject to certain conditions, was allowed up to November 30, 1978. It was represented that banks were adjusting the clean loans of Rs. 25 lakhs sanctioned in terms of the above mentioned instructions for correcting the irregularity in the cash credit account instead of making them available to factories to cover expenses incurred for off-season repairs and other essential purposes. The RBI asked banks in December 1978 to ensure that the clean loans were used for the purpose for which they were intended. They were further advised to assist sugar mills, which were unable to meet the dues of the cane growers and to adjust the margin deficit in their cash credit accounts, by allowing working capital term

TABLE 2.12—SCHEDULED COMMERCIAL BANKS' TERM LOANS (OUTSTANDING) 1972-77

(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	7
December 1972	89,231 (21.4)	416,567	839 (8.6)	9,702	601 (11.9)	5,051	4,892 (12.3)
June 1973	103,340 (22.4)	460,384	974 (9.3)	10,428	706 (12.2)	5,771	5,303 (13.3)
December 1973	119,385 (23.4)	509,424	1,067 (9.4)	11,370	832 (13.0)	6,396	6,044 (13.8)
June 1974	129,894 (24.3)	535,204	1,280 (9.9)	12,881	924 (12.7)	7,289	6,766 (13.7)
December 1974	141,701 (25.7)	550,330	1,354 (11.0)	12,362	1,021 (13.9)	7,359	7,150 (14.3)
June 1975	152,999 (26.7)	572,306	1,555 (11.4)	13,589	1,148 (14.0)	8,180	7,385 (15.5)
December 1975	171,536 (28.4)	605,046	1,612 (11.1)	14,468	1,307 (14.5)	9,030	8,094 (16.1)
June 1976	196,123 (30.5)	643,382	1,840 (11.0)	16,740	1,516 (14.4)	10,568	8,383 (18.1)
December 1976	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
June 1977	237,278 (32.4)	733,578	2,337 (12.6)	18,503	1,964 (16.3)	12,064	9,528 (20.6)

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

loans on a selective basis, subject to certain conditions. Such loans were to be secured by a charge on fixed assets and / or guarantee of State Government/directors or proprietors of the company/firm.

2.86 For financing sugar mills during the 1978-79 crushing season, banks were advised in November 1978 that they might sanction credit limits on merits to individual sugar mills to the extent of the average of maximum outstanding under the regular limits for the earlier two crushing seasons, viz., 1976-77 and 1977-78 (exclusive of drawings, if any, over and above the regular limits, as also limits granted on a temporary basis) sanctioned to them without prior authorisation. In case a bank considered it necessary to sanction credit limits to any sugar mill in excess of those indicated above and the total of the existing and the proposed additional limits of the borrower came within the purview of credit authorisation, it could release such limits only after obtaining prior authorisation from the Bank.

2.87 Keeping in view the credit requirements of sugar units consequent on decontrol of sugar, the sugar policy was further reviewed. In modification of the earlier instructions, banks were advised in February 1979 that they might sanction for the 1978-79 crushing season, credit limits on merits to individual sugar mills to the extent of the maximum outstandings under the regular limits for the last crushing season only, i.e., 1977-78 (exclusive of drawings, if any over and above the regular limits, as also the limits granted on a temporary basis) without obtaining prior authorisation.

Financing of Sick Industrial Undertakings

2.88 The Sick Industrial Undertakings Cell in the RBI continued to monitor banks' performance in identifying sick units and taking remedial action, wherever necessary. It tried to bring about co-ordination in the efforts of Government, banks and financial institutions in the rehabilitation of sick units. While overseeing the institutional efforts in industrial rehabilitation, whenever it became necessary to intervene and guide in individual cases, the Cell took initiative and convened meetings of financing institutions to discuss the problems of select sick units, find solution and secure co-ordination. The Cell convened five such meetings. Besides, the Cell's representatives also participated in fifteen meetings arranged by other financial institutions for co-ordinating the efforts of concerned banks/institutions.

2.89 With a view to bringing about improvement in the banks' performance in rehabilitating the sick units, the Cell issued instructions/guidelines to banks as and when necessary in regard to sick units. When it was represented that banks were reluctant to relax margin requirements, banks were advised in September 1978 to adopt a flexible approach in margins and to apply to the RBI in deserving cases for grant of exemption from its directives relating to margins, if necessary. At the same time, while allowing certain relaxations about obsolete and unusable stocks included in the inventories, banks were advised about the need to maintain proper discipline in regard to inventory/receivable norms in respect of sick units. In accordance with the decisions of the High Power Committee (under the Chairmanship of the Union Finance Minister), banks were advised in December 1978 about :

(*i*) reviewing the functioning of special cells for sick units and strengthening of monitoring arrangements,

(*ii*) preparing a package of measures by the IDBI in respect of cases of sick units referred to it by commercial banks,

(*iii*) establishing a separate cell at the top level in banks for looking into complaints of small-scale sick units in order to tackle their problems with greater awareness and understanding,

(*iv*) providing consultancy services to small-scale units, and

(*v*) ensuring that the difficulties of the sick units are not compounded by charging of penal rate of interest.

2.90 Banks were also told in January 1979 to submit a progress report in regard to the implementation of the various decisions of the above mentioned High Power Committee.

2.91 The studies conducted by banks, up to the end of September 1978, of some of the 334 units reported to be sick, revealed 137 units to be viable. Of these, eight units were reported to have turned the corner due to the rehabilitation efforts made by banks. It was also reported that there were indications of favourable trends prevailing in textile, heavy engineering and iron and steel industries.

2.92 In terms of RBI instructions, banks have been submitting quarterly statements giving brief particulars of all sick units enjoying aggregate credit of Rs. 1 crore and above from the banking system. The information contained in the quarterly statements as at the end of September 1978, revealed that the number of large sick units (i.e., those enjoying aggregate bank credit of Rs. 1 crore and above) identified by banks increased to 334 involving bank finance of Rs. 983 crores as against 270 units involving bank finance of Rs. 774 crores, as at the end of September 1977. (These exclude the units taken over by National Textile Corporation.)

Assistance to people affected by Natural Calamities

2.93 Whenever there has been occurrence of natural calamities such as cyclones, floods, etc. on a large scale in any part of the country, the RBI has been advising the commercial banks to extend financial assistance to the affected parties expeditiously and sympathetically on the basis of a constructive approach. When there were unprecedented floods in West Bengal in September 1978 and in Andhra Pradesh in May 1979, these instructions were reiterated. The gist of the guidelines issued to banks are as under :

(*a*) They should be in close touch with the State Government/local authorities in the affected areas and in collaboration with them evolve suitable schemes for the economic rehabilitation of the victims.

(*b*) Existing crop loans may be converted into medium-term loans with a repayment schedule ranging from 3 to 5 years. Besides, fresh crop loans should be considered on a priority basis.

(*c*) Scale of finance followed in each district should be, as far as possible, uniform and also it should take into consideration the consumption needs of the borrowers.

(*d*) Depending on the bank's assessment of the situation, assistance may even be on an unsecured basis or without insisting on third party guarantee. In the case of share croppers assistance may be on a group guarantee basis.

(*e*) Field staff in the affected regions should be augmented and, if necessary, experienced persons from other regions be deployed there.

2.94 The Indian Banks' Association and the Agricultural Finance Corporation have been carrying out studies in the affected regions assessing the damage and consider the type of relief measures needed. They have evolved certain guidelines to be followed by banks for extending financial assistance for the rehabilitation of affected persons/units. Details of credit extended by banks to the flood affected persons/units in West Bengal are given below.

TABLE 2.13—OUTSTANDING BANK CREDIT FOR PERSONS AFFECTED BY NATURAL CALAMITIES. (AS ON MARCH 31, 1979)

(In lakhs of Rupees)

Category	Number of Accounts	Amount outstanding
1. Agriculture and allied activities	46,049	795.59
2. Trade and self-employed	42	6.11
3. Cottage and tiny sector	26	1·30
4. Medium and large-scale industries	15	179.32
5. Others (small-scale industries)	375	140.33
Total ..	46,507	1,122.65

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

2.95 The IDBI disposed of 49 applications for Rs. 98 lakhs from various banks under Special Refinance Scheme 1978 and disbursed a sum of Rs. 38.78 lakhs up to May 15, 1979.

Differential Rates of Interest Scheme

2.96 Lending under the Differential Rates of Interest Scheme made further progress during the period January 1978 to December 1978. There was an increase of 2,28,096 in the number of borrowal accounts which rose from 13,91,440 to 16,19,536. The amount of loans outstanding went up from Rs. 68 crores to Rs. 90 crores recording an increase of Rs. 22 crores. The average amount of loan per account increased from Rs. 487 at the end of December 1977 to Rs. 556 at the end of December 1978.

Duty Drawback Credit Scheme, 1976

2.97 The Scheme is intended to benefit exporters who avail of interest-free finance from banks up to 90 days against shipping bills provisionally certified by the Customs authorities towards refund of duty. The financing banks in turn are eligible to avail of interest-free refinance from the RBI pending final settlement of duty drawback claims of the exporters. During the period November 1, 1978 to June 30, 1979, limits aggregating to Rs. 19 crores were sanctioned to 29 banks which availed of refinance to the extent of Rs. 14 crores, as on May 25, 1979.

2.98 The accounting procedure was revised recently to remove certain difficulties experienced by both banks and exporters. Under the new procedure, which became effective from May 1979, Customs authorities are to make payment of final duty drawback by cheques direct to the bank concerned, which in turn, should repay to the RBI the corresponding amout of refinance availed of by them under the Scheme within five working days after receipt of the cheque from the Customs authorties. The RBI together with Ministry of Commerce is examining the possibility of extending the Scheme to cover exports to Bangladesh as well as those financed under IDA credit.

Export Finance

2.99 The Standing Committee on Export Finance constituted in the RBI in 1975 to formulate policies on all matters relating to export finance met twice during 1978-79. With a view to making exports more competitive and taking into account the larger shipment period required for countries particularly in the Western Hemisphere, it was decided to increase the period of post-shipment credit for export (other than those on deferred payment basis for periods exceeding one year) from the then existing 128 days to 180 days, with effect from February 1, 1979. The units functioning in Kandla Free Trade Zone and Santa Cruz Electronics Export Processing Zone at Bombay are required to export their entire production and for this purpose it was decided to extend the working capital finance to such units at the concessive ceiling rates of interest and also to exempt the units from production of letters of credit or firm orders for export at the time of availment of pre-shipment credit from banks.

2.100 A Committee was set up during the year to revise the 'Guidelines to exporters of engineering goods on the deferred payment basis' issued in 1975. The revision was necessitated by various developments on the export front and also in the light of the experience gained in processing a large number of proposals on project exports and turn key contracts. The Committee completed its task recently and the revised guidelines will be issued on receiving the necessary clearance from GOI.

Export Credit Measures

2.101 The exporters of diamonds have been, of late, facing recessionary trends in the export of diamonds from India in the wake of developments in the diamond market in U.S.A. and some other countries. The export off-take of diamonds has, therefore, fallen resulting in accumulation of finished products with the exporters/diamond polishing units. This situation has posed serious liquidity problems to exporters and has affected a large number of workers in the diamond cutting and polishing industry.

2.102 In view of the socio-economic repercussions and the need for putting the export trade on a firmer footing to ensure its continued growth, the banks have been advised to review the limits sanctioned for pre-shipment and post-shipment finance extended to diamond exporters and ensure that, wherever necessary, banks should extend increased finance to meet their genuine credit requirements. The banks have been advised not only to extend longer periods of post-shipment credit (subject to the maximum of 180 days) but also consider extending pledge facility to small diamond exporters (non-sight holders with export turnover of less than Rs. 25 lakhs) and pay special attention to the genuine needs of this priority sector.

2.103 Further, the exporters shipping goods to certain countries *viz.* Nigeria, Ghana, Israel, Sudan, Syria, Taiwan, Turkey, Vietnam, Yemen Arab Republic, Zaire and Zambia, were experiencing delays in obtaining repatriation of export proceeds owing to foreign exchange difficulties prevalent there. To tide over the above problem of the exporters as also to reduce the interest burden on the exporters in such cases, it has been decided that in the case of export bills (demand or usance) drawn on the aforesaid countries, the lending banks will be eligible for interest subsidy from the date of purchase/discount of a bill/making an advance against export bill sent for collection till the date of receipt of proceeds thereof in India on payment by ECGC, whichever is earlier, subject to the maximum period of 180 days, the bill being paid on due date in local currency and certain conditions being fulfilled.

Export Credit (Interest Subsidy) Scheme

2.104 The Export Credit (Interest Subsidy) Scheme, 1968 provides for compensating banks extending export credit to make up partially for their losses in interest earnings. The Scheme has been in operation for over ten years. The amount of subsidy ranges around Rs. 12 crores a year. It was observed that certain operational difficulties faced by banks required to be taken into account. The Scheme is hence being reviewed for improving its utility in consultation with the Foreign Exchange Dealers' Association of India and the Indian Banks' Association.

2.105 During the period from July 1, 1978 to June 30, 1979 interest subsidy amounting to Rs. 13 crores was paid to 58 banks. Of this amount, subsidy in respect of pre-shipment credit amounted to Rs. 7 crores and that on post-shipment credit Rs. 6 crores. The total amount of subsidy disbursed since the inception of the Scheme up to June 30, 1979 amounted to Rs. 72 crores.

2.106 Interest subsidy at 1.5 per cent per annum from the Marketing Development Assistance Fund of the Commerce Ministry at 3.0 per cent from the funds allotted by the Ministry of External Affairs is being paid to the IDBI, the United Commercial Bank and United Bank of India. The total subsidy disbursed to the three institutions during the period under review amounted to Rs. 90 lakhs. Besides interest subsidy amounting to Rs. 6 lakhs at 1.5 per cent each from the Marketing Development Assistance Fund as also the funds released by the Ministry of External

Affairs has been paid on the commercial credit of Rs. 4 crores and Rs. 1 crore extended to Bangladesh by the IDBI and Punjab National Bank, respectively.

Data Bank in ECGC

2.107 It has been decided that ECGC should set up a data bank to compile up-to-date information on the various exporters, as also important buyers abroad and to make available the data to banks, as and when required by them.

Forward Exchange Fluctuations Risk Cover

2.108 Long term foreign exchange fluctuations risk cover was hitherto being provided by the RBI and any losses arising there from were being charged to the Marketing Development Assistance Fund of the Ministry of Commerce. It has now been decided that, in keeping with similar schemes operated abroad by export credit organisations, ECGC will provide the necessary cover and formulate a scheme to supersede the one being presently operated by the RBI. The latter will continue to extend exchange risk fluctuation cover for short periods.

Scheme for Rupee Finance to Cover Import of Capital Goods

2.109 The scheme of rupee finance to cover import of capital goods introduced by the GOI in April 1978, has, as a special case, been made available to State Electricity Boards for import of gas turbine generating sets. However, this facility has been allowed as a one-time exception and the RBI's policy guidelines already in force in regard to bank finance to State Electricity Boards remain otherwise unchanged. Banks will be entitled to refinance from the RBI in respect of the loans granted by them under the Scheme to State Electricity Boards.

2.110 According to data furnished by fourteen public sector banks, the assistance sanctioned under the Scheme by them up to end-March 1979 aggregated Rs. 1332 lakhs.

Banking Legislation/Regulation

Banking Laws (Amendment) Bill, 1978.

2.111 The Banking Laws (Amendment) Bill, 1978 was introduced in the Lok Sabha during its winter session. The Bill sought to give legislative effect mainly to such of the recommendations of the Banking Commission as had been accepted by the Government. It contains amendments to the Bankers' Books Evidence Act, 1891, Reserve Bank of India Act, 1934, BR Act, 1949, State Bank of India Act, 1955, State Bank of India (Subsidiary Banks) Act, 1959, Deposit Insurance and Credit Guarantee Corporation Act, 1961 and Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970.

Amendment to Regulation 7 of the Reserve Bank of India Scheduled Banks' Regulations, 1951

2.112 In terms of Regulation 7 of the Reserve Bank of India Scheduled Banks' Regulations, 1951, scheduled banks are required to apportion the balances in the savings banks accounts into 'demand' and 'time' liabilities for the purpose of the weekly return to be submitted to the Reserve Bank under Section 42(2) of the RBI Act, 1934. According to the procedure outlined in the above Regulation, if the Savings Bank Rules of the bank specify a maximum amount that may, at any time, be withdrawn from an account without previous notice, then in respect of each amount, such maximum amount, or where the balance in the account was not more than this maximum, the whole of the balance, should be regarded as a demand liability and the excess over the maximum amount, as a time liability.

2.113 It was observed that the aforesaid procedure did not give a realistic estimate of the 'demand' liability portion of these deposits with the result that data on 'money supply with the public' to that extent became notional. So as to indicate the realistic apportionment of savings bank deposits into 'time' and 'demand' liabilities, the provisions of Regulation 7 of the Scheduled Banks' Regulations, 1951, were amended by the Bank in 1978, in exercise of the powers conferred by Sub-section (1) and (2) of Section 58 of the Reserve Bank of India Act, 1934 (2 of 1934) to the effect that the average of the monthly minimum balances in a savings account on which interest is being credited to the account shall be regarded as a time liability and the excess over the said amount, as a demand liability. This amendment came into force with effect from August 16,1978.

Inspection of Banks

2.114 In pursuance of the RBI's programme of periodical inspections of commercial banks the financial type of inspection of 19 scheduled commercial banks, one non-scheduled bank and 31 RRBs was taken up under Section 35 of the BR Act, 1949 during the year under report. The comparative position in regard to the number of banks and the offices inspected for the last three years (July-June) is indicated below.

TABLE 2.14 — INSPECTION OF COMMERCIAL BANKS

	1976-77	1977-78	1978-79
	1	2	3
Financial Inspection			
Number of banks inspected/ taken up for inspection	26	37**	51**
Number of offices (in India) inspected	823	978**	1,363**
Centre-wise Inspection			
Number of centres	1,476	1,058	750
Number of offices	2,362	1,759	1,264

** Excludes banks/offices inspected for the purpose of annual appraisal.
(*Source* : Department of Banking Operations and Development, RBI.)

2.115 As regards overseas branches of Indian banks, a branch each of State Bank of India, Bank of India, and Bank of Baroda in West Germany, France and Belgium, respectively, was inspected during the period.

Bank Mergers and Liquidations

Amalgamations

2.116 As mentioned in the last Report the GOI had sanctioned schemes of amalgamations under Section 45 of the BR Act, 1949 in respect of 49 banks. In terms of the provisions of the relative scheme the transferee banks were required to make final valuation of the assets of the transferor banks after a period of 6/12 years or such earlier period as might be sanctioned by the GOI in consultation with the RBI. The final valuation of the assets of 31 banks was completed and, in the case of 9 banks, the reports are under consideration. Of the remaining nine banks final valuation in respect of five banks is being pursued.

Liquidations

2.117 Nine banks were dissolved during the period under review including six banks which were dissolved during the earlier periods but the advices in respect of which were received during the period 1978-79. 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

2.118 During the period July 1978 to June 30, 1979, licences under Section 22 of the BR Act, 1949, were granted to two banks, viz., Naini Tal Bank Ltd., Naini Tal and United Industrial Bank Ltd., Calcutta, raising the number of licensed commercial banks to 50 (including National Bank of Pakistan, which is under the Custodian of Enemy Property). The name of the Naini Tal Bank Ltd., Naini Tal, was included in the Second Schedule to the RBI Act, 1934.

2.119 As on June 30, 1979, eight banks (including three Indian scheduled commercial banks in private sector and a foreign scheduled bank, viz., Habib Bank Ltd. which is under Custodian of Enemy Property) were functioning without a licence under Section 22 of the BR Act, 1949. Public sector banks, numbering 22, do not require licences.

Clearing House Facilities

2.120 During the period under review, 47 new clearing houses were set up, bringing up the total number to 651 as on June 30, 1979 from 604 as on June 30, 1978. Of these, 11 are managed by the RBI, 515 by State Bank of India and 124 by the Associate Banks of State Bank of India, and 1 by Bank of India.

Credit Information

2.121 The Department of Banking Operations and Development of RBI continued to render assistance to banks and other notified financial institutions by furnishing information on credit facilities allowed to individual borrowers. During the year July 1978 to June 1979 credit information in respect of 1,049 applications was furnished to the applicant banks/notified financial institutions, as against 890 applications during the previous year.

Working Results of Scheduled Commercial Banks

2.122 The working results of 62 scheduled commercial banks based on their published profit and loss accounts for the calendar year 1978 are presented along with those for 1977 and 1976 in Table 2.15. During 1978, banks continued to adopt different accounting procedures with regard to providing bonus to staff in their profit and loss accounts. A few banks treated it as a part of establishment expenditure and showed it under salaries, wages, etc., while some others stated that the amount payable as bonus when disbursed would be paid out of contingency reserves for which provision is made in the profit for the year. As observed in the last year's Report, it is possible that a part of this category of reserves could be for purposes other than for bonus payments. In the absence of such information, it is assumed for the purpose of analysing the working results of the scheduled commercial banks that the entire provision for the contingency reserves made during the year was for bonus payments. During 1978, the profits of banks, after making provision for taxation and bonus/ex-gratia payment to staff, increased by Rs. 5 crores to Rs. 35 crores (or by 15.4 per cent) in contrast to a setback in 1977, when they declined from Rs. 40 crores in 1976 to Rs. 30 crores in 1977.

2.123 Both earnings and expenditures increased during 1978. Total earnings of banks increased during 1978 by Rs. 361 crores (+15.8 per cent) as compared with a rise of Rs. 383 crores (+20.2 per cent) in 1977. Total expenditure of banks also rose during the year by Rs. 356 crores (+15.8 per cent) compared with an increase of Rs. 392 crores (+21.1 per cent) during the previous year. Unlike in 1977, the rise in earnings was higher than that of expenditure during 1978 which enabled the banks to improve their profits in 1978. The lower growth rates in banks' expenditure in 1978 was mainly attributable to a slow-down in the pace of interest payments on deposits, borrowings, etc., from 23.6 per cent in 1977 to 15.7 per cent in 1978 and in establishment expenses from 17.7 per cent to 16.2 per cent. The decline in interest payments (growth rate) was probably due to downward revision in interest rates on fixed deposits of 5 years and above and in respect of most other term deposit categories.

2.124 The increase in profits during 1978 was shared by all the bank-groups. Among the public sector banks, State Bank and its associates

TABLE 2.15—WORKING RESULTS OF SCHEDULED COMMERCIAL BANKS

(Amount in Rupees Crores)

	State Bank Group			Nationalised Banks		
	1976	1977	1978	1976	1977	1978
	1	2	3	4	5	6
I. Total Earnings	**543.38** (20.3)	**675.49** (24.3)	**801.56** (18.7)	**1,064.94** (24.7)	**1,263.59** (18.7)	**1,444.02** (14.3)
Of which :						
Interest and discount	449.24 (21.3)	563.47 (25.4)	668.30 (18.6)	946.32 (24.1)	1,132.81 (19.7)	1,299.68 (14.7)
II. Total Expenditure	**534.59** (20.4)	**666.63** (24.7)	**791.89** (18.8)	**1,045.34** (24.7)	**1,248.30** (19.4)	**1,428.16** (14.4)
Of which :						
(*a*) Interest paid on deposits, borrowings etc.	317.77 (37.5)	409.84 (28.9)	490.88 (19.8)	684.18 (37.9)	829.81 (21.3)	938.24 (13.1)
(*b*) Salaries, allowances, provident fund and bonus/ex-gratia payment to staff	165.41 (—2.7)	196.19 (18.6)	226.43 (15.4)	261.11 (—0.7)	301.13 (15.3)	352.98 (17.2)
III. Profits after provision for taxation and bonus/ex-gratia payment to staff ..	**8.79** (18.0)	**8.86** (0.8)	**9.67** (9.1)	**19.60** (27.3)	**15.29** (—22.0)	**15.86** (3.7)

(Amount in Rupees Crores)

	Other Indian Scheduled Commercial Banks@			Foreign Banks			Total		
	1976	1977	1978	1976	1977	1978	1976	1977	1978
	7	8	9	10	11	12	13	14	15
I. Total Earnings	**165.35** (30.6)	**213.13** (28.9)	**260.81** (22.4)	**125.75** (5.2)	**130.16** (3.5)	**137.07** (5.3)	**1,899.42** (22.4)	**2,282.37** (20.2)	**2,643.46** (15.8)
Of which :									
Interest and discount ..	143.01 (29.3)	185.67 (29.8)	231.90 (24.9)	98.59 (1.9)	101.40 (2.9)	106.16 (4.7)	1,637.16 (22.2)	1,983.35 (21.1)	2,306.04 (16.3)
II. Total Expenditure ..	**161.35** (30.6)	**209.92** (30.1)	**256.76** (22.3)	**118.36** (3.6)	**126.87** (7.2)	**131.29** (3.5)	**1,859.64** (22.3)	**2,251.72** (21.1)	**2,608.10** (15.8)
Of which :									
(*a*) Interest paid on deposits, borrowings etc.	93.35 (39.5)	123.84 (32.7)	154.20 (24.5)	53.43 (7.9)	56.65 (6.0)	60.15 (6.2)	1,148.73 (36.2)	1,420.14 (23.6)	1,643.47 (15.7)
(*b*) Salaries, allowances, provident fund and bonus/ex-gratia payment to staff ..	44.34 (12.5)	56.06 (26.4)	67.87 (21.1)	23.22 (—1.8)	27.99 (20.5)	28.52 (1.9)	494.08 (—0.4)	581.37 (17.7)	675.80 (16.2)
III. Profits after provision for taxation and bonus/ex-gratia payment to staff	**4.00** (29.0)	**3.21** (—19.8)	**4.05** (26.2)	**7.39** (40.5)	**3.29** (—55.5)	**5.78** (75.7)	**39.78** (27.5)	**30.65** (—23.0)	**35.36** (15.4)

Note : Figures in brackets indicate percentage variation over the previous year; figures for 1977 are revised.

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

(*Source :* Profit and loss accounts of banks) improved their profits by 9.1 per cent as compared with a rise of 0.8 per cent attained in 1977. In the case of nationalised banks also, their profits rose by 3.7 per cent during 1978 in sharp contrast to a decline of 22.0 per cent in the previous year.

Committees and Working Groups: Appointment, Recommendations and Follow-up

Committee to Study Functioning of Public Sector Banks (James Raj Committee)

2.125 A reference was made in the last year's Report of the submission of the Report by the Committee appointed to study the functioning of public sector banks constituted by the RBI under the Chairmanship of James S. Raj in June 1977. The Committee made several recommendations bearing on the tempo and direction of branch expansion, role of RRBs, structure of State Bank of India and its subsidiaries, and setting up of three new banks in the North Eastern, Eastern and Central regions.

2.126 It was emphasised by the Committee that the rapid growth of public sector banks cast a severe strain on their management resulting in dilution of supervisory controls and also affected their profitability due to the impact on cost structure. Hence banks having a large number of branches should consolidate their position for a period of three to five years. They should not, therefore, be allowed to expand beyond specified limits. Further, no bank should be forced to open branches remote from the main areas of its operation and the existing branches of this type should be exchanged voluntarily. Thus, according to the Committee, commercial banks should be allowed to open branches only up to district headquarters/mandi block level and RRBs should play a significant role in the financing of the rural sector. RRBs should gradually take over the existing rural branches of commercial banks.

2.127 As mentioned earlier in para 2.2, in the formulation of the new branch licensing policy for 1979-81 the recommendations of the James Raj Committee and those made by the Kamath Working Group and Dantwala Committee have been taken into account.

2.128 The suggestions relating to restructuring of SBI and its subsidiaries and setting up of three new banks in the North Eastern, Eastern and Central Regions, which have a bearing on the structure of the banking system, are being examined by the Bank.

2.129. Other recommendations relating to internal organisation, delegation of powers, terms and conditions of lending to the priority sectors, etc., have been conveyed to banks for implementation.

Working Group to study the Role of Commercial Banking System in providing Finance for Housing Schemes

2.130 A reference was made in the last years' Report about the submission of the report by the Working Group, constituted by the RBI, to examine the role of banking system in providing finance for housing schemes. Based on the recommendations made by the Working Group the following guidelines were issued by the RBI to commercial banks.

2.131 The contribution of the banking system in providing finance for house construction activities can only be modest and be of the order of Rs. 75 crores per annum. This amount would constitute approximately 0.5 per cent of total advances of all scheduled commercial banks, as at the end of December 1978, and would be exclusive of housing loans meant for banks' own employees. The adequacy or otherwise of this proportion will be reviewed from time to time.

2.132 Within the amount earmarked the proportion of direct and indirect finance to be provided is at the discretion of the banks. However, banks should ensure that the major portion of the additional finance is provided as subscription to the guaranteed bonds and debentures of Housing and Urban Development Corporation (HUDCO) and State Housing Boards. Direct finance for housing projects should, in the main, be for the benefit of scheduled castes and scheduled tribes, economically weaker sections, low-income groups and middle-income groups. Housing finance should not normally exceed 50 per cent of the total cost of project and the rate of interest should be 12 per cent, with half a percentage rebate for regular payment of instalments. Banks may, however, provide housing loans up to 80 per cent of the total cost to scheduled castes and scheduled tribes, economically weaker sections and low-income groups and charge an interest of four per cent to scheduled castes/tribes on loans not exceeding Rs. 2,500. The repayment period should not be more than 10 years. The security for the advance should be either mortgage of the properties or Government guarantee.

2.133 While the advances may remain in the books of banks, they may consider channelising housing finance through RRBs, village co-operative and voluntary agencies and avail of the services of these institutions for identifying suitable borrowers and for disbursement and recovery of such advances.

2.134 The Working Group has categorised certain construction activities eligible for bank finance but not as housing finance. Such activities should be financed strictly on commercial principles, with utmost importance given to considerations of national priority. While dealing with applications for finance, income generated, cash flow, sources of repayment and other relevant data need to be scrutinised carefully to ensure that the project is commercially viable and that the additional cash generated will be adequate to meet the instalments due under such loans. Finance for construction activities other than housing finance may be granted to both public and private sector undertakings, but it should be ensured that, in the case of public sector units, bank finance is not substituted for usual budgetary allocations for construction of infrastructural facilities (public roads, bridges, harbours, dams, etc.). The terms and conditions governing such finance should be as follows :

2.135 Banks should not advance more than 40 per cent, and in exceptional cases, 50 per cent of the cost of the project. Interest should be at the rate usually applicable to commercial advances. Loans should normally be repaid within seven years, but in no case should the repayment period exceed ten years. Security may comprise mortgage of properties and/or other security normally available for such purposes.

2.136 Banks were advised that no finance in the form of direct loans should hereafter be provided by them for infrastructural facilities and construction of buildings meant purely for government/semi-government offices, including municipal and panchayat offices. Loans may, however, be granted for activities which will be refinanced by institutions like the ARDC, as well as to companies or individuals who contract to undertake infrastructural construction. It is not necessary to give any special consideration to charitable or religious organisations unless the beneficiaries under the scheme belong exclusively to the weaker sections.

2.137 Wherever possible, and particularly for projects involving capital outlay of large amounts, consortium approach should be adopted — involving commercial banks, HUDCO, Housing Boards, LIC, etc., depending upon the nature of the scheme. In such consortium lending, repayment period in the case of banks should not be more than ten years, the amount of instalment being on a *pro rata* basis. There is no objection to fixing longer repayment period for specialised agencies like HUDCO, Housing Boards, LIC, the repayment being on a *pro rata* basis starting simultaneously.

Study Group on Follow-up of Bank Credit—Tandon Committee

2.138 The Committee of Direction constituted by the RBI in 1975 has been serving as a useful means to maintain flexibility in the operation of the new lending policies, formulated in the light of the recommendations of the Report of the Study Group on Follow-up of Bank Credit. The suggestions of the Committee are being followed up by the Cell set up in the Department of Banking Operations and Development of the Bank.

2.139 During the period under report the Committee held three meetings and examined a number of issues raised by banks, industries and their representative associations, as also Chambers of Commerce and Industry, in regard to application/modification of lending norms as also other matters on which the Committee's views could be obtained with advantage before taking a decision. The RBI examined the views given by the Committee on the various issues referred to it and advised banks suitably to enable them to further improve the operational flexibility and develop better understanding of the new lending system. Some of the major issues discussed by the Committee, decisions taken and guidelines/instructions issued to banks are given below.

(*i*) In order to make the lending methods (recommended by the Study Group) more flexible, banks were informed in July 1978 that they might, as a special case, consider permitting slip-back in current ratio to a limited extent for certain purposes to industrial units which have good past performance record and which have built up a sound current ratio over a period of time. However, it was emphasised that banks should ensure that the current ratio of at least 1.33 : 1 is maintained. Banks were also advised that the borrowers to whom the first method of lending recommended by the Study Group is applied should not normally be allowed to expand their activities without bringing in additional equity or raising term loans so that their financial structure is not weakened as a result of expansion.

(*ii*) The questions whether term loans should continue to be included for the purpose of cut-off points under the CAS and whether letters of credit and guarantees should be brought within the purview of the Scheme, were considered and suitable instructions were issued to banks in August 1978.

(*iii*) The question of application of various recommendations of the Study Group on Follow-up of Bank Credit to small-scale units was considered by the Committee. It was of the view that as over 90% of the small-scale units enjoy credit limits of less than Rs. 2 lakhs and as the inventory norms recommended by the Study Group are applicable only to units enjoying credit limits of over Rs. 10 lakhs from the banking system, most of the SSI units would be outside the purview of the norm. It is only the larger units among them, that are covered by the discipline and as they are potential medium/large industries, it is advisable to gradually expose them to better management practices.

(*iv*) The problem of delayed payment of bills of small-scale industries by large units was discussed in the Committee. The matter was further examined and banks were advised in August 1978, *inter alia*, that they might fix up separate sub-limits for acceptance/letters of credit facilities within the overall credit limits, which should be utilised only in respect of their purchases from small-scale industries ; the quantum of sub-limits might be decided after taking into account the proportion of purchases from the SSIs and other relevant factors. Banks were also asked to obtain each quarter the particulars of the amount due to small-scale units by their medium and large borrowers and discuss the matter appropriately with the borrower to ensure that payments to small-scale units would be made without delay.

(*v*) The matter relating to the type of quarterly information to be obtained by the banks from certain non-manufacturing units was discussed by the Committee and in pursuance of the decision taken, a Sub-Group has been constituted by RBI for examining in detail the type of information to be obtained from non-manufacturing units (*viz.* transport, construction companies, electricity boards, trading units, hotels, civil supplies corporations etc.) and to consider other measures to ensure control and proper follow-up of bank finance to such units. The Sub-Group held its first meeting on April 17, 1979.

(*vi*) Regarding the relaxations in the norms of inventory/receivables to be allowed to tyre manufacturing industries the Committee felt that there was no case for a general modification in the inventory/receivable norms, as applicable to rubber products.

(*vii*) As regards, interchangeability in the norms, the Committee felt that there is already an in-built interchangeability in the norms in respect of finished goods and receivables in certain industries, which have been prescribed by the Study Group itself. Secondly, the norms have been stipulated separately in respect of individual components of inventory (*i.e.*, raw-materials, stocks-in-process and finished goods) as the factors governing their needs vary and that further interchangeability will not be in line with the rationale of norms.

(*viii*) The difficulties/inconveniences experienced by borrowers in obtaining sanctions, etc., under the consortium arrangements and lack of co-ordination and certain other operational problems experienced, were discussed in the Committee of Direction. In the light of the discussions, certain broad guidelines were issued to banks in November 1978, covering various aspects, such as number of banks that may form consortium, the need for prescribing minimum share of member banks, operational involvement of members of the consortium, procedure by which undue delay in appraisal as well as at other stages could be obviated/minimised, exchange of information, inspection/verification of the security held for advances, etc.

(*ix*) In response to a representation received from the Leather Export Promotion Council, the RBI advised banks that though the Tandon Committee had not prescribed any norms for leather industry, banks might determine the reasonable levels in respect of inventory/receivables in this regard, keeping in view the past trends, process/lead time, trade practices, etc. Banks were also told that, while considering the reasonableness of the projections, they might also take into account the fact that, with the shift in the emphasis from export of semi-finished leather to finished leather and leather products, the process time would be elongated and that the units would have to carry higher inventory. Further, since most of the units were stated to be small proprietary/partnership concerns, they might not be in a position to raise equity and term loans to provide 25 per cent of the working capital gap, even on the basis of the first method of lending. In order to enable the industry to take advantage of the export market, banks were asked to permit suitable relaxations in deserving cases, subject to periodical review and also consider request of these units for term loans sympathetically for purchase of the requisite machinery. Banks should also ensure that the assisted units improved their financial structure by such measures as plough-back of profits.

(*x*) As regards the continuance or otherwise of the relaxations in inventory/receivables norms for cotton spinning mills and fertiliser industry, the following decisions were taken.

(*a*) *Cotton Spinning Mills :* There was no need for continuing the relaxations as the position of the cotton spinning mills had improved.

(*b*) *Fertiliser Industry :* Before considering any modifications in the existing relaxations allowed to the industry, the matter might be discussed further with the Fertiliser Association of India.

The Committee also discussed various other issues referred to it, such as—

(*i*) Implementation of various recommendations of the Study Group on Follow-up of Bank Credit and the difficulties experienced by banks in the implementation ;

(*ii*) Scrutiny of the statements submitted to banks by the borrowers under the Information System;

(*iii*) Management audit of borrowing units; and

(*iv*) The question whether, and if so, to what extent the Information System built up by banks in respect of their large borrowers can be used for detecting/preventing the financial mismanagement of the industrial units or whether the banking system can resort to any other measures, such as strengthening the hands of the auditors, etc., to achieve this purpose.

Inter-Institutional Group on Lending Operations

2.140 A reference was made in the last year's Report of the submission of the Report by the Inter-Institutional Group on Co-ordination of the Lending Operations of Term-lending Institutions and Commercial Banks. The Group has made recommendations on all aspects of co-ordination between term-lending institutions and banks : spelling out the criteria for sharing term-loans; indicating the role of term-lending institutions and banks in regard to appraisal, follow-up, sharing of information etc.; indicating the timing of sanctioning working capital limits and the opening of letters of credit in relation to the clearance of the project and the sanction of term-loans; suggesting operational details of sharing of securities, scrutiny of documents, sharing of cash flows, etc., and the nursing of sick units. In terms of the recommendations of the Group, a Standing Co-ordination Committee consisting of representatives of the RBI, commercial banks and term-lending institutions has been set up for considering various policy issues that may arise in the course of term-lending institutions and banks acting in co-ordination in financing industrial projects. The recommendations relating to participation of term-lending institutions in rehabilitation assistance to sick units were under the examination of the said Group. The other recommendations were accepted by the RBI subject to certain modifications/clarifications.

Working Group on Operational Efficiency and Profitability of Banks

2.141 The RBI considered the recommendations of the Working Group and issued guidelines to banks on certain aspects of cost control, cash management, staffing pattern, customer service, branch profitability, pricing of services, discretionary powers, etc.

Working Group on Customer Service in Banks

2.142 A mention was made in the last year's Report regarding constitution of a Group (Task Force) to examine the recommendations of the Working Group on Customer Service in Banks with a view to implementing them expeditiously. The Group held meetings regularly and reviewed the progress made by banks in the implementation of the recommendations. During the year two more recommendations were accepted by the Government with certain modifications and the banks were advised to implement them in September 1978.[1] Besides, it may be stated that many banks in the public sector have made considerable progress in the implementation of those recommendations which could be implemented unilaterally by them. The RBI maintains information in this regard on the basis of the quarterly progress reports submitted by banks. The progress made by the banks in the seven areas in which the Working Group had felt an urgent need for achieving improvement in the customer service in banks is given below:

TABLE 2·16—PROGRESS IN IMPLEMENTATION OF RECOMMENDATIONS RELATING TO CUSTOMER SERVICE

Service Area	Total number of recommendations accepted by the Government	Total number of recommendations implemented by more than 50% of banks
1. Deposit accounts	14	8
2. Remittances and collections	12	8
3. Loans and advances ..	8	6
4. Foreign Exchange business	5	1
5. Government business ..	1	1
6. Discipline and attitude ..	7	3
7. General	4	4

Expert Group on State Enactments having a bearing on Commercial Banks' Lending to Agriculture

2.143 The progress in the implementation of the recommendations of the Expert Group on State Enactments having a bearing on Commercial Banks' Lending to Agriculture (Talwar Committee) was covered in the last year's Report. 16 States have passed necessary legislation on the lines of the Model Bill recommended by the Talwar Committee.

1. These are Recommendations No. 28 & No. 30 in the Final Report of the Working Group. They relate to customer service in such areas as furnishing of statement of accounts and passbooks.

Expert Group on Agricultural Credit Schemes of Commercial Banks

2.144 A reference was made in the last year's Report on the submission of the Report by the Expert Group on Agricultural Credit Schemes of Commercial Banks. The Group has emphasised the need for effectively dovetailing the agricultural credit schemes of commercial banks with developmental efforts and also with credit schemes for other supporting activities which enhance the benefits of loans given to cultivators. Unless this is done, it will not be possible to ensure that increasing amounts of credit generate incremental incomes for all categories of agricultural borrowers. The Group finds, that, notwithstanding the impressive increase in the flow of commercial banks' credit to agricultural sector and the progress made in evolving arrangements to provide increasing quantum of credit to agriculturists, there are still a number of shortcomings in the modalities of formulation, content and implementation of agricultural credit schemes. It has made a series of recommendations designed to achieve the desired objectives and emphasised that many of them would be valid irrespective of whether the banks themselves directly disburse loans to agriculturists or do so through intermediaries such as PACS and FSS. Most of the recommendations of the Group have been commended to the banks for implementation.

Puri Committee's Report

2.145 On the basis of the recommendations of the High Power Committee appointed by the Central Government with Shri I. C. Puri as Chairman, to examine bank credit problems of small-scale industries, the RBI issued guidelines to banks in July 1978 to facilitate flow of credit to that sector. Banks were advised to adopt a flexible approach towards margin requirements particularly in regard to smaller units of the small-scale industries and the technically qualified and other entrepreneurs, sponsored under special employment schemes of Central/State Governments, be guided by the viability of projects and not to turn down any worthwhile proposal for want of collateral security/guarantee.

Study Group to Assess Credit Needs of Handlooms

2.146 The GOI constituted a Study Group to review the financing of handloom weavers outside the fold of co-operatives and state handloom development corporations by the nationalised banks. The Group was asked to estimate the credit requirements of the corporations over the next five years and suggest measures and institutional procedures which will help in securing smooth flow of bank finance. It was also asked to make a study of the present role of nationalised banks in financing the handloom weaver/handloom development corporations to suggest methods by which working relationship between these corporations and nationalised banks could be increasingly established, and to assess the comparative advantages and disadvantages of co-operative channels of credit and commercial banks financing the handloom sector. The Study Group has since submitted its Report to the GOI.

Working Group on Participation Certificates

2.147 In pursuance of the decision taken at the meeting which the RBI had with the Chairmen of some of the major banks on March 15, 1979, the RBI constituted two Working Groups, one to review banks' recourse to participation certificates and borrowings in call money market from financial institutions and another to review the system of cash credit by banks in all its aspects.

2.148 The terms of reference of the Working Group on Participation Certificates are (*i*) to examine the size and pattern of operations in call money market and in respect of participation certificates and clarify the implications for monetary and credit policies, (*ii*) to indicate the basis on which the broad magnitude of resources available to banks from sources other than commercial banks and refinance agencies (such as IDBI and ARDC) may be assessed, (*iii*) to examine the implications of any limitations on supplies of such funds from the non-banking institutions participating in the call money markets and participation certificate arrangements and suggest alternative avenues for the productive use of such funds, and (*iv*) to make recommendations on any other related matter. The Working Group submitted its Report in May 1979. While considering the various suggestions made by the Working Group, it was decided, to begin with, to initiate measures to discourage banks from excessive recourse to PCs. These measures have been discussed earlier in the paras on credit policy.

Working Group on Cash Credit

2.149 The Working Group on cash credit has been asked to review the operation of cash credit system in recent years, particularly with reference to the gap between sanctioned credit limits and extent of their utilisation; to suggest, in the light of this review, modifications in the system with a view to making the system more amenable to rational management of funds by commercial banks and/or alternative types of credit facilities, which would ensure greater credit discipline and also enable banks to relate credit limits to increase in output or other productive activities, and to make recommendations on any other related matter as the Group may consider germane to the subject. The Working Group has submitted an interim report which is under consideration.

Working Group on Financial Agency for Small Industry

2.150 In May 1979, the RBI constituted a Working Group to examine the question of setting up an apex financial institution for meeting the credit requirements of the small and decentralised sector of industry. The terms of reference of the Working Group are (1) to suggest ways and means for increasing the credit flow to meet the requirements of the small and decentralised sector of industry and, in this context, to assess the possibility of setting up a separate financial agency for this purpose ; (2) to consider matters of both legislative and administrative character which will need to be sorted out prior to the actual establishment of a new financial agency; (3) to examine whether any such agency should cover the entire gamut of the small-scale sector, or agencies need to be established to meet the credit requirements of the small-scale sector and village and cottage industries separately; (4) to determine the scope of activities such as refinancing operations and marketing operations to be entrusted to the new financial agency; and (5) to determine the linkage between the proposed financial agency and the existing credit channel such as commercial banks and State Financial Corporations (SFCs).

Review of Laws affecting and concerning Banks—Report of the Banking Laws Committee

2.151 In 1972 the GOI constituted the Banking Laws Committee as a One-man Committee under the Chairmanship of Dr. P. V. Rajamannar. The Committee submitted the following reports to the Government and the RBI for consideration.

(*i*) *Report on Negotiable Instruments Law*

The report is the product of a comparative study of the law and practice in India and in other countries with reference to negotiable instruments. The Committee has made a comprehensive review of all aspects of the general law relating to negotiable instruments, particularly bills, cheques and notes and has made certain recommendations for amending the present Negotiable Instruments Act which has been in operation in the country since 1881.

(*ii*) *Report on Real Property Security Law*

This report reviews the real property security law in general (embodied mainly in our mortgage law) and the special law relating to the extension of rural credit by institutional agencies against both personal property and real property.

(*iii*) *Report on Personal Property Security Law*

The report considers all the aspects relating to commercial and business credit with reference to the different types of available personal property which may be offered as security to the institutional and other lenders.

(*iv*) *Report on Documents of Title to Goods*

The report provides a review of the legal framework governing railway receipts, lorry receipts, bills of lading, warehouse receipts and other documents eligible for bank advances. The report also contains a review of Pucca Delivery Order (PDO) System prevailing in jute trade.

(*v*) *Report on Indigenous Negotiable Instruments* (*Hundies*)

The report proposes to codify the practices and usages relating to indigenous instruments, viz., hundi. The above reports are under consideration of the RBI and GOI.

Committee for Enlargement of Statutory Auditors Panel (for Public Sector Banks)

2.152 In October 1978, the RBI constituted the above Committee to evolve norms and guidelines for empanelment of auditors for being considered for appointment to the public sector banks. The committee will also make recommendations on certain other allied issues. The committee is composed of members representing RBI, GOI, Comptroller and Auditor General's Office, Indian Banks' Association, SBI, Institute of Chartered Accountants of India and Standing Advisory Committee of Bank Auditors.

Other Committees

2.153 The One-Man Committee on Selective Credit Controls submitted its Report and its recommendations are under consideration of the Bank.

Education and Training

Regional Rural Banks

2.154 The Chairman and branch managers of RRBs are imparted training at the College of Agricultural Banking (CAB) in Pune. It was decided that while the training of chairman and branch managers of RRBs would be conducted at the CAB, Pune, the training of other staff such as Accountants, Field Officers and Clerks would be at the training centres of the respective sponsor banks under the overall supervision of the CAB, Pune.

2.155 The Steering Committee on RRBs, in its second meeting, modified the training arrangements. It was decided to discontinue the 12 weeks' course conducted by the CAB. The latter may instead conduct a four weeks' orientation programme. Such course need not be limited to two courses in a year but as many number of courses as may be required to cover all the remaining untrained branch managers within a reasonable period of 3 to 4 years. The sponsor banks would be advised to arrange for a basic training programme in their own training colleges or institutions.

Lead Bank Scheme

2.156 With a view to having better understanding and appreciation of the objectives and implications of the Lead Bank Scheme, the High Power Committee on the Scheme had decided that the National Institute of Bank Management (NIBM) should organise workshops for officials of the State Governments and commercial banks at district levels as also at the State level. The NIBM accordingly arranged workshops in seven districts of Uttar Pradesh and in three districts of West Bengal. The matter was again considered by the High Power Committee in its fourth meeting held in July 1978 and it was decided that a strategy should be eovlved whereby all the districts in the country could be covered by the training programme as quickly as possible. The NIBM organised four seminars in December 1978, at Bankers' Training College, Bombay, each of three days' duration, at which representatives from the Head/Regional Offices of lead banks and faculty members from their training colleges, as also State Government officials, participated. It is the intention that the participants of the various lead banks who attended the seminars will, in turn, in co-ordination with the State/district functionaries, arrange to organise district level workshops, so as to cover the various districts in the country as quickly as possible. Accordingly as a first step, most of the lead banks drew up programmes for holding district level workshops during the half-year ended June 1979.

2.157 The NIBM also organised State level workshops for West Bengal, Uttar Pradesh and Assam. Further, SBI/NIBM have organised State level workshops for Andhra Pradesh and Madhya Pradesh. It is proposed to organise State level workshops in all the other States, by involving the conveners of the State Level Bankers' Committees.

Use of Hindi in Public Sector Banks

2.158 During the period under review, the RBI continued its efforts for the progressive use of Hindi in its working as well in the working of public sector banks. The Official Languages Implementation Committee set up in the Bank for monitoring the progress made in the use of Hindi in the public sector banks held its sixth meeting on January 22, 1979. The decisions taken in the meeting were conveyed to all the public sector banks.

2.159 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 individual banks continued to be obtained by the Bank. The information on the subject was also being collected from the banks and forwarded to the GOI.

CHAPTER 3

CO-OPERATIVE BANKING

3.1 Further efforts were made during the year to strengthen the institutional arrangements for rural credit with a view to facilitating larger flow of credit to both the agricultural and non-agricultural sub-sectors and, particularly, to the weaker sections of the rural population. The progress achieved by commercial banks and RRBs in this sphere has already been reviewed in Chapter 2. The measures taken to strengthen the co-operative credit structure and the progress achieved in respect of enlarging the flow of credit—agricultural/non-agricultural and short-term/medium-term/long-term — are discussed in this Chapter.

3.2 Data on the progress of co-operative credit during the three years ended June 1978 and credit facilities provided by the RBI and rates of interest on refinance are presented in Tables 3.1 and 3.2, respectively. The present position of interest rates charged at various levels of co-operative structure is indicated in Table 3.3.

3.3 Co-operatives made further progress in deposit mobilisation. While deposits with SCBs and CCBs amounted to Rs. 835 crores and Rs. 1,154 crores, respectively, at the end of June 1977, those with PACS were Rs. 142 crores. By the end of June 1978 the deposits increased to Rs. 1,002 crores, Rs. 1,373 crores and Rs. 165 crores, respectively; the growth rates were 20.0 per cent, 19.0 per cent and 16.2 per cent, respectively, in 1977-78 as against 15.3 per cent, 17.2 per cent, and 25.7 per cent, respectively, in 1976-77. As on May 1979, deposits of SCBs and CCBs rose to Rs. 1,059 crores and Rs. 1,526 crores, respectively. Membership in PACS increased from 395 lakhs at the end of 1975-76 to 448 lakhs at the end of 1976-77 and further to 610 lakhs at the end of 1977-78. Short and medium-term loans issued by PACS during 1977-78 amounted to Rs. 1,257 crores as against Rs. 1,211 crores in 1976-77.

3.4 The discretion given to co-operative banks to pay interest on deposits at rate higher (subject to a limit) than that paid by commercial banks was continued during the year.

Lending Rates

3.5 The rates of interest on short-term credit facilities from the Bank to the apex co-operative banks (SCBs), which were lowered during 1977-78, were further reduced in the case of medium-term loans. Effective January 1, 1979, the revised rate for medium-term loans for agricultural purposes and for conversion loans is 3 per cent below the Bank Rate, as against the old rate of 2½ per cent below the Bank Rate. The purposes for which short-term loans were eligible for refinance from the RBI remained unchanged and minor additions were made in medium-term purposes.

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

(Amount in Rupees Crores)

Type of Institutions	Co-operative Years 1975-76	1976-77	1977-78P
	1	2	3
(a) State Co-operative Banks			
(*i*) Number (actuals)	26	26	26
(*ii*) Owned Funds	159	184	213
(*iii*) Deposits	724	835	1,002@
(*iv*) Borrowings from the RBI	247	375	468
Of which : S. T. Agricultural	147	229	289
(*v*) Working capital	1,287	1,526	1,814
(*vi*) Loans issued	1,515	1,899	2,005
(*vii*) Loans Outstanding	894	1,089	1,321
(*b*) Central Co-operative Banks			
(*i*) Number (actuals)	344	344	338
(*ii*) Owned Funds	360	423	484
(*iii*) Deposits	985	1,154	1,373@@
(*iv*) Borrowings from the RBI/apex banks	513	699	767
(*v*) Working capital	2,048	2,514	2,774
(*vi*) Loans issued	1,722	1,988	2,130
(*vii*) Loans outstanding	1,428	1,796	2,111
(*c*) State/Central-Land Development Banks			
(*i*) Number (actuals)	19	19	19
(*ii*) Owned Funds	154	164	208
(*iii*) Debentures outstanding	1,384	1,591	1,559
(*iv*) Working capital	1,667	1,918	2,082
(*v*) Loans issued	205	249	239
(*vi*) Loans outstanding	1,069	1,211	1,305
(*vii*) Loans to individuals by CLDBs/PLDBs	215	278	217
(*d*) Primary Agricultural Credit Societies			
(*i*) Number (in thousands)	135	124	122
(*ii*) Membership (in thousands)	39,521	44,832	61,003
(*iii*) Owned Funds	437	499	554
(*iv*) Deposits	113	142	165
(*v*) Borrowings	1,154	1,426	1,614
(*vi*) Total Loans issued	1,023	1,211	1,257
(*vii*) Total loans for agricultural purposes	971	1,152	1,203
of which Medium-term loans	90	136	149
(*viii*) Loans outstanding	1,299	1,599	1,758

(*Source :* Agricultural Credit Department, RBI). P = Provisional

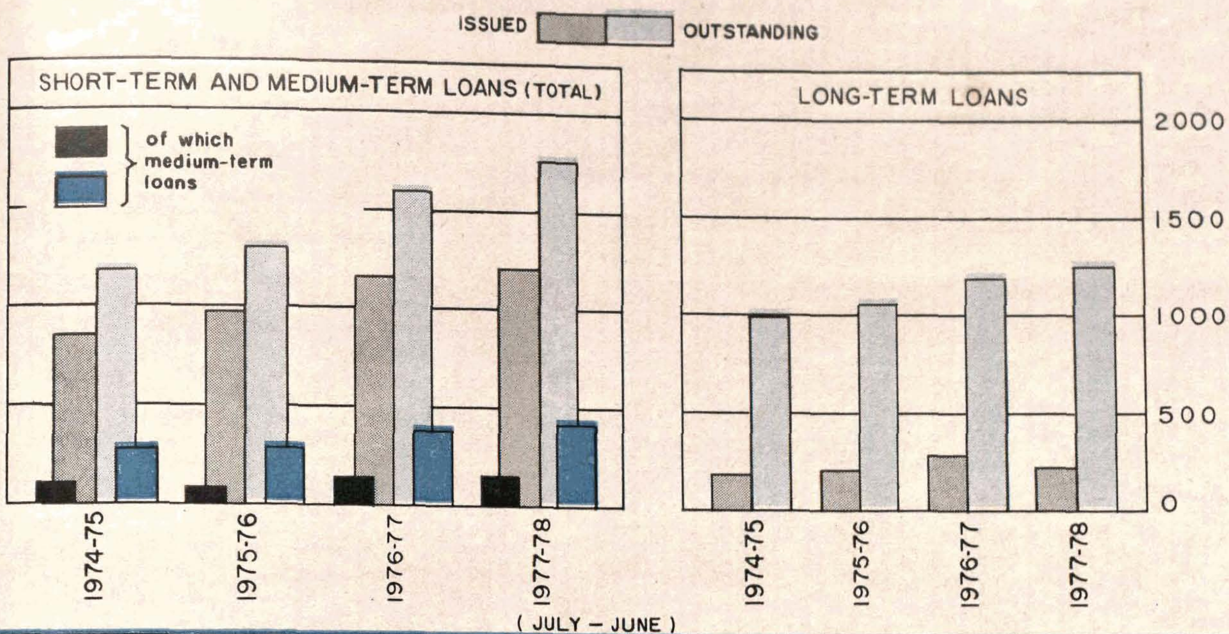
@ Rs. 1,059 crores as on end-May 1979.

@@ Rs. 1,526 crores as on end-May 1979, inclusive of 9 Industrial Co-operative Banks.

6

CO-OPERATIVE LOANS FOR AGRICULTURAL PURPOSES

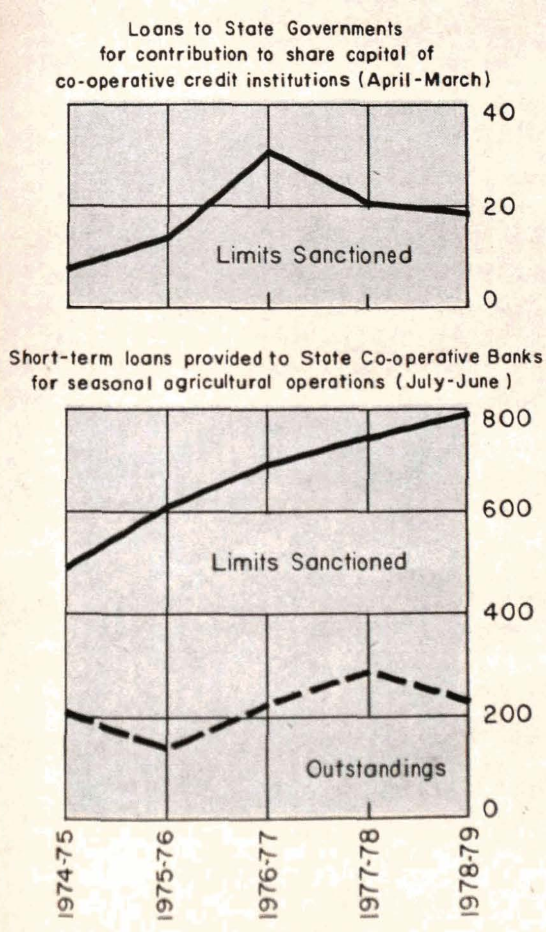
(CROPES OF RUPEES)



7

R.B.I. CREDIT FOR AGRICULTURAL PURPOSES

(CRORES OF RUPEES)



8

OPERATIONS OF AGRICULTURAL REFINANCE AND DEVELOPMENT CORPORATION

(CRORES OF RUPEES)

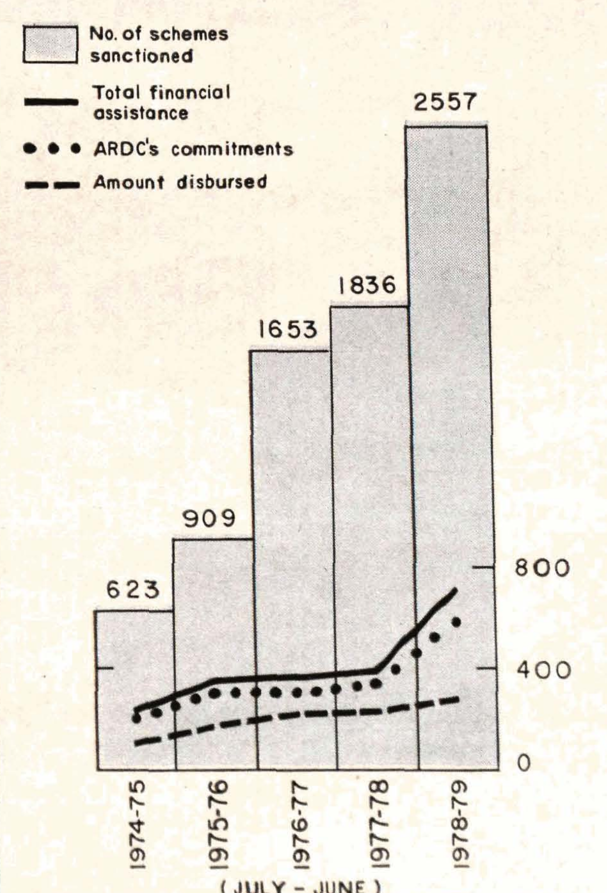


TABLE 3.2—RESERVE BANK CREDIT TO CO-OPERATIVES, STATE GOVERNMENTS AND ARDC DURING 1977-78 AND 1978-79

(Rupees in Crores)

Section of the RBI Act, 1934	Purpose of finance	1977-78@ Limits sanctioned	1977-78@ Drawals	1977-78@ Repayments	1977-78@ Outstandings	1978-79@ Limits sanctioned	1978-79@ Drawals	1978-79@ Repayments	1978-79@ Outstandings
		1	2	3	4	5	6	7	8
I. Short-term Total++	.. ..	**845**	**1,228**	**1,163**	**325**	**946**	**1,218**	**1,283**	**259**
17(2)(*b*) read with 17(4)(*c*)/Section 17(4)(*c*)	(*i*) Seasonal agricultural operations (at 3 % below Bank Rate)[1]	749	994	934	289	795	1,066*	1,121*	234*
-do-	(*ii*) Marketing of crops other than cotton and *kapas* (*at* Bank Rate from June 1978)	1	—	—	—	3	—	—	—
17(4)(*c*)	(*iii*) Marketing of cotton and *kapas* (at Bank Rate from June 1978)[2]	14	1	1	—	66	4	4	—
-do-	(*iv*) Purchase and distribution of fertilisers (at 1 % above Bank Rate from June 1978)[3]	13	24	31	3	6	8	10	1
17(2)(*bb*) read with 17(4)(*c*)	(*v*) Production and marketing of handloom products (at $2\frac{1}{2}$ % below Bank Rate from March 1978)[4]	44	167	159	24	51	126	134	16
-do-	(*vi*) Financing of other cottage and small scale industries (3 % below Bank Rate from March 1978)[4] ..	7	5	4	5	6	12	9	8
17(4E)	(*vii*) Loans to ARDC (at Bank Rate)	10	—	—	—	10	—	—	—
17(4)(*c*)	(*viii*) Purchase and sale of yarn (at Bank Rate)[4]	2	1	1	—	3	1	1	—
-do-	(*ix*) Against pledge of sugar (at 3 % above Bank Rate) ..	8	36	34	3	6*	1	4	—
II. Medium-term Total++	.. ..	**121[R]**	**115**	**89**	**161**	**66**	**38**	**75**	**125**
17(4AA) read with 46A(2)(*b*)	(*i*) Agricultural purposes (at 3 % below Bank Rate from January 1, 1979)[3] ..	21	12	7	22	28	16	11	28
17(4AA) read with 46B(2)	(*ii*) Conversion of short-term loans into medium-term loans in scarcity affected areas (3 % below Bank Rate from January 1979)[5]	98[R]	103	81	138	37	22*	64*	97*
17(4AA) as determined under Section 46A(2)(B)	(*iii*) Purchase of shares in co-operative sugar factories/processing societies (at Bank Rate)[3]	1	—	—	—	1	—	—	—
III. Long-term Total	.. ..	**86**	**86**	**29**	**328**	**94**	**94**	**38**	**385**
17(4AA) as determined under Section 46A(2)(*a*)	(*i*) Loans to State Governments for contribution to share capital of co-operative credit institutions (at 6 % per annum)[4] ..	21	21	8	111	19	19@@	10	121
17(4AA) read with Section 46A)(2)(*e*)	(*ii*) Loans to ARDC (at 6 % per annum)	65	65	21	217	75	75	28	264
Total Credit (I+II+III)	.. ..	**1,052[R]**	**1,429**	**1,281**	**814**	**1,106**	**1,350**	**1,396**	**769**

1. At 2 % below Bank Rate up to February 1978; from March 1, 1978 at 3 % below Bank Rate subject to recovery of an additional interest of $1\frac{1}{2}$ % according to the scheme linking refinance at concessional rate with mobilisation of targeted deposits by CCBs.
2. Including monopoly procurement of cotton.
3. Data relate to calendar year 1977 for cols. 1 to 4 and to 1978 for cols. 5 to 8.
4. Data relate to financial years.
5. Including rephasement and reschedulement.

@ Refer to July-June unless otherwise mentioned.
@@ Earlier year's drawals.
* Position as on 31-5-1979
++ Marginal differences in the totals of various items in Short and Medium-term loans and group totals are due to rounding up of figures.
R Revised.
— Nil or Negligible.

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

(Per cent per annum)

States/Union Territories	Apex Banks		Central Co-operative Banks		Primary Agricultural Credit Societies	
	Short-term	Medium-term	Short-term	Medium-term	Short-term	Medium-term
	1	2	3	4	5	6
Andhra Pradesh	6.75	7.25	8.75	9.25	11.00	11.50
Bihar	6.75	N.A.	8.75	N.A.	11.25	N.A.
Gujarat	6.00 to 6.50	6.50 to 7.00	7.75 to 11.00	8.00 to 12.75	8.00 to 13.50	9.50 to 15.00
Haryana	6.40	7.50	8.50	9.00	11.00	11.00
Karnataka	6.75	6.25	9.00	9.25	11.50	12.25
SF				8.25		11.00
Kerala	6.75	N.A.	8.50	N.A.	11.00	N.A.
Madhya Pradesh	7.00	7.50	9.50	9.00 to 13.00	12.50	11.00 to 16.00
SF	6.50		8.00		10.00	
Maharashtra	6.25		8.00 to 10.00		11.00 to 13.00	
Orissa	6.75	7.25	8.75	9.25	11.00	11.50
Punjab	6.30	6.75	8.00	8.50	10.50	10.50
Rajasthan	7.75	7.00	9.75	8.50	12.00	10.50
SF	6.50		8.50		10.50	
Tamil Nadu	6.66	7.50	8.75	10.00	12.00	12.50
SF					10.50	
Uttar Pradesh	7.10		9.50		12.00	
SF	6.25		8.50		11.00	
West Bengal	6.75		9.00		11.25 to 11.50	
Assam	10.50	10.50			13.00	13.00
Goa, Daman & Diu	7.00				9.00	
Himachal Pradesh	10.00	10.50			12.50	13.00
Jammu & Kashmir	6.75		8.50		11.00	
Andaman & Nicobar	9.25	12.00			11.50	14.00
Chandigarh	11.00	11.00			12.50	12.50
Manipur	10.00	10.50			13.00	13.00
Tripura	10.00	11.00			13.00	14.00
Nagaland	11.00	11.00			13.00	13.00
Meghalaya	11.00	11.50			13.50	14.50
Delhi	9.50	10.00			11.50	12.00
SF	9.00				11.00	
Pondicherry	8.50	9.00			11.00	11.00
SF	8.00				10.00	

SF = Small Farmers

(*Source :* Agricultural Credit Department, RBI)

3.6 The Bank accepted and implemented the recommendations of the Study Group on Interest Rates Structure of Co-operatives, which submitted its report in June 1978, as mentioned in the last year's Report. The Study Group had made several recommendations for rationalisation of interest rates on short-term and medium-term agricultural credit and bringing about parity in the rates charged by other institutional agencies dispensing agricultural credit. These are discussed in the appropriate sections. Further, consequent upon the concessions announced by the ARDC in its refinance to eligible institutions, rates of interest on long-term credit disbursed by co-operatives were suitably lowered.

AGRICULTURAL CREDIT

A. Short-Term Credit

(a) Short-term Credit for Seasonal Agricultural Operations

3.7 Under the scheme of linking borrowings from the RBI with efforts at deposit mobilisation by CCBs, the concessional rate of interest is available to CCBs only to the extent that they fulfil the deposit targets. This scheme was continued during the year under review. During 1977-78, the full benefit of concessional rate of interest was not available to 36 CCBs as against 29 CCBs in 1976-77 and 32 CCBs in 1975-76. The number of banks covered by the scheme increased from 246 CCBs and 3 SCBs, at the end of 1976-77 to 290 CCBs and 6 SCBs at the end of 1977-78.

3.8 The instructions issued earlier to ensure seasonality discipline in lending and recovery operations through requirement of specified recoveries of *kharif* and *rabi* advances before drawals by CCBs for the current year, were continued. However, as recommended by the Study Group on Interest Rates Structure of Co-operatives, the stipulations were relaxed and SCBs were allowed (with effect from April 1979) to draw on short-term credit limits sanctioned by the RBI on behalf of CCBs, provided 40 per cent of current *kharif* 'demand'[1] (as against the earlier stipulation of 40 per cent of total 'demand' of short-term agricultural advances) or 30 per cent of the total 'demand' (including overdues) is recovered and remitted to the apex bank before March 31, 1979. Further, before the close of co-operative year, CCBs have to ensure a minimum recovery of 40 per cent of total 'demand' of short-term advances without which they will not be eligible for drawals in the next co-operative year. The total 'demand' will comprise overdues under short-term loans, as on June 30 of the previous year, and the *kharif* and *rabi* 'demands' for the concerned co-operative year. Though SCBs were free to lend from their own resources to such of the CCBs which did not comply with the prescribed seasonality discipline, the RBI advised SCBs that it expects them to adhere to the same stipulation in the case of financing of CCBs from their own funds also.

3.9 During the year 1977-78, short-term credit limits sanctioned by the RBI to SCBs for financing seasonal agricultural operations had in-

1. Excluding overdues.

creased by Rs. 53 crores to Rs. 749 crores; a further rise of Rs. 46 crores was noticed during 1978-79 and credit limits reached Rs. 795 crores. This increase could be attributed to further strides made in structural and operational aspects of the co-operative movement.

(*b*) *Financing of Weaker Sections*

3.10 The Bank continued its efforts at reorienting the lending policies and procedure of CCBs in favour of small farmers. For instance, SCBs were not allowed to draw in excess of 70 per cent of the limits sanctioned to CCBs by the RBI unless the proportion of advances to small farmers was maintained at a specified percentage (usually 20 per cent) of their total short-term advances to the affiliated primary societies. In accordance with the recommendations of the Study Group on Interest Rates Structure of Co-operatives, this condition was modified so as to enable a bank to draw on the limit even if it has not reached the prescribed level, provided such drawals are restricted to the extent of finance provided to small farmers. During 1977-78, 292 banks out of a total of 339 banks exceeded the stipulated share of advances to small farmers as against 260 out of 334 in 1976-77. With a view to enabling borrowers covered under the various schemes for weaker sections to avail themselves of medium-term finance for approved agricultural and allied purposes from co-operative banks, the existing norms in respect of security for medium-term finance were relaxed. Consequently, co-operative banks were permitted to sanction loans for purchase of milch cattle, poultry birds, sheep, etc., up to the cost of one economic unit against personal surety of a borrower, who has no tangible security to offer.

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

3.11 Advances against the security of sensitive commodities, viz., groundnut, mustard seed/rapeseed, castorseed, linseed and oils thereof, vanaspati, sugar, *gur*, *khandsari* and cotton and *kapas* were continued to be governed by the Bank's directives in regard to the minimum margin to be maintained and the rate of interest charged.

3.12 In view of the decontrol on prices, movement and distribution of sugar with effect from August 16, 1978, SCBs and CCBs were advised on September 8, 1978 that despite decontrol, the distinction between levy stocks and free stocks—(*a*) not released for sale and (*b*) released for sale—might be notionally continued and the respective margins laid down in the directive of February 1977 observed in respect of such advances for manufacturers of sugar. The banks were, however, asked to avoid undue expansion of credit to sugar industry as well as to avoid any forced withdrawal of funds already granted. In view of the comfortable supply position of sugar and better prospects for 1978-79 production, new directive was issued on November 1, 1978 to SCBs / CCBs for advances against security of sugar. The notional distinction between levy stocks and free-sale stocks of sugar was dispensed with and sugar stocks charged to the banks as security were to be valued on usual commercial principles. Consequently, the minimum margin of 65 per cent for advances (to co-operative societies manufacturing sugar) against free-sale sugar became inoperative. The revised minimum margin on advances against sugar to these parties was 15 per cent. In the case of non-manufacturers, the margin was, however, continued at 65 per cent and 55 per cent against stocks and warehouse receipts covering stocks, respectively. The minimum interest to be charged on loans/advances/cash credits/overdrafts against the security of sugar to parties *other than* those manufacturing sugar was continued at 15 per cent. However, no minimum rate was fixed in the case of advances to manufacturers of sugar; these advances were allowed subject to the general minimum lending rate of 12½ per cent per annum. The earlier stipulations on minimum margin and minimum rate of interest regarding advances made by SCBs and CCBs to cotton mills against raw cotton and *kapas* continued. However, from April 19, 1979, advances against stocks of cotton require a minimum margin of 25 per cent for loans against stocks equivalent to 4 months' consumption and 45 per cent for loans against stocks in excess thereof. A uniform minimum margin of 20 per cent was permitted in case of limits fully guaranteed by the State Governments. The earlier stipulation was a minimum margin of 25 per cent on loans against stocks of 9 weeks' consumption and 45 per cent for loans against stocks in excess thereof. In the case of advances against cotton and *kapas* to parties other than manufacturers, there was no change in the minimum margin (50 per cent) and the minimum rate of interest (15 per cent).

3.13 A directive was issued in January 1979 to Urban Co-operative Banks (UCBs) clarifying the position in regard to their advances against usance bills arising out of sale and purchase of sensitive commodities covered by selective credit controls. Accordingly, such advances were permitted within stipulated conditions applicable to the advances against sensitive commodities. The ceiling limit on advances against usance bills to individual borrowers was maintained at Rs. 1 lakh (as in the case of advances against commodities mentioned last year) with a minimum margin of 25 per cent. Advances against usance bills arising out of sales of cotton and *kapas*, however, were excluded. With a view to assisting internal movement of goods, UCBs were also permitted to give credit facilities by way of purchase of demand documentary bills in connection with movement of commodities covered under selective credit control, provided they ensured that the facilities were utilised for genuine movement of goods and the bills purchased were promptly realised.

3.14 The limits for marketing of crops showed a sizeable increase from Rs. 15 crores in 1977-78 to Rs. 69 crores in 1978-79. In 1977-78, a credit limit of Rs. 14 crores was sanctioned for marketing of cotton and *kapas*. In 1978-79, the limit rose to over Rs. 66 crores. The increase was mainly due to RBI refinance (Rs. 45 crores) available for the monopoly cotton purchase scheme of the Government of Maharashtra.

Distribution of Fertilisers

3.15 The RBI continued to sanction short-term credit limits to SCBs for financing distribution of fertilisers on a selective basis, wherever commercial banks were not able to do so. During the calendar year 1978, the Bank sanctioned credit limits aggregating Rs. 6 crores to three SCBs as against Rs. 13 crores in 1977 to five SCBs.

B. *Medium-term Credit*

3.16 During the calender year 1979, the Bank continued its earlier policy of granting refinance facilities for medium-term loans in respect of agricultural purposes and also for conversion purposes.

3.17 With a view to curbing overdues, it was, however, decided that for the year 1979, the refinance facility would be available only to those banks, which had total overdues less than 60 per cent of total demand for 1977-78 and for which short-term credit limits were not denied during 1978-79. Till the year 1978, banks having overdues above 60 per cent of the total demand and over 50 per cent in respect of their medium-term advances were not eligible for refinance from the Bank. However, banks in the areas covered by SFDAs and MFALs were eligible for refinance even though their overdues in respect of medium-term loans exceeded 50 per cent of the 'demand'.

3.18 The Bank's policy in regard to the refinancing of loans for the purchase of milch cattle, sheep, poultry birds, bullocks and bullock carts, etc., was modified with effect from August 1978 so as to benefit those covered by special programmes and more particularly the weaker sections of the borrowers. These changes, depending on the size of the economic unit, security offered, etc., will enable even smaller units to obtain medium-term advances.

3.19 Out of Rs. 28 crores of medium-term credit for agricultural purposes sanctioned by the RBI for the calendar year 1978, an amount of Rs. 16 crores was drawn by SCBs. During 1977, Rs. 21 crores of medium-term credit had been sanctioned against which Rs. 12 crores was drawn.

Conversion Loans and Loans for Share Capital Contribution

3.20 The RBI continued to sanction medium-term conversion limits from the National Agricultural Credit (Stabilisation) Fund for enabling SCBs/CCBs to repay short-term agricultural loans due to the RBI in respect of areas affected by natural calamities. During 1978-79 (upto May 1979) limits amounting to Rs. 37 crores were sanctioned as against Rs. 98 crores in 1977-78. On the recommendation of the Agricultural Credit Board, it has been decided that the State Governments will have to bear their share of 15 per cent of conversions sanctioned in respect of short-term production loans issued for 1978-79 *rabi* season and thereafter.

Thus, the refinance from the Fund would be confined to only 60 per cent of such conversion. The balance would be met as below :
State Government—15 per cent, SCB — 10 per cent and CCB — 15 per cent. During the year 1978-79, loans amounting to Rs. 19 crores were sanctioned from NAC (LTO) Fund to the State Governments for contributing to share capital of co-operative credit institutions; these loans were fully drawn. For 1978-79, conditions for sanction of such loans in respect of FSS functioning for over 3 years and in respect of weak PLDBs were modified. In the case of the former, the sanction was subjected to overdues not exceeding 50 per cent of the demand during 1977-78, while in the case of the latter, the conditions applicable to PLDBs functioning in SFDA/notified areas were extended to weak PLDBs brought under rehabilitation programme.

C. *Long-term Credit*

3.21 The Standing Committee on Debenture Norms constituted by the RBI in September 1975 for evolving uniform procedures for floatation of ordinary and special development debentures recommended some changes in the norms relating to the regulation of advances which were subsequently approved by the International Development Association (IDA). The revised norms which have been communicated to Land Development Banks (LDBs) in January 1979 are expected to enable them to step up their loaning operations. They would also enable Primary Land Development Banks (PLDBs)/branches of State Land Development Banks (SLDBs) to meet fully the investment credit needs of small/marginal farmers under special development programme and to disburse loans to the full extent of committed expenditure, at the same time making them eligible for some quantum of fresh loaning, which was not admissible under the previous norms. It may, however, be added that the eligibility of a PLDB/branch of SLDB will continue to depend on its recovery performance, as at the end of the preceding June but, under a revised slab system, which is more liberal than the earlier one, as indicated below :

Earlier Norms		Revised Norms	
Range@ of overdues at the primary/branch level as at the end of June 1978	Eligible loaning programme as percentage of loans issued in the previous year or average of loans issued in preceding 3 years, whichever is higher	Range@ of overdues at the primary/branch level on the basis of the average of last three years' overdues at the end of co-operative year or previous year's overdues whichever is less	Eligible loaning programme as percentage of loans isssued in the previous year or average of loans issued in preceding 3 years, whichever is higher
0 — 25	Unrestricted	0 — 25	Unrestricted
26 — 35	80	26 — 30	100
36 — 45	70	31 — 35	90
46 — 55	60	36 — 40	80
56 — 60	50	41 — 45	75
61 —100	Nil	46 — 50	70
		51 — 55	65
		56 —100	Nil

@ Range refers to percentage of overdues to demand.

Moreover, under the revised criteria the consideration of overdues of a PLDB/branch of SLDB for deciding loan eligibility will be on the basis of the average of the last three years' overdues, as at the end of the co-operative year, or overdues of the previous year, whichever is less. The revised norms also permit LDBs to meet their committed expenditure in full, irrespective of their eligibility, subject to their compliance with stipulated conditions.

Issue of Long-term Loans by PLDBs/ Branches of SLDBs

Rate of Interest

3.22 The LDBs were advised in July 1978, to charge a rate of interest on ordinary loans (*a*) not exceeding 10.5 per cent per annum to the ultimate borrowers on advances for minor irrigation and land development purposes, and (*b*) not exceeding 11 per cent on advances for other purposes. Further, following the one per cent reduction in the rate of interest effected by the ARDC on the refinance provided by it, LDBs were advised to charge, with effect from March 15, 1979, a rate of interest to the ultimate borrowers at 9.5 per cent for minor irrigation and land development. For other purposes, the rate is 9.5 per cent for small farmers and 10.5 per cent for others.

Land Development Banks — Ordinary Debenture Programme

3.23 The lending programme of SLDBs for the financial year 1978-79 had been fixed at Rs. 419 crores (as against Rs. 328 crores for 1977-78) comprising Rs. 271 crores for ARDC refinance schemes and Rs. 148 crores under ordinary lending programmes. Of the ordinary lending programme of Rs. 148 crores for 1978-79, an amount of Rs. 23 crores was expected to come out of their internal resources and the balance of Rs. 125 crores was to be raised by way of floatation of ordinary debentures. Against the above programme, ordinary debenture floatation proposals for a total of Rs. 93 crores were approved by the RBI till March 31, 1979, which worked out to 74.3 per cent of the total programme of Rs. 125 crores.

3.24 The total lending programme of SLDBs for the financial year 1979-80 has been tentatively fixed at Rs. 434 crores. The ordinary lending programme, envisaged at Rs. 136 crores, is proposed to be financed to the extent of Rs. 11 crores from internal resources by the SLDBs and Rs. 125 crores is to be raised by way of floatation of ordinary debentures. The ordinary debenture programme is expected to be supported by the following agencies;

		(Rs. Crores)
(*i*)	Central and State Governments	16
(*ii*)	Life Insurance Corporation	38
(*iii*)	Commercial Banks through IBA	10
(*iv*)	State Bank of India Group	7
(*v*)	Mutual support and self help	54
		125

Floatation of Rural Debentures

3.25 During the financial year 1978-79, the rate of interest on rural debentures was raised from 10 per cent to 12 per cent, the other existing terms and conditions for floatation of such debentures remaining the same. No bank had, however, floated rural debentures under the scheme.

NON-AGRICULTURAL CREDIT

Industrial Finance

Working Capital Finance to Co-operative Sugar Factories

3.26 During 1977-78, the Bank had sanctioned short-term credit limits aggregating Rs. 8 crores for financing working capital requirements of co-operative sugar factories. For the year 1978-79 (up to May 1979), a credit limit of Rs. 6 crores was sanctioned.

Finance for Weavers' Societies

3.27 For the financial year 1979-80, credit limits to SCBs on behalf of CCBs for financing weavers' societies were sanctioned by the Bank on the basis of the consolidated information furnished in the credit limit applications and the feasibility of lending programmes for the year. This facility was restricted to CCBs with proper supervision arrangements and in respect of viable primary societies. Thus, societies with overdues of over 60 per cent to CCB, societies placed in D class in audit or those which are not audited for over three years and those whose accounts with the bank have remained inoperative were not eligible for these limits.

3.28 As against the limit of Rs. 44 crores sanctioned by the RBI during the financial year 1977-78 for production and marketing of handloom products, a higher limit of Rs. 51 crores was sanctioned during 1978-79. The outstanding amount of advances was Rs. 13 crores as on March 31, 1979, as compared to Rs. 24 crores as on March 31, 1978.

Financing of Other Cottage and Small-Scale Industries

3.29 For the year 1978-79 , credit limits of Rs. 6 crores were sanctioned to 8 SCBs on behalf of 31 CCBs and 33 Primary UCBs, as against Rs. 7 crores sanctioned during 1977-78.

Advances against the security of gold bullion, gold and silver ornaments by co-operative banks

3.30 In the context of gold auctions then undertaken by the RBI, the policy towards advances by co-operative banks against gold ornaments was further reviewed. The Registrars of Co-operative Societies were advised on July 22, 1978 to issue suitable instructions to the CCBs and

Primary UCBs, to ensure that no advances were granted against gold bullion, and the outstanding advances, if any, against gold bullion should be recovered as early as possible, but not later than September 30, 1978. As regards advances against gold ornaments, the banks were asked to ensure that such advances were not utilised for speculative purposes.

STRENGTHENING OF CO-OPERATIVE STRUCTURE

Reorganisation of PACS

3.31 The need for having strong and viable institutions at the base level of the credit structure as a pre-requisite for expansion of co-operative credit has been well recognised. Following the streamlining of the procedures for amalgamation of societies and also as a result of the efforts made by the GOI and the RBI to persuade State Governments to speed up the reorganisation of PACS, considerable progress has been made in the reorganisation of societies on a viable basis in several States.

3.32 The total number of societies in the country is expected to decline from 1,24,000 at the end of 1976-77 to about 90,000 after the process of reorganisation is completed. The reorganisation of PACS on a viable basis is more or less complete in Andhra Pradesh, Assam, Haryana, Karnataka, Kerala, Madhya Pradesh, Orissa, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal. Efforts towards reorganisation are being made in other States. However, some States seem to be still having reservations in completing the programmes on the lines already agreed to.

Rehabilitation of CCBs/SCBs

3.33 Efforts to rehabilitate certain CCBs and SCBs continued during the year. Of the 180 CCBs under rehabilitation, 146 CCBs were brought under the Central Sector Plan Scheme. The GOI sanctioned Rs. 842 lakhs as its share to write off bad debts and released Rs. 775 lakhs. Though a large number of these banks have shown improvement in their financial position, they would continue to be under surveillance for some more time. Five SCBs in the States having the two-tier structure continued to be under rehabilitation. Based on their financial position, as on June 30, 1977, 54 Primary UCBs were brought under the rehabilitation programme.

Integration of Co-operative Credit Institutions

3.34 Three State Governments, viz., Punjab, Madhya Pradesh and Rajasthan have initiated, on their own, action to bring about integration of the two wings (short/medium-term and long-term) of the co-operative credit structure. The States of Punjab and Rajasthan propose abolition of the district-level institutions, viz., CCBs in short-term wing and the PLDBs in the long-term wing and envisage a two-tier structure with reorganised PACS at the primary level and the State Co-operative

Development Bank (SCDB) at the apex level with branches of the SCDB at the district level. In the case of Punjab, the Agricultural Credit Board felt it necessary to call for additional particulars before considering the issue and the proposals for Rajasthan are still under discussion. In the case of Madhya Pradesh the scheme envisaged merely integration of the two wings at different levels of the three tier structure. The Board has not generally favoured the proposal. It has opined that the State Government should proceed in the matter very cautiously. However, in case the State Government is very keen on implementing the integration proposal, it should ensure that the credit flow is not interrupted and it should agree to fulfil certain specified conditions involving financial and administrative commitments.

Agricultural Credit Intensive Development(ACID)

3.35 The Agricultural Credit Intensive Development Programme which was under implementation in 41 districts continued to show progress. During the year, field studies were completed in 9 more districts raising the number of districts where such studies were conducted to 32 out of 41 districts selected under the ACID Scheme. Further, credit and action programmes were formulated for seven districts raising the number of districts where the formulation of such programmes was completed to 25.

3.36 One of the major achievements of the ACID Scheme has been the bringing about of a functional co-ordination between various agencies concerned with the formulation and implementation of development schemes and the credit institutions operating in the district. The Scheme recorded good progress in some districts in matters such as re-organisation of PACS, enrolment of new members and flow of credit for financing agriculture and allied activities. During the year April 1, 1977 to March 31, 1978, the work relating to reorganisation was completed in six more districts thus raising the total number of districts where the reorganisation was completed to 24. The coverage of PACS had increased especially with reference to small and marginal farmers. In 37 out of 41 selected districts, the total membership of PACS increased by about 7 lakhs. At the CCBs' level, the restrictive loaning policies and procedures affecting the flow of credit were streamlined to ensure adequate and timely financing and better end-use of credit. The benefits of increased lendings had accrued more to the small and marginal farmers than to others.

3.37 Since the introduction of the ACID Scheme, there have been certain developments requiring a review of the Scheme. The lead banks have been advised to terminate their existing plans by December 1979 and formulate fresh District Credit Plans (DCPs) for their lead districts for the period from January 1980 to December 1982 and Annual Action Plan by December each year. The DCP would be a comprehensive credit plan for the district and would indicate total credit outlays (sector-wise, block-wise, scheme-wise and institution-wise) for technically feasible and economically viable schemes for financing production and investments by the bank. Co-operatives, among other financial institutions, are also participating agencies in the formulation and implementation of the plans. In the context of these developments it has been decided to effectively integrate the ACID Programme with DCP from 1980 onwards.

OTHER DEVELOPMENTS

Credit Authorisation Scheme

3.38 In accordance with the recommendations of the Study Group on Interest Rates Structure of Co-operatives some modifications were announced in respect of advances to primary societies. The provisions of the scheme requiring prior authorisation from the RBI in respect of the advances to manufacturing/processing societies and consumers' societies as mentioned below were continued during 1978-79:

(*i*) all cases of granting advances for block capital requirements in the case of new sugar factories ;

(*ii*) financing of block capital requirements above Rs. 25 lakhs in the case of manufacturing/processing units ;

(*iii*) granting of working capital to co-operative marketing/processing societies and consumers' stores/societies—above Rs. 2 crores in case of SCBs and above Rs. 1 crore in case of CCBs.

Further, SCBs/CCBs were also allowed to sanction higher clean credit limits for working capital requirements to a co-operative marketing-cum-processing society without obtaining prior authorisation from the RBI. The revised limit is Rs. 10 lakhs or the owned funds of the concerned society, whichever is less, as against the earlier limit of Rs. 5 lakhs. During the year ended June 1979, authorisation was granted by the RBI for Rs. 11 crores for block capital requirements and Rs. 585 crores for working capital requirements. The number of proposals involved were 26 and 148, respectively.

3.39 Consequent upon the fall in prices of sugar after its decontrol from August 16, 1978 and increasing accumulation of stocks, the liquidity position of the co-operative sugar factories was affected and they were unable to maintain the stipulated margin in respect of pledge loans taken by them. The SCBs and CCBs were advised in January 1979 about the RBI's prior authorisation for sanction of *working capital term loan* to the co-operative sugar factories to meet the deficit in the margin. Authorisation aggregating Rs. 12 crores was granted for the said purpose to 3 SCBs and 11 CCBs in respect of 48 co-operative sugar factories.

Financing of Societies by Commercial Banks

3.40 As on December 31, 1978, the scheme of financing of PACS by commercial banks introduced in June 1970 was in operation in 12 States where 623 branches of 24 commercial banks had taken over 2,894 societies in 122 districts. The average number of societies per branch as such continued at around 5 as against the norm of ten societies for operational viability and efficiency. During 1977-78, commercial banks had financed 2,170 societies providing aggregate short-term agricultural loans of Rs. 22 crores. Besides, medium-term loans of Rs. 3 crores were also disbursed to 556 societies, as against Rs. 3 crores advanced to 646 societies in 1976-77. As on December 31, 1978, the average loan business per society reached the average viability norm of Rs. 2 lakhs envisaged for a society. The total (short and medium-term) loans outstanding as on December 31, 1978, were Rs. 47 crores of which Rs. 29 crores (62 per cent) were overdue. The recoveries of loans granted to PACS by commercial banks were 65 per cent in 1977-78 as against 44 per cent in 1976-77. Since the introduction of the scheme till December 1978, 405 thousand new members were admitted in the societies taken over by commercial banks. The borrowing membership which was 432 thousands as on December 31, 1977, increased to 549 thousands as on December 31, 1978, and formed 37 per cent of total membership.

3.41 In view of the slow progress of the scheme mentioned above, the RBI has constituted a Group for reviewing the scheme, identifying the factors inhibiting its progress and suggesting remedial measures.

Penal Rate of Interest

3.42 Consequent upon the lowering of refinance rate by 1 per cent on advances under Section 17(2)(*bb*) read with 17(4)(c) (from March 1, 1978), the RBI reviewed the penal rate of interest to be charged to defaulting SCBs in repayment of loan/loan instalments on due dates. Thus, from July 11, 1978, these banks are charged interest at the Bank Rate for the entire period of loan as against the earlier rate of 1 per cent above the normal lending rate for the period of default.

Interest on Advances against Deposits

3.43 In February 1979, the RBI advised all SCBs, CCBs and PCBs that whenever the interest payable to a depositor on premature withdrawal of a deposit is reduced, the interest charged on advances thereagainst should be correspondingly reduced to keep a differential of two per cent between the two rates.

Banking Regulation and Inspection

3.44 As on March 31, 1979, the total number of licenced co-operative banks rose to 148 from 130 as on June 30, 1978. The rise of 18 banks was only under Primary UCBs (from 109 to 127), the number of SCBs and CCBs continuing at 7 and 14, respectively.

3.45 As on December 31, 1978, the number of offices of co-operative banks rose to 8,894 from 8,309 as on December 31, 1977. This consisted of 363 offices of SCBs, 6,659 of CCBs, 1,675 of Primary UCBs and 197 of

Primary (salary earners' type) Co-operative Banks. During the year 1978-79, 98 licences were issued to SCBs and PCBs for opening of new offices, as against 131 licences issued in 1977-78.

3.46 As on June 30, 1979, there were 1,568 co-operative banks coming under the purview of BR Act, 1949 comprising 29 State, 347 central and 1,192 primary co-operative banks, as compared with the respective figures of 29, 353 and 1,187 co-operative banks, as on June 30, 1978.

3.47 In terms of notification dated June 6, 1978, the RBI exempted for a further period of two years from June 24, 1978 all the scheduled SCBs from the provisions of Sub-section (i) of Section 42 of the RBI Act, 1934 in so far as the said provision required the scheduled banks to maintain with RBI an average daily balance in excess of 3 per cent of their total demand and time liabilities.

3.48 During the year, the Bank continued to undertake inspections of co-operative banks and bring to their notice the important defects observed during the inspections. The number of banks inspected during the year were 413 PCBs, 136 CCBs, 11 SCBs and 8 other institutions.

3.49 A revised manual entitled "Manual on Advances by Co-operative Banks" covering guidelines for advances granted by CCBs and UCBs was issued in March 1978.

STUDY TEAMS

Jammu and Kashmir and Himachal Pradesh

3.50 The report of the study team on agricultural credit institution for Jammu and Kashmir referred to in the last year's Report, was finalised during the year and that of Himachal Pradesh was nearing completion.

Study Group on Handloom Finance (appointed by GOI)

3.51 The Group submitted its report in June 1978. Some of the important recommendations of the Study Group are given below :

(*i*) The RBI may take into account export credit needs of apex weavers' societies while sanctioning credit limits for marketing and production activities.

(*ii*) Even if short-term credit limits for agricultural operations are denied on account of heavy overdues, such CCBs may be sanctioned limits for financing production and marketing activities of the weavers' societies.

(*iii*) The RBI may open a line of credit under Section 17(2)(bb) read with Section 17(4) (c) to handloom weavers' societies on behalf of co-operative spinning mills.

(*iv*) Subject to subsidy from Central/State Governments, the Bank may provide medium-term loans to weavers' and handloom weavers' societies for the acquisition of shares in co-operative spinning mills.

(*v*) The scale of finance per loom in case of weavers' societies may be reviewed and revised once in three years. Similarly, in the case of apex weavers' societies, the ratio of working capital to sales may be studied so as to revise the norms for financing of working capital needs. These recommendations were examined by the Bank and necessary action was initiated during the year.

Committee on Urban Co-operative Banks

3.52 The Committee submitted its report to the Bank in September 1978. The examination of the report by the Agricultural Credit Department has since been completed and suitable action has been taken in the matter.

Study Group on Interest Rates Structure of Co-operatives

3.53 The Group submitted its report in June 1978 and recommended, among others, (1) reduction in rates of interest charged by co-operatives on advances to small farmers, (2) increase of $\frac{1}{2}$ per cent in the concessional rate of interest on the RBI's refinance for medium-term agricultural purposes so as to bring it on par with that on refinance for short-term agricultural loans, (3) review by the RBI of discipline governing refinance facilities for short-term agricultural loans such as seasonality discipline, loans to small farmers, etc., so as to ensure that these do not become restrictive and (4) introduction of uniformity in lending rates charged to ultimate borrowers on agricultural loans by co-operatives/commercial banks and RRBs. These recommendations, in so far as they relate to co-operative banks, have been accepted by the RBI and have been communicated to State Governments and co-operative banks for implementation.

Committee on Credit for Farm and Rural Development

3.54 The Bank constituted a High-Level Committee in March 1979 to suggest improvements in the existing arrangements for institutional credit for agricultural and rural development. The Committee has been asked, among others, (*i*) to review the structure and operations of the ARDC in the light of the growing needs for term loans for agricultural and allied purposes, (*ii*) to examine the need for and the feasibility of integration of short-term and medium-term credit structures with long-term credit structures at national, state, district and village levels in the context of the intensification of rural development programmes, (*iii*) to assess the relative merits of three-tier and two-tier structures of co-operative financing institutions and suggest improvements, (*iv*) to study the consultancy services provided by the Agricultural Finance Corporation and suggest improvements and (*v*) to review the role of the RBI in the field of rural credit.

AGRICULTURAL REFINANCE AND DEVELOPMENT CORPORATION (ARDC)

3.55 As the apex development bank for agriculture, the ARDC is actively engaged in promoting investment in agriculture and allied activities in different States with emphasis on helping the weaker sections and reducing regional imbalances in resource development. The Corporation has stepped up the level of its operations notably since 1974 in the context of World Bank-assisted programmes for agricultural development. The number of schemes sanctioned by the ARDC since inception up to end-June 1979 totalled 8,655 with the Corporation's commitments aggregating Rs. 2,303 crores, of which Rs. 1,334 crores or 58 per cent were disbursed by way of refinance assistance.

3.56 The number of schemes sanctioned by the ARDC during the year (July 1978-June 1979) and its commitments thereof were 2505 and Rs. 573 crores, respectively, as against 1,836 and Rs. 330 crores during 1977-78 (July-June). The Corporation continued its emphasis on wider geographical spread and diversification of purposes of lending. As many as 1,470 schemes (59 per cent of total number) with commitments aggregating Rs. 226 crores (40 per cent of the aggregate commitment) were sanctioned for purposes other than minor irrigation, which used to predominate in lending in earlier years. Duri g 1978-79, of the total disbursement of Rs. 285 crores, amounts availed of by LDBs, commercial banks and SCBs were Rs. 131 crores (46 per cent), Rs. 150 crores (53 per cent) and Rs. 4 crores (1 per cent), respectively. The corresponding proportions in the previous year (July-June) were 47.8 per cent, 51.3 per cent and 0.9 per cent, respectively.

3.57 The ARDC stepped up its efforts to reduce inter-regional and intra-regional disparities in agricultural development by trying to increase the flow of credit to the less developed/under-banked areas, particularly in the North-Eastern Region. In Jammu and Kashmir, a project for apple processing and marketing has been sanctioned with the IDA assistance. In Rajasthan, the ARDC has sanctioned a scheme under '*Antyodaya*' programme envisaging investment in animal husbandry and other schemes, which will benefit the poorest families in the villages. Study teams have been set up for Orissa and Rajasthan to review the progress of implementation of on-going schemes and to suggest measures for quick implementation of the schemes. A team of technical officers of the Corporation visited Manipur in November 1978 to guide the Government in the formulation of bankable schemes for land development, plantation crops, etc. Region-wise, the Southern Region absorbed 28.2 per cent of the ARDC refinance, followed by the Central Region (23.0 per cent), Northern Region (19.0 per cent), Eastern and North-Eastern Region (15.7 per cent) and Western Region (14.1 per cent); the corresponding proportions in the previous year were 27.5 per cent, 25.5 per cent, 15.6 per cent, 17.1 per cent and 14.3 per cent, respectively.

3.58 The Corporation's efforts to benefit the maximum number of small farmers under its schemes continued during the year. Under the ARDC Credit Projects I and II, implemented with assistance from the IDA, more than 50 per cent of the funds have been utilised for meeting the investment needs of small farmers. The Corporation continued to provide 90 per cent refinance facility for schemes sponsored under the aegis of SFDA, Drought Prone Areas Programme (DPAP) and for special schemes intended for the benefit of scheduled castes and scheduled tribes. The facility which was available upto March 31, 1979 has been extended indefinitely. At the end of June 1979, 534 schemes were sanctioned to SFDA involving an aggregate commitment of Rs. 90 crores. Of these, financing institutions availed themselves of refinance of Rs. 47 crores as at the end of June 1979.

3.59 During the year, the IDA sanctioned Punjab Irrigation Project and the Third ARDC Credit Project for $250 million in July 1979. Besides, the IDA mission appraised two projects—one for the development of cashew plantation in Andhra Pradesh, Karnataka, Kerala and Orissa and the other for development of inland fisheries in Bihar, Uttar Pradesh, West Bengal, Orissa and Madhya Pradesh. Thirty seven projects including the Third ARDC Credit Project involving financial assistance of Rs. 1,765 crores have so far been approved by the World Bank (4 projects) and IDA (33 projects). A credit of $1,166 million in the aggregate is to be routed through the ARDC under these projects.

3.60 In view of the successful involvement of the ARDC in the various agricultural development programmes finalised by the World Bank Group, other international agencies have also come forward to extend financial assistance to the ARDC. During the year, the Canadian International Development Association sanctioned a credit of 15 million Canadian dollars. A credit of £ 15 million has been sanctioned under the United Kingdom Local Costs Grant, 1979.

3.61 During the year, the ARDC liberalised the scale of refinance assistance to be made available to State Electricity Boards for the energisation of agricultural pumpsets. It agreed to refinance loans given for boring alone where it is technically feasible and where borings could be worked with pumpsets on hire. In view of the difficulties experienced by SLDBs in effecting cent per cent recoveries, the ARDC decided to allow SLDBs to float development debentures with effect from July 1, 1978 carrying a maturity of not more than 2 years in excess of the period of the corresponding loans given to the ultimate borrowers, subject to certain conditions. The common norms applied by the RBI and the ARDC for regulating the lending programmes of SLDBs were considerably liberalised in January 1979 to provide for larger eligibility for the PLDBs/branches having overdues between 26 and 55 per cent of 'demand'.

3.62 In view of the considerable increase in the number of schemes sanctioned and contemplated expansion of its activities, the ARDC has delegated powers to its general managers and senior directors in head office and directors in charge of regional offices to sanction certain types of schemes involving refinance assistance varying between Rs. 10 lakhs and Rs. 40 lakhs.

3.63 As a sequel to the exemption granted to the ARDC from payment of corporate tax for a period of five years from the current year, and the decision of GOI to effect 0.5 per cent reduction in the rates of interest on its loan to ARDC, the Corporation reduced, from March 15, 1979, interest on its refinance from 7.5 per cent to 6.5 per cent per annum for minor irrigation and land development schemes and from 8 per cent to 7.5 per cent per annum for schemes for diversified purposes. The rates to be charged to the ultimate borrowers will be 9.5 per cent and 10.5 per cent, respectively. Refinance rate on loans to small farmers for diversified activities was reduced to 6.5 per cent provided the financing banks lend to small farmers at 9.5 per cent as against the earlier rate of 11 per cent.

3.64 The facility of 90 per cent refinance to the SLDBs by way of subscription to their special development debentures for minor irrigation schemes, which was available upto June 30, 1979, has been extended indefinitely not only to SLDBs but also to commercial banks, SCBs and RRBs in respect of minor irrigation investments and the loans given by them to State Electricity Boards for energisation of agricultural pumpsets under ARDC schemes.

3.65 In view of the difficulties experienced by State Governments to charge the market fee of 1 per cent from inception, the Corporation has agreed to extend refinance facilities to the schemes for development of market yards with market fee at $\frac{1}{2}$ per cent minimum provided an enabling provision is made in the relevant Act to raise the fee to 1 per cent in the subsequent two or three years.

CHAPTER 4

OTHER FINANCIAL INSTITUTIONS

4.1 The activities of the RBI in the sphere of industrial finance and those of other financial institutions, viz., Industrial Development Bank of India (IDBI), State Financial Corporations (SFCs), Deposit Insurance and Credit Guarantee Corporation (DICGC) and Unit Trust of India (UTI) are reviewed in this Chapter. The review indicates that efforts to provide larger credit to the industrial sector, particularly to the small-scale sector, made further progress during the year.

RBI Assistance to Term Lending Institutions

4.2 The RBI continued to strengthen the term-lending institutions involved in industrial finance through provision of credit facilities and through the Credit Guarantee Scheme. During 1978-79 (July-June) the RBI sanctioned a loan of Rs. 200 crores to the IDBI out of the National Industrial Credit (Long-term Operations) Fund as against Rs. 180 crores sanctioned in the previous year. The outstanding amount of the IDBI's borrowings from the Fund stood at Rs. 871 crores, as at the end of June 1979. A short-term borrowing limit of Rs. 90 crores was also sanctioned to the IDBI during the year against the security of eligible bills rediscounted by it. The RBI renewed the borrowing limit of Rs. 3 crores sanctioned to the IFCI, for a further period of one year. In addition, the RBI sanctioned fresh limits aggregating Rs. 13 crores to 7 SFCs against the security of their *ad hoc* bonds during the period July 1978 to June 1979. The total borrowing limits in force, as at the end of June 1979, aggregated Rs. 17 crores in respect of 9 SFCs. Besides, 17 SFCs (*i.e.*, all SFCs except Delhi Financial Corporation) were allowed to float market bonds for an aggregate amount of Rs. 46 crores (notified) during the year 1978-79 (April-March) as against Rs. 41 crores allowed in the previous year. In order to enlarge the flow of institutional lending to small industries by enabling them to share the risks involved with some other agency, the GOI formulated a Credit Guarantee Scheme in July 1960 for the guarantee of advances granted by banks and other credit institutions to small-scale industries. The RBI has been entrusted with the administration of the Scheme as the agent of the Central Government under Section 17(11A) of the RBI Act, 1934 and has been designated as the 'Guarantee Organisation' for the purpose.

Progress of Credit Guarantee Scheme

4.3 The number of institutions eligible for facilities under the Scheme stood at 748 at the end of March 1979, as against 706 at the end of March 1978. The number of institutions participating in the Scheme increased by 11 to 291 during the period. The amount of outstanding guarantees rose from Rs. 2,147 crores, at the end of March 1977, to Rs. 2,440 crores at the end of March 1978, and further to Rs. 2,874 crores, at the end of March 1979, reflecting a steady flow of institutional credit to the small scale industrial units in line with Plan priorities (Table 4.1).

TABLE 4.1—PROGRESS OF CREDIT GUARANTEE SCHEME FOR SMALL-SCALE INDUSTRIES FROM JUNE 1976 TO MARCH 1979

(Amount in Rupees Crores)

As at the end of	Guarantees Outstanding	Advances under default		Claims paid on account of invocation of guarantee		Guarantee Organisation's share of recoveries in respect of claims
		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
March 1979	2,874.0	22,443	150.0	3,955	4.9	0.8

(*Source :* Industrial Finance Department, R.B.I.)

An industry-wise analysis of the amount of guarantees outstanding at the end of June 1977 shows that the food manufacturing industry (except beverages) continued to account for (relatively) a large 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 equipments (6.5 per cent) and basic metals (5.2 per cent). The respective shares were more or less the same in the previous year. The number of defaulting units, which stood at 18,926 involving Rs. 117 crores, as at the end of March 1978, increased to 22,443 involving Rs. 150 crores at end-March 1979. During the period April 1978 to March 1979, the number of defaulting units increased by 3,517 and the amount involved went up by Rs. 33 crores. The average amount per defaulting unit rose from Rs. 61,800 to Rs. 66,800 and the percentage of the amount involved in defaults to total outstanding guarantees rose from 4.8 per cent to 5.2 per cent. The claims amounting to Rs. 173 lakhs were paid in respect of 1,347 units during the period April 1978 to March 1979, bringing the aggregate claims paid, since the inception of the Scheme in 1960, to Rs. 489 lakhs in respect of 3,955 units. Out of the aggregate amount paid as claims, a sum of Rs. 77 lakhs has been recovered and the net amount of claims paid till the end of March 1979 stood at Rs. 411 lakhs.

4.4 During the period April 1978 to March 1979, a sum of Rs. 250 lakhs was received as guarantee fees and transferred to the Central Government.

Scheduled commercial banks[1] *advances to (a) small-scale industries, (b) small road and water transport operators and (c) for setting up of industrial estates :*

(a) Small-scale Industries

4.5 During the period July-December 1978 the additional credit limits (including term loans and advances granted to craftsmen and other qualified

1. Data are provisional.

entrepreneurs), sanctioned by scheduled commercial banks to small-scale industries amounted to Rs. 329 crores as against Rs. 240 crores during the corresponding period of the preceding year; as on the last Friday of December 1978 the total sanctioned credit limit amounted to Rs. 2,766 crores. The number of units assisted by the banks increased from 513 thousands to 558 thousands during this period. The average amount of credit limits sanctioned per unit, which was Rs. 103 thousands in June 1969, gradually came down to Rs. 48 thousands in December 1977, but marginally went up to Rs. 50 thousands in December 1978. The decline in this average over the period indicates a sustained effort towards financing of small units by banks. The share of small-scale industries in the total outstanding bank credit (excluding food procurement advances) which went up steadily since the nationalisation of banks to 13.4 per cent in June 1974 and fell to 12.9 per cent in June 1975, again picked up the upward trend and was 14.9 per cent at the end of December 1978. Of the total outstanding bank credit to small-scale industries, as at the end of December 1978, the public sector banks (excluding RRBs) accounted for 88.5 per cent; the SBI Group provided 35.6 per cent and 14 nationalised banks 52.9 per cent. State-wise, Maharashtra accounted for 18.7 per cent (or Rs. 403 crores) of the total outstanding credit to small-scale industries, as at the end of December 1978. The largest number of such units financed was, however, in Tamil Nadu (88,076 or 15.8 per cent). During the half year ended December 1978, the term loans (including instalment credits) sanctioned by scheduled commercial banks to small-scale industries recorded a rise of Rs. 65 crores to Rs. 425 crores; the number of units financed increased from 101 thousands to 108 thousands. The amount of loans outstanding at Rs. 360 crores also recorded an increase of 51 crores during July-December 1978. The outstanding term loans constituted 16.7 per cent of the total outstanding bank credit to small-scale industries at end-December 1978.

4.6 Out of the total credit limit of Rs. 2,766 crores sanctioned by the scheduled commercial banks to small-scale industry sector, Rs. 116 crores or 4.2 per cent went to craftsmen and other qualified entrepreneurs spread over 95 thousand units. The balance outstanding in these accounts at Rs. 95 crores, as at the end of December 1978, showed a net rise of Rs. 14 crores over the first half-year of 1978 as against a rise of Rs. 12 crores in the corresponding period of the previous year. The share of the public sector banks excluding RRBs in the total outstanding credit to these categories of borrowers increased to 99.0 per cent in December 1978, with the share of the SBI Group and the nationalised banks being 35.3 per cent and 63.7 per cent, respectively. The average amount of limits sanctioned per unit in this group went up marginally from Rs. 11,313 in June 1978 to Rs. 12,246 in December 1978.

(b) Small Road and Water Transport Operators

4.7 Small road and water transport operators numbering 235 thousands had a total credit limit of Rs. 512 crores from the scheduled commercial banks as at the end of December 1978, which was higher by Rs. 40 crores over June 1978 level. The amount outstanding also went up during the period by Rs. 56 crores and stood at Rs. 415 crores. The number of units financed in this category rose by 26 thousands to 235 thousands during the period July-December 1978.

(*c*) *Industrial Estates*

4.8 As at the end-December 1978, 23 scheduled commercial banks including 15 public sector banks sanctioned credit limits of Rs. 30 crores covering 261 units for the setting up of industrial estates. The amount outstanding in the relative accounts was Rs. 27 crores as against Rs. 23 crores in June 1978.

INDUSTRIAL DEVELOPMENT BANK OF INDIA

IDBI's Operations

4.9 The total assistance sanctioned (effective) excluding guarantees by the Industrial Development Bank of India (IDBI) during the year 1978-79 (July-June) at Rs. 1061 crores (covering 30,555 applications) was higher by 49.4 per cent as compared with Rs. 710 crores (to 14,212 applicants) during the previous year. The total disbursements during the same period at Rs. 680 crores were 43.5 per cent higher than the amount of Rs. 474 crores disbursed during the previous year (Table 4.2).

4.10 Total effective sanctions, since inception of the IDBI upto the end of June 1979, aggregated Rs. 4131 crores in respect of 82,292 applications. The disbursements against this amounted to Rs. 2777 crores.

Project Direct Assistance Scheme

4.11 During the year 1978-79, IDBI sanetioned project direct assistance of Rs. 283 crores in respect of 134 projects; this consisted of Rs. 256 crores by way of loans to 116 projects and Rs. 27 crores by way of underwriting of and direct subscriptions to the share capital of 60 companies. Disbursements during the period under review, at Rs. 220 crores were substantially higher as compared with Rs. 169 crores disbursed during 1977-78. Purpose-wise, 88 per cent of the assistance sanctioned was for setting up of fresh capacities by way of new projects and diversification and expansion of existing units (Table 4.3). Sector-wise, public, joint and co-operative sectors accounted for 40 per cent of the assistance and the balance 60 per cent going to private sector. Industry-wise distribution shows that 69 per cent of assistance was in respect of projects belonging to basic industries group. Under project direct assistance scheme, the amount sanctioned to units in the specified backward areas was Rs. 134 crores, the concessional quantum being Rs. 113 crores.

TABLE 4.2—ASSISTANCE SANCTIONED BY THE IDBI AND UTILISED BY THE ASSISTED CONCERNS DURING 1977-78 AND 1978-79 (JULY-JUNE) AND SINCE INCEPTION

(Rupees in Crores)

Type of Assistance	Sanctions (Effective)						Disbursals		
	1977-78 (July-June)		1978-79 (July-June)		Cumulative sanction since inception up to end-June 1979		1977-78 (July-June)	1978-79 (July-June)	Cumulative disbursements since inception up to end-June 1979
	No. of applications	Amount	No. of applications	Amount	No. of applications	Amount	Amount	Amount	
1. Direct Industrial Assistance	225	271.9	320	402.0	1413	1420.6	181.4	257.9	836·6
(*a*) Direct loans to industrial concerns (other than for exports)	189	251.8	260	374.6	987	1274.5	169.9	251.6	770.5
(*i*) Normal	105	202.3	116	255.9	705	1072.1	157.6	214.0	719.7
(*ii*) Soft loan assistance	55	46.0	98	112.3	189	190.0	9.5	33.7	44.2
(*iii*) Technical Development Fund	29	3.5	46	6.4	93	12.4	2·8	3·9	6.6
(*b*) Underwriting of and direct subscriptions to shares and debentures of industrial concerns ..	36	20·1	60	27·4	426	146.1	11·5	6·3	66.1
2. Refinance of industrial loans	13,031	224·2	29,233	417.3	76,925	1318·6	145·5	255·5	892.1
3. Rediscounting of Bills ..	920	133·4	951	139.3	3672	920.5	99·6	104·1	721·8
4. Subscriptions to shares and bonds of financial institutions	18	32.7	20	39·0	31	154.4	28·4	41.3	151.4
Total Project Assistance (1 to 4)	**14,194**	**662.2**	**30,524**	**997.6**	**82,041**	**3814.1**	**454.9**	**658.8**	**2601.9**
5. Export Finance	18	47·3	31	63·6	251	316.6	19.3	21·2	175·1
(*a*) Direct loans for exports	8	18·1	16	12.5	104	132.0	11·0	12.4	95·4
(*b*) Refinance of export credit	7	6·6	10	8·9	123	67·9	4·0	4.0	54·2
(*c*) Overseas buyer's credit ..	1	3.1	1	2·9	9	25.1	3·6	2.0	11.1
(*d*) Foreign lines of credit ..	2	19.5	3	36.7	14	89.0	0.7	2.8	14.4
(*e*) Overseas investment finance	—	—	1	2.6	1	2.6	—	—	—
Total of 1 to 5	**14,212**	**709.5**	**30,555**	**1061.2**	**82,292**	**4130.7**	**474.2**	**680.0**	**2769.9**
6. Guarantees for loans and deferred payments	—	—	—	—	15	26.7	—	—	19.6
7. Export guarantees	42	50·0	107	64.9	174	161.5	51.5@	60.5@	141.8@

@Guarantee executed

Notes : 1. The number of applications in respect of Rediscounting of Bills (item 3) relates to the number of purchaser/user and in the case of subscriptions to shares and bonds of financial institutions (items 4) to the number of financial institutions.

2. In case of Rediscounting of Bills, amount sanctioned represents face value of bills rediscounted and amount utilised indicates the net disbursals after deduction of rediscount charges from the face value.

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

TABLE 4.3—PURPOSE-WISE CLASSIFICATION OF IDBI's ASSISTANCE SANCTIONED DURING 1978-79 (JULY-JUNE)

(Rupees in Crores)

Schemes	Purpose									
	New		Expansion/Diversification		Modernisation/ Rehabilitation		Supplementary Assistance*		Total	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
1	2	3	4	5	6	7	8	9	10	11
1. Project direct assistance ..	77 (50)	185.5 (136.9)	24 (34)	64.9 (58.9)	9 (8)	16.4 (10.7)	24 (20)	16.5 (15.9)	**134** (112)	**283.3** (222.4)
2. Rediscounting of bills ..	38 (52)	0.7 (2.5)	—	—	916 (876)	138.6 (130.9)	—	—	**951** (920)	**139.3** (133.4)
Total	**115** (102)	**186.2** (139.4)	**24** (34)	**64.9** (58.9)	**925** (884)	**155.0** (141.6)	**24** (20)	**16.5** (15.9)	**1085** (1032)	**422.6** (355.8)

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

Note : 1. Number in respect of item 1 indicate the number of projects and in respect of item 2 number of purchaser-user.
2. Figures in brackets relate to corresponding period of the previous year.
3. Break-up in respect of item 2 may not add up to total as some of the existing units have also utilised assistance.

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

Other Schemes of Assistance

4.12 Apart from project direct assistance, various other schemes of assistance designed to meet special requirements of different sectors, continued to be in operation.

(*a*) *Soft Loan Assistance*

4.13 Sanctions by the IDBI under the Soft Loan Scheme at Rs. 112 crores to 98 applicants were higher by 143.5 per cent during 1978-79 as compared to Rs. 46 crores to 55 applicants during 1977-78. The total assistance sanctioned since the beginning of the Soft Loan Scheme upto the end of June 1979 amounted to Rs. 190 crores in respect of 189 units. The disbursements of the assistance under the Scheme have shown a sharp increase of about 240.0 per cent during the period under review, amount disbursed having increased to Rs. 34 crores in 1978-79 from Rs. 10 crores in 1977-78. The cumulative disbursements under the Scheme amounted to Rs. 44 crores as on June 30, 1979.

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

4.14 Under Technical Development Fund (TDF) Scheme, the IDBI sanctioned direct rupee loans of Rs. 6 crores to 46 units during 1978-79 as against Rs. 4 crores sanctioned to 29 units during the previous year.

Total sanctions under the Scheme upto end of June 1979 amounted to Rs. 12 crores to 93 units. As against the increase of 50.0 per cent in sanctions, the disbursements under the TDF Scheme showed a smaller increase of 33.3 per cent rising from Rs. 3 crores to Rs. 4 crores.

(*c*) *Refinance of Industrial Loans*

4.15 As a result of introduction of Automatic Refinance Scheme (ARS) with effect from July 1, 1978, and other liberalisations effected under the Scheme during 1978-79, refinance sanctions have picked up substantially. During the period under review sanctions amounted to Rs. 417 crores covering 29,233 applications as against Rs. 224 crores covering 13,031 applications during the corresponding period of the preceding year, recording an increase of 86.2 per cent. Disbursements under the Scheme during the period under review amounted to Rs. 256 crores which were 75.3 per cent higher than the amount of Rs. 146 crores disbursed during the corresponding period of 1977-78. Sanctions under ARS during the year amounted to Rs. 210 crores in respect of 23,796 applications against which utilisation of assistance amounted to Rs. 79 crores. Refinance assistance of Rs. 293 crores covering 28,243 applications was sanctioned during 1978-79 to small-scale sector including small road transport operators. Refinance assistance at concessional rates to units in the specified backward districts amounted to Rs. 160 crores.

(*d*) *Bills Rediscounting Scheme*

4.16 Under the Bills Rediscounting Scheme, sanctions during 1978-79 (July-June) amounted to Rs. 139 crores in respect of 951 purchaser-users showing a marginal increase in amount over Rs. 133 crores sanctioned to 920 purchaser-users during 1977-78. Disbursements were also marginally higher at Rs. 104 crores than Rs. 100 crores disbursed during the previous year.

(*e*) *Seed Capital Scheme*

4.17 At present the Seed Capital Scheme is being administered through 24 SIDCs/SIICs which have been notified by the Central Government as 'financial institutions' and they have been extended refinance facility from the IDBI. Since inception of the Scheme upto the end of June 1979, 90 applications for Seed Capital assistance of Rs. 5 crores were received by the IDBI. Of these, 63 proposals for a sum of Rs. 2 crores were sanctioned and the total disbursements amounted to Rs. 1 crore.

(*f*) *Export Finance Scheme*

4.18 Total assistance sanctioned under the Export Finance Schemes (excluding guarantees) increased by 36.2 per cent from Rs. 47 crores to 18 applicants in 1977-78 (July-June) to Rs. 64 crores to 31 applicants during 1978-79. Under the foreign lines of credit and the refinance of export credit schemes, the sanctions showed increases of 85.0 per cent (from Rs. 20 crores to Rs. 37 crores) and 28.6 per cent (from Rs. 7 crores to Rs. 9 crores), respectively, while that under the scheme of direct loans for exports declined from Rs. 18 crores to Rs. 13 crores during the period. The total disbursements under all the schemes of export finance amounted to Rs. 21 crores; 10.5 per cent higher than Rs. 19 crores disbursed during last year.

(g) *Assistance to Backward Areas*

4.19 During the year under review, the assistance sanctioned by the IDBI to the projects located in the specified backward districts/areas aggregated Rs. 377 crores (Table 4.4). Though the amount sanctioned showed an increase of Rs. 79 crores, the share of backward areas in the total assistance sanctioned by the IDBI came down from 47.5 per cent in 1977-78 to 39.4 per cent during 1978-79. The disbursements at Rs. 314 crores were higher by Rs. 93 crores during the year, but in terms of percentage to the total disbursements, the share of back-

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

(Rupees in Crores)

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	44.7 (—)	16.2	250.2	36.1 (—)	14.4
1970-71..	84.9	21.0 (0.3)	24.7	54.2	9.4 (0.1)	17.3
1971-72..	135.0	44.9 (17.5)	33.3	73.7	15.1 (1.5)	20.5
1972-73..	121.6	40.8 (13.8)	33.6	97.6	23.5 (8.6)	24.1
1973-74..	164.9	58.6 (42.3)	35.5	143.0	49.4 (18.3)	34.5
1974-75..	268.7	94.7 (52.5)	35.2	186.8	68.8 (25.7)	36.8
1975-76..	386.9	172.3 (115.9)	44.5	249.6	98.7 (53.2)	39.5
1976-77..	633.2	337.7 (187.9)	53.3	351.5	145.4 (98.8)	41.1
1977-78..	629.4	298.4 (149.6)	47.5	426.4	220.2 (127.4)	51.6
1978-79..	958.7	377.4 (272.8)	39.4	617.5	313.5 (176.0)	50.6
Total	**3659.6**	**1490.5** (852.6)	**40.7**	**2450.5**	**980.1** (509.6)	**39.9**

@ Comprise of direct loans, soft loans, TDF, underwriting/direct subscription, refinance and bills rediscounting.

Note : Figures in brackets in cols. 3 and 6 refer to the amount disbursed on concessional terms.

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

ward area is marginally lower at 50.6 per cent as compared to 51.6 per cent during the preceding year. The cumulative sanctions and disbursements to these units aggregated Rs. 1491 crores and Rs. 980 crores forming 40.7 per cent and 39.9 per cent, respectively, of the total sanctions and disbursements.

(*h*) *Subscriptions to Shares and Bonds*

4.20 During the year, IDBI subscribed Rs. 660 lakhs (including special capital of Rs. 950 thousands) to the share capital of 18 State Financial Corporations. The IDBI also subscribed Rs. 15 crores each to the bonds issues of the ICICI and the IFCI as support for their participation under the Soft Loan Scheme. A sum of Rs. 350 lakhs was also disbursed to the ICICI representing balance instalment of the rupee counterpart funds against the U. K. line of credit. Application money of Rs. 120 lakhs was subscribed to IFCI's rights issue of shares for Rs. 5 crores. The total subscriptions to shares and bonds of other financial institutions as at the end of June 1979 amounted to Rs. 151 crores.

(*i*) *Line of Credit for Imports*

4.21 The IDBI has so far obtained four lines of credit from IDA/World Bank. Of these, two lines of credit of US $25 million and US $40 million, respectively, were for on-lending to SFCs and the third line of credit of US $28 million was for assisting specific private sector fertiliser projects for their schemes of pollution control and debottlenecking of the fertiliser plants. The fourth line of credit of US $25 million from the World Bank was for assisting medium sized projects in the State, public and joint sectors. Total sanctions and disbursals under these four lines of credit by the World Bank upto the end of June 1979 amounted to Rs. 88 crores and Rs. 45 crores, respectively. Besides the World Bank group has also agreed to route a portion (US $2.2 million) of their IDA Credit Line (US $14 million) to the Government of India in respect of J & K Horticulture project through the IDBI. This credit became effective from January 26, 1979.

(*j*) *Developmental Activities*

4.22 During 1978-79, three more Technical Consultancy Organisations (TCOs), one each in Madhya Pradesh, Gujarat and West Bengal were set up under the leadership of IFCI, ICICI and IDBI, respectively. With these three, there are 12 TCOs functioning in the country, 8 sponsored by IDBI, 3 by IFCI and one by ICICI. Out of the Technical Assistance Fund (TAF) financial assistance was provided to training programmes of officials of state level corporations and TCOs and Entrepreneurial Development Programmes (EDPs) organised by TCOs; viz., (i) 9 EDPs organised by KITCO in Kerla (3 of which were exclusively for Harijans), (ii) 4 EDPs organised by UPICO in Uttar Pradesh and (iii) one EDP conducted by NEITCO in Gauhati.

OPERATIONS OF STATE FINANCIAL CORPORATIONS

4.23 The operations of State Financial Corporations (SFCs) showed marked improvement during 1978-79 (April-March). The total financial assistance sanctioned and disbursed by the 18 SFCs (including the TIIC) aggregated Rs. 195 crores and Rs. 135 crores as against Rs. 166 crores and Rs. 107 crores, respectively during the preceding year (Table 4.5). The increases in sanctions and disbursements during 1978-79 were of the order of 17.5 per cent and 26.2 per cent, respectively, which are much higher than the rise of 1.7 per cent and 2.0 per cent, respectively recorded during 1977-78. Total loans outstanding as at the end of March 1979 stood at Rs. 643 crores as compared with Rs. 539 crores at the end of March 1978.

TABLE 4.5—OPERATIONS OF STATE FINANCIAL CORPORATIONS

(Rupees in Crores)

	1977-78 (April-March)	1978-79 (April-March)
Loans Sanctioned (effective)	166.1	195.3
Loans Disbursed	107.4	135.2
Loans Outstanding (as at the end of March)	539.3	643.0

(*Source :* Industrial Development Bank of India)

4.24 Assistance to small scale enterprises including road transport operators continued to account for a major portion in the total assistance sanctioned and disbursed by the SFCs. The small scale sector accounted for 98.6 per cent of the total number of units assisted, 78.2 per cent of the total assistance sanctioned and 71.0 per cent of the total assistance disbursed during 1978-79.

4.25 The SFCs' assistance to units located in the specified backward areas also showed increase during the year under review. The concessional assistance in case of 5,401 units located in such areas amounted to Rs. 114 crores or 58.5 per cent of the total assistance sanctioned during 1978-79 as against Rs. 87 crores (52.4 per cent) in respect of 4,057 units during the preceding year.

4.26 Seventeen SFCs (excluding Haryana) raised special capital aggregating Rs. 580 lakhs as at the end of March 1979. Under the special capital scheme, at the end of March 1979, sanctions amounted to Rs. 140 lakhs in respect of 419 units and disbursements to Rs. 40 lakhs. As at the end of March 1979, 3,556 applications for total assistance of Rs. 98 crores were pending with the SFCs.

DEPOSIT INSURANCE AND CREDIT GUARANTEE CORPORATION

4.27 The Deposit Insurance and Credit Guarantee Corporation provides protection to depositors, particularly the small depositors, from the risk of loss of their deposits in the event of an insured bank's inability to meet its liabilities and also provides cover to eligible credit institutions in respect of credit facilities extended by them to certain specified categories of borrowers belonging to the weaker sections of the community. With the merger of the Credit Guarantee Corporation of India Ltd. (CGCI) in the Deposit Insurance Corporation (DIC) with effect from July 15, 1978 and the latter having been renamed as the Deposit Insurance and Credit Guarantee Corporation (DICGC), the deposit insurance and credit guarantee functions are performed by the new Corporation. All the liabilities and assets of the CGCI as also its rights and obligations now vest in the DICGC. To enable the DICGC to meet the establishment and other expenses of the combined unit, its capital was increased from Rs. 2 crores to Rs. 10 crores. The entire amount of capital has been subscribed to by the RBI, the sole shareholder in the Corporation.

Deposit Insurance Function

4.28 The number of insured commercial banks remained unchanged at 78, while the total number of insured RRBs. increased to 56 as on 30th June 1979. As regards co-operative banks, the total number of insured banks increased to 978, as at the end of June 1979, with the registration of 27 and 71 eligible co-operative banks from the States of Orissa and Uttar Pradesh, respectively. Till the end of June 1979 the scheme covered co-operative banks in 11 States and three Union Territories, viz., Andhra Pradesh, Jammu & Kashmir, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Rajasthan, Tripura, Uttar Pradesh, West Bengal, Delhi, Goa, Daman and Diu and Pondicherry. The extension of the scheme to the remaining States awaits the passing of necessary enabling legislation by the concerned State Governments. The rate of insurance premium at 4 paise per hundred rupees per annum remained unchanged. With a view to reducing the workload on banks in compiling the necessary statements of insured deposits, the periodicity of payment of the insurance premium has been changed from quarterly to half yearly intervals since the beginning of 1979. The total assessable deposits of the banks at Rs. 21,659 crores, as at the end of 1978, showed an increase of Rs. 1,767 crores during the year. The percentage of fully protected accounts to the total number of deposit accounts slightly increased from 98.2 to 98.3, while the percentage of insured deposits to total assessable deposits decreased from 71.1 to 71.0.

4.29 The total amount of claims paid or provided for by the Corporation since the inception (of the DIC) stood at Rs. 179 lakhs. These claims relate to 14 commercial banks and 6 co-operative banks. The Corporation has also received repayments to the extent of Rs. 73 lakhs in respect of commercial banks while there have been no repayments in regard to co-operative banks.

Credit Guarantee Function

4.30 The DICGC, after the taking over of all the rights and obligations of the CGCI, is continuing the three credit guarantee schemes formulated and operated by the latter, viz., the Small Loan Guarantee Scheme, the Financial Corporation Guarantee Scheme and the Service Co-operative Societies Guarantee Scheme. During the year under review, certain amendments were effected in these schemes by the DICGC so as to enlarge the benefits to small borrowers. With a view to facilitating liberal grant of rehabilitation finance to flood victims, the claims liability of the Corporation for overdue crop loans to borrowers affected by natural calamities, converted into term loans, has been raised from Rs. 5,000 to Rs. 7,500 so as to cover dues in respect of three agricultural seasons, commencing from 1977 *kharif*, instead of two seasons as hitherto. This is in addition to the liability up to a maximum of Rs. 2,500 for the fresh crop loan that may be granted to the borrower. Further, in pursuance of the recommendations of the Working Group on Differential Rates of Interest Scheme set up by the GOI, the guarantee cover of the Corporation in regard to advances granted under that scheme, on or after January 1, 1979, has been enhanced from 75 per cent to 90 per cent of the amount in default. Further, with a view to giving some temporary relief to the RRBs in view of the special role they are required to play in extending credit to priority sectors in rural areas, the rate of guarantee fee in respect of their guaranteed advances was lowered from $\frac{1}{2}$ per cent to $\frac{1}{4}$ per cent per annum for a period of three years from July 1, 1979 or from the date of joining the Scheme by the RRB concerned, whichever is later. With effect from April 1979, the overall monetary ceilings under the Small Loan Guarantee Scheme on the Corporation's liability per borrower are applicable in relation to credit facilities granted to him by each bank instead of by the entire banking system. The total advances covered by the three schemes at Rs. 1,716 crores, as at the end of December 1978 recorded a rise of 13.1 per cent over the previous year. Credit extended to small-scale industries is presently covered by a separate guarantee scheme formulated by the Central Government and administered by the RBI. A proposal for the Corporation to undertake credit guarantee functions in respect of this sector also with a view to integrating all credit guarantee schemes under one organisation is under consideration.

4.31 Seventy five commercial banks and 47 (out of 49) RRBs are participating in the Small Loans Guarantee Scheme, which alone accounts for 99.5 per cent of the total advances guaranteed by the Corporation. The number of institutions participating in the Financial Corporation Guarantee Scheme remained unchanged at 18. As regards the Service Co-operative Societies Guarantee Scheme, participation in which is open to all scheduled commercial banks, RRBs and to co-operative banks (other than primary co-operative banks) which are eligible for deposit insurance cover, 85 commercial banks (including 24 RRBs) and 30 co-operative banks have joined the Scheme.

4.32 Invocation of guarantee by the participating credit institutions, which commenced in 1973, has been rising rapidly since 1975. During 1978, the trend in the inflow of claims was very much pronounced. Claims numbering 29,925 for Rs. 876 lakhs were received during 1978 as against 21,638 claims for Rs. 669 lakhs received in all the previous years. During January-April 1979, 12,314 claims for Rs. 386 lakhs were received. Of these, 5,514 claims have already been settled. The Corporation has taken several measures to meet the increasingly large number of claims. The scrutiny procedures and content have been considerably simplified, a simpler claim format has been introduced since November 1978 and an easier settlement procedure and a claim format are being introduced for claims for an amount of Rs. 1,000 or less. Of the total number of 51,563 claims received, 27,033 claims for Rs. 664 lakhs have been disposed of as at the end of December 1978.

4.33 With the pronounced increase in the claims paid, the Corporation is devoting particular attention to verification of claim paid accounts and recovery of the amounts due from the borrowers concerned. The Corporation realised a sum of Rs. 3,284 thousands as its share of recoveries during 1978, as against an aggregate amount of Rs. 1,173 thousands realised during all the previous years.

UNIT TRUST OF INDIA

4.34 The object of the UTI is to extend facilities for an equity type of investment (which combines the advantages of minimum risk and a reasonable return) to the large and growing number of small investors in the middle income groups of the community. While providing these facilities, the UTI helps, at the same time, in the mobilisation of resources and their channelling into investments, thereby increasing the overall productivity of capital and facilitating the growth of the economy. To mobilise savings, the UTI sells 'Units' to the public.

4.35 During 1978-79 (July-June), sales of units under the three schemes of UTI aggregated Rs. 102 crores and was higher by 38.6 per cent on top of a record increase of 112 per cent in the preceding year. Repurchases of units by the Trust around Rs. 10 crores were lower compared to repurchases of Rs. 11 crores during the previous year. Thus, the net sales under all the schemes increased by Rs. 92 crores during the year as against Rs. 62 crores last year (Table 4.6).

4.36 As in the last year, the major thrust in record sales of units was provided by the operation, during the major part of the year, of the tax exemption of capital gains on re-investments of sale proceeds in units. The sales during the month of February were substantially boosted on fears of removal of this exemption. Among other factors, intensive and systematic sales promotion and publicity also played a significant role in increasing the sales of units. With the withdrawal of tax exemption on capital gains from March 1, 1979, the competitive attraction of

TABLE 4.6—SCHEME-WISE SALES REPURCHASES AND OUTSTANDING UNITS OF UNIT TRUST OF INDIA

(Rupees in Crores)

Schemes	Sales		Repurchases		Outstanding as on June 30, 1979
	1977-78	1978-79	1977-78	1978-79	
Unit Scheme 1964 ..	70.86	96.08	10.86	9.13	330.31
Unit Scheme 1971 .. (Unit Linked Insurance Plan)	2.41	5.45	0.05	0.11	10.43
Unit Scheme 1976 ..	@	@	0.32	0.22	6.73
Total ..	**73.27**	**101.53**	**11.23**	**9.46**	**347.47**

@ Sales suspended.
Note: The data for 1978-79 are provisional.
(*Source:* Unit Trust of India.)

units over the other media of savings has been affected. The dividend for the year 1978-79 under all the three 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.

4.37 As on June 30, 1979, units sold and outstanding with the public amounted to Rs. 347 crores, of which about Rs. 330 crores were under Unit Scheme 1964 (unit holding accounts being about 9 lakhs). Sales of units under Unit Scheme 1976 (Capital Units) continued to remain suspended.

Investments

4.38 As on May 31, 1979, total investible funds of the Trust amounted to Rs. 402 crores. Of this, equity shares accounted for Rs. 120 crores or 29.9 per cent, debentures for Rs. 83 crores or 20.6 per cent and preference shares for Rs. 17 crores or 4.1 per cent. The remaining amount (*i.e.* Rs. 182 crores) was invested mainly in call deposits with banks, advance deposits against investment commitments and fixed deposits.