
Banking Expands

At the beginning of the 1960s, banking in India was concentrated in the cities and major towns. In the rural areas, there was practically nothing. This had led to a growing feeling that the banking system was neither tapping rural savings nor providing credit to agriculture. Bank managements were considered insensitive to the needs of society. These perceptions of the political class led to demands for state intervention. At first the idea was confined to 'social control', whatever that meant, but soon it gave way to a call for outright nationalization. This gave a strong push to branch expansion, especially in the rural areas.

The push into rural areas had in fact begun earlier. The number of branch offices increased from 5,098 at the end of 1961 to 5,858 by the end of 1964, or by 14.9 per cent. But this was not considered satisfactory. In April 1965 the Reserve Bank responded by liberalizing branch licensing norms. It also decided, as we shall see when we discuss what happened between 1967 and 1969, to focus on rural areas. Those were years when things were hotting up politically and when banking became the focus of political attention. That focus eventually culminated in nationalization but not before the Bank had fought some rearguard action to force commercial banks to expand to poorly served areas.

The first salvo in this direction was publicly fired by Governor Jha in his address to Bombay bankers on 18 August 1967, where he went to the extent of suggesting 'slowing down of branch expansion in urban areas'. The bankers privately told the Governor that they would welcome this so long as their competitors as well as foreign banks were also kept in check. However, foreign banks, as Jha observed, were 'obliged to confine themselves to port towns only' in order to make profits. A week later, in a policy note to Morarji Desai, Jha recommended that more bank offices be opened in smaller places than in urban areas. Morarji Desai was the Deputy Prime Minister and Finance Minister, and a great proponent of social control.

In the context of the 1960s, an enhancement in the geographical coverage of banks implied the opening of additional branch offices in the country. The license for opening of new offices of commercial banks in a particular area is given by the Reserve Bank by virtue of the authority it commands through Section 23 of the Banking Companies Act, 1949 (re-named as the Banking Regulation Act, 1949, in March 1966). The Section prescribes the broad criteria to be followed by the RBI for dealing with applications from commercial banks to open new places of business. These are: (a) the financial condition and the history of the applicant bank; (b) the general character of management; (c) the adequacy of its capital structure; (d) the earning prospects; and (e) the serving of public interest by opening of a new office. The criteria could, however, be applied by the Bank in a flexible manner.

The Reserve Bank had adopted a cautious approach till 1956 in granting licences, with the consideration of applications primarily based on the financial position of the bank concerned. It was only after securing the consolidation of banks in the early 1960s that the focus of attention shifted to extension of banking facilities throughout the country in a phased manner. The guidelines under the branch licensing policy of May 1962 laid stress on opening of offices in 'unbanked' and 'undeveloped' areas, the latter being defined in terms of population per bank office—for example, one lakh population per office, as per the 1962 census.¹ Banks were classified for this purpose into three categories:

- (i) all-India banks with deposits of Rs 50 crore and over with branches in at least ten states;

¹ All-India banks could open offices in their own regions at places where the population was over 50,000 (instead of 1 lakh and above hitherto), and at places with lesser population whether within or outside their regions in case no small regional bank had applied for opening of branch offices. All-India banks could also spread to any unbanked centre outside their regions with a population of over 50,000 if no other eligible bank of the region had come forward to open an office. The Reserve Bank also decided that large regional banks with deposits of over Rs 10 crore could open offices in their own regions and in contiguous areas at any place having a population of over 25,000 instead of 50,000 and over hitherto, or where no other bank existed. The large regional banks could also open offices in centres with less than 25,000 people if no small regional bank had applied for bank office licence for operation. The large regional banks were continued to be permitted to open offices in big cities with over 1 million population. The Bank's permission to the remaining banks, i.e. the small regional banks, to open offices at any unbanked/underbanked centres with populations of over 50,000 in their own regions/states was regarded as useful from the point of view both of expansion of banking facilities and of opening up possibilities of competition in the future.

- (ii) regional banks with deposits of over Rs 5 crore and a minimum of ten offices;
- (iii) small regional banks.

These banks were required to observe a 2:1 ratio between banked and unbanked areas for opening offices within their geographical spheres of operation. This meant that for every branch they opened in a banked area, they had to open two in an unbanked area. The Reserve Bank supplied information to the banks about the centres that were categorized as 'unbanked'. All-India banks were not allowed to open offices in predominantly residential/suburban localities within a distance of 400 metres from an existing office of another bank. An exception was made in the case of the State Bank of India (SBI) and its subsidiaries, since they were expected to open offices to take over cash operations from non-banking treasuries and sub-treasuries.

The branch licensing policy during 1965–67 for 450 offices a year was announced at the Agricultural Credit Department's (ACD) urging. Governor Bhattacharyya explained to the Board in April 1965 that only after the necessary legislation vesting the Reserve Bank with statutory powers of supervision and control over cooperative banks was enacted would the question of coordinating the activities of cooperative banks with the branch expansion of commercial banks be taken up. But, at the prompting of the ACD, the Gujarat State Cooperative Banks' Association drew up a programme for opening branches in rural areas and towns between 1965 and 1967. The Department of Banking Operations and Development (DBOD) responded by saying that any allotment to cooperative banks could be considered only when they were in a position to provide services comparable to those of commercial banks. It also said that since the centres for opening branches of commercial banks for the period had already been approved, the cooperative banks should focus beyond August 1967.

In taking this stand, the DBOD was not being difficult. The fact was that it had asked for a branch expansion programme of cooperative banks for a two-year period beginning August 1967. After that things got stalled in inter-departmental crossfire. The ACD was ready only with twelve states and DBOD said that was not enough. But it also said that it would not hold up everything for ACD to be ready with the data. So it decided to continue in the next programme (1967–69), with the existing practice of not allotting centres with a population of less than 5,000 to commercial banks if the place was not served by a cooperative bank. The Reserve Bank wanted to open only 450 offices a year during 1967–69. But in June 1966 the Board

fixed a higher target of 550 branches a year. It also asked all-India banks to pay greater attention to poorly served areas.

The DBOD was quick with its follow-up on Jha's 18 August speech. It suggested that the guidelines for 1967–69 would have to be spelt out and that the selection of centres should be made from the lists already submitted by the banks. The guidelines it suggested were as follows:

- (i) All rural areas and unbanked centres will be allotted to the applicant banks, with preference shown for small regional banks.
- (ii) A few offices in urban and metropolitan areas will be allotted to banks that were allotted more centres in rural and semi-urban areas.
- (iii) There will be preference for allotting centres in underdeveloped states.

Thus, although the 2:1 ratio of banked and unbanked centres, and the 2:1 ratio between offices allowed in developed and underdeveloped states would not be strictly followed, Jha thought this was fine. He asked Deputy Governor Anjaria to discuss the matter with bankers but without committing the RBI to any decision. At the meeting the banks made once again made the point they had been making, namely, it would be disadvantageous to open offices in rural and semi-urban areas unless they were allowed to open some branches in urban areas as well. They clearly needed to cross-subsidize rural operations. Eventually, the allocations were made in such a way that the banks' balance sheets were protected.²

The setting up of the National Credit Council (NCC), arising out of the policy of social control, had a bearing on the branch licensing policy and procedures. At its first meeting on 16 March 1968, the NCC suggested certain revisions in the branch licensing policy. Accordingly, the policy was modified in May 1968. Branch expansion henceforth was to have objectives: mobilization of deposits and expansion of credit.

The all-India banks, which had low credit–deposit (CD) ratios in their rural and semi-urban operations, would have to improve the ratios by

² The DBOD, after examining the applications received from banks under the branch expansion programme, and keeping in view the Governor's direction, selected 507 centres, of which 279 were in rural and semi-urban areas, 173 were in centres with populations ranging from 50,000 to 5 lakh, and 55 were in large cities with populations of more than 5 lakh, excluding the metropolitan cities of Bombay, Calcutta and Delhi. Of the 279 centres, 212 were unbanked areas and the rest underbanked areas; 78 of them fell in the underdeveloped states of Assam, Bihar, Madhya Pradesh, Orissa, Uttar Pradesh and West Bengal. The distribution of centres was uneven between underdeveloped and developed states. In relation to population, too, the distribution was uneven, since Uttar Pradesh, Bihar and Orissa—the populous states—were to have only a few centres where offices were to be opened.

giving out more credit through their rural and semi-urban branches. Branch expansion was to be not in terms of centres selected in advance but the total number of branches to be opened by each bank with distribution across different states, and across rural, semi-urban and urban areas and cities. At least half the total number of branches had to be in rural and semi-urban areas and half at unbanked centres. However, the criterion for judging the adequacy of banking facilities at a centre, namely, one branch for a population of 10,000, was left unchanged, and the first come, first served principle was instituted. A bank had to take effective steps within six months to open a branch and if it failed to do so, the allotment would be cancelled. Similarly, a bank that did not conform to the distribution of branches between rural and semi-urban and urban areas, and between banked and unbanked centres would be ineligible to avail of the 'first come, first served' principle. There were some other rules as well.

Soon, banks began to complain that the population criterion was resulting in accounts being shifted from one bank to another so that new deposits were not being mobilized as was intended. But closer examination showed that this was not really the case.

There was also the question of branch licensing to foreign banks. In general, foreign banks operated in port towns, and were allowed to open branch offices in cities and metropolitan towns only if the foreign exchange situation was found to be relatively comfortable. This restrictive policy had been adopted in 1962. But the Mercantile Bank Ltd alleged discrimination and the Governor of RBI felt there was some merit in its complaint.

While the issue was under discussion, in January 1967, C.H. Bhabha, chairman, Central Bank of India, wrote to the Governor bringing to his notice a news item in the London *Times* of 23 January. The report said that the Canadian government had turned down a stiff US protest over Canada's refusal to allow the Mercantile Bank of Canada, a US-owned subsidiary, to expand its activities in Canada. The Canadian government said that it wanted the US bank to operate as any Canadian bank was required to. Bhabha argued that 'for peculiar reasons, foreign banking and other service organizations claim it as their birth-right to expand in developing countries like ours. Also, I am afraid, our authorities, without deeper consideration and thought, facilitate that.' The DBOD responded that because of the restrictions on bringing in funds from abroad, foreign banks wanted to open more branches in metropolitan/port cities so that they could augment their resources. The Board, which met in June 1967, did not consider it necessary to suggest any tightening of restrictions on the branch expansion of foreign banks and allowed the existing policy to continue.

But the issue would not go away. In August, Bhabha wrote to Morarji Desai that foreign banks were at a comparative advantage over Indian banks as they were free from the obligation to open branches in rural and semi-urban areas.

In certain quarters, there is a lurking suspicion as to whether in the matter of issuing licenses to foreign banks for opening branches in India, the general criteria contained in Section 23(2) of the Banking Regulations Act 1949 have been applied as meticulously as in the case of Indian banks or whether there has been any bias in favour of some foreign banks vis-à-vis others.

He wanted the RBI to review the authorizations given in the past few years to foreign banks for opening branches.

By then L.K. Jha had become the Governor, and he responded that foreign banks helped raise foreign exchange for Indian enterprises and must be allowed to increase their activities as the economy developed. He also pointed out that since 1962, against 91 applications from nine foreign banks, the Bank had permitted only 43 offices, while in the same period, the number of new offices opened by Indian banks was 2,367. This showed, in Jha's opinion, that licenses to foreign banks were not given liberally and without scrutiny. Morarji went along with Jha.

THE LEAD BANK SCHEME

But soon all these debates and discussions were to become irrelevant. In July 1969, the government nationalized fourteen major Indian banks and that triggered off a sharp branch expansion drive, especially into rural areas. The name of the game changed completely and banking policy became subservient to political objectives. Access to bank credit was sought to be improved by opening new offices and through allocation of credit to the productive sectors as well as the economically disadvantaged sections. The Lead Bank Scheme had its genesis in this endeavour and it provides a vivid example of how banking became an instrument of social and political policy.

The concept of the Lead Bank Scheme can be traced to the recommendations of the Study Group.³ Its report became the template for banking

³ The Study Group was constituted at the end of October 1968 with D.R. Gadgil as chairman, T.A. Pai, B.K. Dutt, M.Y. Ghorpade, A.N. Mafatlal, N.M. Chokshi, P. Natesan and P.N. Damry as members, and B.N. Adarkar as the convener. Damry and Adarkar represented the RBI, while Gadgil was Deputy Chairman of the Planning Commission.

policy after nationalization. The report had addressed itself mainly to the task of identifying the major territorial and functional credit gaps, and making recommendations to fill them. As of April 1969, it said, as many as 617 towns out of 2,700 in the country had not been covered by commercial banks. Of these, 444 did not have cooperative banking facilities either. And, worse still, out of about 6,00,000 villages, hardly 5,000 had banks. The spread, too, was uneven. While the credit–deposit ratio was as high as 89 per cent in centres with populations above 10 lakhs, the declining trend in lower-population centres was equally glaring. Centres with population groups of less than 10,000 averaged a credit–deposit ratio of 41 per cent.

In contrast, cooperative banking had better penetration. The number of villages covered by active primary agricultural credit societies at the end of June 1967 was placed at 82 per cent; and 30 per cent of the rural families were covered. There were, however, regional imbalances in the coverage of the cooperative sector as well. While states like Gujarat, Maharashtra, Punjab and Mysore had done well, Assam, Bihar, Orissa, Rajasthan and Jammu and Kashmir had not. There was also uneven distribution of credit to different economic sectors and virtual non-availability to certain types of borrowers, particularly small borrowers and weaker sections of the community. The sectoral distribution of credit by commercial banks was weighted in favour of large-scale industries, wholesale trade and commerce, rather than agriculture, small-scale industry, retail trade and small borrowers. Agriculture, excluding plantations, accounted for less than 1 per cent of total bank credit, and advances to retail trade accounted for less than 2 per cent. The case studies confirmed that there was potential demand for credit to small borrowers but the non-existence of institutional facilities resulted in their approaching moneylenders, who were found to be charging very high rates of interest. Then there was the problem of collateral as well, and the reluctance of banks to extend credit to small artisans. It just was not worth the banks' time to lend to these people. Nor, indeed, were the banks equipped for credit appraisal. The bulk of their staff was oriented neither to rural living nor to small-scale operations, which require a great deal of examination of detail and exercise of discretion.

So, the Study Group concluded that it was necessary to make detailed plans for the development of credit and banking in the country on the basis of local conditions.

The first recommendation of the Group, therefore, is for the adoption of an area approach to evolve plans and programmes for the development of banking and credit structure. The area

approach is inherent in the cooperative system. So far as commercial banks are concerned, the central idea is that depending upon the area of operations and the location, commercial banks should be assigned particular districts in an area where they should act as pace-setters providing integrated banking facilities and in this way, all the districts in the country should be covered.

From this it was an inevitable step to designate a lead bank for each district to carry out the task of expanding credit to hitherto unserved customers. The State Bank of India (SBI) and other nationalized banks were expected to be the torch-bearers. Each district plan was to have three main aspects: one, the establishment of branches; two, the formulation of relationships within a structure or between structures; three, the formulation of proper policies and procedures including the shifting of emphasis from tangible security to operational viability of the schemes. Any subsidy in favour of any category would come from the government.

The Study Group concluded that as a platform for launching the various suggestions,

the immediate action that is required is to create an apparatus to evolve an action programme for the next one or two years in respect of a district or a zone consisting of one or more districts. For this purpose District or Zonal Committees should be formed within the next one month or so preferably at the initiative of the State Governments concerned, and consisting, among others, of representatives of nationalized commercial banks and cooperative banks, concerned State Government departments such as agriculture, cooperation and small industries.

The first meeting after nationalization of the Governor of RBI with the custodians of the nationalized banks was held on 14 August. Jha had earlier set up a Committee to look into the branch expansion programme of public sector banks. He emphasized that while it was the intention to retain the individual identity of the banks, they were all owned by the government. This opened up the possibilities of cooperation between them and he encouraged them to identify areas that called for special efforts. Jha was anxious to have at least an interim report as early as possible. So, on 8 September, Nariman submitted to the Governor an advance copy of the interim report, which ran to a mere four pages. Nine days later, a fuller interim report was drafted after the Committee had met twice and it was

submitted on 17 September to the Governor. The final report was submitted two months later, on 15 November.

It had been agreed at the very first meeting of the Nariman Committee that branch expansion in centres with populations of over 1 million should be left for ‘discussions’ with the RBI. With this exception, the Committee suggested the concept of a ‘lead role’ for every identified bank in each district and noted that:

the primary function of a lead bank would be to undertake a thorough survey—a sort of a techno-economic one—for the development of the district from the angle of branch expansion, intensive financing of agriculture and small-scale sectors, thereby identifying areas of credit gaps and potentialities requiring immediate attention.

But it cautioned that the bank that was assigned the lead role was not expected to enjoy a monopoly in the district but was to act as a consortium leader. The lead banks were to identify, through surveys, areas requiring branch expansion and areas suffering from credit gaps, and invoke the participation of other banks operating in the district for opening branches as well as for meeting credit needs. The process of mutual selection of centres was to be initiated by the lead bank with other banks operating in the district, in order to ensure that a situation such as a lead bank taking high potential centres in the district leaving the other centres for the associate banks was avoided.

This period was important also because it saw the first taste of the relationship that was to develop between the Reserve Bank and the government, leading Adarkar, for example, to protest that ‘there seems nothing in writing from Delhi. If the policy is to be modified, this should be preceded by some written comments from Delhi, besides oral advice.’

BRANCH LICENSING POLICY

The immediate provocation was branch licensing policy. The DBOD had proposed that applications for new offices might be considered in the future after assessing the business potential of the particular locality and whether the area was adequately banked. Such an assessment was to be made even in cases where the metropolitan city permitted more bank offices according to the 10,000 population criterion. If the locality applied for qualified for more bank offices, applications, whether of nationalized banks or banks in the private sector, were to be permitted and considered on a

'first come, first served' principle. The DBOD wondered whether, in certain circumstances, banks could go ahead without the Reserve Bank's approval. But eventually it decided against this. In October 1969, Executive Director Seshadri discussed the procedure with Bakshi, who was Secretary in the Department of Banking. Afterwards he recorded a note that set out Bakshi's 'general feelings' on the subject.

These turned out to be that branch expansion was still largely urban-oriented and that the norms of 1:1 for urban and rural areas, and 10 per cent of branches in centres with a population of less than 1 lakh in the seven underbanked states, were probably not relevant any longer because of the sharp emphasis on opening of branches in rural areas and in neglected states. Bakshi also felt that the opening of branches by a nationalized bank in a state or union territory where it did not have a large presence already should be discouraged because of the difficulties arising from language barriers and the unfamiliarity of senior officers with local problems.

This would mean that in the future, a nationalized bank could expand its branches in three or four states other than the one in which it had its head office or had a large number of offices. Adarkar noted acidly in the margin:

In far-off Delhi, Syndicate Bank is making good use of its branches to extend credit to road operators to help cooperative marketing of potatoes in J&K, to collect savings deposits from jawans, etc. United Bank of India, which complains of remote spread, has no such claim to make, even in its own territory.

The government also wanted that the claims of smaller banks not be overlooked merely because they were not nationalized. It was worried that if a lead bank was given the preference in the opening of branches, it could easily lead to a monopoly for the lead bank in the allotted district. It rejected the preference aspect totally. Finally, said Bakshi, subject to the performance of the bank in opening adequate rural offices, every bank should have an opportunity to open an office on commercial considerations in all cities with a population of 1 million and above.

Seshadri also observed that once the Nariman Committee finalized the list of places to be covered by nationalized banks, licences could be given automatically to every allottee bank in respect of the allotted centres. Therefore, the question of licensing in the ordinary course would be relevant only in regard to opening branches on purely commercial considerations outside the list finalized by the Nariman Committee. He then suggested a modification of the licensing policy at this stage. Adarkar felt it necessary to remark in the margin thus:

The present policy is to continue till 31.12.1970. Frequent changes of a basic character are undesirable, though modifications to suit the Nariman Plan must be made; and will ED(S) please put up 10 letters received by RBI containing any such complaints that *RBI found it difficult to resolve, and compare such instances with the total number of offices opened during the period concerned?*

Seshadri further noted that a revision of the licensing policy might take some time, and pointed out the need to clear pending and future applications as quickly as possible, and to allow complete freedom to the Reserve Bank to dispose of applications in individual consultations with the government. In Adarkar's view, the grant of licenses to banks as shown in the Nariman plan took care of most of Seshadri's concerns. He countered the fear that a lead bank might have monopoly business by pointing out that district-wise credit plans would be worked out involving the nationalized banks, including the lead bank, RBI, SBI and its subsidiaries. Such plans formed the core of the credit planning presented by the Professor Gadgil Group report. He also disagreed with the argument that every bank which fulfilled its quota of rural branches should be permitted 'to open offices in cities having a population of 1 million or more' as a 'hasty one', since it was here that restrictions were needed 'to prevent and even to rectify glaring duplication'.

When Jha saw Adarkar's response, he knew he had to perform a difficult balancing act. His reaction was swift. In a note dated 27 October, Jha disclosed that he had discussed with Bakshi the question of the branch licensing policy, and that Bakshi's views were 'not quite the same' as summarized in Seshadri's note of 17 October 1969. Pointing out that Bakshi's thinking and his own 'were not dissimilar', he then set out the major points of agreement. First, the responsibility for branch licensing must continue to be that of the RBI. Second, the interests of SBI and private banks should be taken into account. Third, in the attempt to share the responsibility for opening branches in rural areas, there should not merely be an arithmetical allocation under which all banks carry a pro-rata responsibility in all backward areas but the pattern should enable banks to concentrate and feel specially responsible for certain areas. Finally, towards this end, certain precautions may need to be taken. A Bombay bank opening a dozen branches in Bihar should concentrate the branches in a certain area in Bihar on which they can focus, and for which they can have one or two senior officers for overall supervision, rather than scatter the branches all over the

state. Factors such as language and district, while being relevant, need not be given too much weight. This settled the issue for the moment. The Nariman Committee's main recommendations, which were eventually formulated after four meetings, were in respect of assigning lead districts, allotting unbanked towns and entrusting the treasury work to nationalized banks.

With regard to the allocation of lead districts, 162 districts in seven underbanked states, and 92 in the other states and most other union territories, were allocated to different banks. The Committee also assigned to the commercial banks the task of identifying backward pockets in 81 developed districts in states other than underbanked ones.

The Committee allotted 366 unbanked towns that remained to be taken up by banks and recommended that before the end of March 1970, offices should be established in 99 of the unbanked towns allotted by the Committee, having populations of over 10,000. In the remaining unbanked towns (with populations of less than 10,000), offices were to be opened before the end of 1970. Besides SBI and its subsidiaries, the nationalized banks were to be entrusted with the treasury business. It was decided by the end of 1972 that governmental work at all the treasuries/sub-treasuries would be taken over by the public sector banks.

In November, the allocation of districts became the subject of a minor controversy. Several banks sought clarifications. T.A. Pai, custodian of Syndicate Bank, wrote to the Governor of RBI, complaining about inconsistencies in allocation to Syndicate Bank. He said that although the bank had done a lot of work or conducted initial surveys in the districts, these had been allotted to other banks and so on. Jha was in broad agreement and asked Hazari to meet Mr Nariman and his group.

Meanwhile, M.R. Kamath from the DBOD, who was associated with the Committee, prepared a detailed note on the various points raised in Pai's letter. He explained the rationale and the circumstances under which decisions had been taken by it. F.K.F. Nariman apparently did not appreciate the manner in which Pai had raised a host of issues about the Committee's suggestions directly with the Governor. In a letter to Jha on 8 December he discussed the issues raised by Pai and pointed out that Pai had sent

a manager of one of their Bombay branches who, perhaps, was not aware of the thinking and approach of his Custodian; nor did Shri Pai deem it fit to write to the Committee about the divergent views he had when the minutes of the meetings of the main Committee as well as Operational Heads were circulated

well in time.... It was essentially a Custodians' Committee and it was, therefore, in fitness of things that Shri Pai should have addressed his points to the Committee and that too before the final report was submitted to the Reserve Bank of India.

Hazari met Nariman and Varadachary along with Mangesh Nadkarni from the DBOD. In a note submitted thereafter to the Governor, he emphasized the need to clear up the confusion about the role of the lead bank. 'In the thinking of the Nariman Study Group, the lead bank was to wear only a crown of thorns. It was to carry out surveys, act as consortium leader, open branches in backward areas, etc.—while other banks were to do the actual follow-up.' In effect, he felt that the Study Group had assigned only promotional functions to the lead bank and left developmental activities as a more or less open field to all banks. He confessed that this crucial point had escaped his notice even after a careful reading of the report. Leaving aside the actual shuffling and reshuffling of allotted districts and branches, which could be negotiated among the banks, Hazari highlighted the major point of contention as follows: 'The basic question to consider is whether a lead bank is to be only some kind of a loss leader or is it also to have a major part of the responsibility for opening branches in the district allotted to it.'

Thereafter, a series of meetings were held and the matter was settled by revising the allocations. The Lead Bank Scheme was formally launched on 23 December. While the lead bank was expected to assume the major role in the development of banking and credit in the allocated districts, there was

no intention that the lead bank should have a monopoly of banking business in the district. The bank assigned the lead role is thus expected to act as the consortium leader and after identifying through survey, areas requiring branch expansion and areas suffering from credit gaps, it should invoke the cooperation of other banks operating in the district for opening branches as well as for meeting credit needs.

Representations continued to flow in for a while from a variety of sources, including banks, state governments and bank employees' associations, for changing the allocation of lead districts. The RBI chose to ignore them. The matter also came in the press and Parliament. Both were fended off.

The most noteworthy aspect, however, is that branch allocation from now on became subject to political pressure. For example, in May 1970, V.P. Naik, who was Chief Minister of Maharashtra, wrote to Hazari to the effect that allotting his native district, Yeotmal, to Central Bank of India

was not satisfactory as that bank did not have many branches in the district. He wanted the district allotted to Bank of Maharashtra or Bank of Baroda. Hazari wrote back saying that the allotment of districts took into account the resources of banks, the geographical concentration of their operations and the need to have some contiguity of lead districts, and that although Central Bank of India did not have many branches in Yeotmal district, it was fairly well represented in the Vidarbha region and had been allotted the contiguous districts such as Dhulia, Jalgaon, Buldana, Akola, Yeotmal and Amaraoti, as well as neighboring districts in Madhya Pradesh. He concluded that the Reserve Bank had to balance several considerations and any changes at this juncture might lead to other requests for similar changes and upset the entire basis of the allocation exercise, and hoped that Naik would appreciate the approach that was adopted in the matter.

Political pressure also came in the form of interventions by MPs. A. Bakshi, Additional Secretary, Ministry of Finance, conveyed to Hazari the strong feelings of some Parliament members that the branch expansion programme in some districts like Darbhanga and Palamau was inadequate. Many MPs complained but, by the middle of 1970, things had settled down. The RBI was able to resist the pressures essentially because of the forceful personalities of both the Governor and Hazari, and the highest political support they enjoyed in New Delhi.

From now on, banks were under pressure to ensure that actual branch expansion was in line with the specified programme for each year. In the review of the progress of the Lead Bank Scheme with bankers on 24 April, the Reserve Bank expressed its dissatisfaction with branch expansion, especially in the east, and countered the view expressed by bankers that the delays in opening branches were on account of non-completion of district-wise surveys. Pending these surveys, the banks were asked to proceed with the opening of branches. The Bank also devised a common basic proforma for district surveys and recommended it for adoption by banks although this was not mandatory.

At the end of May, Jha left the RBI to go to Washington as India's Ambassador. His successor was S. Jagannathan but until he actually took over in 15 June, Adarkar was made Governor. Jagannathan was expected, or so went the grapevine, to be 'accommodating'. This did turn out to be the case and Jha's departure signalled the beginning of a period of growing influence of the Finance Ministry. The Bank was seen as being too conservative and as not having understood the aspirations of the people, not to mention the 'compulsions' of the government. The erosion of authority that began then continued over the next decade and a half.

By the early summer of 1971, it had become clear that rapid branch expansion could have a negative impact on profitability. This led to an exchange between the Finance Minister and the chief executives of public sector banks at a meeting called to review progress. Adarkar, who had become chairman of Central Bank of India, said that some of the branches opened by his bank were without 'valid consideration' and could be closed down. The Finance Minister was quick to respond that since many of the branches had been opened only recently, they should be given sufficient time to become stable. But R.K. Talwar, chairman of SBI, raised the question of profitability of rural branches and the overall profitability of banks. These were influential views and the conclusion drawn was that branch expansion should also be based on profitability. Eventually, though, this objective was jettisoned. A newspaper editorial led Jagannathan to arrive at the idea of subsidizing new branches. This was examined by the DBOD, which found that while it took two to four years for a bank office to break even, the banks could take the losses of rural branches in their stride in the initial years of their operation. The idea of a direct budgetary subsidy was rejected as the DBOD said it could act as a disincentive to banks in making branches function profitably.

EARLY SKIRMISHES

This early period was also full of skirmishes between the Reserve Bank and the Finance Ministry. Recounting all of them can be tiresome at this distance but a few are worthy of mention.

Jagannathan's sympathies were with the commercial banks, which were faced with sharp criticism from the press as well as from political personalities. In a reply to the Finance Minister, Y.B. Chavan, who expressed concern over the unsatisfactory performance of some of the lead banks, Jagannathan wrote that while the 'overall direction and pace of branch expansion have been reasonably satisfactory', 'the individual performance of a few banks has not been up to expectations'.

A perspective plan calling for a branch expansion programme covering three years, 1972, 1973 and 1974, was to be prepared by each bank, giving priority to underdeveloped/underbanked districts. By early 1973, the perspective plan was to be treated as the first of the 'rolling' plans with the addition of one more year thus covering the three-year period 1973–75. Most banks sent their perspective (rolling) plans by June 1973, according to which the number of offices to be opened in 1973 alone was placed at 2,600. This was perceived by the RBI to be 'ambitious'.

The introduction of a three-year branch expansion plan ran into some unexpected problems with the Department of Banking, Ministry of Finance. K.P. Geethakrishnan, director in the Department, wrote to M.L. Gogtay, chief officer, DBOD, politely asking for copies of the plans 'received from the banks . . . to the Department of Banking before a final decision is taken on these (plans) *by* the Reserve Bank of India' (italics and parentheses added). On 21 May, Bhuchar forwarded to the government four statements prepared by the DBOD on the basis of the perspective plans received from banks, indicating the overall picture as well as the proposed expansion. Bhuchar suggested that the government representative could participate in the discussions to be held in Bombay at a mutually convenient date, advising at the same time that it was not intended to call meetings of banks for the purpose.

On 7 June, D.N. Saxena, Joint Secretary, Department of Banking, wrote that S.S. Hasurkar, Under Secretary in the Department, would go to Bombay for discussions. He also pointed out that the four statements sent by the RBI pertained to only the ongoing year (i.e. 1973), whereas the perspective plan covered the three-year period 1973 to 1975. Further, he felt that the branch expansion plan for 1973 gave only bank-wise and population group-wise details without correlating them to the needs of underbanked states. He considered it necessary to have state-wise bank group-wise and state-wise population group-wise classifications so that the branch expansion programmes could be 'studied carefully' before holding discussions. The discussions convinced Hasurkar that the actions envisaged by the Reserve Bank were broadly in line with the objectives of the government. With this agreement, the Bank (DBOD) proceeded to issue licences to banks after getting the centres approved by Hazari.

The differences in perceptions, however, continued to simmer. At a meeting of the Central Board held on 16 July 1973, N.C. Sen Gupta who, as Secretary, Department of Banking, Ministry of Finance, was representing the government, observed that according to his Department's analysis, the proportion of rural offices opened by banks had been showing a declining trend. He followed these remarks by forwarding a copy of the note prepared by the Department of Banking to Jagannathan, and suggested that the modified formula had a built-in tendency to reduce the ratio of rural and semi-urban branches to total offices. Hazari was not convinced either by the analysis or the conclusion of the note. A subsequent study conducted by the DBOD in consultation with the Executive Director, K.S. Krishnaswamy, concluded that the revision of the formula in November 1971 had not adversely affected the opening of bank offices in rural and semi-urban

areas, and had no built-in tendency to reduce the proportion of such offices to the total. Conveying the study's findings, Hazari wrote on 30 October 1973 to Sen Gupta that the Reserve Bank considered each application for opening an office in the light of the overall policy of giving preference to rural/semi-urban areas and unbanked/underbanked centres and areas.

After a lull of about three months, the issue was again taken up by M.G. Balasubramanian, Additional Secretary, Department of Banking. In a letter of 6 February 1974, Balasubramanian stated that the pace of growth of branches in rural and semi-urban areas between June 1972 and June 1973 had slowed down as compared with the period between the time of nationalization and the introduction of the new formula, either because of the change in the formula itself or because of a waning of initial enthusiasm on the part of banks due to concerns about decline in profits. He felt that the opening of bank offices at unbanked centres need not have decelerated if there had been insistence on opening branches at such centres. He also cited the low credit–deposit (CD) ratios for rural/semi-urban areas as compared with the CD ratios for urban/metropolitan areas. This meant that with the opening of more branches in rural and semi-urban areas, funds would flow from such areas to urban/metropolitan areas and not the other way about. Balasubramanian also raised the government's anxiety that if the number of branches opened in rural areas declined sharply, the policy adopted thus far would not be defensible.

This, in fact, was reflected in the meeting that the Finance Minister Y.B. Chavan held with chief executives of public sector banks on 1 November 1973, in which the Governor and Deputy Governor (Hazari) were invited to participate. Hazari was specially invited by the Finance Minister to present his views on branch expansion, after the Secretary, Banking, made sceptical initial remarks about realizing the objectives of systematic reduction of regional imbalances in banking facilities and avoidance of bunching of new offices in the closing months of the year. Hazari felt that the bunching problem was inherent, while increasing the number of branches in the central, eastern and northeastern regions was not easy. He argued that while licences were issued to banks, banks brought to the notice of the Reserve Bank the adverse impact on their profitability on account of opening additional offices in backward areas.

The concern about fall in profitability was voiced by a number of chief executives of banks (e.g., Union Bank of India, Bank of India, Bank of Baroda, Punjab National Bank and Dena Bank) at the meeting. Proposals also came up for charging higher rates of interest for large borrowers and for grant of subsidy by the government to preserve profitability. M. Narasim-

ham, Additional Secretary, Department of Economic Affairs, cautioned that excessive concern for profitability would defeat the social objectives that banks were required to subserve and contended that as possible solutions, expenditures could be cut down and the minimum lending rate could be increased beyond the then prevailing level (of 10 per cent). The Minister reiterated the government's thinking and urged the Reserve Bank to make determined efforts to ensure that the gaps in the branch network were bridged.

The Reserve Bank urged upon banks to open a larger number of offices than in the earlier years, including a sizeable number in unbanked or underbanked or rural and semi-urban areas, and underbanked districts/states.

By the middle of 1975, the Prime Minister announced the Twenty-Point Economic Programme and, in a related development, Government of India issued letters to state governments to take legislative action to liquidate rural indebtedness and for a moratorium on recovery of debt from landless labourers, small farmers and rural artisans. On 1 July 1975, the government constituted a Working Group under the chairmanship of M. Narasimham, Additional Secretary in the Department of Economic Affairs, Ministry of Finance, to examine the feasibility of setting up new rural banks as subsidiaries of public sector banks to cater to the needs of the rural people. On 2 August 1975, the Union Finance Minister, C. Subramaniam, at a meeting of the Western Regional Consultative Committee, desired that the working of the Lead Bank Scheme in all its aspects in Maharashtra and Gujarat be reviewed. Accordingly, the Reserve Bank by constituted study groups under the convenorship of Meenakshi Tyagarajan to review the functioning of the Lead Bank Scheme in these two states.

Realizing that the problems of the two states were common, the Study Groups submitted a single (common) report in December 1975 to K.S. Krishnaswamy, Executive Director. The general conclusion of the report was that the first phase of the lead bank programme, namely, identification of centres with potential for banking operations and the opening of bank branches therein, had been successful, whereas the second phase, of formulation and implementation of area development programmes, had been slow and at times uncertain. The need for dovetailing credit with the schemes under district development plans was emphasized by the report. The monitoring of such credit plans would have to be done by the District Consultative Committees. The report also suggested the constitution of a standing committee in the Reserve Bank to keep the overall progress under review.

As a sequel to this, a High Power Committee (HPC) was constituted in

March 1976 under the chairmanship of K.S. Krishnaswamy, who by then had become Deputy Governor. The members of the HPC included the chairmen of four public sector banks, senior officials of the Reserve Bank and a representative of the Department of Banking, Ministry of Finance. The HPC was set up essentially to assess the performance under the Lead Bank Scheme, both in terms of branch opening and priority sector lending where the Twenty-Point Programme's impact was sharply experienced. As such, the HPC was expected to issue policy guidelines for effective functioning of the Lead Bank Scheme, to examine specific problems that arose in the implementation of the scheme in different districts as reported by banks, to examine problems referred to by the state governments and regional offices of the Bank, and to act as a reviewing authority where defaults occurred in the fulfilment of allocations made to the participating agencies.

ENTER DRB

Within a few days of the meeting of the HPC, a development took place that had a profound impact on the relationship between the government and the RBI. By Circular No.F.1(154)/Admn/74 dated 13th April 1976, a new Department of Revenue and Banking (DRB) was created outside the Finance Ministry, to deal directly with the public sector banks. On 21 July 1976, Joint Secretary Kusum Lata Mital wrote letters to the chairmen of public sector banks to expedite the process of opening branches against pending licences. A copy each of these letters was endorsed to the Governor of the Reserve Bank 'for information'. In September 1976, Under Secretary S.S. Hasurkar of DRB addressed a letter to the DBOD chief officer, asking for details of pending applications from banks for opening branches. Hasurkar's letter also indicated that from the information received by DRB, there were, as of end June 1976, '855 applications from the public sector banks which were pending Reserve Bank's decision. Of these 446 are reported to have been pending for more than 6 months.' Hasurkar added that his Department should be

advised about the number of applications from each of the public sector banks for branch opening pending consideration by the Reserve Bank as at the end of 31 July 1976, according to the population group-wise status of the centres involved and also according to the period for which they have been pending decision, viz. less than three months, between three and six months and more than six months.

The enthusiasm of DRB officials to expand branches, particularly into rural and semi-urban areas and unbanked centres, was more emphatically reflected in Ms. Mital's letter to Governor K.R. Puri (18 November 1976). She suggested in that letter that the existing formula for branch licensing needed to be revised because there was no stipulation as to where the rural/semi-urban branches should be opened. She followed that, up with another letter to the Governor on 20 November 1976, stating that in view of the large number of representations about 'opening of branches at different unbanked centres, particularly in the underbanked regions', the Minister of Revenue and Banking 'desired that to transmit these impulses in their proper perspective to the Reserve Bank of India, there should be a very close association of the Department of Revenue and Banking (Banking Wing) with the process of branch licensing in the Reserve Bank.'

The Secretary, DRB (Banking Wing), M. Narasimham, held a meeting on 21 January 1977 of chief executives of public sector banks, and wrote a letter to them on 25 February 1977 reiterating the decisions that were taken at the meeting. These decisions related to a variety of issues, such as the opening of branches in unbanked blocks, performance budgets, the operation of the Lead Bank Scheme, priority sector advances and deployment of funds in rural areas. As the government was committed to providing at least one bank branch in each of the 900 community development blocks having no commercial bank branch, the state-level bankers' committees were asked, 'through the convenor banks'—*not* through the Reserve Bank—to draw up an agreed programme. The lead banks were expected to keep the programme and its implementation under constant review. The letter also stated that the government did not accept lack of infrastructure facilities as a valid reason for not opening branches in an unbanked block. It was also suggested that where genuine problems existed, the banks could raise them with the state governments on a priority basis so that the minimum required facilities would be rendered available for branch opening before June 1978, the date agreed to with the Estimates Committee of Parliament.

Shortly after this incident the political Emergency ended and a new government was installed, replacing, for the first time in the history of independent India, the Congress-led government at the centre. Puri was replaced by M. Narasimham as Governor of RBI on 2 May 1977, on the clear understanding that Narasimham would hold the position temporarily, till I.G. Patel took over. In June 1977 Governor Narasimham appointed a Committee headed by James Raj to assess, among other things, the impact of branch expansion since 1969 and to suggest the future course of action,

keeping in view the need for rural development and removal of regional imbalances.

On becoming Governor on 1 December, I.G. Patel took up the issue of branch expansion with a measure of urgency. Patel was not in favour of continuing with the existing policy, with or without marginal changes. He desired 'a more positive and drastic approach', as he noted on a DBOD note of 16 December 1977 on the subject. His preferences were for opening offices in deficit districts, for completely forgoing expansion of offices in metropolitan centres, and for cancelling licences that were not utilized. He was willing to wait for the reports of the James Raj Committee, the Kamath Working Group relating to a multi-agency approach to agricultural financing and the Dantwala Committee on the performance of regional rural banks (RRBs), before evolving a long-term policy for expansion of branches. This clearly suggested that the expansion programme had to be drawn up only for 1978. Accordingly, and in line with Patel's thinking, the DBOD issued a circular on January 1978 to all the commercial banks, wherein it was suggested that 'the stage has now been reached when banks have to give adequate and due consideration to the need for reducing the inter-state and inter-district disparities in branch development and also pay attention to the process of consolidation'.

This policy favoured a multi-agency approach to rural credit, in the form of coordination between financial agencies, commercial banks, cooperatives and RRBs, in order to avoid wasteful competition and duplication of effort. It aimed at expansion of banking facilities in deficit areas and for reduction of inter-state and inter-district disparities. It was also proposed to have at least one bank office in every unbanked community development block before the end of June 1979.

But this did not mean that there were no concerns about the evolving structure of public sector banks. M.R. Shroff, Additional Secretary in the Banking Division of the Department of Economic Affairs, Ministry of Finance, in a letter dated 8 February 1980 to Governor Patel, proposed that the bank branch structure should be rationalized keeping in view the regional specialization of banks. The Reserve Bank carefully studied Shroff's suggestion but concluded that instead of pursuing regional specialization, it would be necessary to persevere with the objectives of reducing inter-state and inter-district disparities, of encouraging RRBs to open branches in rural areas, commercial banks opening branches in unbanked block headquarters, and of restrictions upon opening branches in already overbanked metropolitan centres.

A letter signed by Executive Director W.S. Tambe, dated 1 April 1980,

was sent to the government, stating the Bank's preferences. The ideas contained in this letter were largely reiterated in the Bank's memorandum to the Central Board in October 1981, wherein the thrust was on expansion of bank branches to cover all unbanked centres in deficit districts. It was proposed to have 9,000 additional offices in rural and semi-urban areas in this process. RRBs were to be given a greater role. It was proposed to continue with the restrictive policy in respect of branch expansion in metropolitan/port town centres. These proposals, as approved by the Central Board of Directors, were sent to the government for concurrence.

The government, while agreeing to the proposals, indicated that since a large number of licences had been issued by the middle of 1981, it would take time to clear the backlog of pending licences. Also, as it would take time to consult the state governments and to draw up lists of centres for opening branches, the government suggested that the proposals could be brought into effect from April 1982. The Bank accepted the suggestion.

REGIONAL RURAL BANKS

One of the new institutions to emerge in the 1970s that had an impact on the geographical coverage of the banking system and, to some extent, on the extension of credit to a section of the population in the rural areas, was the regional rural bank (RRB). It was created in 1975 at the initiative of the Government of India. There is no evidence of the government having consulted the Reserve Bank before creating the RRBs. The context in which it was created, according to the official letter, related to the Prime Minister's (Mrs Indira Gandhi) desire that the credit needs of the rural people be catered to, and that the setting up of 'new rural' banks as subsidiaries of public sector banks for the purpose be examined in depth. The official letter also observed that the new institutions would have to be imbued with an 'attitudinal and operational ethos' that would be entirely different from the one then obtaining in public sector banks. It was indicated that the new institutions should provide employment to the rural educated youth and bring down costs by recruiting staff on scales of pay and allowances equivalent to those of state government/local bodies. The Working Group appointed to examine the possibility of setting up these new rural banks was headed by M. Narasimham, then Additional Secretary, Department of Economic Affairs. P.N. Khanna, chief officer of DBOD, Reserve Bank of India, was one of the members of the Group. The Group was appointed on 1 July 1975. While forwarding its report on 31 July 1975, the chairman noted it as a unanimous report of the Committee on Rural Banks. The Working Group

did not refer as such to ‘regional rural banks’ at any place in the report but proposed that the rural banks be ‘regional banks’. It was only in the Ordinance of 1975 (later converted into an Act) that the words ‘regional rural banks’ occurred together.

The recommendations of the report were accepted as they were along expected lines. It was clear from the beginning that RRBs would be set up, given the growing industrial relations problems in commercial banking largely for improving the salary structure and other perquisites of the employees of commercial banks, and the reluctance of commercial bank staff to move into rural areas even where there was evidence of good potential for banking business in some of these areas. It was, therefore, not surprising that the report itself was required to be prepared keeping those two aspects in view. The report was to be completed within a month, one of the shortest periods given for submission of reports. The time period was taken as strictly binding, given the fact that the internal Emergency was promulgated on 25 June 1975. The government, by appointing the Working Group, succeeded in giving the impression that its own judgement on the issue on hand was not important and would be influenced by the views of persons acquainted with the banking business.

The basic idea behind the establishment of RRBs was not new. In fact, it was very much present in the work done by B. Venkata Rao, then deputy officer, Agriculture Credit Department (ACD) of the Reserve Bank of India, while working in the cell attached to the Banking Commission. Venkata Rao’s technical papers, entitled ‘Restructuring of Cooperatives at the Primary Level: Rural Banks’ (published in *Studies Prepared for the Banking Commission*, Vol. II, Reserve Bank of India, Bombay, 1972, pp. 35–76 and pp. 77–90), laid out the proposal for ‘rural banks’ thus:

It should be left to an appropriate institution, e.g., ‘lead bank’ to assess, on the basis of studies, the deposit and business potential of the centres and identify in which of them it would be worthwhile to open branches of banks, commercial or cooperative. Thus, would be left out in each district, particularly in the agriculturally developing areas to which it may be necessary to give priority in the matter of reorganization, those areas which are likely to need locally-based primary institutions. It is surely in these areas that the existing primary credit societies would have to be reconstructed. (paragraph 127)

The paper went on to state that the restructuring programme will mean

creation of rural banks that can undertake multiple and diversified credit services to promote economic activities in the areas concerned. But where cooperative coverage was generally poor, 'the rural bank may have to be organized in a different way, say, e.g., a subsidiary of a commercial and cooperative bank or of a commercial bank alone with suitable local participation, according to local conditions' (paragraph 133). The Banking Commission, in fact, recommended that rural banks be established on the lines given in the technical papers.

The proposal of the Working Group, however, was slightly different in that RRBs would be set up as subsidiaries of commercial banks and would not have anything to do with the cooperative credit movement. The Working Group's preference for RRBs as subsidiaries of commercial banks was based on the premise that 'the weaknesses of the cooperative system appear inherent in their organization in several areas of the country and would require radical reorganization in their working if they are to become effective over a countrywide area' (paragraph 1.15). The Group, however, recognized the difficulties of commercial banks covering 'a wide area of the country intensively'. 'What we need therefore', it observed, 'is an institution which would combine the better features of both systems while avoiding the disabilities inherent to them' (paragraph 1.15). RRBs, as proposed by the Working Group, were supposed to provide a degree of adaptation and improvisation. Although the Group proposed that 15 per cent of the shareholding should be left open to 'cooperative banks/societies, other local institutions and individuals so as to foster a spirit of local participation in the bank' (paragraph 2.5), the very fact that it did *not* provide for shareholding *exclusively* by cooperatives left room for the government to disallow any shareholding by cooperative banks/societies when the Ordinance was promulgated and the Act passed.

The government's stand in this regard was not surprising. First, there was no guarantee that linking up RRBs with cooperatives in any form would work effectively. On the other hand, it was known that between the end of June 1969 and end-June 1975, the number of commercial bank offices had gone up from 8,262 to 18,730. Such an expansion may not be achieved by linking RRBs with cooperatives. Second, linkage with cooperatives could bring about unavoidable political interference from diverse groups, given the presence of a large number of political personalities in the cooperative movement. The government was anxious to foster the impression that RRBs would be run on commercial lines for the benefit of the rural community. Finally, the government wished to distance itself from the proposal of the

Banking Commission for setting up ‘rural banks’, which, as mentioned earlier, was set up by Morarji Desai who had parted company with Prime Minister Indira Gandhi.

An Ordinance was promulgated on 26 September 1975 to enable Government of India to ensure that some RRBs were set up on 2 October 1975, to coincide with the birthday celebrations of Mahatma Gandhi. Five RRBs came into being on that day. On 30 October 1975, the Department of Banking, Government of India, invited comments and suggestions on the proposed RRB Bill substituting the Ordinance. The Reserve Bank sent its comments relating to (i) the salary and other allowances payable to the chairmen of RRBs and (ii) the disputes about remuneration and other emoluments payable to employees of RRBs. The Bank was not in favour of the terms and conditions of the service of the chairman being prescribed by rules since this could be cumbersome. These should be, in the Bank’s view, determined by executive actions rather than by rules, since that would be consistent with the position that was taken in regard to the managing director or whole-time director of nationalized banks. Further, the Bank was not in favour of any reference to disputes on salary or other emoluments of an employee of an RRB being raised before any authority constituted under the Industrial Disputes Act, 1947, as the RRBs would be appointing staff for the first time and there would, therefore, be no question of the staff being governed by any earlier awards or judgements.

The Bank forwarded two more suggestions on 8 December 1975. The first was about amendments to the Banking Regulation Act, 1949, relating to maintenance of percentage of liquid assets by RRBs, and the other related to amending the Payment of Bonus Act. Since RRBs would be included in the definition of a banking company, these amendments were favoured by the Bank. The first amendment was, however, not regarded as necessary by the Finance Ministry after a discussion between officials of the Banking Department and the Legislative Department of the Ministry of Law. The second amendment later was taken up by the Ministry of Labour.

THE RRB BILL

The RRB Bill was introduced in the Lok Sabha on 16 January 1976 and passed on 21 January 1976. The Bill was passed by the Rajya Sabha on 29 January 1976. It received the assent of the President on 9 February 1976. The discussions in the Parliament centred on a few issues—the criteria for opening rural banks, the local representation in the board of directors of RRBs, the pay scales of the staff, the security orientation in lending by RRBs,

and the interest rates to be charged by RRBs. The government's views, as expressed by the Minister of State in charge of the Department of Revenue and Banking (Pranab Kumar Mukherjee), were as follows. Each nationalized bank would be entrusted with the opening of at least one RRB. At least one RRB would be opened in each state. RRBs would act as supplementary institutions to cooperatives, especially where cooperatives are strong. Fifty RRBs were to be initially set up, but there was no hard and fast rule that this number should be strictly adhered to. As RRBs will have to run efficiently, the boards were to be professionalized with experts drawn from agriculture and other fields relevant for furthering the interests of rural banks. The pay scales were to be at par with those of state government employees partly because state governments would have a share in the capital of RRBs, and also because the recruitment would be from the local areas of operation of RRBs where the presence of state government officials would be felt very strongly. On a security orientation in lending, the government felt that this matter should be determined by local officers to meet the local requirements. With regard to the interest rates on loans, it was of the view that they cannot be lower than those charged by cooperative institutions.

The Bill as passed indicated that while the central government could give policy directions to RRBs, this would be done after consultations with the RBI and the directions were to go through the Reserve Bank. RRBs were accorded the status of scheduled commercial banks. The shares of RRBs were deemed to be trustee securities under the Indian Trusts Act, 1882, and approved securities under the provisions of the Banking Regulation Act, 1949. The loaning business of RRBs was to be largely concentrated in agriculture and cooperative societies, and would be with persons including those engaged in trade/commerce or rural industry or other activities within the notified area of operation of the RRB. RRBs could offer higher rates of interest on deposits—at one half of 1 per cent—than what the commercial banks offered. The authorized capital of each RRB was to be Rs 5 crore of fully paid-up shares of Rs 100 each. The issued capital of each RRB may be fixed by the central government but would in no case be less than Rs 25 lakh. Fifty per cent of this would be subscribed by the central government, 15 per cent by the concerned state government and 35 per cent by the sponsor bank. The chairman would be from the sponsor bank and, besides the chairman, there would be eight directors on the board. The Reserve Bank exempted RRBs from maintaining cash reserves ratio in excess of 3 per cent for a period of two years from 2 October 1975. (This ratio was maintained throughout the period under view of this volume.)

The Bank fixed the statutory liquidity ratio (SLR) at 25 per cent. RRBs were also permitted to maintain cash balances in current accounts either with the State Bank of India or any other nationalized bank. The RBI extended short-term finance to RRBs, with sponsor banks as co-signatories, at rates of interest that were not to be more favourable than those charged for co-operative banks. RRBs were registered as insured banks with the DICGC.

The five banks that were first set up on 2 October 1975 were Prathma Bank at Moradabad (Uttar Pradesh), sponsored by Syndicate Bank; Haryana Kshetriya Gramin Bank at Bhiwani (Haryana), sponsored by Punjab National Bank; Gorakhpur Kshetriya Bank at Gorakhpur (Uttar Pradesh), sponsored by State Bank of India; Jaipur Nagaur Anchalik Gramin Bank at Jaipur (Rajasthan), sponsored by United Commercial Bank; and Gaur Gramin Bank at Malda (West Bengal), sponsored by United Bank of India. A Steering Committee was appointed to work out the details of the RRB programme and to monitor their progress under the aegis of the Ministry of Finance. The Reserve Bank was represented on the Steering Committee. The Committee held discussions at close intervals in the first year. At its fourth meeting, held on 19 November 1975, the Committee noted that in some areas the existing branches of commercial banks were doing little work and that these areas therefore needed to be more closely attended to by RRBs. The main issues discussed, however, were whether RRBs should open branches in areas served by branches of commercial banks, and whether RRBs could be given preference over commercial banks in opening branches in such areas. Narasimham held the view that as RRBs had just made an entry into the field, the time had not yet come for them to replace commercial banks. R.K. Talwar of State Bank of India observed that RRBs should be considered as complementary to commercial banks performing a number of functions including setting up remittance and bill collection facilities. C.D. Datey of the Reserve Bank felt that the branches of commercial banks could attract clientele not serviced by RRBs. Demarcation of functions between RRBs and other commercial banks was not seriously considered, since RRBs, at that time, were in their infancy.

On the question of RRBs opening branches at banked/urban centres, there was, in the initial months, no single view either in the Reserve Bank or in the Steering Committee. At a meeting between the Minister for Revenue and Banking and the chairmen of RRBs held at New Delhi on 15 July 1976, by which time there were 112 RRB offices, the Minister agreed with the suggestion that in districts where rural banks were operating, new branches could be opened by them rather than by other commercial banks. In view of this decision, the Reserve Bank gave preference to RRBs rather

than debarring other commercial banks from opening branches in rural areas falling within the districts of RRBs.

At a meeting of chief executives of public sector banks with the Minister of Revenue Banking on 21 January 1977 at Delhi, the allegation was made that commercial banks were opening branches in areas of operation of RRBs. The Reserve Bank explained at the meeting that before allowing any commercial bank to establish an office in such areas, the view of the concerned RRB was sought as to whether it would be in a position to open a branch at the particular centre and if not, whether a commercial bank could be allowed to open a branch. The Bank added that only after obtaining clearance from RRBs were commercial banks allowed to open branches. The Minister broadly supported the Bank's stand on the matter. However, he observed that it was not open to RRBs to decline to open branches in their areas of operation, and suggested that any licence pending with commercial banks in areas of operation of RRBs be cancelled. The Bank acted upon this decision.

POLICY CHANGES

However, within a space of three months, the government reversed this decision. This had to do with the change of government itself. Joint Secretary Kusum Lata Mital, in her letter of 9 May 1977 to P.N. Khanna, chief officer of DBOD, advised that by June 1978 all community development blocks that were devoid of banking facilities should be served by at least one commercial bank branch. As the full range of banking facilities would not be available to the community development blocks that were served by branches of RRBs alone, the government took the view that applications for licence from other commercial banks could be 'sympathetically' considered by the Reserve Bank. This made eminent sense and the Bank, therefore, decided upon a modification of its policy in certain respects. For example, where an unbanked block headquarters offered scope for more than one office, an RRB as well as another commercial bank could be allowed to open offices. Again, where an office of an RRB was already functioning at the block headquarters and there was scope for an additional bank office, a commercial bank could be permitted to open an office in a nearby outlying centre, on merits. Moreover, where an RRB had *not* established its office in block headquarters, a commercial bank would be allowed to open an office, and the remaining centres in the block would be reserved for the concerned RRB. This meant that, given the limited resources, both of finance and trained human power, RRBs would consolidate their position

rather than expand their branch network. The Bank, on its part, sent a guarded reply to Ms. Mital's letter stating that the concerns of the government would be 'kept in view'.

The question as to why there was a shift in the new Janata government's viewpoint is not to be found in any official document or study. One can only make a conjecture. The creation of the RRB, though bearing some resemblance to the 'rural bank' proposal of the Banking Commission, was associated with the 'Emergency' and Indira Gandhi, and, ironical as it might seem, required to be de-emphasized. The new Finance Minister, H.M. Patel, a civil servant, felt that the rural credit structure would be best served only if the original intent in the creation of RRBs was fully addressed. It is not clear whether the votaries of the cooperative credit movement who felt peeved at the creation of RRBs, influenced him in the matter. The fact is that H.M. Patel himself was involved intimately with a milk producers' cooperative in Gujarat and was a close friend of B. Venkatappaiah, a strong advocate of the cooperative movement, a civil servant, a one-time Deputy Governor of the Reserve Bank of India and chairman of the State Bank of India, to whom, it is said, Patel turned for advice on matters of finance.

Hardly three months into power, the new government decided that it was time to review the working of RRBs. It was aware that the Working Group on Rural Banks had suggested that in the first instance about five banks may be set up as 'pilot institutions' and, depending upon 'their performance and the experience that is gained on the basis of their working, an expansion in the number of banks and their extension to other areas could be considered' (paragraph 3.7). The government, after ensuring the establishment of five RRBs in October 1975, had, however, helped to set up 50 more RRBs by May 1977. Reviewing all the RRBs would have been difficult. The government, also, was not perhaps willing to do the review on its own because such an action would have been viewed as vengeful of the action of the previous government in the matter. It was therefore left for the monetary authority to take this task upon itself. One of the first acts of M. Narasimham as Governor of the Reserve Bank was to set up a Review Committee (in June 1977) for the purpose, with Professor M.L. Dantwala, an agricultural economist, as chairman. H.B. Shivamaggi, Adviser, Economic Department of the Reserve Bank of India, was the secretary of the Committee. The Committee was to submit its report within three months but could do so only much later—on 16 February 1978. The choice of Professor Dantwala as chairman was dictated by considerations of his professional competence rather than by any association with the cooperative credit movement or with commercial banking.

The Committee's assessment of the overall performance of RRBs took into account the Steering Committee's recommendation that RRBs should be located in areas where gaps in credit to the weaker sections of the rural population were large, and where the potential for agricultural development was seen to be high. The Dantwala Committee found that, by and large, the choice of districts for setting up RRBs was appropriate. The RRBs surveyed by the Committee had mobilized sizeable deposits, of nearly Rs 7 crore, as at the end of June 1977. Two RRBs, i.e. of Gorakhpur and Khammam, had collected deposits of about Rs 150 lakh each—beyond the government's expectation of deposit mobilization of Rs 100 lakh by each RRB in the first year of working. Strikingly enough, over one-third of the deposits of RRBs was from their branches at unbanked centres. The Committee felt that, in the interest of agricultural development, RRBs should not be precluded from extending credit to farmers on the basis of the size of landholdings, but suggested that for preserving the distinctness of being a bank for the small person/economic entity, 60 per cent of the loans advanced by an RRB should be earmarked for the benefit of small farmers, rural artisans and other rural poor. Noting that state governments prefer to keep the deposits of their institutions with cooperatives, the Committee also urged the development agencies of state governments to assist in linking cooperative societies with RRBs, since the surveyed RRBs showed evidence of bias in favour of loans to agriculture and allied sectors. The Committee observed that the recruitment of clerical and technical staff locally imparted a personal touch to the day-to-day banking operations in that the borrowers were known to the staff of RRBs.

A recommendation of far-reaching importance made by the Committee was that rural branches of commercial banks should be replaced by RRBs and their branches. It followed from this that the policy on expansion of rural branches of commercial banks needed to be reviewed by the Reserve Bank. The Committee urged Government of India and the Bank to take steps to initiate the process of making RRBs an integral part of the rural credit structure. It suggested that an RRB could cover a population of 10 lakh to 15 lakh, and that the number of branches per district for each RRB could be 50–60. The Committee further recommended (i) the winding up of the Steering Committee, as the RRBs had already come to stay, and (ii) the installation of an appropriate organizational set-up in the Reserve Bank to look after the work of RRBs.

The RBI took up for consideration the recommendations of the Dantwala Committee along with the recommendations of the James Raj and Kamath Committees, which had studied, respectively, the functioning of public

sector banks and the problems in adopting a multi-agency approach in agricultural financing at around the same time. The promotional functions performed by the government through the mechanism of the Steering Committee were transferred to the Reserve Bank in October 1978. The statutory responsibilities provided for in the Regional Rural Banks Act continued to be exercised by the government pending necessary amendments to the Act, which took place much later in 1988. Following the Dantwala Committee's recommendation, the RBI did not rigidly apply the rule of 'one district, one RRB'. As a result, 83 RRBs set up till September 1980 covered 141 districts or a little more than one-third of the total number of districts in the country. Again, RRBs were permitted to make advances to persons against fixed deposits subject to stipulations of the Reserve Bank every now and then. They were also permitted to finance farmers other than small and marginal farmers who cultivated land within the project areas approved for refinance by the Agricultural Refinance and Development Corporation (ARDC).

The James Raj Committee, on its part, envisaged RRBs opening branches at a rate that would enable them, ultimately, to take over the existing branches of commercial banks. The Reserve Bank decided to accord priority to RRBs in branch expansion in rural areas, in areas where they were operating or proposed to operate later. Where there were special schemes for financing agriculture and where RRBs were not in a position to expand immediately, the concerned lead bank of the district was to be allowed to open branches.

All the three Committees, namely, those of Dantwala, James Raj and Kamath, favoured the process of transfer of rural branches of commercial banks to RRBs in the latter's command areas. However, while the Dantwala Committee envisaged a total replacement of rural branches of banks by RRBs over time, and the James Raj Committee suggested, in addition, widening the powers of lending by RRBs to all small borrowers, the Kamath Committee took a more specific stand and proposed that sponsor banks/other commercial banks might consider transferring their rural branches to RRBs by mutual consultation in a phased manner, spread over three to five years. The Reserve Bank too took this view, as is evident from the Memorandum to the Central Board No. B-19, 9 August 1978.

This decision was severely criticized at the meeting of the Agricultural Credit Board that was held on 29 August 1978. B. Venkatappaiah, former Deputy Governor of the RBI and a strong votary of the rural cooperative credit structure, voiced a strong protest against the proposal for transfer of rural branches of commercial banks to RRBs even if it were to take place

with mutual consultations. Venkatappaiah went to the extent of stating that he would not be a party to a decision that entailed a wholesale transfer either of rural branches or of the rural business of commercial banks operating in the command areas of RRBs, as he felt that rural business was yet to be 'defined'. Deputy Governor M. Ramakrishnayya, who was the chairman of the Board, tried to clarify that the transfer was neither compulsory nor automatic. Venkatappaiah however maintained that it was yet to be established that RRBs were better agencies than the branches of commercial banks or cooperative banks, and that the proposed approach would negate the multi-agency approach to rural lending. He desired that the decisions emerging from the day's discussions be clearly recorded so as to avoid ambiguity on future occasions. He took the extraordinary step of demanding that the decisions arrived at in so far as they related to RRBs—(i) in addition to state cooperative banks, banks might also, on their own, sponsor RRBs, (ii) state cooperative banks might, wherever possible, sponsor RRBs jointly with commercial banks, (iii) there would be no freeze on the opening of rural branches by commercial banks and the State Bank of India would be permitted to go ahead with (the opening of) agricultural development branches—be recorded. Ramakrishnayya agreed that these decisions were 'clearly understood' and that, in regard to branch licensing policy, the point made by Venkatappaiah and other members had been noted for action. He assured that the ambiguities in the note would be removed.

Taking note of the broad decisions taken at the meeting, in its circular dated 8 September 1978 setting out the guidelines on the new branch licensing policy, the RBI refrained from making any reference to possible transfer of rural branches of commercial banks to RRBs, but indicated clearly that while priority would be accorded to RRBs in opening branches in rural areas falling in their command districts, commercial banks were not precluded from opening new branches in such areas wherever considered essential, or from continuing their existing branches in the command areas of RRBs. On another occasion, during a meeting with bankers at Lucknow to discuss branch expansion plans for Uttar Pradesh, the Bank clarified that it would not compel any bank to transfer its rural branches to RRBs unless the commercial bank in question wanted to do this on a mutually acceptable basis with the RRB.

This issue surfaced at a meeting of the Steering Committee on RRBs held in May 1979 and subsequent meetings held in July/August 1979, when the chairmen of three banks, namely, the State Bank of India, Central Bank of India and Canara Bank, were reported to have shown their willingness

to transfer the business of their rural branches falling in the areas of RRBs sponsored by them, from the point of view of cost and convenience. Deputy Governor Ramakrishnaya asked them to submit concrete proposals. From the correspondence files it would appear that only Canara Bank showed its willingness to transfer its rural branches to two RRBs sponsored by it, and, in case there were any particular advances that fell beyond the purview of RRBs, to have them shifted to the bank's nearest branch. In this situation, notwithstanding its avowed stand (of leaving it to the sponsor bank and the concerned RRB to arrange the transfer on a mutually agreed basis), the Reserve Bank surprisingly indicated that it would have to be satisfied about the managerial and administrative capacity of the RRB to effectively take over the branches and run them on proper lines, the status of its existing branches and the number of licences pending with it. The Bank, also, could not wish away certain knotty problems, namely, rehabilitation of the staff of the sponsor bank at these branches, and the take-over of bad and doubtful debts of the branches either by transferring the necessary provision in respect of such advances to RRBs or by handing them over to RRBs on a collection basis. Only Canara Bank seemed to have evinced further interest in the matter by giving details of the proposed transfer of one branch each in Karnataka and Kerala. Again, the Reserve Bank opted to tread a cautious path and asked the bank to first tackle the problem of absorbing the surplus staff to the mutual satisfaction of the unions. The Bank decided to further examine the implications of this proposal on receipt of a reply from the bank.

While processing the proposal, Executive Director W.S. Tambe wanted to list the important points that the Bank would like to take into account and be satisfied about, when considering such proposals. Accordingly, the DBOD identified certain related points, as under:

- (i) Whether the whole business of the rural branch or only rural business done at the branch was to be transferred. The term 'rural business' meant business which an RRB was permitted to transact under the guidelines issued by the government in 1976, i.e. loans to small and marginal farmers, rural artisans, landless labourers, etc., and advances against their own fixed deposits and financing land development schemes covered by ARDC. If the government took an early decision on a pending proposal that an RRB could do any business that the rural branch of a commercial bank did, there might not be any difficulty in transferring the entire business of the rural branch to the RRB.
- (ii) Business that could not be transferred to an RRB, like industrial

advance, could be transferred to the nearest branch of the commercial branch.

- (iii) While the deposits and other liabilities of these branches could be transferred to the RRB almost in full after observing the legal formalities, the assets to be transferred might not be sufficient to offset the liabilities. In that event, the sponsor bank would have to provide funds/assets to make up the deficit, after carrying out an evaluation of assets.
- (iv) In case bad and doubtful debts of the branch were also to be transferred to the RRB, either the provision held by the sponsor bank should be passed on to the latter or arrangements made for the RRB to take over these advances on a collection basis on behalf of the sponsor bank.
- (v) The question of absorbing the staff of rural branches of the sponsor banks to be closed (at its other nearby branches) would have to be solved amicably, in consultation with the staff associations.
- (vi) Till the RRBs were in a position to engage their own staff, the sponsor bank's staff would have to be loaned, and the difference in their salaries borne by the sponsor bank.

With the approval of Deputy Governor K.S. Krishnaswamy, it was decided that it might not be desirable for the Reserve Bank to either encourage or discourage the process of take-over. If any bank, particularly a sponsor bank, decided to transfer its specific branches to RRBs and evolve suitable modalities to take care of the above-mentioned points, the Bank should not stand in the way. Krishnaswamy commented on 2 April 1980: 'There will, doubtless, be problems in regard to transfer of assets/liabilities as well as personnel. But if a sponsor bank and its RRB have agreed on these, we need not raise any objections on grounds of general policy or philosophy.'

This issue, however, continued to engage the attention of the DBOD and RPCC in the Reserve Bank, albeit on a low key. Without making it an all-India issue, the Bank decided to encourage such transfers in case the sponsor bank took the initiative. In districts already identified for new RRBs, licences would be issued to RRBs and the licences held by commercial banks transferred to the new RRBs. Even as late as the middle of 1981, the Bank maintained that if RRBs could ensure adequate business and attain operational viability, the transfer of rural business of commercial banks could be more actively pursued.

The change of guard at the centre again in 1980 coincided with a more detailed review of the working of RRBs. (Routine reviews generally take place on the basis of off-site statistical returns, in any case.) A

memorandum was submitted to the Central Board in December 1980 giving the results of the review. By September 1980, 83 RRBs were functioning with 2,700 branches in 141 districts. The bulk of them were in Uttar Pradesh, Bihar, Madhya Pradesh and Orissa. Punjab was an exceptional state with no RRB. The State Bank of India led other banks in sponsoring RRBs; it was followed by the Central Bank of India, Bank of Baroda, Punjab National Bank and United Bank of India. By March 1980, 60 RRBs reported total deposits of Rs 140 crore (Rs 500 per deposit account) and total advances of Rs 156 crore (Rs 950 per borrowal account). There was very little of consumption loans. Most loans were small and had met the composite requirements of production and investment of the weaker sections of the rural population.

The review study, however, showed that, because of slow growth and the low level of the loan business, the viability of RRBs would take about six years' time. It also concluded that an RRB would have to have 70 branches and a loan business level of Rs 8 crore, with 500 basis points forming the difference between the average borrowing and average lending rates, for gaining viability.

Professor Dantwala, who was the Director of the Central Board, clearly did not like the viability criteria that were set out in the memorandum. He wrote down his comments and got them circulated among the Board members. He argued that neither the government nor the Reserve Bank had paid enough attention to the critical issue of formulating and implementing a rural credit policy. Expressing his anguish at no action taken upon the recommendation of his Committee for total replacement of rural branches of commercial banks by RRBs, he stated in unequivocal terms:

My submission is that the policy-makers should take a firm decision on the type of rural banking structure it wishes to establish; or more specifically, decide as to which of the patterns—the RRB with its low cost, low profit or the rural branch network of commercial banks—is better suited to the rural ethos and the requirements of the rural borrowers. The two patterns can be suitably linked or, to use the more familiar jargon, 'co-ordinated', but the two cannot coexist or, to put it more clearly, expand simultaneously on parallel lines. If the policy-makers are serious about a viable expansion of RRBs, they must take a firm decision to curb expansion of rural branches if not put a moratorium on it. In the absence of such a decision, I do not think the RRBs will be able to accomplish viable growth.

Perhaps it is already too late, the pitch has been queered for the RRB by the addition of more than 4,000 rural branches of the commercial banks since 1977. If the stoppage of expansion of commercial banks' rural branch network is considered not feasible nor desirable, it would be advisable to wind up the RRBs.

There are no detailed records of the meeting of the Central Board on this issue. However, there is evidence of the Reserve Bank not taking a firm stand on the issue as posed by Professor Dantwala. It allowed the multi-agency approach to take root. A defence of this position was available in oral discussions with the former Deputy Governor, M. Ramakrishnayya. Ramakrishnayya stated that, while he shared the disillusionment of Professor Dantwala over the way in which rural credit had been disbursed by cooperative credit societies, he preferred to take a pragmatic view on the matter. This implied that the Reserve Bank felt that the role of RRBs should be viewed in a holistic manner, with the intention of ensuring that rural credit needs are met by different agencies. Accordingly, the Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) was set up by the Reserve Bank in 1980, with B. Sivaraman as the chairman.

The report of this Committee was submitted in January 1981. It led to the creation of the National Bank for Agriculture and Rural Development (NABARD), replacing the Agricultural Refinance and Development Corporation (ARDC) not only to provide project finance, but also working capital and long-term finance to state cooperative, central cooperative and urban cooperative banks by way of refinance. NABARD, according to the Committee, was to take over from the Reserve Bank the overseeing of the entire rural credit system including the operation of RRBs. We shall deal with NABARD in more detail elsewhere in this study. At this point of time, it is enough to note that the idea of setting up NABARD to focus on the credit needs of agriculture and other activities connected with rural development was not new, and was generally akin to the recommendations of the interim report in 1971 of the National Commission on Agriculture to set up an Agricultural Development Bank of India (ADBI) on the lines of the IDBI. This recommendation was forcefully placed in the National Commission's final report of 1976. M. Narasimham, in his book, *From Reserve Bank to Finance Ministry and Beyond* (2002), wrote in this context:

While I was the Banking Secretary I thought I should moot the idea of a National Agricultural Development Bank, somewhat as a counterpart to the Industrial Development Bank for the

agricultural sector and as an apex institution for agricultural credit, and wrote to the then Governor of the Reserve Bank Puri to that effect and sought the Bank's view on it. (p. 88)

In his oral discussion, G.V.K. Rao, formerly Principal Secretary, Ministry of Food and Agriculture, confirmed that Narasimham supported this idea that was first mooted by the National Commission. A Cabinet Committee was set up in September 1976 to go into the recommendations of the National Commission; after due deliberations, the Committee favoured the setting up of the ADBI on 21 January 1977. Coincidental as it might appear now, one of the internal notes of the Banking Commission, prepared by B. Venkata Rao obviously in early 1971, suggested that there should be a 'National Bank'. The internal note did not give any clue as to whether it was aware of the thinking of the National Commission on Agriculture on the subject.

The story of the development of RRBs was a somewhat chequered one, with very little prospect of their becoming the main institutional mechanism for providing credit to the relatively poor sections of the rural sector. Although the number of RRB branch offices increased sharply, from 112 at the end of June 1976 to 5,118 as of end-June 1982, they faced problems in day-to-day operations partly because of the lack of enthusiasm on the part of state governments for fear of RRBs adversely impacting on cooperatives, and partly because other commercial banks did not find it useful to have one more institution of their own competing with them for business.