PRIORITY SECTOR LENDING BY NATIONALISED BANKS – A CASE STUDY OF INDIAN OVERSEAS BANK

By

Dhanya.M

Thesis

Submitted to the University of Calicut

for the degree of Doctor of Philosophy in Economics

UNIVERSITY OF CALICUT

DEPARTMENT OF ECONOMICS

DR.JOHN MATHAI CENTRE

THRISSUR – 680 618

AUGUST 2008

Dr. Lakshmi Devi K.R.,
Professor,
Department of Economics
University of Calicut

Dr. John Mathai Centre
Aranattukara Thrissur
Kerala–680 618

CERTIFICATE

Certified that this written account **“Priority Sector Lending By Nationalised Banks – A Case Study Of Indian Overseas Bank”** by Dhanya.M., as the final thesis in connection with Ph.D in Economics is a bonafide work done by the candidate under my supervision. No part of this has been submitted earlier for any other purpose.

Place: Thrissur
Date:

Dr. Lakshmi Devi K.R
Supervising Teacher
University of Calicut

DECLARATION

I, Dhanya M., do hereby declare that this written account titled **"Priority Sector Lending By Nationalised Banks – A Case Study Of Indian Overseas Bank"** is a bonafide record of research work done by me under the guidance of **Dr. Lakshmi Devi K.R.,** Professor of the Department of Economics, University of Calicut. I, also declare that this has not been submitted by me fully or partially for the award of any degree, diploma, title or recognition before.

Dhanya.M

Dedicated to My Parents

&

Family

ACKNOWLEDGEMENT

I have great pleasure in recording my hearty feelings of respect and gratitude towards my supervising teacher Dr. K.R. Lakshmy Devi, Professor, Department of Economics, University of Calicut. It has been her keen interest, constant encouragement and inspiring guidance, which helped me to complete this project.

I also express my profound sense of gratitude to Dr. A.C.Kutty Krishnan, Head of the Department of Economics, University of Calicut and all the teaching staff of the Department of Economics, Dr.D.Ratnaraj, Dr.K.P.Mani, Dr. P.Abdul Kareem and Dr.D.Shyjan for their sincere encouragement and timely help through out the study. I am also thankful to Smt.Usharani and Smt.Sreeja.T , Librarian, Department of Economics, for the library facilities provided.

I am indebted to the affection of my beloved parents, brother and twin sister, without whose moral support and constant encouragement the preparation of this project would have been difficult.

I express my profound sense of gratitude and affection to Ramesh Kumar.K, my husband for his keen interest and support in all my endeavours. The presence of Aditya, my son around the computer table gave me the spirit and strength to complete the study successfully. I also take this opportunity to express my feelings of respect and gratitude to Mrs.Kamala Nedungadi, and my In-Laws for their support and encouragement in my studies.

I extend my sincere thanks to all the staff of Indian Overseas Bank at the Central Office; Chennai, Indian Overseas Bank Staff College; Chennai, Lead District Office; Thiruvananthapuram, and Regional Office; Chennai *and Kozhikode, for sparing their valuable time inorder to provide necessary information for the study. I am also thankful to the staff of Reserve Bank of India, Mumbai Chennai and Thiruvananthapuram for their cooperation in the data collection process.*

Special thanks are also extended to the officials of Indian Overseas Bank Mr.Krishnamurthy (Asst. General Manager) Central Office; Chennai, ,P.K.Chandran (Manager) Beasant Nagar Branch; Chennai, Sreedhanran (Manager) Regional Office; Chennai, Manivarnan (Faculty), Indian Overseas Bank Staff College; Chennai, A.V.Purushothaman (Chief Manager) Regional Office; Kozhikode, Abraham Shaji John (Lead District Manager) Lead Bank Office; Thiruvananthapuram for providing the data needed for the study.

I also thank the officials of Reserve Bank of India Smt.Rekha Misra (RBI,Mumbai), Mrs.Valsala Janardhanan and Mrs.Sangeetha Lalwani (RBI,Chennai) and Mr.Antony, Mr.Radhakrishnan and Mrs.Sathi (RBI, Thiruvananthapuram) for providing timely help and guidance through out the data collection process.

I express my deep gratitude to Prof.P.K.Nazeem and Prof.K.Kumar (IIM, Bangalore), for their timely guidance and advice, which helped me in the study.

I extend my sincere thanks to all the library Staff at Indian Institute of Management; Bangalore, Centre for Development Studies; Thiruvananthapuram and Chennai, and College of Co-operation and Banking,Thrissur and all my colleagues at the Indian Institute of Management, Bangalore for their help in the course of my study.

Special thanks to my dear fellow research scholars and friends for their help and support during the study. I am grateful to Mr.Pauly, M/s.'educare',Thrissur, who helped me in printing out the data.

I am grateful to "God Almighty" especially for the materialization of this project.

Dhanya.M

CONTENTS

LIST OF TABLES

LIST OF GRAPHS

LIST OF CHARTS

CHAPTER – 1

INTRODUCTION

1.1 Prelude

Finance is the key element around which almost all activities revolve around. If an Individual is unable to raise fund on his own he will have to depend on some external source. Credit facilitates the temporary transfer of purchasing power from those who have surplus to those who are in need. According to All India Rural Credit Survey (AIRCS, 1954) the availability of credit on an adequate scale on easy terms for sufficient length and time and repayability according to capacity constitute the important factors of a sound system of credit.

Before the expansion of various financial institutions the credit system in India was dominated by non-institutional credit agencies like private moneylenders, traders, relatives etc. The introduction of the ‘Multi-Agency Approach which include the various institutions in the organized sector led to better distribution of credit to the various sectors of the economy. But the multi-agency approach also led to problems of overlapping and duplication of banking facilities. To solve these problems various study groups and working groups were constituted and as per their recommendation, the Banking Laws (Amendment) Bill 1967 was introduced in the Lok Sabha on December 23, 1967. With this amendment “Social Control” on banks was instituted.

The resources of the banking system were inadequate to meet the growing credit requirements of the economy. So for assessing the credit priorities on a national basis and for ensuring equitable distribution of bank credit the National Credit Council (NCC) was set up in Nov 1968 under the chairmanship of the Union Finance Minister, to identify the sectors which were neglected and hence needed priority in credit allocations. NCC identified such sectors through Gadgil study group (1968) and the sectors identified were agriculture, small-scale industries (SSI) and exports collectively called as “priority sector”. Many changes have taken place in the definition of priority sector from the year it was conceptualized till present. The present study analyse the changes in the concept of priority sector lending during the post-reform period, ie, the period after 1991 upto 2007. At present, the priority sector broadly comprise of Agriculture (Direct and Indirect Finance), Small Enterprises (Direct and Indirect Finance), Retail Trade, Micro Credit, State Sponsored Organisations for Scheduled Castes/Scheduled Tribes, Education Loans, Housing Loans, Weaker Sections, and Export Credit of foreign banks. The proportion of advances to priority sector has been fixed by RBI at 40% of Adjusted Net Bank Credit (ANBC) for all public and private sector banks and RRBs, 32% of the Adjusted Net Bank Credit (ANBC) for all foreign banks and 60% Adjusted Net Bank Credit (ANBC) for the Co-operative banks operating in the country.

Social control was followed by the nationalisation of the 14 major Indian scheduled commercial banks with deposits exceeding Rs.50 crores each on 19th July 1969. The main objectives of nationalisation were to control the heights of the economy and to meet progressively, and serve better, the needs of development of the economy in conformity with national policy and objectives. Six more private sector banks each with a deposit of Rs.200 crores or above was nationalised on 15th April 1980 thereby further extending the area of public control over the country's banking system.

The public sector banks in India have made a significant progress since nationalisation. These banks have been entrusted the task of reducing the regional economic disparities, eradicating unemployment and helping the poor and the neglected to overcome their economic backwardness by making available credit on easy terms. The idealistic approach envisaged a shift from traditional security-oriented approach to the service oriented approach (Kahlon, 1982), which meant a shift of emphasis in granting bank loans from creditworthiness of a person to the credit worthiness of the purpose and a shift from class banking to mass banking. According to M.Narasimham "Banking has thus been moving away from a security-oriented approach to a purpose oriented operation and the question bankers increasingly should be asking themselves is not what they are lending against but what they are lending for".

The present study is a national level analysis of the performance of nationalised banks in priority sector lending. At the micro level the study analyses the priority sector-lending pattern of one of the nationalised banks – the Indian Overseas Bank, selected using the statistical technique of lottery method.

1.2 Importance of the Study: -

The Indian banking sector has been undergoing a metamorphosis in the wake of the implementation of financial sector reforms. The watchword in the Indian banking sector today has been to improve the bottom line. The large volume of credit being extended to the priority sector over a wide geographic area, the considerable variety of activities being financed, the large number of schemes for specific target groups, the number of agencies involved in drawing up programmes to facilitate absorption of credit by the priority sector, the enormous increase in the number of loan accounts, are notable features of increasing importance of priority sector lending making the Indian experience in this regard somewhat unique.

The nationalised banks in India occupy a pivotal role in the process of achieving higher economic growth and development of the country. The nationalised banks with their largest network of branches which are extensively concentrated in the rural and semi-urban areas perform the task of mobilizing savings and discharge their responsibility of providing directed credit through priority sector lending. Priority sector lending is a major thrust area in bank lending, where a large share of net bank credit (40% for Indian commercial banks) has been set apart to finance identified economic activities and target groups. The successful implementation of priority sector lending will lead to an increase in the credit absorptive capacity of the area concerned and an increase in employment and income.

The choice of the nationalised bank is mainly because they (20 in number) not only account for a major share in the disbursement of credit but also have the largest network of branches that are extensively concentrated in the rural and semi-urban areas and contribute extensively towards the economic development of the country.

An attempt has been made to cover, in brief, almost all the important aspects of to priority sector lending. It is hoped that the findings that emerge from the analysis will focus on the inherent defects and weaknesses in the present system, which will eventually help the policy makers and bankers to make improvements in the priority sector lending in future.

1.3 Area of the Study

The present work is a national level analysis of the performance of nationalised banks in priority sector lending. At the micro level the study analyses the performance of one of the nationalised banks, The Indian Overseas Bank.

1.4 Period of the Study

The present study covers the financial year data from 1991-92 to 2006-07 i.e., the period after the introduion of economic reforms in 1991, thereby covering a period of sixteen years.

1.5 Objectives of the Study

The objectives of the present study are the following,

- To analyse the pattern and growth of priority sector lending by nationalised banks.
- To examine the priority sector lending trend of Indian overseas Bank.
- To compare the performance of Indian Overseas Bank with that of other public sector banks in lending towards priority sector.

1.6 Data Source and Methodology

This work is analytical and data based. The method used is the collection of secondary data. The secondary data for the study is collected from published financial statements of the Reserve Bank of India and from the balance sheets, prospectus and annual reports of the Indian Overseas Bank. The data so collected have been tabulated and analyzed making use of the three yearly moving average method, exponential method and the Kruskal-Wallis Test.

1.7 Chapterisation of the Study

The study is presented in seven chapters.

The introductory chapter besides spelling out the specific objectives, area of the study, importance and limitations of the study also explains the data source and methodology used for the study.

A concise review of related literature on priority sector lending forms the core of chapter II.

Chapter III mainly deals with the banking development in India with special mention to the growth and development since 1991 and the progress of public sector banks in particular.

Chapter IV entitled 'Priority Sector Lending' attempts to analyse at length the concept of priority sector lending and the progress made by scheduled commercial banks especially the public sector banks in priority sector lending and the share made by the different regions of the country in lending towards the priority sector.

Chapter V gives an overview of the study area. The profile of The Indian Overseas Bank is analysed in detail especially after the economic reforms in 1991.

The design of the study, data analysis and interpretation, findings of the study together form the content of chapter VI.

Chapter VII, the concluding chapter of the thesis contains information on the summary and conclusion of the entire study.

1.8 Limitations

One of the main limitations of the present study is that the study area is confined to the priority sector lending of nationalised banks alone. Moreover the study narrows the indepth analysis to the performance of one of the nationalised banks the Indian overseas Bank. Due to non-availability of continuous data and the change in the definition of the priority sector at different times the data are not strictly comparable for the entire study period.

References:

Kahlon.A.S, "Banking Services and Performance"; The Economic Times, September 18, 1982.

Narasimham.M, "50 years of central banking – Governors speak" (p-214), 1977.

CHAPTER - 2

REVIEW OF LITERATURE

Individuals as well as several organizations have extensively researched issues related to banking. A number of committees appointed by the government of India and the reserve bank have also studied the banking problems in the country. Though not exhaustive this chapter makes an attempt to review some of the important studies with particular focus on priority sector lending.

Pantulu (1973) in his paper on the impact of nationalisation on Indian economy analyses the achievements and failures of bank nationalisation and tries to give proper suggestions to overcome the problems in this sector.

Bhat (1974) in his study attempts to identify the probable causes of low productivity and declining profitability and suggest a few measures to streamline the functioning of the banks. The main reasons for low profit were identified as rapid branch expansion, high cost of establishment, idle capacity, inadequate training, absence of job rotation, rising cost of borrowings, concessional finance, sticky advances to politically motivated pressures, delayed inter-branch reconciliation, Not-so cost-conscious management, higher liquidity requirements etc and suggests that proper measures should be undertaken to remove these problems so as to earn more profits and increase productivity.

Chakravarty (1975) in his essay suggests a systems approach to the management of public sector banks, involving diagnosis and sub-system changes. A systems approach leads to a search for component parts or subsystems within an organisation for its effective functioning. In the case of banks the subsystems include the branch, training component and the managerial role. In fine, this paper gives a bank manager a perspective to see his present environment. The author finds that the manager may identify the managerial processes and the techniques to cope with the problems of marketing, personnel finance and production and has to professionalize his talents for the better management of business.

Banerjea (1975) in his paper on need for renewal of public sector banks finds that organizational renewal should be a planned change and should be led by the top to ensure commitment of others in the authority structure and purposive communication. Once such a process is initiated and the inertia broken the entire system will gather momentum to achieve the desired results in the organizational output area and the social objectives of nationalisation of banks will become more effective.

Raman and simha (1976) in their study have found that the spread of branch network and the consequent step up in the bank’s involvement in rural and semi-urban areas have an impact on the pattern of bank lending to different sectors. While there has been a change in the sectoral pattern, it bears no relation to the shift in the geographic pattern. In other words, bank lending in rural and semi-urban areas is not wholly or even principally for agricultural and other allied pursuits, industry and trade claimed about half of total rural and semi-urban credit. The emerging pattern of credit distribution between different geographic regions and sectors indicates the impact of new policy directives as well as the changes inherent to a developing economy.

Bilgrami (1977-78) in his paper aims to examine whether the growth of the banking sector after nationalisation have been helpful to the weaker and relatively neglected sectors of the population, specifically the agricultural sector of the economy in attaining higher income and thereby reducing the wide disparity of income distribution. He concludes the achievements of nationalised banks into two. The first is that the expansion of banks has been of more benefit to the underdeveloped region and hence the poor population gets better prospects to raise their income. Secondly, since nationalisation the banks have been successful in mobilizing more idle resources and enabling the flow of resources to the priority and underdeveloped regions in a better way. He has also found that the income expansion prospect in agriculture sector has been undoubtedly widened, but unfortunately the pattern of distribution of these loans has not been favorable to the poor farmers. This increase in inequalities of the income distribution will only lead the objective of bank nationalisation into futility.

Gupta and Prasad (1978) in their paper try to examine credit creation, its management and priority sector lending by scheduled banks before and after nationalisation and explains in detail the recommendation of Tandom committee on follow up of bank credit.

Chari and chaudry (1980) while analyzing the bank-wise performance of Nationalised Commercial banks found that the first four positions were occupied by the Indian Overseas Bank, Allahabad Bank, Punjab National Bank, and United Commercial Bank respectively and the last four positions were occupied by Dena Bank, Union Bank, Central Bank of India and Syndicate Bank. They also analysed the performance of banks in the light of individual indicators. According to the study in 1974, banks were below the average level, but in 1980 the situation improved and the number of such banks came down to three.

Commerce Economic Bureau (1982) in its survey have recognized that the distribution of priority sector advances by commercial banks had not been equitable among the different sections within the respective sectors. The distribution pattern of priority sector advances among the states revealed that neither their growth nor their proportion to the total credit of the respective states was uniform and equitable. The share of the priority sector advances in the total bank credit in Orissa, Bihar and Haryana shot up significantly. It was the highest in Jammu and Kashmir, followed by Haryana and Punjab, whereas it was the lowest in West Bengal and Maharashtra. Agricultural advances, which form the major component, in the aggregate priority sector advances showed a significant increase in states like Punjab, Haryana, Bihar, West Bengal and Orissa.

Bedbak (1984) in his research paper empirically assess the two major problems encountered in financing priority sector i.e. acquisition cost of credit and delay and also look into the behaviour of financing agencies to priority sectors basing on a primary and stratified sample survey of 40 households selected from Khambeswaripali (sonepur Sub-Division, Orissa) an adopted village of State Bank of India. The reference period of the survey is May 1983. The sample is 57 percent of the total households of the village. The village has 70 households. The study finds that the acquisition cost of credit is very high for priority sectors and the behaviour of the financing agencies has also been one of exploitation, humiliation and harassment and suggests few measures to overcome these problems.

Ojha (1986) in his paper analyses different aspects like the distribution of credit to public sector among different activities like agriculture, industry, food procurement, financing sick industrial units, and the inter-dependence of private and public sectors. He also observes that the banking system however need to have an active role in ensuring the observance of credit discipline and norms, regarding the wide disparity observed in credit-deposit ratios between different regions. He strongly felt the need for nationalisation of activity-wise allocation of credit for achieving better regional distribution.

Jagannathan (1986) in his paper discusses about the disbursal of credit by the banking system to the various sectors and sub-sectors and has found that after the slump in the year 1982-83 (G.N.P. 1.7%) the economy has shown definite signs of recovery and is now on the verge of breaking away from past trends. According to him, for the efficient use of resources emphasis should be placed on long lasting benefits and qualitative improvement. There should bean effective monetary policy tune to the aspirations of the nation and it should aim at increasing the savings rate, productive investment of these savings, reduce disequilibrium in resource allocation and an effective market mechanism to keep the prices stable. He also suggests that the bank credit should concentrate in the area of priority sector, exports, modernization of industries private as well as public and hi-tech industries.

Hegde (1986) in a discussion on ‘changing credit needs of industrial and corporate sectors’ explains the special problems relating to demand for credit from export sector and has found that one of the main factors inhibiting the growth of credit to the export sector is the low equity base of many export units.

Khader (1986) in the discussion on the credit plan for priority sector including weaker sections tries to give a statistical analysis of priority sector lending’s in the seventh five year plan.

Dutta (1986) in the discussion on the credit plan for priority sector including weaker sections tries to analyze the quantum of credit needs of management and procedural consideration relating to financing of priority sector during the seventh plan.

Damodar (1986) in his paper analyzes the task before the commercial banks in priority sector lending in the context of the seventh plan and has found that the guiding principles of the seventh plan continue to be growth, equity, social justice, self-reliance, improved efficiency and productivity.

Bhide (1986) in his paper highlights the areas that would require additional attention while estimating bank credit. According to him the priority sector could easily be raised to 45 percent from the present stipulation of 40 percent by the end of the seventh plan period. The basic reason for this being the increasing attention being paid for rural development. He also highlights the need for launching the new branch licensing policy and increasing the role played by the RRB and Co-operatives in the area of rural development.

Institute of Finance, Tamilnadu (1986-87) in their study have found that the lending to the priority sector exceeded the target fixed at 40%. Periodical review of the commercial banks functioning in these areas had been done and they were published in the Annual Action Plan along with the Lead Bank Scheme.

Samuel (1987) in his paper finds that the purpose of the priority sector lending is good and should be further accelerated. He finds that the stumbling block in priority sector lending is the problem of overdues. This problem should necessarily be overwhelmed and determined changes are inevitable to achieve this goal and also give few suggestions on these lines.

Bhalerao (1989) in her study attempts to examine the extent and the trends in the sectoral inequality of commercial banks credit in India during

1973-81.The study finds that during the study period inter-sectoral inequality increased although the nature of skewness has changed in favour of agriculture, trade, transport, personal and professional services and financial institutions when compared to that of bigger trade, industries and plantation crops.

Siddaiah (1989) in his study tries to investigate the various factors responsible for overdues of bank loans and finds that the improper identification of borrowers, wrong formulation of schemes, lack of proper supervision over the end use of credit, lack of adequate rapport with the borrowers, and lack of prompt and necessary action by the bank staff as some of the important factors responsible for the mounting of overdues in commercial banks.

Ravola, Nigi and Nigi (1989) in their study of the role of banks in the development of priority sectors, have found that there has been no appreciable rise in the development of priority sectors and that the return flow of funds is not satisfactory and the over dues in the priority sector advances are gradually increasing. They have found that the percentage of over dues outstanding in the priority sector of public sector banks as agriculture (21.9%), SSI (17.9%) other priority sectors (23.6%) as against the non-priority sector overdues percentage of (9%) and total for banks (13%).

Rao (1989) in his study aims at gaining a perspective insight into the organic whole that is the banking system in India. The objective of the study is to attempt to arrive at the basic concept of productivity in the Indian banking and to establish that the individual banks may profit greatly by adopting clarity in view in matters like their role in social banking, modernization of work methods, approach to market etc. This study deals only with public sector commercial banks as they represent most of the Indian banking.

Division of Banking Studies Department of Statistical Analysis and computer services (1990) in their study have made a detailed region-wise, purpose-wise, state-wise analysis of disbursal of priority sector advances of scheduled commercial banks to SC/STs and have found that out of the total advances of 5,98,865 lakhs, 48,775 lakhs were given to SC/STs which formed 8.1% in 1986 and in 1987 out of the total 7,18,411 lakhs, 62,351 lakhs were given to SC/STs which accounted to be 8.7%. The study also reveals that out of the 1,59,817 lakh population of SC/ST as per 1981 census 8,276 lakhs of persons were benefited, i.e., at the aggregate level 5% of SC/ST population in the country were benefited by the priority sector advances of SCBs during 1987.

Singh (1990) in his paper on the role of state governments in recovery of bank loans discusses the problem of recovery of loans and gives few suggestions for the speedy recovery of loans by the state governments.

Research and Statistics Department, The Bank Of Japan, (1990) made an observation on deregulation of interest rates in Asian countries and has found that, when lending by private financial institutions to priority sectors is refinanced by the government or the central bank at low interest rates, the dependency of these financial institutions on the government or central bank tends to rise, eroding the basic function of commercial banks ie, absorption of private saving and sound loan management, it is therefore, generally desirable that direct credit allocation and preferential interest rate policy be gradually diminished in the private banking sector, leaving fund distribution more to market mechanisms as the economies develop. In January 1990, Indonesia announced a policy limiting "liquidity credit" (which commercial banks use as funds for lending to priority sectors at low interest rates) except for lending to economically handicapped persons.

Thingalaya (1990) in his study has emphatically pointed out that having analysed the process of target setting and the achievements made in directing the flow of rural credit during the last two decades, it is desirable to examine whether such adhoism should continue in the credit deployment in the future also. In an ideal situation, the target approach should be replaced by realistic estimation of the need based credit requirements of various segments of rural economy.

Subadha (1990) in her study on credit to the weaker sections by the nationalised banks in the chengalpettu district of Tamilnadu have found that the state ranked fourth with regard to the population served per bank office and witnessed a rapid and varied development in its banking sector. The study also reveals that the levels of response in terms of growth dimensions may vary from region to region, the pattern and direction of progress have a common ground in RBI guidelines. Regarding chengalpattu district the growth of credit to weaker sections is showing an increase but is far from satisfactory level.

Bishnoi (1991) in his study tries to examine the impact of priority sector credit on public sector banks profitability during 1974-1986, and has found that the interest subsidy rates varied across the priority sectors and increased over the period, each of the priority sectors has shown tremendous increase in absorption of bank credit, the interest income loss to public sector banks increased from Rs.33.44 crore in 1974 to Rs.607.39 crore in 1986. Both the ratio of income loss to total working funds and to operating income are substantially higher than the net profit ratio and profit margin earned by the banks in all these years and the rising interest income loss and low recovery in respect of priority sector credit adversely affected the profitability and fund recycling capacity of the public sector banks. It further weakens the viability of priority sector lending. Considering all these points he suggests that the entire gamut of priority sector schemes, procedures and system of credit delivery needs to be reviewed and revised for improvement in operational efficiency and profitability of the public sector banks.

Rengarajan (1991) in his study on priority sector advances with reference to bank profitability attempts to study the return from the priority sector lending and examine critically the various segments of priority sector and the relevance of interest rate structure from the view point of profitability. He also suggests some strategies for the improvement in the profit area. The study clearly shows that one of the major reasons that could be attributed to the low margin of profit is the low return from priority sector. Although the banks achieved the overall target of 40%, there existed wide disparities among districts within a state. Regarding interest rates, his argument is that it is not a main criteria for the availment of loans but it is the quantum of loan particularly in rural area and timely availability of the same. The study finally points out that developing countries in Asia are slowly discouraging the concessionality to the priority sector giving importance to effective and sound loan management.

Jagirdar (1991) in his study considers the emergence, growth, profitability, the need for re-defining priority sector etc, and has found that priority sector advances at concessionary rates of interest have increased significantly overtime, both in absolute terms and in terms of their share in total bank credit but also resulted in low profitability of commercial banks. Banks have managed to show profits mainly by resort to cross-subsidization. To overcome or to reduce the need for cross-subsidization he suggests that priority sector advances are to be categorized into two groups: (i) group covering advances to weaker sections as also advances which may further technological up gradation and resource augmentation, saving and improvement in agriculture, small industry etc. Even though borrowers may not belong to the weaker sectors and (ii) remaining advances under priority sectors. Only the advances under group (i) may be offered the benefit of concessionary finance.

Bansal and Agarwal (1991) in their paper discusses the development of banking industry in India during the post-independence era and pinpoints the challenges in priority sector lending. They have found that the world bank is against priority sector lending because the loans actually advanced to the priority sector were much higher that the stipulated 40% and this is not healthy for the overall development of the economy and the situation becomes still worse when such decisions are taken to please the bosses of the political parties of the country.

Shankar (1991) in his study has found that the state of the entire nationalised banking industry was shaky and many nationalised banks are in grave trouble. Rising bad debts, spiraling wage bill, ad-hoc governmental decisions etc were responsible for this and the entire banking system has been running hard to fulfill governmental policies and programmes, its machinery has been over worked and has turned rusty. To overcome this difficulty he suggests that banks should be controlled by the RBI, which in turn should be guided by governmental policies and programmes. The RBI should spell out clear, broad objectives and general guidelines to banks. But detailed policies, strategies, planning and operational freedom should be left to the banks, which in the present set-up they do not enjoy.

Sundaram (1991) in his study have found that ever since the nationalisation of fourteen commercial banks in July 1969 there have been concerted efforts to spread banking facilities to hitherto neglected sections and areas. The priority sector credit which formed 15.3% of total credit in 1969, increased to 42.7% in 1988, though it dropped to 42.2% in 1989 and the proportion of priority sector advances of public sector banks to their total credit increased from 14.9% in 1969 to 45.7% in 1988, but moved down to 44.6% in 1989, but was above the prescribed target of 40%. Thus he concludes that the performance of the public sector banks in the priority sector during this time period is no doubt praiseworthy, though they should make more efforts in reducing the incidence of poverty and improve the quality of anti-poverty programmes.

Narayana (1992) in his report on directed credit programmes criticizes the Narasimham committee report. According to the study the Narasimham committee report recommended amputation of the limbs of the banking system. The study analyses the recommendations made by the Narasimham Committee on directed credit programmes leading to low profitability of banks like rising loan delinquency, credit-deposit ratio, and concessional interest rates. Recommendations on branch licensing and priority sector lending is also analysed in the following sections and strongly oppose the recommendations made by the Narasimham Committee.

Ghosh (1992) in his study has found that the curtailment of the target of priority sector lending to 10%, as urged by the committee on the financial system will send an unfortunate signal to the dispensers of credit that the basic objective for which priority sector lending was developed two decades ago is being diluted and the policy makers in developing countries will from time to time find that they have to reconcile conflicting objectives, but they cannot afford to let crucial economic agents such as banks and financial institutions, choose the easy way out of such situations

Sankaranarayanan and Venugopal (1992) in their paper discusses whether priority sector needs to be financed by the banks on concessional terms, particularly in the context of declining profitability of banks. The recommendations of the two important committees viz,The Chakravarthy Committee and the Agriculture Credit Review Committee (ACRC) regarding the interest rates on priority sectors are discussed and have found that the revised interest rate structure retains the concessional aspect of lending.

Raju ((1992) in his study finds that the non-farm activities yielded higher returns than farm activities and that the beneficiaries were better educated, better housed and better secured. They have also found that there was diversion of funds for family consumption and that the quality of assets supplied was low.

Vijayakumar and Venkatachalam (1993) in their article attempts to throw light on the profitability of Indian Public Sector Banks during eighties and has found that the funds of the banks are not used profitably. They suggest that declining gross profit ratio of public sector banks in the initial period is an unhealthy trend from the viewpoint of their performance and banks should earn sufficient profit not only to meet current obligations but also to strengthen their capital base. The analysis finds an improvement in the gross profit ratio which indicates the scope for profit potential if efficient management of funds is carried on and it is high time that the monetary authorities gave due attention to the financial viability of banks.

Veerashekerappa (1993) in his study have examined the structure and pattern on distribution of institutional credit across different sectors of social groups in Karnataka and has found that though the advances to priority sectors in the state has achieved more than the targeted, expansion of institutional finance helped only the larger farmer and the bulk of the rural households in the lower strata remained outside the orbit of institutional finance.

Gayathri (1993) in her study has found that the recovery performance of government-sponsored scheme has been very low ranging between 14% and 20%, compared to other scheme of the banks. The study also revealed that there was enormous hike in the prices of assets and concluded against the target approach in rural credit and priority sector lending.

Ravi (1993) in his paper reviews the norms relating to farm activities and non-farm activities of priority sector and has found that priority sector benefits the socially and economically disadvantaged people and also the other people who are credit starved and suggests that the banker must pass on the concessions to the poor consumers of bank loans.

Anand (1994) in his work highlights the importance of priority sector lending. The study is divided into two parts. Chronological developments in priority sector lending over nearly 25 years are given in the first part. The second part gives a brief account of the changes that appear to be in the offing in the area of priority sector lending. He concludes that commercial banks should have medium and long term perspective plans before them for devising requisite corporate strategy for meeting the call of the priority sector lending on the one hand and making Indian commercial banking vibrant with higher productivity and profitability on the other.

Singh (1994) in his study tries to review the organizational structure, financial resources, deposit mobilisation, lending policies and overall working progress of the banks since nationalisation. A detailed and intensive study both at macro and micro level of branch expansion programme, trends in deposits, investments and credit facilities to the priority sectors has been conducted.

Bhatia and Chowla (1994) in their study have found that the basic idea behind the priority sector financing does not hold any relevance in the state of Punjab. Moreover, the agricultural sector has reached a stage of development in the state where gains of activity cannot be expected in proportion to lending by the commercial banks. This shows that regional priorities of the state are different from that of national priorities.

Selvaraj (1995) in his paper studies about the banking sector in India during its twenty-five years of nationalisation and lists the achievements and backdrops of this sector towards the development of the economy.

Srinivasan (1995) in his work emphasizes the quantitative and qualitative impact of various policy measures pertaining to priority sector lending, with focus on the costs and benefits thereof and efficacy of the credit delivery system, its strengths and weaknesses and the decisive steps taken for minimizing costs and maximizing benefits from the point of view of both the lending institutions and the borrowers. An attempt is also made to establish that priority sector lending can be made both profitable and beneficial for the banks by correcting the weaknesses in lending procedure, loan supervision and recovery, and equally, by rationalizing the interest rate structure and has proved that mass lending at concessional interest has resulted in reducing the earnings of banks, thus straining their ability to plough back surpluses from their profits for augmenting general reserves. A major contribution of this work is to establish a positive and strong co-relation between the increase in profitability and the scale of productivity of manpower in banking sector with special reference to funds operations and services.

Rajagopal (1996) in his paper finds the necessity of continuing credit to the priority sector though lot of improvement is to be brought about in the system of credit delivery, its use and creation of physical assets. He suggests that more than interest reduction the accent should be on the timely provision of credit and banks should be enabled to select the beneficiaries themselves rather than depending on governmental agencies. Regarding concessional finance, their volume need not be large so as to affect the health of the banking system.

Kurien (1996) in his study try to examine the viability of social banking pursued through priority sector lending’s of commercial banks in Tamilnadu. The study extends only to the public sector banks viz; Indian Overseas Bank and Indian Bank with their head offices in Chennai and branches in Chengalpettu M.G.R.District of Tamilnadu and their priority sector advances to the weaker sections of the society, and has found that social banking efforts in India and Tamilnadu resulted in bringing banking service to the aid of the poor and weaker sections but have adversely affected the performance of public sector banks in India and Tamilnadu. Moreover, non-monetary factors also influence the borrower's repayment capacity, willingness to repay the loan, thus affecting adversely the performance of these banks. He has also proved that there is an inherent conflict between 'Social Equity' and 'Economic Efficiency' in social banking and so combining social commitments together with commercial prudence can ensure sustainable social banking.

Patel (1996) in his work evaluate the growth of commercial banks in Gujarat and made an in depth study of the priority sector lending in the state. He also suggests ways and means for improving the quality of lending to this sector. The major findings of the study is that there was a clear tendency for the percentage of outstanding agricultural term loan repaid to decrease with the increase in the operational holding group of households. Two most important suggestions offered for improving agricultural loaning operations of the banks are to increase the quantum of loan amount and reduce the rate of interest on loan. Regarding small-scale industries and other priority sector advances, 45% percent of total sample units considered their availed loan amount as adequate. Half of sample units considered the security norms of banks as stringent. In service sector, in terms of number of borrowal accounts, the share of professionals and self employed was the highest while in terms of outstanding amount to service sector the share of small road and water transport operators was the highest (more than half) which was declining over the years. The share of retail trade and small business in total advances under service sector was increasing over the years. In respect of weaker sections advances, banks were lagging behind in achieving the set targets.

Godse (1996) in his work tries to take a stock of the US system, compare the US and Indian situations, describes CAMEL parameters, list the compliance expectations from banks and detail the functions of the Compliance Department.

Patel and kaveri (1997) in their study basically aims at studying the strategies followed by different bank branches in managing the issue of non-performing advances in the priority sector, and bringing out the lessons of recovery from NPAs by the banking sector in the future. The study was undertaken during the second half of 1995-96 and was completed during 1996-97 and contains 23 sample cases. The experience of branches covered in the study suggests that recovery from NPAs is possible provided little care is taken. With the proper approach sincerity and involvement of staff, recovery problem can be effectively solved. Branches covered in the sample experienced a sharp rise in recovery particularly from agricultural advances though slowed down the pace of deposit mobilization. The study project makes a modest attempt to draw the attention of the banking industry to the successful branches.

Manjappa (1997) in his study attempt to estimate empirically the social and budgeted costs on lending to priority sectors including export sector in India during 1969-94. The findings of the study are that the priority sector advances have increased considerably in the post-nationalisation period. The social cost, in monetary terms has increased from Rs.26 crores in 1969 to Rs.21, 559 crores as at the end of March 1994. Considering the interest rate structure the society has incurred budget cost during 1973-81. Subsequently there is no budget cost on priority sector advances. The social cost on export financing increased fromRs.10 crores in 1969 to Rs.769 crores at the end of March 1994 and there was no budget cost on export finance during the first four years. Since1973 there was a steady increase in the budgeted cost on export financing. From 1983 the society has not incurred budget cost because of hike in interest of export credit. From 1989 the society has not incurred budget cost because of hike in interest of export credit. To conclude, the society has incurred social and budget cost on priority sectors and export sector. But the economy has benefited immensely from the priority sector lending and sector credit.

Rengaswamy and Subbiah (1997) in their article analyses whether there is any significant difference in the performance of different financial agencies in priority sector lending under the Lead Bank Scheme in Kamarajar District in the state of Tamilnadu by using Kruskal-Wallis Test. The study covers seven credit plans during 1985-88, 1989-90, 1990-91 and 1992-93. Credit plan 1991-92 was not analyzed due to the non-availability of data. The results of this non-parametric test indicate that the performance differs significantly among the various financial agencies in lending to the agricultural sector and the industries sector, but there is no significant difference in lending to the service sector and the total priority sector. The performance of public sector commercial banks is good and that of private sector commercial banks is relatively poor. In lending to the agricultural sector and in lending to the industries sector the performance of private sector commercial banks is better than the Pandian Grama Bank, the regional rural bank (RRB) operating in Kamarajar district.

Sridharan (1997) in his study analyse the performance of nationalised banks in the second phase of reforms using SWOT analysis and has found that as the entire operational environment is gearing towards complete deregulation, the focus of the nationalised banks is on creating synergies to effectively absorb the impact of competition.

Kumaraswamy (1998) in his study on the effectiveness or otherwise of priority sector financing to vulnerable peasant farmers in the midst of widening poverty gap in Nigeria and India have found that in Nigeria 80% of the population live in rural areas and 70% of them are engaged in agriculture. Agriculture is treated as a priority sector as far as central bank of Nigeria credit policy is concerned. The core sectors of the rural economy of Nigeria-agriculture and small industries-are most neglected by the banking system and their credit operations for the four years studied (1980-83) fell short of the 'so-called' prescribed minimum target, while the construction sector shared more than 40% of the country's GNP which rendered the Nigerian economy a contractor-oriented economy. Regarding India the interest income losses of banks due to priority sector credit rose from Rs.33.44 croresin 1974 to Rs.163.42 crores in 1979, and further to Rs.607.39 crores in 1986.The non-viable project lending also lead to loan recovery problems. The study also gives suggestions to bring about qualitative changes in credit flow and judicious use of credit and monitoring to avoid diversions.

Chatterjee (1998) in his paper attempts to redefine the concept of banks productivity, linking the aspects of profitability. Staff/employee productivity, capital productivity (rate of return on capital) and weighted productivity index of all nationalised banks have been calculated and linked with the profitability by considering corresponding operating profits as percentage of average working funds and net profits as percentage of average working funds for 1994-95 and 1995-96. The author believes that calculation of these would enable the banks to find out the areas of their relative weaknesses affecting profitability and formulates adequate policies thereof.

Sarda (1998) in his work makes an attempt to cover, in brief, almost all the important aspects of lending to priority sector. Efforts have been made to incorporate relevant instructions of RBI, and give a clear picture of the present position of various aspects of priority sector lending and suggest various techniques to be followed for appraisal and supervision of priority sector advances. It also serve as a practical guide to officers in banks to have recovery in time and avoid non-performing assets, it is useful to government/development agencies in identifying suitable proposals for lending to priority sector and also helps the students of developmental banking to understand the practical aspects of lending to priority sector.

Ramakrishnan (1999) in his paper explains the challenges faced by the public sector banks, and suggests measures to be adopted to improve their business growth, reduce NPA, improve Profitability and employee productivity.

Prasad (1999) in his report on the national seminar on Nationalisation of Banks - In Retrospect, have found that after the bank nationalisation in the sixties, till 1992 the rural branch expansion process was proceeding at a reasonable pace. Thereafter, there has been no significant progress in rural banking. Thus one of the key goals of bank nationalisation seems to have been abandoned. A good portion of NPAs is connected with industry and with priority sector lending. It was maintained that profitability and productivity of nationalised banks, should be improved through manpower planning. It was emphasized that the banking sector should not be used for achieving political goals or for charity. There is also a great need for legal reforms. The recommendations of the Narasimham Committee should be utilized in this respect to minimize the widening of the capital base of banks because of recurring losses.

Sarker and Das (1999) in their paper tries to examine the relative performance of the public sector banks during 1995-96 vis-à-vis 1994-95 based on the indicators like yearly growth rate of deposits, credit, investments, capital adequacy ratio, credit deposit ratio, investment deposit ratio, operating margin as a percentage to total assets, business per employee etc using a much simpler technique which does not involve much statistical assumption or rigorous mathematical computation for deriving the performance index of the 27 public sector banks excluding the RRBs and has found that the performance of these banks were better in 1994-95 than that in 1995-96.

Prasad (2000) in his study on micro credit has found that according to the Reserve Bank guidelines micro credit extended by the banks to individual borrowers directly or through intermediary would be reckoned as part of their priority sector lending. The banks can devise their own model(s), prescribe their own criteria for selection of micro credit organization, lending norms to be followed and the interest rates for micro lending and micro credit should form an integral part of the bank's corporate credit plan.

Thomas (2000) in his study tries to evaluate the performance effectiveness of Syndicate Bank in relation to other nationalised banks in India. This is a comprehensive study using a Model, Economic-Managerial-Efficiency Evaluation Model (EMEE) developed by the researcher. The scores obtained in the study provide a comprehensive picture of the performance effectiveness of the individual nationalised bank in relation to the set of nationalised banks and thus provide with a scientific tool in the evaluation of performance effectiveness of the banking industry in the country.

Rengaswamy and Ramnath (2000) in their article make an attempt to analyze the performance of financial agencies in the priority sector lending in the Madurai district of Tamilnadu. The study covers a period of ten years from 1989-90 to 1998-99. In this study the performance of priority sector lending by the financial agencies in Madurai district has been analyzed by using Kruskal-Wallis Test and the results of the test reveals that performance differ significantly among the various financial agencies in lending to the industrial and total priority sector lending in Madurai district.

Ram Prasad (2000) in his work presents the major trends in bank performance before and after banking sector reforms using data of 69 banks over a 11 year period representing 5 years before the reforms (1987-92) and 6 years after the reforms (1993-98). Since this time period excluded the performance data of several new banks that emerged in Indian banking subsequent to the reforms, another study covering 98 banks over a 4year period (1995-96 to 1998-99) is also carried out. Assessment of bank performance has been made from six operational aspects: business growth, profitability, productivity, spread and margins, non-interest income and non-interest expenses. The implication of the bank performance indicates that priorities of a banking policy may not pertain to the strengthening of the public sector banks, but consolidation of the gains made by the private sector as well. A sound combination of both these could pave the way for a sustainable domestic banking industry.

Capoor (2001) in a discussion on developmental issues in micro credit attempts to identify regulatory thresholds for micro finance activities and affords an opportunity to deliberate on the role of central banks vis-à-vis microfinance as an important tool in national anti-poverty strategies, especially so as such policy responses have been country specific.

Pagaria and Yadhav (2001) in their study have made an attempt to undertake the viability study of loss making rural branches in Rajasthan state, which is one of the leading states of our country dominating in priority sector lending. The study highlights some of the ways by which rural loss making branches can improve profitability. These include: action plans to improve deposit mobilization, business development, management of NPA, improving share of high return advance and appropriate human resource development. A format has been designed to collect five years (1994-98) statistical data and simultaneously qualitative information have also been collected through the interview technique and a questionnaire and ratio analysis technique is used to draw inferences from statistical data. Regarding priority sector lending they have found that almost 90% advances are to the priority sectors due to the inherent nature of operational area of branches and majority of these kinds of advances are below the Rs.2 lakhs limit which carry low rate of interest, and the entire NPA is accounted for priority sector lending in each category of branches.

Murali and Sadasivan (2001) in their article try to familiarize the evolutionary process of the modern banking in India. According to them consequent to the implementation of the Narasimham Committee recommendations there have been rapid and radical changes so stringent in nature that it swept many banks/bankers off their feet. Unable to cope up with the requirements of the liberalization and integration of Indian banking with the financial markets of the world, a grim scenario has emerged in the Indian banking industry – especially the public sector banks – most of which have been engulfed by barricade of dismal performances.

Baslas and Bansal (2001) in their study have found that in the years to come, the banking industry is likely to be governed by the potential forces of information technology, merger and acquisitions and universal banking. Regarding the growth of public sector banks they have analyzed the market share of PSBs both in terms of deposits and advances between1998-99 to 1999-2000 and have found that it has declined from 83% to 80.7% in 1998 and 1999 and from 81.9% in 1999 to 79.4% in 2000.

Raja (2001) in his study has tried to analyze the performance of banking industry through SWOT analysis. It mainly helps to know the strengths and weakness of the industry and how to improve will be known through converting the opportunities into strengths and by categorizing priority section lending as one of the weakness of the industry. Priority sector lending is good for the economy but banks have failed to manage the asset quality and their intentions were more towards fulfilling government norms. As a result lending was done for non-productive purposes. To get over this weakness it was suggested that there should be rational thinking in sanctioning loans, which will naturally bring down the NPAs.

Saha (2001) in his study analyses the major financial parameters of public and private sector banks and highlights the strategic importance of banking cost determination and cost management. Public sector banks, according to him have a better competitive edge that gets lost because of poor governance leading to human resource mismanagement and loss of productivity and profitability.

Soundarapandian (2001) in his article have made an attempt to analyze the sources of rural credit delivery system after the implementation of the New Economic Policy and has found that India's rural credit delivery system has distinctive institutional features. Co-operatives and commercial banks have, a more or less, equal role in financing agricultural production. However, for financing poverty alleviation programmes, commercial banks have a dominant role to play. Since 1991-92, a disconcerting trend in the annual flow of rural credit through commercial banks and RRBs has set in. The annual flow of credit by these banks has stayed steady and even increased in 1992-93. But the share in annual credit flow by these banks is declining and it retards the development of rural credit system.

Ramachandran and Swaminathan (2001) in their paper have attempted to describe and evaluate rural credit policy in contemporary India and to examine its effects on rural workers at the level of a single village, the Gokilapuram Village in Theni district of Tamilnadu. It examines first, the major directions of rural banking and credit policy and indicators of performance of this activity in India since 1969, the year in which 14 major commercial banks were nationalised. Secondly it attempts to describe and analyze features of indebtedness of rural households, particularly in the Gokilapuram Village during different periods of national banking policy. Thirdly, it attempts to evaluate the potential of a new policy alternative micro credit projects controlled by non-government organizations as a solution for problems of rural indebtedness and have found that during the early green revolution phase and nationalisation phase there was a rise in rural deposit mobilization and advances to rural areas, whereas the liberalization phase saw a sharp withdrawal of formal banking instruments and credit supply from rural areas. Regarding micro credit projects it was found that the banks have advantages in respect of small-scale rural credit that NGOs lack. The objective of rural credit policy in respect of small-scale loans to the poor in India should be to build up the strengths of the rural banking system, and not to undermine or weaken this important national asset.

Yadav (2001) in his paper on rural credit finds that it is time rural credit is treated as business proposition rather than an obligation.

Joshi (2002) in her study on rural credit has found that the growth of financial intermediation through the expansion of banking services has been a powerful catalytic agent for development. Though good progress has been made in the provision of credit through institutional agencies in the rural sector, banks face difficulties due to declining recoveries and mounting over dues.

Kamesam (2002) in his inaugural address at a symposium on 'Winning Strategies in SME Finance' shares his thoughts and experiences on the development of this vital sector of the economy. According to him, the development of small-scale sector has been an important plank of India's industrial policy. There has been a steady increase in the flow of credit to SSI sector which has gone up considerably from Rs.1, 67,830 million in March

1991 to Rs.4, 84,450 million in March 2001 constituting 14.2% of the net bank credit. Considering the major problems faced by SSI sector which relates to availability of loan without collaterals, delay in getting the loan, high cost of funds, delayed payments, marketing problems, WTO related issues, sickness etc, he suggests that this sector will have to gear up to face the challenges of liberalization by increasing technological capabilities and creating sustained competitive advantages in the environment of increased competition and rapid technological changes.

Vijayulu, Sakunthala & Ramachandra (2002) in their paper attempts to evaluate the problem of NPAs in public sector banks and the ways and means for managing them. They conclude the study by finding the truth that total elimination of non-performing assets is not possible in banking business, but their incidence can be minimized. It is always wise to follow the proper policy for appraisal, supervision and follow up of advances to avoid non-performing assets. Banks should not only take steps for reducing present NPAs, but necessary precaution should also be taken to avoid future non-performing assets.

Kamesam (2002) in a discussion on the reforms of the financial sectors and the changing role of RBI have found that measures to enable banks to operate freely in a commercially justifiable manner and competitive environment include the reduction of statutory pre-emption, deregulation of interest rates and giving banks greater autonomy and flexibility in day to day operations. Other measures in this direction include greater streamlining of the operations of development financial institutions and deregulation of the capital market. Regarding priority sector lending it was found that it is mandatory to fulfill the target of 40% to this segment with the sub-ceiling of 18% for lending to agriculture, its coverage has been enhanced and banks have also been allowed to deposit the unfulfilled portion of their priority sector lending with a few apex institutions. Apart from directed lending through priority sector advances, the RBI has actively supported bank lending to the poor through innovative microfinance schemes actively sponsored through Self-Help Groups (SHGs). Another major debate in the area of financial sector reforms relates to the issue of ownership of Public Sector Banks (PSBs). It was felt that ideally the Reserve Bank should not own the institutions it regulates, to avoid conflicts in its role as owner and regulator. The RBI has accepted the recommendations for the transfer of its stakes in the State Bank of India, National Housing Bank and National Bank for Agricultural and Rural Development to the government.

Killawala (2002) in her review on credit information has proposed some measures to improve the credit delivery mechanism for the priority sector such as increasing the limits for financing of distribution of inputs for allied activities from present Rs.15 lakhs to Rs.25 lakhs, increase the credit limit for marketing crops from Rs.1 lakh to Rs. 5 lakhs and repayment schedule of such credit extended to 12 months from 6 months, to exclude funds provided to RRBs for on-lending to priority sector in order to avoid double counting, increase the credit to SSIs from the existing Rs.5 lakhs to Rs. 15 lakhs on the basis of the good track record and the financial position of the units, securitization and risk weights for housing finance, enhance the fund for rural infrastructure development and encouraging micro credit through Self-Help Groups.

Masthan and Rao (2002) in their study have found that the Urban Co-Operative banks majority of which are single branch banks with limited areas of operation (maximum a district) are forced by the government to allocate a higher percentage of resources (60%) to priority sector compared to commercial banks (40%). The UCBs comply with the stipulation as a social responsibility assigned by the government. Thus the greater burden falls on the UCBs, which have to service the large number of priority sector advances with small loan limits. They recommend the RBI to bring suitable modifications to help UCBs out of this sticky situation.

Siddiqui (2002) in his study on the major issues in priority sector lending have found that the policy on priority sector lending assumed great significance after the nationalisation of the major banks, the setting of lending targets for priority sectors has had a very positive impact on the channelising of credit to hitherto neglected sectors of the economy. The study also reveals that various attempts have been made not only to dilute and broaden the norms of priority sector lending but also monitoring of performance in this regard opposite to that recommended by the Narasimham Committee Report. He analyses the recommendation of the Narasimham Committee Report on Financial Sector Reforms (1991) in detail which suggests to redefine the priority sectors so as to cover only the weaker sections and a reduction in the target for priority sector lending i.e., gradual phasing out of the directed credit programmes by scrapping priority sector lending from 40% to 10%of aggregate credit in order to overcome the problem of low and declining profitability of banks and have found that while conceding the need for reviewing the coverage and targets of priority sector bank credit, RBI did not accept fully the Narasimham Committee recommendations. The grounds offered by the RBI for taking this opposition were: (i) acceptance of the committees' recommendations would put a severe squeeze on the sectors within the redefined priority sectors. (ii) Again there is little merit in a drastic reduction in the target for the priority sectors and then meeting the requirements of these sectors through the refinance of the RBI, (iii) the experience of a number of countries is that some direction of credit is necessary in the development process and as a result the percentage of credit channeled to priority sectors of the economy has been increasing steadily.

Swarup (2002) in her paper on globalization and challenges to Indian public sector banks finds that the challenges for public sector banks are enormous – on one side they need to grapple with new technology, investment and products and on the other they need to develop an all round quality approach in their entire operations. The study analyses the reforms and the challenges faced by the banking sector since globalisation and suggests remedies. She suggests that restructuring, development of right organizational culture and right attitude with customer orientation are the prerequisites for their survival in the current competitive environment and the government also should play an active role in their struggle for survival.

Das (2002) in his study analyses the growth in credit to the priority sectors and has brought into focus the following major findings such as apart from inadequate attention to certain important sectors, there was extreme unevenness in spatial distribution - state-wise, district-wise and population group-wise and a strong tendency to ignore the weaker groups. The relative share of small-scale industries declined significantly over the years, whereas for the other sectors there was a noticeable rise. The co-operatives played an insignificant role in advances to these sectors. Many steps taken for larger flow of credit to the neglected sectors came very late or were not implemented properly. The public sector banks did not exert themselves fully and their endings suffered from many deficiencies. There was huge locking up of funds with sick SSI units and the banks operations were also hampered by inadequate co-operation from other agencies involved and the lack of infrastructure.

Das (2002) in his study have found that public sector banks have failed to meet the priority sector target. Their advances to priority sector showed an improvement from 36.6% at the end of March 1995 to 37.8% at the end of March 1996, but still short of the target of 40%. The advances to priority sector resulted in problems of interest income loss due to highly subsidized lending rate, additional manpower requirement for supervision of small loans mounting over dues, poor recovery and raising volume of non-performing assets which adversely affect the profits and profitability of PSBs and hence support the recommendation made by the Narasimham Committee on Financial Sector Reforms (1991) about the reduction of target to priority sector from 10% to 40%.

Anbumani and Niranjana (2002) in their analysis of priority sector credit outstanding by activity clearly indicate that there is no undue variation in the growth rates and thus recommendations of various working groups and committees of the RBI and the government of India has helped the deployment of large scale credit by the PSBs during the period under review 1969-1993. During the entire 1980's the ratio of priority sector credit to total credit was well above 40%. They have identified that various policy instruments and programmes of the RBI and the government of India are responsible for the low profitability of the PSBs. The emergence of large number of private finance companies supplying credit without many formalities clears the fear of the adverse effect of further reduction in the priority sector advances on the development of the economy, and they also support the recommendations made by the Narasimham Committee on Financial Sector Reforms (1991) with respect to priority sector lending, ie, reduction of priority sector target from 40% to 10% of the aggregate credit.

Das (2002) in his study tries to evaluate the performance of public sector banks in regard to expansion of banking services to the unbanked area in regional perspective and have found that there exists an uneven distribution of bank offices, which leads to growing inequality among the states. The study also tries to evaluate the performance of PSBs with regard to advances to the priority sectors during 1981-1990 (period 1) and 1991-1997 (period 2) i.e., the pre and post 1991 periods, and have found that the percentage share of the priority sectors in the total bank credit has been found increasing but at decreasing rate in period 2 in comparison to that in period 1, revealing the negligence of the priority sectors by the public sector banks. Thus the impact of the financial sector reforms on the priority sectors has been very much adverse.

Jha (2002) in his paper evaluates the role of commercial banks in providing finance to priority sectors in general and Madhubani district in particular and suggest useful plans for the smooth functioning of commercial banks in providing to priority sectors. The study has been undertaken for the uplliftment of the weaker sections by priority sector lending and also analyses the socio-economic condition of the weaker sections of Madhubani Mithila region in Bihar and have found that since, nationalisation, the contribution of commercial banks towards credit for weaker sections, particularly in Mithila region in Bihar and in general, in India is praiseworthy and suggests that for the success of the proper utilization of priority sector lending, all classes of people of all the regions and communities should co-operate.

Mani and Jose (2002) in their study try to dissect the performance of commercial banks in kerala. The autopsy performed on the statistics of commercial banks in kerala for the period 1988-96 revealed that, on the front of deposit mobilization, the states performance was relatively better while the credit deployment side was weak bringing down the credit-deposit (CD) ratio to a lower level. Even inter-bank data revealed the same trend and pattern. Theoretically, any low CD ratio is unhealthy since it will adversely affect profitability of the bank. Further, challenges are more in the era of globalization and liberalization. Thus according to them it is high time to revamp the working and performance of banks in the state. This presupposes a new “entrepreneurial culture” in the state nourished with “positive strokes” from the banks.

Das (2002-03) in his paper attempt to develop an objective method for ranking the nationalised banks during 2000-01 and 1999-00 considering four aspects of a bank’s performance like business performance, efficiency, safety and soundness and labour productivity. The parameters have not been given weights, rather their ranks have been given weights to avoid subjective judgement and has found that during 2000-01 the listed banks ranked higher than the unlisted ones.

Nair (2003) in his study on the need of public sector banks to overcome the barriers to relationship formation states that PSBs need to strengthen the weaker areas of product innovation, quick upgradation of value additions, marketing abilities, enhancing quality of service at points of contact, to build enduring customer relationships leading to enhanced profitability.

Krishnamurthy (2003) in his paper on human resource development in the Indian public sector banks suggests that the PSBs which are the largest employers in the banking sector should try to instigate the hunger for achievements among their employees and should convince them that the challenges they face are opportunities and arouse their instincts for winning and survival.

Kumar and Sarngadharan (2003) in their study attempts to highlight some measures for more deployment of credit for improving the strength of contributions in all spheres of the Kerala economy. They have found that there is lack of co-ordination between banks and other financial institutions in the state and suggests that appropriate measures for proper co-ordination between banks and other financial institutions can tackle many of the existing problems related to credit requirements of the primary and secondary sectors in state. The public sector banks that remain dominant in the state should adopt a favorable attitude in reaching the customers with innovative products and services, so as to ensure increased deployment of credit.

Subbiah and Nananeethakrishnan (2003) in their paper analyses financing of the small scale industries by the commercial banks operating in Virudhunagar District, under the Lead Bank Scheme. The study covers a period of seven years between 1993-94 to 1999-2000. They applies the Friedman's test and the results indicate that there is no significant difference in the performance of commercial banks of different classifications operating in Virudhunagar district in lending to small scale industries (under the lead bank scheme) during the period under study.

Venugopal (2003) in his paper on public sector banks analyses the changes in the banking sector during the different decades after nationalisation and finds that the future of nationalised banks hinges on their ability to built good quality assets in an increasingly competitive milieu while maintaining capital adequacy and prudential norms. The challenge of the nationalised banks rests on reaping the benefits from its strengths and overcoming the constraints of its operational rigidities. Consolidation to enhance managerial efficiency and competition to transform customer service, are the key factors that will impact nationalised banks.

Nagarajan and Manju (2003) in their paper aimed at examining whether the technical efficiency levels of scheduled commercial bank groups has improved after the adoption of financial liberalisation policy in India. For this purpose commercial banks are classified into four bank groups – SBI grouop, Nationalised Banks, Domestic Private Banks and Foreign Banks. Then Stochastic Production Function for the banking industry is constructed. With the help of this frontier bank wise technical efficiency was computed both for pre and post liberalisation period. Result showed that technical efficiency levels of both public sector bank groups has recorded a decline in the post liberalisation period, however the technical efficiency levels of both domestic private sector banks and foreign banks has increased slightly. The decline in the standard deviation computed from the mean levels of technical efficiency of bank groups in the post liberalisation period as compared to the pre liberalisation period shows that the differences in technical efficiency levels among bank groups has declined in the post liberalisation period indicating enhanced competition among the bank groups.

Jeromi (2003) in his paper reviews the progress of commercial banking in kerala, analyses the trends in credit-deposit ratio (CDR), assess the level of credit deployment and discusses the reasons for low level of credit deployment in the state. The paper finds that, in absolute terms, the level of credit and its rate of growth were reasonably good. However, in relative terms, the level of credit as a proportion of state income has declined significantly during the nineties. The paper also shows that higher proportion of non-resident deposits (NRDs) in total deposits of banks may not be a significant factor responsible for the lower CDR in the state. Further, both per capita credit and credit per account was lower in the state indicating lower credit absorption capacity. The paper suggests that encouraging private sector involvement in information technology; IT enabled services, software development, bio-technology, tourism, healthcare, and higher education can improve the credit absorption capacity of the state. Regarding, priority sector advances it was found that it was higher than the stipulated target of 40 % (except in 2001). Since total bank credit in the state was lower, it was relatively easier for banks to achieve the target (as it is a proportion of total bank credit). Hence, achievement of priority sector target cannot be taken as an indicator of higher-level deployment of credit and suggests that for improving credit flow in kerala, it is essential to concentrate on non-priority areas.

Jayachandra and Vasu (2003) in their study on management of non-performing assets in public sector banks have found that the problem of non-performing assets is more in public sector banks when compared to private sector banks and foreign banks and suggests that proper selection of borrowal accounts, financing viable schemes, extending need based financing, ensuring proper end-use, proper post sanction follow-up, regular contact with borrowers, regular monitoring of the accounts, avoiding overdrawing extraneous debts, holding recovery camps etc, are required for reducing NPAs and to built a banking system with an international orientation.

Nagarajan (2003) in his work presents a graphical exercise of benchmarking Indian banks in terms of internationally accepted standards for the year 2002-03. Benchmarking is a technique of evaluating the performance of an entity with reference to a widely accepted standard. The exercise is confined to 29 Indian scheduled commercial banks comprising 23 public sector banks and 6 private sector banks. To ensure meaningful comparison, they are classified into three groups depending on the size of assets. Eight variables like return on assets, return on owned funds, gross non-performing loans, net non-performing loans, capital adequacy, cost income, intermediation cost, net interest margin etc are selected for benchmarking. The guiding principle in the selection is their significance from the viewpoint of indicating profitability and functional efficiency. The selected benchmarks are the ones generally accepted (internationally) as the norms for best performing commercial banks. Bar charts' indicating better performance in relation to the benchmark and below performance vis-à-vis benchmark is shown by shading the bars for the benchmarks.

Ammannaya (2004) in his study argues that the future of Indian banking definitely lies in rural sector. Agriculture, rural industries and rural non-farm sector will surely unfold ample opportunities for banks for business expansion. The study also finds the future of public sector banks will depend on their alertness, operational efficiency, customer orientation and standard of customer service, creation of large volumes of performing assets, attainment of optimum levels of productivity, profitability and overall performance. Only those banks that give adequate attention to all these factors can survive and prosper.

Reddy (2004) in his study has observed that there is no direct link between lending rates and credit off-take. Simultaneous and intensive efforts have to be undertaken by the banking system to remove the procedural and transactional rigidities in the delivery of credit, particularly to agriculture and small industries. A noteworthy feature of credit off-take has been the impressive increase in priority sector lending in the year 2004 which has posted the highest growth in recent years.

Mohan and Ray (2004) in their paper attempts a comparison of performance among three categories of banks – public, private and foreign – using physical quantities of inputs and outputs, and comparing the revenue maximization efficiency of banks during 1992-2000. The findings show that PSBs performed significantly better than private sector banks but no differently from foreign banks. The conclusion of the paper points to a convergence in performance between public and private sector banks in the post-reform era, using financial measures of performance.

Vyas (2004) in his study has found that the target of 18% of net bank credit for lending to agriculture, introduced in the year 1989 was achieved only by five public sector banks and two private sector banks as on march 2003, whereas the rest 22 public sector and 27 private sector banks failed to reach the required level by March 2003.

Shetty (2004) in his study has found that since March 1995, after the disbanding of branch licensing policy and the granting of freedom to bank boards to decide on their branch expansion programmes there has been a reduction in rural branches. This has happened also because no attempt has been made by the authorities to substitute it by strengthening Co-Operatives and Regional Rural Banks (RRBs) or to built an alternative rural institutional structure for credit delivery, and have suggested that intensive and enduring programmes at strengthening the institutional credit structure in rural areas and instituting better credit delivery mechanisms are urgently needed.

Banerjee and Duflo (2004) in their article has found that the real challenge whether public control remains or not, is to create a banking system for a world where investors take risk and sometimes fail, where bankers need to take initiative and use their judgment. What is needed is incentives for bankers that reward success but make allowances for bad luck, which at the same time guard against the temptation to be irresponsible or corrupt considering the priority sector lending to firms. They have noticed that during early 1998, the government had relaxed the so-called 'Priority Sector Regulation', to permit banks to count lending to firms with plant and machinery of less than Rs.3 crores as part of their required lending to the priority sector, while before they could only include firms below Rs.65 lakhs. In the beginning of 2000, the government decided to scrap this new credit policy and go back to a limit of Rs.1 crores in investment in plant and machinery to be eligible for priority sector credit and this cut in credit growth has hurt the profits and sales of the excluded firms and have suggested that some version of the priority sector regulation should remain, which apply to new firms rather than just small firms.

Majumdar and Shetty (2004) in their report has found that financial institutions like IDBI are trying to bring development finance which is their core area of activity within the definition of priority sector because the area of development finance cannot be non-priority.

Joseph (2004) in his study attempt to bring the reality to light in view of realizing the targets set by the financial institutions towards priority sector lending using the Kruskal-Wallis test and have found that there is no significant difference in the performance of various financial institutions in lending to the service sector and total priority sector, but in the case of agricultural and industrial sectors the results show just the converse. The study attempted an empirical testing regarding the movements of the targets and achievements in terms of priority sector lending by the financial institutions in a regional economy called Kozhikode district in kerala and has come out with the findings that there is a positive relationship between targets and achievements. Also it is observed that the performance of various financial institutions in Kozhikode district in terms of priority sector lending is much better and so is the case with kerala.

Kusum, Athanasios and Man Mohan (2004) in their study examine the impact of liberalisation on the relative efficiency of Indian banks. Using the Data Envelopment Analysis methodology, performance is evaluated in terms of relative efficiency of Indian state-controlled, nationalised, private and foreign banks from 1990 to 1995. The overall inefficiency for the whole sample is rather stable for the period examined and approximately 31%. According to the study the size is positively related to the pure technical efficiency. Efficiency levels fell in all the state-controlled banks but most of the nationalised banks maintained their efficiency levels. The foreign banks appear to be the most efficient group and surprisingly domestic private banks to be the most inefficient ones.

Chakrabarti and Chawla (2005) in their paper on bank efficiency in India since reforms investigate the relative performance of banks in India over a decade since liberalisation, using the Data Envelopment Analysis (DEA) Approach and find that on a “value’ or profitability basis the foreign banks as a group have been considerably more efficient than all the other bank groups, followed by the Indian private banks. From a “quantity” perspective or on the basis of volume of deposits and credit created with given input levels, however, the Indian private banks have been the best performers while the foreign banks are the worst performers. The study covers a longer time frame (1990-2002) and looks at the four main types of banks – the SBI group banks, other public sector banks, private banks and foreign banks and covers a total of 70 banks providing a comparative picture of bank efficiency among these bank categories.

Sinha (2005-06) in his paper suggest that the public sector banks need to lay emphasis on due diligence, financial analysis and risk-sensitive pricing to support major credit decisions and refrain from subjective decision-making. In addition the Indian banks need to effectively use covenants as pre-emptive device, prudently manage concentrations, have appropriate capital allocation and risk distributions, and progress towards effective use of credit risk models, stress testing and credit derivatives. The good credit culture will protect the banks from their shortcomings and risks.

Roy (2006) in her study finds that the surge in bank credit has been an encouraging phenomenon in India's banking sector. However, though overall credit growth has been of a high order, the expansion of agricultural credit and credit to small-scale industries sector has not kept pace with it. Retail credit, which is growing from a very low base, has expanded. While consumption-led growth can help improve the growth rates in the economy, it would also result in increasing risks. Necessary steps are to be taken to avoid risks, while at the same time allowing the financial deepening to continue.

Pushpangathan (2006) in his doctoral dissertation tries to evaluate the quality of customer service in public sector banks in kerala. The study finds that Indian commercial banks are offering more varieties of products and services than those of foreign banks though foreign banks are far ahead of Indian banks in respect of facilities. According to the study public sector banks lag behind private sector banks and foreign banks in respect of completion of transactions within the standard time fixed for it, deposit related and credit related services, behaviour of bank staff to individual customers, provision of personalized services, performance of customer service committees etc and suggests that to survive the public sector banks should shift from a product based focus to a customer focus, provide periodical training to the staff in relationship management with added focus on customer satisfaction, introduce modern technology through computerisation, select staff based on better IQ, communication skills and product knowledge and finally consider customer complaints as feed back and conduct regular customer interview among customers either through some in-house teams or preferably with the assistance of outside experts.

Sivasankar and Ekambaram (2006) in their paper on the role of public sector banks in the development of the small scale sector in India finds that commercial banks continue to play an important role in financing small scale industrial sector and hence there is a dire need to strengthen the financial credit flow by the public sector banks for the speedier development of SSI as the success of the economy, especially industrial sector, can be ensured through reliable, efficient and effective financial system.

To sum up, the review of the available current literature shows that, with the possible exception of few, no serious research efforts have been made towards a study on priority sector lending by nationalised banks in India. Further, the review shows that there is no unanimity on the question of continuation of the “directed credit programmes” at concessional rates. Hence the present study tries to review the concept of priority sector, considering the performance of nationalised banks and recommendations made by the Narasimham Committee Report I and II and the annual policy statement of RBI regarding priority sector lending.

References:

Ammannaya, K.K, 'Indian Banking: 2010", IBA Bulletin, Jan 2004, (pp 156-160)

Anand, S, 'Priority Sector Lending – It is a dynamic phenomenon', Indian Banking Today & Tomorrow, vol.19, No.1, January 1994, (pp 10-17)

Anbumani, V, and Niranjana, S, 'Social Objectives and Priority Sector Lending's', Banking and Financial Sector Reforms in India, Deep and Deep Publications Pvt. Ltd. New Delhi, Pub: 2002, (pp 231-245)

Banerjea Bhaskar, "Public Sector Banks: Need for Renewal", op.cit, (pp 41-46)

Banerjee Abhijit and Duflo, Esther, 'What Do Banks (Not) Do?' H.T.Parekh Finance Forum, Economic and Political Weekly, Sep 18, 2004, (pp 4212-4213)

Bansal, S.N, Dr., and Agarwal, V.K, Dr., "Why World Bank is Against Priority Sector Lending?, Kurukshetra, Vol.39, No.12, September 1991 (pp 28-32)

Baslas, Deepti and Bansal, Anand, Banking Sector Reforms: Towards A New Face of Indian Banking, op.cit, (pp 348-351)

Bedback Hrushikesh, "Cost of Credit Acquisition and Delay – The Major Factors of Institutional Finance to Priority Sector", The Indian Journal of Commerce, Part 2 & 3, Vol. XXXVII, No. 139,140, April-June, July-Sep 1984, (pp 61-74)

Bhalerao Asha, "Sectoral Inequality in the Distribution of Outstanding Credit of Commercial Banks in India", Banking Finance, Vol.II, No.6, June 1989, (PP 12-13)

Bhat Narayana M, ‘Nationalised Banks: Declining Profitability and Cost Controls’, The Indian Journal of Commerce, Vol.XXVII, Part IV, No. 101, Dec 1974, (pp 25-30)

Bhatia, B.S., and Chowla, A.S, ‘Indian Banking Towards 21st Century’, Deep and Deep Publication, 1994, New Delhi -27.

Bhide, L.Y, – ‘Perspectives of Bank Credit during Seventh Five Year Plan’ – Union Bank of India, op.cit (pp 178-179)

Bilgrami Arthar Raza.S, “Bank Nationalisation And The Income Expansion of the Neglected Sectors With Special Reference To Agriculture”, The Indian Economic Journal.vol.25, No.2, 1977-78, (pp 170-172)

Bishnoi, T.R, “Policy Constraints And Banks’ Profitability: Impact of Priority Sector Credit” – International Journal Of Development Banking, 9(1), No.1,Jan 1991, (pp 39-46)

Capoor, Jagdish, Deputy Governor, RBI, ‘Developmental Issues in Micro Credit’ - Address at the Asia Pacific Region Micro Credit Summit Meeting of Councils at New Delhi on February 03, 2001, (pp 1-5)

Chakrabarti, Rajesh, and Chawla, Gaurav, “Bank Efficiency in India Since the Reforms – An Assessment”, Money &Finance, July- Dec 2005, (pp 31-48)

Chakravarty S.Kalyan, “Towards A Better Management of Public Sector Banks – A Subsystemic Change Approach”, ISTD Review, Vol.5, No.4, July-Aug 1975. (pp 26-29)

Chari, N.S.T and Chaudry Raghunath, “Nationalised Banks Comparative Performance”, The Economic Times, June 18, 1980, p-5

Chatterjee, Sandip, ’Productivity of Nationalised Banks: A Measurement Linking Profitability’, IBA Bulletin, February 1998, (pp 39-41)

Commerce, Commerce Economic Bureau, Banking – A survey, July 31,

1982(p-46)
Damodar, B.S. ‘Priority Sector Lending During Seventh Plan – Syndicate Bank, op.cit (pp 176-177)
Das, Hem Chandra Lal, ‘Priority Sector Lending’s By Public Sector Banks Under Financial Sector Reforms in India’, op.cit, (pp 246-263)
Das, M.R, ‘An Objective Method for Ranking Nationalised Banks’, Prajnan, Vol.XXXI, No.2, 2002-03, (pp 111-136)
Das, Uday Kumar Lal, ‘Development of The Priority Sector in India’, Banking Reforms and Lead Bank Scheme, Deep and Deep Publications Pvt. Ltd. New Delhi, Pub: 2002, (pp 129-161)
Das, Uday Kumar Lal, ‘Performance Evaluation of The Lead Bank Scheme in India’, op.cit, (pp 162-197)
Division of Banking Studies Department Of Statistical Analysis And Computer Services, “Disbursal Of Priority Sector Advances of Commercial Banks To Scheduled Castes And Scheduled Tribes – A Review” – Reserve Bank Of India Bulletin, February 1990, (pp 65-81)
Dutta, K.K, ‘Quantum of Credit Needs Management and Procedural Considerations Relating to Financing of Priority Sector during Seventh Five Year Plan’ – RBI, op.cit (pp 164-167)
Gayathri, K, “Credit Delivery in Rural Karnataka – A case Study of Chickmangalur District”, Journal of Rural Development, Vol.12, No.3, May 1993, (pp 301-317)
Ghosh, D.N, ‘Bank Profitability and Priority Sector Lending – From Populism To Impressionism”, Economic and Politicalweekly, Vol.XXVII, No.8, February 22, 1992, (pp 387-388)
Godse, V.T, “CAMEL for evaluating performance of banks”, IBA Bulletin, August 1996, (pp 8-11)
Gupta.K.R & Prasad.S, “Management of Credit by Indian Banks”, The Indian

Journal of Commerce, Vol.XXXI, Part IV, No.117, Dec 1978, (pp-65-73)

Hegde, K.J,'Special Problems Relating To Demand For Credit From Export Sector ' – Reserve Bank Of India op.cit,(pp 115-117)

Institute Of Finance, Government of Tamilnadu, Report – 1986-87.

Jagannathan.L, "Perspectives On Bank Credit During The Seventh Five Year Plan". Canara Bank. Op.cit (pp 34-40)

Jagirdar, Brinda, "Need For Redefining Priority Sector Components" – SBI Monthly Review, May 1991, Vol.XXX, No.5, (pp 244-255)

Jayachandra, K, and Vasu, M.S, 'Management of Non-Performing Assets in Public Sector Banks, Southern Economist, Vol.42, No.11, Oct 1, 2003, (pp 9-12)

Jeromi, P.D, 'Bank Credit in Kerala – An Analysis of Trends and Issues", Economic Development in India, Vol.71, Academic Foundation, New Delhi, Sep.2003, (pp 59-93)

Jha, Tara Kant, 'Priority Sector Lendings: A Case Study in Mithila Region in Madhubani (Bihar)', op.cit, (pp 264-281)

Joseph, K.X, 'Priority Sector Lending In Kerala – An Empirical Study', 2004 (pp 1-9)

Joshi, Pant, Deepali, 'Rural Credit', Yojana, Jan 2002, (pp 38-44)

Kamesam, Vepa, 'Indian Economy – Financial Sector Reforms and Role of RBI', Reserve Bank of India Bulletin, April 2002, (p 1615)

Kamesam, Vepa, 'Winning Strategies in Small and Medium Enterprises Finance', Reserve Bank of India Bulletin, March 2002, (pp 151-155)

Khader, S.S.A, 'Priority Sector Lendings In The Seventh Five Year Plan' – State Bank Of Mysore, op.cit (pp 160-163)

Killawala, Alpana, Credit Information Review - 273, Reserve Bank of India, April 2002, (pp 1-8)

Krishnamurthy, K.V, "Human Resources Development in the Indian Public

Sector Banks", IBA Bulletin Special Issue, March 2003, (pp 37-39)

Kumar, S.Rajitha, and Sarngadharan, M, 'Credit Deployment In Kerala By Commercial Banks', Southern Economist, Vol.42, No.4, June 15, 2003, (pp 3-5)

Kumaraswamy, M.R, 'Effectiveness or otherwise of Priority Sector Financing to vulnerable Peasant Farmers in the Midst of Widening Poverty Gap – Case Studies', Journal Of Financial Management And Analysis, Vol.11, No.1, Jan-June 1998, (pp 70-85)

Kurien, Jacob, 'Non-Repayment of Institutional Loans and Viability of Social Banking – A Case Study of Priority Sector Beneficiaries in Chengalpettu M.G.R.District, Tamilnadu', May 1996, (pp 1-50)

Kusum W.Ketkar, Athanasios G.Noulas and Man Mohan Agarwal, "Liberalisation and efficiency of the Indian Banking Sector", Indian Journal of Economics & Business, Vol.3, No.2, 2004, (pp 269-287)

Majumdar, Sourav, and Shetty, Sudhir, 'IDBI For Changes in Priority Sector Norms', The Indian Express, 28 Dec, 2004, (pp 1-2)

Mani, K.P, and Jose, P, Chacko, 'Performance of Commercial Banks in Kerala – An Autopsy', op.cit, (pp 445-456)

Manjappa, H.D, Cost-Benefit Analysis of Priority Sector Lending in India: An Empirical Study, Finance India, Vol.XI, No.2, June 1997, (pp 313-323)

Masthan, D, and Rao, Jagga, 'Capital Adequacy Norms: Risks for Urban Co-op Banks', The Hindu Business Line, Tuesday, May 14, 2002, (pp 1-3)

Murali, S, and Sadasivan, B, 'Indian Banking Industry – A Paradigm Shift', op.cit, (pp 338-341)

Nagarajan, N, ‘Benchmarking Indian Banks: 2002-03’, IBA Bulletin, October 2003, (pp 38-43)

Nagarajan, V, and Manju.S, “Financial Sector Reform And Banking Sector Performance In India: A Study On Technical Efficiency Of Commercial Banks Between Pre And Post Reform Period”, Asian Economic Review, Vol.4 5, No.2, August 2003 Issue, (pp 230- 236)

Nair, M.V, ‘Public Sector Banks – Overcoming Barriers to Relationship Formation’, IBA Bulletin, February 2003.

Narayana, D, “Directed Credit Programmes _ A Critique of Narasimham Committee Report”, Economic And Political Weekly, vol.27, No.6, February 8, 1992, (pp 255-258)

Ojha.P.D. “Credit Needs of the Public Sector”, Seminar on Bank Credit during the Seventh Five Year Plan,(March 17-19, 1986) Proceedings and Papers. Bankers Training College, Reserve Bank of India, Veer Savarkar Marg, Dadar, Mumbai. (pp 11-15)

Pagaria, M.L, and Yadhav, Ram Jass, ., ‘Viability Study of Loss Making Rural Branches’, ICWAI, The Management Accountant, Vol.36, No.5, May 2001, (pp 327-330)

Pantulu Kamaraju, ‘The Impact of Bank Nationalisation on Indian Economy – A Balance Sheet of Achievements and Failures’, The Indian Journal of Commerce, Vol.XXVI, Part-I, No.94, March1973, (pp37-47)

Patel, K.V, and Kaveri, V.S, ‘Strategies for Recovery of Non-Performing advances in Priority Sector’, National Institute of Bank

Management, Pune, January 1997, (pp 1-34)

Patel, S.G, “Role of Commercial Banks’ Lending To Priority Sector In Gujarat – An Evaluation”, Finance India, Vol.X, No.2, June 1996, (pp 389-393)

Prasad, Ajit, ‘Micro Credit to be part of Bank’s Priority Sector Lending’, 25 February 2000, Press Release: 1999/2000/1141.

Prasad, Bhagawati, ‘Report on the Nationalisation of Banks – In Retrospect’, 19-20 July, IIMS, Bareilly, The Indian Economic Journal, No.2, Vol.47, Oct-Dec 1999-2000, (pp 143-144)

Pushpangathan, G, ‘A Study on the Quality of Customer Service in Public Sector Banks in Kerala’, Finance India, Vol.XX, No.1, March 2006 (pp-209-211)

Raja, J, ‘Banking Industry – SWOT Analysis’, op.cit, (pp 365-366)

Rajagopal, S,”Reforms in Indian Banking – Retrospect and Prospect”, IBA Bulletin, Special Issue, January 1996, (p 38)

Raju, David, V.J, “An Enquiry Into Nature And Extend of Rehabilitation of Weaker Sections in Non-Farm Activities”, Journal of Rural Development, Vol.2, No.6, Nov 1992, (pp 873-878)

Ram Mohan, T.T, and Ray, Subhash, ‘Comparing Performance of Public and Private Sector Banks – A revenue Maximisation Efficiency Approach’, Economic and Political Weekly, March 20, 2004, (pp 1271-1276)

Ram Prasad, Bandi, ‘Bank Performance’, Banking Finance, Vol.XIII, No.6, June 2000, (pp 26-27)

Ramachandran, V.K, and Swaminathan, Madura, “Does Informal Credit Provide Security?” Rural Banking Policy In India, International Labour Office, Geneva, Oct.2001, (pp 1-28)

Ramakrishnan, V.M, “Contemporary Banking – Strategic Imperatives For

Public Sector Banks", Banking Finance, Vol. XII, No.9, September 1999,(pp 3-5)

Raman. A and Simha.S.L.N, "Credit Planning – Objectives and Techniques" IFMR, Madras 1976 (pp 26-33)

Rao, Srinivasa, K,'Public Sector Banks In India And The Productivity Question' – Ashish Publishing House, New Delhi, 1989, (pp 12-17)

Ravi, R, "Advantages for the Disadvantaged in the Priority Sector", Indian Banking Today & Tomorrow, Vol.18, No.8, August 1993 (pp 1-4)

Ravola, K.S, , Nigi,R.S,., and Nigi, J.S., "Role of Commercial Banks In The Development of Priority Sectors", Indian Banking Today And Tomorrow, November 1989, (pp 14-16)

Reddy, Y.V, 'The Outlook for Indian Economy – An Update', Reserve Bank of India Bulletin, Feb.2004, (pp 179-184)

Rengarajan, V, "Profitability Of Banking operations – A Rethinking on Priority Sector Advances With A Reference To Bank Profitability" – Indian Overseas Bank Monthly News Review, March 1991, Vol.V, No.3,(pp 1-24)

Rengaswamy, V, and Ramnath, R.L, 'Performance of Financial Agencies in the Priority Sector Lending Under the Service Area Approach in Madurai District', Prajnan, Vol.XXIX, No.1, April-June 2000, (pp 79-87)

Rengaswamy, V, and Subbiah, A, Analysis of Performance of Financial Agencies in Priority Sector Lending Under the Lead Bank Scheme in Kamarajar District by Using Kruskal-Wallis Test, Prajnan, Vol.XXVI,No.1, 1997-98 (pp 65-73)

Research and Statistical Department, 'Financial Reform in Asian Economics –

A Special Paper', The Bank Of Japan, No.189, May 1990.

Roy, Mohua, 'A Review of Bank Lending to Priority and Retail Sectors', Economic and Political Weekly, March 18, 2006, (pp 1035-1040)

Saha, Gurudas, 'Financials of Indian Banking Industry and the competitive Viability of the public Sector banks', op.cit (pp 373-384)

Samuel, Stephen.D, "Need for Radical Change in Priority Sector Lending Method", Southern Economist, March 1, 1987 (pp11- 12).

Sankaranayanan, V and Venugopal, D, 'Interest Rates On Priority Sector Lending', Indian Overseas Bank Monthly News Review, July-Sep 1992, Vol.V, No.7 (pp 221-26)

Sarda, D.P, 'Handbook on Lending To Priority sector (A Practical Guide)' – Fourth Revised Edition 1998, (pp 11-16)

Sarker, P.C, and Das, A, 'An Approach to Evaluate The Relative Performance of Public Sector Banks In India', Indian Journal of Applied Economics, Vol.8, No.4, 1999, (pp 137-158)

Selvaraj, Upaulthus, M, 'Twenty Fivy Years of Nationalisation', Indian Banking Today & Tomorrow, Vol.20, No.3, March 1995, (pp 1-5)

Shankar, K, "Revamping Nationalised Banks", Indian Banking Today And Tomorrow – November 1991, (pp 4-6)

Shetty, S.L, 'Distributional Issues in Bank Credit – Multi-Pronged Strategy for Correcting Past Neglect' Economic and Political Weekly, July 17, 2004, (pp 3265-3269)

Siddaiah, T, "A Diagnostic Study of Overdues In Commercial Banks", Banking Finance, Vol.II, No.8, August 1989, (pp 3-6)

Siddiqui, Badruzzama, 'Priority Sector Lending – Some Major Issues', Kurukshetra, August 2002, (pp 14-18)

Singh, Pratap, Ravi, 'A Study in to Deposit Mobilisation and lending Policies of the Nationalised Commercial Banks in India', Finance India, Vol.VIII, No.4, Dec.1994, (pp 1025-1028)

Singh, Rajendra, 'Role of State Governments in Recovery of Bank Loans', Banking Finance, Vol. III, No.3, March 1990, (pp 12-13)

Sinha, R.K, 'PSBs Need to Tone-up Credit Risk Management', Vinimaya, Vol.XXVI, No.1, 2005-06, (pp 25-38)

Sivasankar, P.R, and Ekambaram, K, 'Role of Public Sector Banks In the Development of Small Scale Sector in India', Banking Finance, Vol.XIX, No.5, May 2006, (pp 5-8)

Soundarapandian, M, 'Issues In Rural Credit System', Kurukshetra, Sep 2001, (pp 25-29)

Sridharan, T.R, 'Nationalised Banks – Issues in the Second Phase of Reforms', Indian Banking Second Phase of Reforms-Issues & Imperatives, Proceedings of the Bank Economists' Conference 1997, (pp 69-73)

Srinivasan, R, 'Priority Sector Lending – A Study of Indian Experience', Himalaya Publishing House, Bombay, 1995 (pp 11-51)

Subadha, S, " An Evaluation Of The Nationalised Commercial Banks Credit To the Weaker Sections Of The Population In Chengalpattu District of Tamilnadu" – CReNIEO, Madras, Sep, 1990.

Subbiah, A, and Nananeethakrishnan, K, 'Financing SSIs By Commercial Banks: A Case Study', op.cit, (pp 6-8)

Sundaram, Satya, I, "Priority Sector Lending – Some issues", Indian Banking Today and Tomorrow, December 1991, (pp 15-17)

Swarup, Santi, K, “Globalisation and Challenges to Indian Public Sector Banks”, Banking Finance, Vol.XV, No.11, Nov 2002, (pp 13-16)

Thingalaya, N.K, Pigmy Economic Review – Syndicate Bank, Vol.36, No.1, August 1990.

Thomas, Zacharias, ‘Performance Effectiveness of Nationalised Banks: A Case Study of Syndicate Bank’, Finance India, Vol.XIV, No. 1, March, 2000, (pp 187-192)

Veerashekerappa, “priority Sector Lending – A Case Study”, Southern Economist, Vol.31, No.21, March 1, 1993, (pp13-16)

Venugopal, Dharmalingam, ‘34th Anniversary of Bank Nationalisation PSBs: A Complete Makeover’ Business Line, July 19,2003, (pp 28-30)

Vijayakumar, A., and Venkatachalam, A, “Profitability of Indian Public Sector Banks In Eighties”, Indian Banking Today and Tomorrow, Vol.18, No.1, January 1993 (pp 10-13)

Vijayulu, S, Sakunthala, B, and Ramachandra, B, ‘NPAs: A Challenge To Public Sector Banks’, Banking Finance, Vol.XV, No.3, March 2002, (pp 10-13)

Vyas, V.S, ‘Report of the Advisory Committee on Flow of Credit to Agriculture’ May 18, 2004, (pp 1-31)

Yadav, Ravinder, ‘Rural Credit’, Banking Finance, Vol.XIV, No.12, December 2001, (pp 26-27)

CHAPTER – 3

BANKING IN INDIA

3.1 Introduction

Banking system is one of the many institutions that impinge the growth and development of any economy and banks are considered as the most important of all the financial intermediaries in the financial system of the country. The importance of banking institutions is felt rather deeply in the underdeveloped and developing economies in the sense that these economies are usually short of capital and the task of mobilisation of resources and their channelisation to the priority sector belongs to such institutions. In the Indian financial sector with the existence of large non-monetised sector, widespread illiteracy and conservatism among the people; savings remain either unutilized or hoarded in the form of cash, gold, silver, investment in land, real estate etc. The development of Indian economy therefore requires proper channelising of the domestic financial resources towards productive investment. This calls for the active role of banking and other financial institutions in the country. According to the Indian Banking Regulation Act (1949) banking means "accepting for the purpose of lending or investment of deposits of money from public repayable on demand or otherwise and withdrawable by cheques, draft, order or otherwise". The nature of the Indian banking system reveals that it has been influenced by the characteristics of an underdeveloped economy, but is a paradox at the same time that it com very favourably with what is to be found in some of the developed countries of the world", (Nigam, 1967). This can be better understood as we analyse the banking development in the country on an historical perspective in the following section under two main headings – Pre-Independence period and Post-Independence period.

3.2 Pre-Independence Period:

In India the ancient Indus scriptures refer to the money lending activities. "Banking was known and practiced in India at a time when the rest of the world had yet to evolve a medium of exchange in the form of money", (Savakar, 1938). According to Crowther (1959), "the bankers' two other ancestors are the money lenders and the goldsmith". The bankers first in the form of moneylenders followed by indigenous bankers and later as commercial banks have been playing a decisive role in the economic life of the country. "While the indigenous banker grants loans for trade and industry, the moneylender finances mainly consumption", (Sharma, 1969).

Banking during the Smrithi period followed by the Vedic period and the Epic age was carried on by the members of the vaish community. The people who performed banking functions were known as 'Sresthis', 'Sahukar' or 'Mahajan'. Manu, the great lawgiver in his 'Manusmrithi' has prescribed rules pertaining to interest rates to be charged and considered earning of interest as the business of Vaishyas. Kautilya's 'Arthashastra' also bears testimony to the existence and working of a banking system in India. The banker of the Smrithi period performed many of the functions of modern day banks.

During Mughal rule, the use of metallic money gave opportunities to the indigenous bankers for developing the very profitable business of money-changing and the most important among them were appointed as mint officers, revenue collectors, bankers and money-changers to government in various parts of the empire, (panandikar, 1975). The ‘Jagat Seths’ of the 17th and 18th centuries were famous for their power and influence and fulfilled many of the functions of the central bank. During Mughal Period bankers granted loans both for domestic and foreign trade. The indigenous bankers were the trusted custodian of the deposits of people and royalty alike and financed not only the trade of the country but also the requirements of the royal treasury. ‘Hundis’ or indigenous bills of exchange were common and the people who performed banking functions were known as ‘Shah’, ‘Shroff’, ‘Chettiars’ etc., according to the regions they represent.

The advent of the British East India Company and its transformation from a trading company to an administrative power and the subsequent failure of Mughat Empire brought great changes in the monetary system of the country. In the words of Sinha, (1927), “The failure of indigenous bankers to adjust themselves to the new circumstances must, therefore, be ascribed not to their narrowness or conservatism but to the circumstances of the time. During the latter half of the eighteenth century when East India Company was in power, most of the foreign trade passed out of the hands of the people. The inland trade also was monopolised by the servants of the company for a considerable time. As a result of this the indigenous bankers naturally lost their old predominance”. The major changes in the financial system were the unification of currency and the establishment of British Agency Houses. These Agency Houses are known as the starting point of modern type of banking in India and performed three major banking functions – receiving deposits, advancing loans and discounting bills. Banking in European lines had the real beginning with the setting up of three banks by two British Agency Houses namely, Ferguson & Co and Alexander & Co - The Bank of Hindustan (1770), The Bengal Bank (1785), and The General Bank of India (1786). The Bank of Hindustan is reported to have continued upto 1806, while the other two had failed in the meantime. Then came the era of ‘Presidency Banks’. With the sanction of the British Parliament the Bank of Bengal (formerly known as Bank of Calcutta) was established as the first Presidency Bank in 1809, followed by the Bank of Bombay in 1840 and the Bank of Madras in 1843 bringing the total number of Presidency Banks to three. The three Presidency Banks worked almost in the same pattern and were more or less like the Central Bank for the areas under their jurisdiction. They maintained close links with the East India Company and the government and did commercial banking business. But the presidency banks did not make much headway in the sphere of banking in India, (Kaptan and Choubey, 2003). Several Joint Stock Banks were established by an Act passed in 1813, which removed all restrictions of European settling in India to enter this business. English Agency Houses established banks on the basis of unlimited liability. But most of them failed due to mismanagement, fraudulent use of funds, and combination of banking with other business and speculation. In 1860, an Act was passed permitting the starting of Joint Stock Banks on the basis of limited liability. The banks started during this period include, The Allahabad Bank, The Alliance Bank of Simla, The Oudh Commercial Bank, The Punjab National Bank and The People's Bank of India. Very few of these banks survived, as they were established without careful plan and objectives. The co-operative movement started in 1889 got real recognition after passing the first Co-operative Societies Act of 1904 by the Government of India and with the starting of the first urban co-operative credit society at conjeevaram in Madras province in 1904.

The swadeshi movement started in 1906 led to the establishment of banks by Indians. The period 1906-1913 was a period of boom for Indian banking industry. The important banks floated during this period were the Bank of India, Canara Bank, The Indian Bank of Madras, Bank of Baroda and the Central Bank of India. During (1913-1917) many banks failed due to the effect of the World War I and also because of conducting the banking business in violation of the elementary principles of banking. "Many banks failed during the early part of 20th century due to faulty policies by management, unhealthy and unwarranted competition among themselves, indiscriminate lending against undesirable securities and combination of banking function with trade and industry – failure in trade and industry affected creditor solvency – cascading effect on the banks", (Murali and Sadasivan, 2001). After the severe banking crisis there was a brief halt to bank failures between 1918 and 1921.

The Imperial Bank of India Act was passed in 1920 and The Imperial Bank of India came into existence on 27^{th} January 1921, by amalgamating the three presidency banks. It acted as a primitive central bank of the country, as a treasurer of the government, as an agency of note issue and as a banker's bank. The passing of the Reserve Bank of India Act in 1934 amended the Imperial Bank of India Act. The Reserve Bank of India that started functioning in April 1935 was to act as the central bank of the country in its true sense and had the responsibility to control the currency and credit of the country. Wherever the Reserve Bank had an office it was to act as Bankers to Government (Central and Provincial) and to hold government balances. But where it had no office the Imperial Bank was to act as an agent to the Reserve Bank of India and manage government accounts. The note issuing function that vested with the government was also transferred to the Reserve Bank.

The breaking out of the Second World War (1939-1945) proved to be a boon to the Indian banks. The number of banks that was less than 10 at the end of 19th century increased to more than 600 by the middle of the 20^{th} century. There had been a stupendous increase in the number of banks during the period of Second World War when a number of mushroom banks spranged up especially in class C and class D Between 1938 and 1945 the number of commercial banks increased four times from 163 to 675 (Table 3.1). The reason for this rapid expansion was that in the early stages of banking development there was large scope for expansion. The increase of currency resulting from war finance made enormous funds available for investment.

These funds could not be used for establishing industrial concerns, on account of the great difficulty of obtaining machinery and industrial equipment. But there was no such difficulty in the way of establishing new banks.

Table 3.1 Progress of Indian Joint Stock Banks excluding the Imperial Bank of India: Number of banks - (1870-1945)

Year	Number of Banks				
	Class A	Class B	Class C	Class D	Total
1870	2	–	–	–	2
1880	3	–	–	–	3
1890	5	–	–	–	5
1900	9	–	–	–	9
1910	16	–	–	–	16
1920	25	–	–	–	25
1925	28	46	–	–	74
1926	28	47	–	–	75
1927	29	48	–	–	77
1928	28	46	–	–	74
1929	33	45	–	–	78
1930	31	54	–	–	85
1931	34	51	–	–	85
1932	34	52	–	–	86
1933	34	55	–	–	89
1934	36	69	–	–	105
1935	38	62	–	–	100
1936	42	71	–	–	113
1937	39	108	–	–	147
1938	43	120	–	–	163
1939	51	119	112	400	682
1940	58	122	121	332	633
1941	63	125	124	147	459
1942	69	136	137	133	475
1943	92	152	141	161	546
1944	118	162	113	235	628
1945	143	174	114	244	675

Note: Class A – Banks with capital and resere of Rs.5 lakhs and over, Class B – Banks with capital and reserve between Rs.1 lakh and Rs.5.lakh, class C - banks with capital and reserve between Rs. ½ and Rs.1 lakh and Class D – banks with capital and reserve below Rs. ½ lakh.
Source: Banking in India, S.G.Panandikar, Orient Longman Ltd, 1975, p.16.

There had been a stupendous increase in the number of Indian Joint Stock Banks in 1939 that was followed by a decline during 1940-41. After

1941 till the end of World War II in 1945 the number of banks showed a slow but steady increase. The amount of deposits increased by more than 5 times and advances by 3.7 times between 1939 and 1945 (Table 3.2).

Table 3.2 Progress of Indian Joint Stock Banks excluding the Imperial Bank of India: Number of Banks, Deposits and Advances - (1936-1946)

(Amount in Rs.Crore)

Year	No. of Banks	Deposits	Bills Discounted and Loans and Advances
1936	113	103.6	56.82
1937	147	108.55	62.53
1938	163	106.8	59.95
1939	682	115.61	72.22
1940	633	130.59	67.49
1941	459	153.86	81.26
1942	475	224.05	82.33
1943	546	367.74	136.71
1944	628	510.98	197.44
1945	675	644.86	272.09

Source: Banking in India, S.G.Panandikar, Orient Longman Ltd, 1975, pp.16-20.

The progress of the Imperial Bank of India since its inception in 1921 till it was converted to State Bank of India in shows that the number of offices increased from 80 in 1921 to 455 in 1954, deposits increased from 72.58 crores of rupees to 231.13 crores of rupees during this period, a three fold increase. Advances got doubled during this period from 53.56 crores to 108.71 crores.

Table 3.3 Progress of Imperial Bank of India (1921 - 1954)

(Amount in Rs.Crore)

Year	No. of offices	Deposits	Bank credit
1921	80	72.58	53.56

1922	95	71.17	53.54
1923	135	82.77	70.37
1924	150	84.21	61.15
1925	169	83.29	56.15
1926	174	80.35	48.02
1927	184	79.27	60.73
1928	185	79.25	60.80
1929	187	79.24	40.12
1930	189	83.97	41.33
1931	189	72.18	41.58
1932	191	75.43	30.61
1933	194	80.57	22.98
1934	204	81.00	28.78
1935	212	79.09	18.45
1936	249	78.8	21.77
1937	305	81.08	22.99
1938	348	81.51	32.28
1939	372	87.84	41.43
1940	383	96.03	27.16
1941	393	108.92	29.78
1942	392	163.46	23.32
1943	399	214.53	29.29
1944	421	237.78	55.72
1945	428	259.37	57.4
1946	443	271.67	77.63
1947	362	286.59	71.44
1948	367	280.29	83.31
1949	377	250.73	84.63
1950	382	231.64	91.15
1951	393	230.91	142.47
1952	410	205.85	97.14
1953	424	206.97	94.12
1954	455	231.13	108.71

Source: Banking in India, S.G.Panandikar, Orient Longman Ltd, 1975, pp.16-20.

According to Mago (1972), "the enormous funds so created by the war brought in its wake many mushroom banks with the result that the unwary depositor was lured away by a higher rate of interest". But the boom to the banking sector bestowed by the Second World War was taken over by the problems resulted from the partition of the country in 1947. Many of the Indian banks were subjected to heavy strains. Some of the banks lost heavily, some failed, while some others sought a moratorium with a programme of reconstruction. The progress in Indian banking during the post-nationalisation period is discussed in detail in the next section.

3.3 Post-Independence Period:

The development in Indian banking in the post-independence period can be broadly classified into two distinct phases. The first phase is the pre-reform period (1947-1991) characterized by social banking as a result of the emergence of public sector banks and the second phase, the post-reform period (1991 and after) characterized by universal banking as banks move towards international standards.

3.3.1 Pre-Reform Period (1947-1991):

After India's independence in 1947, high priority was given to re-organise and consolidate the prevailing banking network keeping in view the requirements of the economy. As a first step to bring close integration between the policies of the Reserve Bank and those of the government, the Reserve bank was nationalised on January 1, 1949. This year also saw the enactment of the Banking Regulation Act to provide a framework for regulation and supervision of commercial banking activity. As said by Raman (1968), "the main object of banking legislation is the prevention of bad banking which leads to bank failures".

The entire process of institution building in the post-independence period revolved around the country's need to mobilize savings in order to raise the investment rate and to channel resources to identified sectors of the economy, notably agriculture and industry, (Rakesh Mohan, 2004). The Reserve Bank of India was vested with the major responsibility of developing the institutional infrastructure in the financial system. A new spirit of development permeated the banking system under the able and patient guidance of the Reserve Bank. Again with the beginning of the planning era in the 1950's, the banks have been called upon to act as an instrument of growth and development. The planning strategy was based on the concept of a mixed economy where both public and private sectors had a role to play with regard to investment activity and mobilisation of resources. The result was a multi-institutional structure although a state monopoly, representing the closed nature of the Indian economy at that time.

With more and more economic development the need for taking banks to rural areas became imperative and that was beyond the capacity of the Imperial Bank of India. It was at this point the All India Rural Credit Survey Committee (AIRCS), recommended "the creation of one strong, integrated, state-sponsored, state-partnered commercial banking institution with an effective machinery of branches spread over the whole country", (All India Rural Credit Survey Report, 1954). This recommendation was accepted by passing the State Bank of India Act on May 8, 1955. Majority of the Share capital of the Imperial Bank of India was taken over by the RBI and the Imperial Bank of India was converted to the State Bank of India, with effect from July1, 1955. The State Bank of India Act required the banks to establish not less than 400 additional branches within a period of five years, particularly at district level and sub-divisional level. The State Bank of India could accomplish this aim before the scheduled time and created a new tempo of development in the sphere of Indian banking.

The important objectives of nationalisation of the Imperial Bank of India were summed up in the preamble of the SBI Act, 1955 as "extension of banking facilities on a large scale, more particularly in the rural and semi-urban areas and for diverse other public purposes", (Report of the Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development, 1981). In the words of Sharma (1968), "besides promoting banking habits in the rural sector it was designed to strengthen the banking system by action as a benevolent and helping elder brother to the commercial banks in the country".

The Committee of Direction of the All India Rural Credit Survey also recommended the amalgamation of a number of state associated banks with the State Bank of India. Accordingly, the State Bank of India (Subsidiary Banks) Act was passed on 10th September 1959 to provide for constitution, management and control of subsidiary banks and the State Banks of Hyderabad, Mysore, Bikaner, Indore, Travancore, Saurashtra, Patiala and

Jaipur were made the subsidiary banks of State Bank of India. In 1964, the State Bank of Bikaner and State Bank of Jaipur were amalgamated to form the State Bank of Bikaner and Jaipur, thereby bringing down the number of SBI subsidiaries from eight to seven. The State Bank of India group comprise of the State Bank of India (SBI) and its seven subsidiaries (Annexure 3.1). The Gadgil Study group (1969) found that during the period July 1955 to July 1969, State Bank of India made considerable progress in the areas of branch expansion, deposit mobilisation and purveying of credit. However in branch expansion preference was given to urban and metropolitan areas than rural areas and in the matter of extending credit facilities, exclusive treatment continued to be given to medium and large-scale industrial units by State Bank of India and other commercial banks. The small-scale industries, agriculture and allied activities, retail trade, self-employed and other borrowers were kept outside the purview of banks credit facilities. Credit to industry and commerce stood at 83.7 of the total credit at the end of March 1967. Advances to wholesale trade still predominated and the needs of the retail trade were not adequately met.

During the sixties, the economy was undergoing a major transformation with the beginning of Green Revolution. This technical breakthrough in agriculture opened new vistas in agricultural development and demanded more finance. This demanded a change in the role of commercial banks in their lending activities. According to Rao (1959), “It is not enough if merely the credit needs of the economy are met with by the bank. What is more essential is that the directions of the flow of credit should be controlled and regulated in accordance with the pattern of the five-year plans.

Inorder to bring about a better alignment of the banking structure to the requirements of economic planning, the scheme of social control was announced in the Indian Parliament in December 1967. Social control had its origin in the allegation against the lending policies of commercial banks and aimed at expanding banking facility, deposit mobilisation and proper and better allocation of credit. As per the Banking Commission Report (1972), 'Its objective was to achieve a widespread of bank credit, preventing its misuse, directing a large volume of credit to flow into the neglected sectors and making it an increasingly effective instrument of economic development'. The Banking Laws (Amendment) Act of 1968 sought to create the legal framework for effective control over banks. The National Credit Council (NCC) was set in October, 1968 to set targets regarding credit to be advanced to the priority sectors and to channelise more credit to these sectors. The Banking Commission was also set up in the early part of 1969 to enquire into the existing structure of the banking system. Inspite of all these efforts nothing significant happened due to social control because it envisaged a pace of reform that was too slow to satisfy public opinion.

As a consequence of the failure of social control and due to the realization of the need for some structural change in the functioning of commercial banks an ordinance for the nationalisation of 14 major commercial banks with deposits exceeding Rs.50 crores each was circulated in 1969. The

Government of India promulgated an ordinance called the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance on 19th July 1969 and acquired the undertaking of 14 banks. The banks nationalised in this process is given in (Annexure 3.2)

The main objectives of nationalisation of commercial banks as summed up in the preamble to the Banking Companies (Acquisition and Transfer of Undertakings) Act 1970 is “to control the commanding heights of the economy and to meet progressively and serve better the needs of development of the economy in conformity with national policy and objective and for the matters connected therewith or incidental thereto”, (Vaish, 1984). As Quoted by Husain (1986) from the speech of Mrs.Indira Gandhi, the then Prime Minister of India, “While the nation is committed to establish a socialist pattern of society the government felt that the public ownership and control of the commanding heights of the national economy and of its strategic sectors were essential and important aspects of the new social order which we are trying to build. As the financial institutions are amongst most important levers of the achievement of its social objectives, the nationalisation of banks was felt a significant step in the process of public ownership over the principal institutions for the mobilisation of people’s savings and canalizing them towards productive purposes. The Government felt that the public ownershipof the major banks would help in the most effective mobilisation and development of national resources so that our objectives can be realized with a great degree of assurance". The nationalisation of banks thus aimed at giving a professional bent to bank management.

The next important event in the Indian banking history was the setting up of Lead Banks in December 1969. The scheme was the outcome of the recommendations of a study group set up by the National Credit Council (under the Chairmanship of Dr. D.R.Gadgil) in October 1968. The Group recommended an area approach by the commercial banks to identify and study local progress and evolve an integrated credit plan for the area. For this purpose district was taken as the main administrative unit. Under this scheme, all the 336 districts in the country, excluding some metropolitan areas were distributed among the major scheduled banks to play the 'lead role'. In the words of Simha (1973), "the major object of the scheme is to gear the banking development to the needs of the local economy, and to a fair extent the objectives is being realized".

By the middle of the 1970s, in order to provide specialized knowledge about the rural settings and to provide more credit to agriculture the Regional Rural Banks (RRBs) were set up in 1975. The pre-reform period also witnessed the setting up of State Finance Corporation, The Industrial Credit and Investment Corporation of India (ICICI), The Industrial Development Bank of India (IDBI), Unit Trust of India (UTI) and the Export Credit and Guarantee Corporation. Inorder to integrate the twin and related functions of giving insurance protection to small depositors in banks and providing guarantee cover to credit facilities extended to certain categories of small borrowers particularly those belonging to the weaker sections of the society the Deposit Insurance and Credit Guarantee Corporation (DICGC) was set up in 1978. By the end of 1970s a multi-agency approach emerged in the Indian banking system.

Six more commercial banks were nationalised in 1980. The then President of India, Mr.Nilam Sanjiv Reddy, promulgated the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1980, nationalizing six scheduled commercial banks on April 15, 1980, whose individual demand and time liabilities exceeded Rs.200 crores as on March 14, 1980. The six banks nationalised in this course is given in (Annexure 3.3). The objective of this nationalisation was to enhance the ability of banking system to meet more efficiently the needs of the development of the economy and to promote the welfare of the people more adequately. With the nationalisation of the six more banks in 1980, the total number of public sector banks increased to 28 (comprising the State Bank and its seven subsidiaries and the twenty nationalised banks). These banks accounted for 91% of the total deposits and credits of commercial banks in April 1980. (Annual Report, RBI – 1979-80)

The pre-reform period witnessed series of nationalisation starting with the nationalisation of the Reserve Bank of India in 1949 followed by the nationalisation of Imperial Bank of India into State Bank of India (SBI) in 1955 and subsidiaries of SBI in 1959, the nationalisation of 14 major commercial banks in 1969 and six more banks in 1980. The post-reform period saw only one nationalisation, the nationalisation of IDBI Ltd in 2005 (Annexure 3.4).

The various phases of nationalisation of banks in India is given in (Annexure 3.5).

Inorder to give specialized and focused attention to different segments; certain specialized financial institutions were set up since 1980. These institutions which come under the genre of Development Financial Institutions (DFIs) includes apart from National Bank for Agriculture and Rural Development (NABARD) catering to agricultural sector, the Export-Import Bank of India (EXIM Bank) catering to export finance, Small Industries Development Bank of India (SIDBI) catering to the needs of small industries and the National Housing Bank (NHB) catering to housing finance. To further decentralise the banking system RBI introduced the Service Area Approach for commercial banks in 1989.The dominance of the public sector and state ownership persisted during the 1980's and the market for short term funds was reserved with banks and long-term funds was the exclusive domain of the Development Financial Institutions (DFIs).

The first two decades after independence (1950-1970), the banking scene in India changed radically. The remarkable change was the decline in the number of commercial banks and a substantial increase in the number of branches. The main reason for this is the failure of certain banks and mergers and amalgamation of weak banks with strong ones. In the words of Beckhart (1967), "where the units are uneconomic, amalgamation on right lines would undoubtedly be helpful". The mass failure of commercial banks in 1950's and closure of the Palai Central Bank and Laxmi Bank in 1960 exposed the weakness of the banking system and forced the Reserve Bank to resort into mergers and amalgamation of weaker units with stronger ones. The banks that went out of existence were mostly non-scheduled banks. The process of voluntary amalgamation under section 44 A of the Banking companies Act and compulsory merger under section 55 brought down the number of banks from 565 in 1951 to 83 in 1971, whereas the number of branches increased from 2647 to 12013 during the same period, which account to nearly a five fold increase. According to Eli, (1968), "acquisition of other banks is often a convenient and speedy for a bank to acquire other areas of business". As pointed out by the banking commission (1972), there was an increase in bank deposits and credit during this period mainly due to the development of the economy and expansion of branches of commercial banks. The next two decades (1970-1990), ie, after the nationalisation of 14 commercial banks in 1969 and till the beginning of economic reforms after 1991 saw an increase in the number of banks and number of branches by nearly 3 times and 5 times respectively. (Table 3.4). This increase in the number of banks and branches could be attributed to the setting up of Regional Rural Banks and introduction of Lead Bank Scheme and District Credit plans. The second dose of nationalisation in 1980 further widened the sphere of banking operation. The time period 1985-1990 was a period of consolidation, which marked slow down in branch expansion with special thrust on internal control to improve the customer service, credit management, staff productivity and profitability. The economic reforms that followed after 1991 brought drastic changes in the Indian banking industry, which is discussed in detail in the upcoming section.

Table 3.4 Progress of Indian Banking (1951-1991)

Parameters	1951	1956	1961	1966	1971	1976	1981	1986	1991
No. of commercial banks	565	423	292	100	83	100	187	276	276
No. of offices	2,647	2,966	4,390	6,380	12,013	21,220	35,707	53,287	60,220
Population Per Office (in thousands)	87	98	88	76	46	29	19	14	14

Source: Statistical Tables Relating to Banks in India, RBI -Various Issues.

3.3.2 Post Reform Period – (1991 and after):

India embarked on a strategy of economic reforms in the wake of the balance of payment crisis in 1991. The central plank of the reforms was in the financial sector. Banks being the mainstay of financial intermediation was also subjected to reforms. Reforms were also undertaken in various segments of financial markets inorder to enable the banking sector to perform the intermediation role in an efficient manner. The basic objective of the reforms was to promote a diversified, efficient and competitive financial system, with the ultimate objective of improving the allocative efficiency of resources, through operational flexibility, improved financial viability and institutional strengthening. The philosophy of financial sector reforms aimed at mitigating risks in the financial system, efficient allocation of resources to the real sector, opening of external sector and developing a globally competitive financial system. As Reddy (2000) has observed, the Indian approach to the financial sector reforms is based on ‘panchasutra’ or five principles – cautious and proper sequencing; mutually reinforcing measures; complementarity between reforms in the banking sector and changes in fiscal, external and monetary policies; developing financial institutions and developing financial markets.

The reforms introduced in June, 1991 in the wake of balance of payment crisis resulting from the Gulf War of 1990 was gradual as it was not introduced against a background of prolonged crisis or system collapse, on the contrary was erupted at the end of a period of healthy growth at the end of 1980s. According to Ahluwalia (1995), “the gradualism was the outcome of India’s democratic and highly pluralistic polity in which reforms could be implemented if based on a popular consensus”. Williamson and Mahar (1998), has pointed out that though the reforms were provoked by the trend of globalization emerging around the same time, there was a distinct Indian flavour in their pace and sequencing. The financial sector reforms manly influenced the banking sector, G-sec and forex markets. The reforms in the banking sector is discussed in detail in the following paragraphs.

3.3.2.1 Reforms in the Banking Sector:

The measures taken to reform the banking sector could be classified as prudential measures, measures to enhance the role of market forces, competition enhancing measures, supervisory measures, institutional and legal measures and technology related measures as given in (Annexure 3.6) is discussed in detail in the following paragraphs.

The prudential reform measures aimed at creating a conducive policy environment by lowering the reserve requirements, gradual rationalization of the administered interest rate structure to make it market determined and streamlining the allocation of credit to certain sectors. In order to impart greater strength to the banking system and to ensure their safety and soundness with the objective of benchmarking against international best practices certain micro-prudential measures like risk based capital standards, income recognition, asset classification, provisioning requirements for non-performing loans as well as provisioning for 'standard' loans, exposure limits for single and group borrowers, accounting rules, investment valuation norms etc were instituted.

Measures were taken to increase the levels of transparency and standards of disclosure with greater volume of information being disclosed as 'Notes on Accounts' in the balance sheet of banks. Corporate governance has been improved substantially as banks were advised to adopt and implement appropriate governance practices. RBI focuses on ensuring 'fit and proper' owners and directors of the bank and stress on diversified ownership. Banks have been advised to ensure that a nomination committee screens the nominated and elected directors to satisfy the 'fit and proper' criteria.

The efficiency and productivity of the banking system has been improved by enhancing competition. Since the onset of reforms, clear and transparent guidelines were laid down for the establishment of new private banks and foreign banks were allowed more liberal entry. A pre-condition for new banks was that the bank has to be fully computerized. This was done in order to infuse technological efficiency and productivity in the sector and to serve as a demonstration effect on existing banks. Competition was also encouraged among public sector banks. The ownership base in domestic banks has been broad based. Infusing private equity expanded the equity base of most public sector banks.

To strengthen the process of regulation and supervision, a strategy of on-site inspection and off-site surveillance mechanism together with greater accountability of external audit has been instituted. This has been complemented with a process of prompt corrective action measures like the introduction of CAMELS supervisory rating, risk – based supervision, consolidated supervision of financial conglomeration etc. As early as 1994, a Board for Financial Supervision (BFS) was constituted comprising select members of RBI to pay undivided attention to supervision. The BFS ensures an integrated approach to supervision of banks, non-banking finance companies, urban co-operative banks, select development banks and primary dealers. To ensure a co-ordinated approach to supervision, a High Level Co-ordination Committee on Financial and Capital Markets (HLCCFCM) was constituted in 1999 with the Governor of RBI as chairman and the chiefs of the securities market and insurance regulators and the secretary of the Finance Ministry as the members, to iron out regulatory gaps and overlaps. To minimise settlement risks in the money, forex markets and government securities, the Clearing Corporation of India Ltd (CCIL) was established in 2002. The CCIL provides guaranteed settlement thereby limiting the problem of gridlock of settlements. A Board for Regulation and Supervision of Payment and Settlement Systems (BPSS) was set up in 2005 to prescribe policies relating to oversight of the financial infrastructure relating to payment and settlement systems. To address the systemic risks arising from growth of financial conglomerates, an oversight framework that envisages periodic sharing of information among the concerned regulatory bodies was also set up by the RBI.

The legal environment for conducting banking facilities has been strengthened by constituting Lok Adalats, Asset Reconstruction Companies (ARCs), Settlement Advisory Committee; Debt Recovery Tribunals etc were set up exclusively for adjudication of delinquent loans in respect of banks. A Corporate Debt Restructuring (CDR) mechanism was institutionalised in 2001 to provide a timely and transparent system for restructuring of large corporate debts with the banks and financial institutions. To combat the crime related to money, the Prevention of Money Laundering Act was enacted in 2003 to provide the enabling legal framework. The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act was passed in 2002 to provide a significant impetus to banks to ensure sustained recovery. The Credit Information Companies (Regulation) Act, 2004 has been enacted by the parliament to enhance the quality of credit decision making.

The reforms also focused on adopting appropriate processes to ensure development of various segments of the markets. In order to enhance transparency of secondary market trades in government securities, a screen based anonymous order matching system has been operationalised. In the banking sector, the Indian Bank's Association (IBA) emerged as an important self-regulatory body working for the growth of a healthy and forward looking banking and financial services industry. The introduction of the Real Time Gross Settlement (RTGS) in 2004, made the transaction of large value payments faster and efficient.

The role of technology in institutional building has made remarkable progress after the reforms. The Institute for Development and Research in Banking Technology (IDRBT) was set up in 1996 for conducting research and development in banking technology and also for providing essential core networking functions for banks. The (IDRBT) has set up the country's financial communication backbone called the INFINET (INdian FInancial NETwork) – which is a Wide Area Network based on satellite (using VSATs) and terrestrial lines. The network that started operation since 1999 is available for the exclusive use of banks and financial institutions, as a Closed User Group. With the benefits ushered in by the INFINET, the RBI has introduced more products like Negotiated Dealing System (NDS), which provides screen-based trading of securities and the Real Time Gross Settlement (RTGS), which provides for a one-time settlement of fund flows on a continuous or real time basis.

The roadmap of the banking sector reforms was traced largely by two committees under the chairmanship of Shri. M.Narasimham – The Committee on the Financial System and the Committee of Banking Sector Reforms popularly known as Narasimham Committee I and II. While the focus of the first generation of reforms or the Narasimham Committee I was to create an efficient, productive and profitable financial services industry, the Narasimham Committee II aimed at strengthening the financial system and introduction of structural improvements, (Shyamala Gopinath, 2007). The major recommendations made by the Narasimham Committee I and II is as discussed below:

The recommendations made by Narasimham Committee I include a reduction of statutory liquidity ratio (SLR) to 25 percent over a period of five years, progressive reduction of cash reserve ratio (CRR), phasing out of directed credit programmes and redefinition of priority sector to include small and marginal farmers, tiny sector of industry, small business and transport operators, village and cottage industries, rural artisans and other weaker sections. Credit target for this redefined priority sector was fixed at 10 percent of aggregate bank credit and to be continued only after reviewing the performance at the end of three years. The committee also made recommendations regarding deregulation of interest rates so as to reflect emerging market conditions, stipulation of minimum capital adequacy ratio of 4 percent to risk weighted assets by March 1993; 8 percent by March 1996 and 8 percent by those banks having international operations by March 1994, adoption of uniform accounting practices in respect to income recognition, asset classification and provisioning against bad and doubtful debts, imparting transparency to banks' balance sheets and making more disclosures, setting up of special tribunals to speed up the process of recovery of loans, setting up of

Asset Reconstruction Funds (ARFs) to take over a portion of bad and doubtful advances at a discount from banks, restructuring the banking system so as to have three or four large banks which could become international in character; 8 to 10 national banks and local banks confined to specific regions; rural banks including Regional Rural Banks (RRBs) confined to rural areas; setting up of one or more rural banking subsidiaries by public sector banks, permitting RRBs to engage in all types of banking business, abolition of branch licensing, liberalisation of the policy with regard to allowing foreign banks to open offices in India, rationalization of foreign operations of Indian banks, giving freedom to individual banks to recruit officers, conducting inspection on the internal audit and inspection reports, ending duality of control over banking system by Banking Division and RBI, setting up of separate agency for supervision of banks and financial institutions which would be a semi-autonomous body under RBI, revising the procedure for selection of chief executives and directors of boards of public sector banks, obtaining resources from the market on competitive terms by DFIs, speeding up the liberalisation of capital market, setting up of separate agency for supervision of merchant banks; mututal funds; leasing companies etc and enactment of a separate legislation providing appropriate legal framework for mutual funds and laying down prudential norms for these institutions.

Many of these recommendations were accepted and implementation was done in the case of reduction in SLR/CRR, introduction of capital adequacy norms, deregulation of interest rate, adoption of prudential norms for asset classification and provisions, free entry in the private banking sector etc.

The Narasimham Committee II submitted its report in April 1998 with the following major recommendations. Capital adequacy requirements should take into account market risks, the entire portfolio of government securities should be marked to market by 2001, risk weight for a government guaranteed account must be 100%, Capital Adequacy Ratio (CAR) to be raised to 10% from 8% in 1998; to 9% by 2000 and to 10% by 2002. An asset should be classified as doubtful if it is in the sub-standard category for 18 months instead of the 24 months period in 1998, banks should avoid evergreening of their advances, there should be no further re-capitalisation by the government, NPA levels should be brought down to 5% by 2000 and 3% by 2002, banks having high NPAs should transfer their doubtful and loss categories to Asset Reconstruction Companies (ARCs) which would issue government bonds representing the realisible value of the assets, introducing international practice of income recognition by changing the 90 day norm instead of the 180 days norm existing in 1998, provisioning of 1% on standard assets, categorizing government guaranteed accounts as NPAs under the usual norms, updating operational manuals and establishment of an independent loan review mechanism especially for large borrowal accounts to identify potential NPAs, recruiting skilled manpower, rationalising the staff strength by introducing VRS and considering banks with net NPAs and accumulated loss which is greater than net worth or operating profit less than its income or with negative recap bond for three consecutive years as weak banks.

According to Debashish and Misra (2005), “the Narasimham Committee recommendations aimed at improving the quality of portfolio, providing greater operational flexibility, autonomy in the internal operations of the banks and financial institutions so as to nurture a healthy competitive and vibrant financial sector”. In light of the above recommendations made by the Committee on the Financial System and the Committee of Banking Sector Reforms, the following changes took place in the banking sector.

3.3.2.2 Impact of the Reforms on the Banking Sector:

In the post-reform period the financial health of banks improved significantly both in terms of capital adequacy and asset quality. This progress was attained along with the groundwork for the adoption of international best practices in prudential and accounting norms. Competitiveness and productivity gains have been attained by the technological deepening of the industry and by better human resource management. Emphasis continues to be on social banking with focus on maintaining the wide reach of the banking system and directing credit towards important but disadvantaged sections of society.

Regarding the prudential measures the overall capital position of commercial banks witnessed a marked improvement during the reform period. As at end March 2007, 81 scheduled commercial banks operating in India maintained CRAR at or above 9 percent relative to the Basel I norm of 8 percent.

Table 3.5 Distribution of Commercial Banks According to Risk Weighted Capital Adequacy

(Number of Banks)

End March	Capital Adequacy				
	Below 4 percent	Between * 4-9 percent	Between 9-10 percent @	Above 10 percent	Total
1996	8	9	33	42	92
2001	3	2	11	84	100
2007	–	–	2	79	81

* - Relates to 4-8 percent before 1999-2000, @-Relates to 8-10 percent before 1999-2000.
Source: Report on Trend and Progress of Banking in India, RBI - Various Issues.

Reserve requirements like Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR) has been lowered. RBI brought down CRR from 15% in 1990-91 to 6.5% in 2006-07 and SLR from 38.5% to 25% during the same period (Table 3.6).

Table 3.6 Trends in CRR and SLR (1990-91 to 2006-07)

Year	CRR %	SLR %
1990-91	15	38.5
1995-96	14	31.5
2000-01	8	25
2005-06	5	25
2006-07	6.5	25

Source: Annual Report, RBI - Various Issues

The asset quality of banks has improved considerably since mid 1990s as the share of non-performing loans as a ratio of both total advances and assets have declined substantially and consistently. Improvement in the credit appraisal process, upturn of the business cycle, new initiatives for the resolution of Non-Performing Loans (NPLs), promulgation of the

Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act and greater provisioning and write off of NPLs have contributed in the reduction of incremental NPLs. The ratio of gross NPL to gross advances were reduced from 15.7% in 1996-97 to 2.4% in 2006-07 and the ratio of net NPL to net advances declined to 1.0% in 2006-07 from 8.1% in 1996-97 (Table 3.7).

Table 3.7 Non-Performing Loans (NPL) of Scheduled Commercial Banks

(Percentage)

End March	Gross NPL/Gross Advances	Net NPL/Net Advances
1996-97	15.7	8.1
2001-02	10.4	5.5
2006-07	2.4	1

Source: Report on Trends and Progress of Banking in India, RBI - Various Issues

The willingness of the government to stop recourse to central bank for financing fiscal deficits and borrow from the market at market interest rates gave the credibility to the interest rate deregulation process. The weighted average interest rate on central government securities declined from 11.41% in 1990-91 to 7.34% in 2005-06 and wholesale price index reduced from 10.3% in 1990-91 to 4.4% in 2005-06. (Table 3.8).

Table 3.8 Interest rate on Government Securities and Inflation

(Percentage)

Year	Weighted /Average Interest rate on Central Govt Securities	Inflation rate as measured by Wholesale Price Index (WPI)
1990-91	11.41	10.3
1995-96*	13.75	8
2000-01	10.95	7.2
2005-06	7.34	4.4

* Year when the nominal interest rate peaked
Source: Handbook of Statistics on Indian Economy, RBI

In consonance with the objective of enhancing the efficiency and productivity of banks through greater competition, there has been a consistent decline in the share of public sector banks in total assets of commercial banks and an increase in the share of new private sector banks. The rate of growth of profit shows that public sector banks are competing relatively efficiently with private sector and foreign banks and the profits have increased from negative 39.1% in mid 1990s to 64.6% in 2005-06. The share in the total income, expenditure, total assets and gross profit of the Indian private sector banks, especially new private sector banks increased considerably since the mid nineties. The growth of foreign banks shows a slight decline in income and gross profit, whereas net profit show a sharp decline from 79.8% in 1995-96 to 14.7% in 2006-07 (Table 3.9). As at end march 2007, as many as eight new private banks and 29 foreign banks operate in India.

Table 3.9 Bank Group-Wise Share: Selected Indicators

(Percentage)

Item	1995-96	2000-01	2005-06	2006-07
Public Sector Banks				
Income	82.5	78.4	72.4	68.4
Expenditure	84.2	78.9	73	68.9
Total Assets	84.4	79.5	72.3	70.5
Net Profit	-39.1	67.4	67.3	64.6
Gross Profit	74.3	69.9	69.8	64.1
New Private Sector Banks				
Income	1.5	5.7	14.4	17.8
Expenditure	1.3	5.5	14.1	17.9
Total Assets	1.5	6.1	15.1	16.9
Net Profit	17.8	10	16.7	17.1
Gross Profit	2.5	6.9	13.8	16.7
Foreign Banks				
Income	9.4	9.1	8	9
Expenditure	8.3	8.8	7.4	8.3
Total Assets	7.9	7.9	7.2	8
Net Profit	79.8	14.8	12.5	14.7
Gross Profit	15.6	15.7	12.2	14.6

Source: Annual Report, Report on Trend and Progress of Banking In India, RBI - Various Issues.

The ownership of the domestic banks has been broad based. Though the government owns the majority stake of 51%, private equity has been infused and most of the state owned banks is subjected to market discipline through listing on the stock exchanges.

Inorder to improve the supervisory measures institutions like Board for Financial Supervision (BFS), High Level Co-Ordination Committee on Financial and Capital Markets (HLCCFCM), Clearing Corporation of India (CCIL), Board for Regulation and Supervision of Payment and Settlement Systems (BPSS) etc have been constituted during different years since 1991 to 2005. Measures were also taken to restructure onsite surveillance and introduce off-site surveillance and make systematic monitoring of the functioning of different financial institutions.

Legal environment for conducting banking business has been strengthened by setting up of Lok Adalats, Debt Recovery Tribunals, Asset Reconstruction Companies (ARC), Settlement Advisory Committees etc.

Technology has brought vast changes in the banking system. Banks as well as other financial entities have entered the domain of information technology and computer networking. With the benefits ushered in by the INdian FInancial NETwork (INFINET), more products and practices have been introduced in the Indian banking system. The introduction of Automated Teller Machine (ATM), Personal Telephone Banking, Home Banking Service, Door Delivery Service, Drop in box and internet banking have changed the face of Indian banking and public sector banks along with the private and foreign banks strive hard to improve the technological base and integrate their banking system inorder to provide better services to the customers.

Banking sector reform is a continuous process that needs to be in tune with the emerging macroeconomic realities and the state of maturity of institutions and markets. Despite the liberalisation process, the structure of the Indian banking system has remained almost the same.

The progress of Indian banks during the post-reform period (after 1991 upto 2006) is as given in the table below.

Table 3.10 Progress of Indian Banking (after 1991)

Parameters	1992	1993	1994	1995	1996	1997	1998	1999
No.of commercial banks	276	276	276	284	293	299	300	303
No.of offices	60,570	61,169	61,803	62,367	63,026	63,550	64,218	64,939
Population Per Office (in thousands)	14	14	15	15	15	15	15	15
Parameters	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	
No.of commercial banks	297	301	298	294	291	288	222	
No.of offices	65,412	65,919	68,195	68,500	69,170	70,373	71,177	
Population Per Office (in thousands)	15	15	15	16	16	16	16	

Source: Statistical Tables Relating to Banks in India, RBI - Various Issues.

The number of commercial banks increased from 276 in 1992 to 303 in 1999, but in the present decade it declined from 297 in 2000 to 222 in 2006. The reason for this fall could be due to the new policy of mergers and acquisitions followed in the banking sector. Though the number of offices increased from 60,570 in 1992 to 71,177 in 1998 the population per office was also showing an increase from fourteen thousand in 1992 to sixteen thousand in 2006.

3.3.2.3 Prospective Changes in the Banking Sector

An important issue specifically related to future banking sector development is consolidation. The consolidation process within the banking system has primarily been confined to a few mergers in the private sector segment induced by the financial position of banks. More than 20 banks were merged, amalgamated or acquired during the time period 1991-2007, (Annexure 3.7). The Indian economy is moving from a regime of 'large number of small banks' to a 'small number of large banks'.

The Reserve Bank of India in its ‘road map’ for the banking industry has indicated that the Indian market will be opened for international banks by 2009. It is expected that many foreign banks would gain entry in the Indian markets to tap the vast potential that exists today. These banks with the help of advanced technology, adequate capital for investment, and their customer centric approach will be able to attract the profitable customers from the existing banks. A fierce competition between the existing banks and the new entrants is likely to provide impetus for business growth. To effectively meet the competitive challenge from such banks, the Indian banking industry will have to gear up and adopt the global best practices, which would make them stronger and comparable with the international banks. It was under this background the Basel I norms were announced by the Basel committee in 1988 were adopted by the banks by the end of 1992. The capital adequacy framework of the Basel committee on Banking Supervision (BCBS) 1988 is considered as the single most successful attempt in the move towards convergence of international standards in banking. A three-track approach was adopted with regard to capital adequacy rules. On the first track, commercial banks are required to maintain capital for both credit risks and market risks, Co-operative banks on the second track are required to maintain capital for credit risk and surrogates for market risks, RRBs on the third track, though subject to prudential norms do not have capital requirement on par with the Basel I framework. As part of the financial sector reforms initiated since 1991, RBI has brought the Indian financial system in line with Basel I norms for capital adequacy and prudential norms.

During 1999 the Basel committee proposed a new set of norms to reinforce the soundness of the global financial systems. These norms came to be called Basel II. Commercial banks in India were expected to start implementing Basel II with effect from March 31, 2007. This deadline was however extended postponed to March 2008 for internationally active banks and March 2009 for domestic commercial banks as per RBIs mid-year policy announcements on Oct 30, 2006.

The Basel II norms are built on three pillars or principles that reinforce each other and create incentives for banks to enhance the quality of their control processes. The standardised approach or pillar I of Basel II norms provide banks with guidelines to measure the various types of risks like credit, market and operational risks and the capital required to cover these risks. It ensures that banks measure their risks properly and maintain adequate capital to cover them. The second pillar or supervisory review emphasise that banks should not only have adequate capital to cover their risks but also should employ better risk management practices so as to minimise the risks. The third pillar of market discipline aims at bringing greater transparency by asking banks to make adequate disclosures. According to Basel II norms banks will initially adopt standardised approach for credit risk and basic indicator approach for operational risk. After adequate skills are developed both at the banks and also at supervisory levels, some banks may be allowed to migrate to the Internal Rating Based (IRB) Approach. Under Basel II, Indian banks will require large capital for meeting operational risk. The banks that are not able to attain Basel II norms within the stipulated time frame will have to merge with other large banks. The RBI has introduced capital instruments both in Tier I and Tire II and is involved in capacity building for ensuring the ability of regulators in identifying and permitting eligible banks to adopt Internal Rating Based (IRB) advanced measurement approaches. Adopting the Basel II norms will help the high performing banks to manage capital better and will raise the standard of Indian banks to international levels.

The next changing trend is expected in the role of foreign banks. The foreign banks are becoming dominant in the forex and derivatives market. Foreign banks ownership in several new private banks is over 50 percent and account for around half of the total assets of domestic private banks during 2006. In the words of Reddy (2006), “even in several public sector banks, the extent of foreign ownership within the private holding is close to that of the domestic private holding”.

The next area of development in Indian banking is in the efforts to encourage greater financial inclusion. A beginning has been made to ensure greater outreach of banking facilities in rural areas through appointment of reputed Non-Governmental Organisations (NGOs), post offices etc as banking facilitators and banking correspondents. The development of micro finance activities, Self-Help Groups (SHGs) etc formed by NGOs and financed by banks represent this development process in the country. Various committees and working groups have been set up to ensure greater outreach of banking facilities in rural areas and to ensure availability of bank finance at reasonable rates.

Finally it is observed that along with the technological progress made in this sector, customer service is also gaining prominence. The financial infrastructure and regulatory framework in the country are broadly on par with those prevailing internationally and The Indian economy is striving to evolve a globally competitive banking sector, stressing on banking services relevant to the socio-economic conditions of the country and which contributes for both growth and stability.

3.4 Structure of Indian Banking

Banking in India broadly comprise of commercial banks and Co-operative Credit Institutions. (Chart 3.1)

3.4.1 Commercial Banks

The commercial banking system in India can be classified into scheduled commercial banks and non-scheduled banks.

3.4.1.1 Scheduled Commercial Banks

The scheduled banks are those banks which are included in the second schedule of the Reserve Bank of India Act 1934 which satisfies the criteria laid down wide section 42 (6) (A) of the Act. A bank has to satisfy certain conditions to become scheduled. Firstly, it must have a paid-up capital and reserves of an aggregate value of not less than Rs.5 lakh. Secondly, it must satisfy RBI that its affairs are not conducted in a manner detrimental to the depositors. Thirldy, it must be a State-Co-operative Bank or a company under companies Act, 1956 or an institution notified by the central government in this behalf or a corporation or a company incorporated by or under law in force in any place outside India. The scheduled banks also need to maintain certain cash reserves as prescribed by the RBI and have to maintain certain cash reserves as prescribed by the RBI and have to maintain submission of returns. The scheduled banks are eligible for obtaining debts/loans on bank rate from RBI. These banks automatically acquire membership of clearing house and get the facility of rediscount of first class exchange bills from RBI. The scheduled commercial banks include the public sector banks, private sector banks, foreign banks and the Regional Rural Banks (RRBs).

The public sector banks are those in which the government of India or the RBI is a majority shareholder. This sector includes the State Bank of India and its subsidiaries and the nationalised banks. (Annexure 3.1, 3.2, 3.3 and 3.4)

The private sector banks comprise of both the old private banks and the new private banks. The old private sector banks include those banks that were operating before the Bank Nationalization Act was passed in 1969. On account of their small size and regional operations these banks were not nationalised in 1969. These old private banks face intense rivalry from the new private banks and the foreign banks. The new private banks were those established when the

Banking Regulation Act was amended in 1993. The new private sector banks focus on modern technology and better customer service in order to compete with the foreign banks. The list of private sector banks as on 2007 is given in (Annexure 3.8).

Foreign banks operations though similar to that of the other commercial banks, operate mainly in metropolitan areas. The number of foreign banks as on 2007 includes 29 banks (Annexure 3.9). Foray of foreign banks depends on reciprocity and economic and political bilateral relations.

In order to solve the problem of dependence of rural population on local moneylenders and to remove the inter-state, inter-regional disparities the Banking Commission, 1972 recommended the establishment of Regional Rural Banks (RRBs) and consequently first five RRBs started functioning in October 1975. By December 1975 the number of RRBs increased to 6. The operational area of each RRB is generally confined to a compact area of one to three revenue districts with homogeneity in agro-climatic conditions and rural clientele. The list of RRBs is given in (Annexure 3.10).

The number of public sector banks that was 22 in 1969 increased to 28 by 1980. Later it declined to 27 due to the merger of New Bank of India with Punjab National Bank in 1993, but again reached 28 in 2005 due to the nationalization of IDBI Ltd. The number of private sector banks decreased from 38 in 1969 to 26 in 2007. The number of foreign banks in India however decreased from 42 in 2000 to 29 in 2007.The number of RRBs shows an increase from 73 in 1980 to 196 in 1990 and remained the same till 2005 after which it decreased to 133 in 2006 and finally to 96 in 2007. The total number of scheduled commercial banks that increased from 73 in 1969 to 298 in 2005 started declining during 2006 and 2007 (Table 3.11). Ramasastri and Achamma (2006) opine that this fall in the number of banks is reflective of the consolidation process and in particular, the mergers and acquisitions that are the order of the present day banking system.

Table 3.11 Number of Scheduled Commercial Banks – Bank Group wise

Year	Public Sector	Private Sector	Foreign banks	RRBs
1969	22	38	13	_
1975	22	33	13	6
1980	28	34	13	73
1985	28	32	20	183
1990	28	25	22	196
1995	27	32	27	196
2000	27	33	42	196
2005	28	29	32	196
2007	28	26	29	96

Source: Statistical Tables Relating to Banks in India, RBI - Various Issues, RBI Occasional Papers, Vol.27, 2006. (P.180).

3.4.1.2 Non-Scheduled Banks:

The non-scheduled banks are those joint stock banks that are not included in the second schedule of the RBI Act, 1934 on account of the failure to comply with the minimum requirements for being scheduled. The non-scheduled banks are supposed to follow the cash reserve ratio (CRR) conditions but are free to keep those funds with themselves as no compulsion has been made on them to deposit CRR funds with RBI. The non-scheduled banks are not eligible for having loans from RBI for meeting their day-to-day general activities, but under emergency conditions these banks are granted loans from RBI. The number of non-scheduled banks that stood at 16 in 1969 decreased to 9 in 1975 and further to 5 in 1980 and to 4 in 1985. It further decreased to 3 by 1995. There were no non-scheduled banks in 2000. Currently there are 4 non-scheduled banks in the country. The growth of non-scheduled banks is given in (Table 3.12).

Table 3.12 Number of Non-Scheduled Commercial Banks

Year	No. of Banks
1969	16
1975	9
1980	5
1985	4
1990	4
1995	3
2000	_
2005	4
2007	4

Source: Statistical Tables Relating to Banks in India, RBI - Various Issues, RBI Occasional Papers, Vol.27, 2006. (P.180).

The total number of commercial banks in India increased from 89 (73 scheduled commercial banks and 16 non-scheduled banks) in 1969, to 289 (285 scheduled commercial and 4 non-scheduled banks) in 2005. But, later decreased to 183 (179 scheduled commercial banks and 4 non-scheduled banks) in 2007 mainly due to the reduction in the number of Regional Rural Banks by hundred.

3.4.2 Co-operative Credit Institutions:

Co-operative banks are an important segment of the organized sector of the Indian banking system. The Co-operative movement started in India when a mutual fund society was established as early as 1889. The real beginning of the co-operative movement happened with the passing of the Co-operative Credit

Societies Act, 1904. This act was amended in 1912 to permit societies doing businesses other than the loaning of credits. Eventually, a number of co-operative credit societies came into existence. In the Indian economy, Co-operative banks/Credit societies have developed over the period with the specific objective of financing agriculture and other economic units in the unorganized sector. The Co-operatives are considered as great instruments to help the poor and the weakest in improving their economic conditions through self-reliance and mutual aid.

Both commercial banks and Co-operative banks perform the main banking functions of deposit mobilization, supply of credit and provision of remittance facilities but differ from each other in the following aspects. Firstly, the major beneficiaries in the case of commercial banks are industry, trade and commerce whereas Co-operative banks have been concerned with agricultural finance. Secondly, unlike commercial banks which have countrywide operations many co-operative banks follow unit-bank system. Though some Co-operative banks have branches their coverage is not countrywide. Thirdly, instead of Banking Regulation Act that governs commercial banks the Co-operative Societies Act of 1904 govern the Co-operative Banks and are subject to the rules laid down by the Registrar of Co-operative societies. Fourthly, Co-operative banks offer a slightly higher rate of interest to its depositors than commercial banks and consider their borrowers as member shareholders with voting power and not merely as account holders with no voting power as in commercial banks. Fifthly, the Co-operative banks are private sector banks with lesser scope of offering a variety of banking services than commercial banks.

The Co-operative banking system in India is federal in structure. It has a pyramid type of three-tier structure with State Co-operative banks at the apex level, Central-Co-operative banks at the district level and Primary Credit societies in cities, towns and villages i.e., at the base level. Detailed structuring of Co-operative banks includes Urban Co-operative banks and Rural Co-operative Credit Institutions as given in (Chart - 3.1). The non-agricultural credit needs is the responsibility of Urban Co-operative banks and the agricultural credit needs is the liability of Rural Co-operative Credit Institutions.

The growth of Co-operative movement was weak as pointed out by the All India Rural Credit Survey Committee of 1951-52 and hence recommended strenuous efforts to retrieve the Co-operative movement throughout the country. Great importance was attached to enliven and to speed up the Co-operative movement under the Five Year Plans. The Co-operative banks were brought under the purview of the banking law by the Banking Laws (Application to Co-operative Societies) Act, 1965. This Act came into effect from March 1, 1966. By virtue of this legislation some of the provisions of the Banking Regulation Act 1949, relating to licensing of bank, maintenance of cash reserves and liquid assets, regulations of advances, issue of directions etc also became applicable to Co-operative banks and the voluntary inspection of Co-operative banks by RBI was replaced by the statutory inspection under

Banking Regulation Act. Social control over commercial banks was imposed in 1969, to divert the banking resources to the village economy, but without much progress. Hence the nationalization of banks was resorted in 1969 by the government to provide greater scope for the promotion and progress of the Co-operative movement. During the financial year 1976-77 there were 26 State Co-operative banks, 344 Central Co-operative banks and 1,26,000 Primary Agricultural Credit Societies. By 2006, the number of State Co-operative banks increased to 31 and District Co-operative banks to 369 and the number of Primary Agricultural Credit Societies decreased to 1, 06,384. This trend in the growth of Co-operative banks is given in the table below (Table 3.13).

Table 3.13 Progress of Co-operative Credit Movement – Number of Co-operative Banks

Type of Institution	1976-77	1986-87	1996-97	2006
State Co-operative Banks	26	29	28	31
Central Co-operative Banks	344	353	364	369
Primary Agricultural Credit Societies	1,26,000	89,000	N.A	1,06,384

Source: Report on Trend and Progress of Banking in India – Various Issues

3.5 Progress of Scheduled Commercial Banks:

The scheduled commercial banks include the public sector, private sector, foreign banks and RRBs. Statistics relating to progress of scheduled commercial banks show that since independence till 2006 the aggregate deposits and credit made stupendous increase and the credit deposit ratio increased from 43.98 in 1947 to 68.55 in 2006 (Table 3.14). The population per office declined from 82,000 to 16,000 during the same period. Regarding the number of commercial banks and their offices, the number of commercial banks reduced from 648 in 1947 to 222 in 2006, whereas the number of offices increased from 2987 in 1947 to 71177 in 2006. The main reason for this contradictory growth rate is the bank failures during the 1950's and 1960's and the compulsory mergers and amalgamation of weak banks with strong ones. An increase in the number of banks after 1975 is mainly due to the setting up of Regional Rural Banks (RRBs) and the decrease in the number of banks after 2001 is due to the new policy of consolidation and mergers and acquisitions taking place as the new order of the current day banking system of the country.

Table 3.14 Statistics Relating to Progress of Scheduled Commercial Banks

(Amount in Rs.Crore)

Year	No. of Commercial Banks	Total No.of Offices	Population per office (in thousands)	Aggregate Deposits	Aggregate Credit	Credit Deposit Ratio
1947	648	2,987	82	1,080	475	44.0
1951	565	2,647	87	908	581	64.0
1956	423	2,966	98	1,159	782	67.5
1961	292	4,390	88	2,012	1,268	63.0
1966	100	6,380	76	3,587	2,440	68.0
1971	83	12,013	46	6,616	4,763	72.0
1976	100	21,220	29	15,178	11,476	75.6
1981	187	35,707	19	40,549	26,551	65.5
1986	276	53,287	14	91,828	57,229	62.3
1991	276	60,220	14	201,199	121,865	60.6
1992	276	60,570	14	237,566	131,520	55.4
1993	276	61,169	14	274,938	154,838	56.3
1994	276	61,803	15	323,632	166,844	51.6
1995	284	62,367	15	386,859	211,560	54.7
1996	293	63,026	15	433,819	231,860	53.4
1997	299	63,550	15	505,599	258,991	51.2
1998	300	64,218	15	605,410	300,283	49.6
1999	303	65,118	15	701,871	342,012	48.7
2000	298	67,868	15	851,593	400,818	47.1
2001	300	67,937	15	989,141	469,153	47.4
2002	297	68,195	15	1,131,188	536,727	47.4
2003	292	68,500	16	1,311,761	669,534	51.0
2004	290	69,170	16	1,504,416	764,383	50.8
2005	289	70,373	16	1,700,198	972,587	57.2
2006	222	71,177	16	2,109,049	1,445,837	68.6

Source: Statistical Tables Relating to Banks in India, RBI - Various Issues.

3.6 Progress of Public Sector Banks:

The public sector banks occupy an essential role in the process of achieving higher economic growth. The public sector banks account for a major share in the disbursement of credit with their largest network of branches concentrated mainly in the rural and semi-urban areas of the country. Statistics on the progress of public sector banks reveals that the number of offices increased by seven times, from 6669 in 1969 to 51392 in 2007. The deposits increased by more than 500 times and credit by more than 450 times. The credit deposit ratio decreased from 78% in 1969 to 46% in 1999 and later started to increase and reached 71% in 2007.

Table 3.15 Statistics Relating to Progress of Public Sector Banks

(Amount in Rs.Crore)

Year	No. of Banks	Total No.of Offices	Aggregate Deposits	Aggregate Credit	Credit Deposit Ratio (%)
1969	22	6,669	3,897	3,035	77.9
1976	22	16,678	12,891	10,209	79.2
1981	28	28,029	36,702	24,214	66.0
1986	28	37,022	83,220	50,825	61.1
1991	28	42,938	175,598	106,118	60.4
1992	28	43,282	203,849	113,990	55.9
1993	27	43,850	234,652	138,308	58.9
1994	27	44,323	271,819	149,815	55.1
1995	27	44,764	313,355	174,173	55.6
1996	27	45,207	350,308	204,257	58.3
1997	27	45,670	401,550	222,158	55.3
1998	27	46,164	472,098	254,916	54.0
1999	27	45,860	636,810	296,121	46.5
2000	27	46,284	737,281	354,071	48.0
2001	27	46,323	859,461	414,990	48.3
2002	27	46,384	968,624	480,118	49.6
2003	27	47,963	1,079,394	549,351	50.9
2004	27	48,299	1,226,838	632,740	51.6
2005	28	48,970	1,421,434	809,258	56.9
2006	28	49,817	1,596,480	1,053,548	66.0
2007	28	51,392	1,950,846	1,378,652	70.7

Source: Statistical Tables Relating to Banks in India, RBI - Various Issues.

3.6.1 Progress of State Bank Group:

The State Bank Group comprise of the State Bank of India and its seven Subsidiaries together constituting eight banks. The number of state bank group offices went up from 2527 in 1969 to 14465 in 2007, a six fold increase and the deposits and credit increased by 430 and 309 times respectively. The credit deposit ratio, which was 95% in 1969, decreased upto 47% in 2002 and later increased over the years and reached 76% in 2007.

Table 3.16 Statistics Relating to Progress of State Bank Group

(Amount in Rs.Crore)

Year	No. of Banks	Total No.of Offices	Aggregate Deposits	Aggregate Credit	Credit Deposit Ratio (%)
1969	8	2,527	1,260	1,201	95.3
1976	8	5,732	4,400	3,369	76.6
1981	8	8,315	11,274	8,334	73.9
1986	8	10,910	26,487	16,671	62.9
1991	8	12,298	53,314	34,716	65.1
1992	8	12,449	64,082	37,513	58.5
1993	8	12,626	73,828	50,089	67.8
1994	8	12,827	86,814	57,083	65.8
1995	8	12,947	96,155	61,488	63.9
1996	8	13,027	111,188	74,231	66.8
1997	8	13,148	124,873	83,032	66.5
1998	8	13,268	145,862	94,142	64.5
1999	8	13,359	219,285	108,425	49.4
2000	8	13,482	256,289	129,253	50.4
2001	8	13,559	312,118	150,388	48.2
2002	8	13,593	351,073	164,537	46.9
2003	8	13,773	391,033	189,204	48.4
2004	8	13,821	432,891	220,516	50.9
2005	8	13,958	505,648	284,727	56.3
2006	8	14,196	542,409	371,679	68.5
2007	8	14,465	633,476	482,426	76.2

Source: Statistical Tables Relating to Banks in India, RBI - Various Issues.

3.6.2 Progress of Nationalised Banks:

The nationalised banks form a major part of public sector banks in terms of number of banks, deposits and credit. The number of nationalised banks increased from 14 in 1969 to 20 in 1980 due to the nationalization of six more banks and further declined to 19 in 1993 due to the merger of the New Bank of India with Punjab National Bank and again increased to 20 in 2005 after the nationalsiation of IDBI Ltd. The statistics relating to the progress of nationalised banks show that the number of offices of nationalised banks increased by nine times between 1969 and 2007. The amount of deposits increased 500 times and credit 489 times between 1969 and 2007. The credit deposit ratio that was declining continuously after 1976 started to increase after 2002.

Table 3.17 Statistics Relating to Progress of Nationalised Banks

(Amount in Rs.Crore)

Year	No. of Banks	Total No.of Offices	Aggregate Deposits	Aggregate Credit	Credit Deposit Ratio (%)
1969	14	4,142	2,637	1,834	69.5
1976	14	10,946	8,491	6,840	80.6
1981	20	19,714	25,427	15,880	62.5
1986	20	26,112	56,733	34,154	60.2
1991	20	30,640	122,284	71,402	58.4
1992	20	30,833	139,767	76,478	54.7
1993	19	31,224	160,824	88,219	54.9
1994	19	31,496	185,006	92,732	50.1
1995	19	31,817	217,200	112,684	51.9
1996	19	32,180	239,120	130,026	54.4
1997	19	32,522	276,677	139,125	50.3
1998	19	32,896	326,237	160,774	49.3
1999	19	32,501	417,525	187,696	45.0
2000	19	32,802	480,992	224,818	46.7
2001	19	32,764	547,343	264,602	48.3
2002	19	32,791	617,551	315,581	51.1
2003	19	34,190	688,361	360,147	52.3
2004	19	34,478	793,947	412224	51.9
2005	20	35,012	915,786	524,531	57.3
2006	20	35,621	1,054,071	681,869	64.7
2007	20	36,927	1,317,370	896,226	68.0

Source: Statistical Tables Relating to Banks in India, RBI - Various Issues.

The nationalization of banks was one of the significant steps taken since independence in order to develop the banking sector. The nationalization programme which aimed at expanding the banking services in the rural, semi-urban and unbanked areas, better deposit mobilization and increased customer base in the country was actually surrounded by constraints in the form of low productivity, low profitability and inadequate customer orientation, high level of NPAs, poor deposit mobilization, low use of information technology, intense competiton from private and foreign banks and lack of operational freedom. Efforts should be made to overcome these constraints and modernize the existing system by adopting the latest technology and by applying better risk management and resource management techniques. The Challenge infront of the nationalised banks today rests on reaping the benefits from its strengths and overcoming the constraints on its operational rigidities.

3.7 Conclusion:

A close study of the history of banking development in India is made in the above chapter. The history of banking development is studied by classifying the progress in two periods – the pre-independence period and the post-independence period (Annexure 3.11). The reforms in the banking sector and the prospective changes in the banking sector are also discussed in detail in the following section of the chapter. The structure of Indian banking and the statistical progress made by the commercial banks particularly by the scheduled commercial banks is analysed in the final part of the chapter. Special endeavor is made to spotlight the progress and development of public sector banks, which form the key topic of the present study.

The history of organized banking in India reveals that it has moved through five separate and distinct stages. The first being the period of births and deaths of banks lasted up to 1950s. The decades of 1950's and 1960's or the second stage, which provided the real foundation for Indian banking system, is considered as the foundation stage. During this stage efforts were directed at laying a proper foundation for a sound banking system in the country. The third is the expansion stage, which saw the development of necessary legislative framework for facilitating and re-organizing the banking system. The fourth stage covering the period from 1985 to1991 is considered as the consolidation stage. In this period efforts were made to address the weaknesses and defects occurred due to the speedy expansion in the previous stage. The fifth stage is the period of reforms that commenced after 1991, aim at shaping the banking system of the country to the best international standards. The study of banking in India thus reveals that it is changing according to the needs of the society and is making fast progress to meet the growing needs of the economy.

References:

Ahluwalia.M.S: ‘India’s Economic Reforms’ in R.Cassen and V.Joshi (eds) ‘India: The future of economic Reforms’, Oxford University, Press, India, 1995.

Banking Commission Report, Government of India, 1972, P.39.

Beckhart, B.H: ‘Banking Systems’, The Times of India Press, Bombay, 1967, P.411.

Chawla.A.S: ‘Nationalisation and growth of Indian Banking’, Deep and Deep Publications New Delhi, 1987, (PP 9-39)

Crowther Geoffrey: ‘An Outline of Money’ (Revised Edition, 1959), P.22.

Debashish Sathya Swaroop and Mishra Bishnupriya: “Indian Banking System – Development Performance and Services’, Mahanmaya Publishing House, New Delhi, 2005, PP 41-44

Eli Shapiro: ‘Money and Banking’ Holt, Rinehart & Wington, Inc, Newyork, 1968, P.76.

Gadgil Study Group of the National Credit Council, Organizational Framework for Implementation of Social Objectives, RBI, Bombay, 1969, P.36.

Husain; Dr.Farhat, Public Sector Commercial Banking in India, Deep and Deep Publications, 1978, New Delhi, P.44

Kaptan.S.S and Choubey.N.S: ‘Indian Banking in Electronic Era’, Sarup and Sons, New Delhi, P.4

Karunakaran. D: ‘The Role of Lead Banking in Rural Development of South Arcot District with Special Referene to Vanur Taluk’, 2001, University of Madras, PP 10-15

Mago.R.C: ‘A Treatise on Practical Banking’, National Publishing House, New Delhi, 1972, P.7.

Murali.S and Sadasivan.B: ‘Indian Banking Industry – A Paradigm Shift’, WAI, The Management Accountant, Vol.36, No.5, May 2001, P.339

Nigam. B.M.L: Banking and Economic Growth, Vora and Co.Publishers, Delhi

(1967), p.37.
Panandikar.S.G: ‘Banking in India’, Orient Longman, 1975 P.2
Quoted in M.C.Vaish:’Modern Banking, RBSA Publishers Jaipur, 1984, P.192.
Rakesh Mohan: ‘Globalisation: The Role of Institution Building in the Financial Sector – The Indian Case’, Reserve Bank of India Bulletin, February, 2004, PP 118-119
Rakesh Mohan: ‘India’s Financial Sector Reforms:Fostering Growth While Containing Risk, Address delivered at Yale University on December 3, 2007.
Raman.A: ‘Central Banking in India’, Bookland Private Ltd, Calcutta, 1968, P.96.
Ramasastri.A.S and Achamma Samuel: ‘Banking Sector Developments in India, 1980-2005: What the Annual Accounts Speak?’ Reserve Bank of India, Occassional papers, Vol.27, No. 1 and 2, Summer and Monsoon 2006. (PP 177-205).

Rao.S.R.K: ‘The Indian Money Market’, Chaitanya Publishing House, Allahabad, 1959, P.61.
Reddy.Y.V: ‘Monetary and Financial Sector Reforms in India : A Central Bankers Perspecive’, UBSPD.
Reddy.Y.V: ‘Reforming India’s Financial Sector : Changing Dimensions and Emerging Issues’, Address at the International Centre for Monetary and Banking Studies, on May 9, 2006, Geneva.
Report of the Banking Commission: Government of India, 1972.
Report of the Committee to Review Arrangements for Institutional Crerdit for Agriculture and Rural Development: Reserve Bank of India, Bombay, 1981,P.84.
Reserve Bank of India, Annual Report, 1979-80, PP. 28-29
Savakar.D.S: ‘Joint Stock Banking in India’, Popular Book Depot, Bombay, 1938, P.10

Schumpeter. Joseph.A, Cited in A.C.Shah; Banking For Economic Growth, Journal of Indian Institute of Bankers, Vol.45, No.1 (Jan-Mar., 1974) P.33

Sharma,Harish C: 'Growth of Banking in a Developing Economy', Sahitya Bhavan, Agra 1969, PP 47-48.

Sharma.A.G: 'State in Relation to Commercial Banking in India', 1968, P.135.

Sharma.B.P: 'The Role of Commercial Banks in India's Developing Economy', S.Chand & Co (Pvt) Ltd, Ram Nagar, New Delhi, 1974, PP 15-60

Shyamala Gopinath: 'Special Features of Financial Sector Reforms in India', Inaugural address delivered at the 18th Annual National Conference of Forex Association of India on April 6, 2007 at Bangkok.

Simha.S.L.N: 'Reform of the Indian Banking System', Institute for Financial Management and Research, Orient Longman Ltd, Madras, 1973, PP 33-34.

Simha.S.L.N:'Bank Nationalisation', Financial Express, April 28, 1980

Sinha.H: 'Early European Banking in India, With Some Reflections On Present Conditions', Macmillan & Co. Ltd, London, 1927, P.165.

The Banking Regulation Act, 1949 (Act No.10 of 1949) Delhi Law House, 1987, P 3.

Williamson.J and Mahar.M: 'A Survey of Financial Liberalisation', Princeton Essays in International Finance, November 1998, Princeton, New Jersey.

CHAPTER – 4

PRIORITY SECTOR LENDING

4.1 Introduction

The need to channelise the flow of credit to certain sectors of the economy, known as priority sectors, in the larger interest of the country, can be traced back to the Reserve Bank's credit policy for the year 1967-68. According to Patel and Shete (1984), financing of priority sector of the economy has been one of the strategies of the commercial banks in their developmental role in India. As the economy was facing severe imbalances due to shortfalls in agricultural output and slowing down of industrial production during 1965-66 and 1966-67, Social Control over banks was initiated during 1967-68. The trend in the lending system before imposing social control was that most of the banks had been allocating large part of their loans and advances to giant industrial and trading institutions, (Karkal, 1977). The credit gap in respect of the key sectors of the economy was identified systematically, perhaps for the first time by the Gadgil Study Group of the National Credit Council. The study group found that two third of the bank credit went to the industrial sector and there was total neglect of the agricultural sector. Lending to agriculture did not exceed more than 2 percent of total credit. In the words of the Gadgil study Group (1969) "Modern banking owed its origin to the development of trade and commerce and later to organized industry. The doyens of commerce and industry were until recently, in substantial control of the management and policies of banks and hence commercial banks had a pronounced urban orientation in their development and did not encompass the rural areas to any significant extent. Against this background, banks evolved procedures and practices primarily suited to cater to the industrial and commercial clientele on conventional basis. Banking norms established under such procedures and practices were not suited to meeting the needs of the rural sector and other non-conventional borrowers. Nor did they feel any urge to modify these procedures because there was no motivation on their part to spread to the rural areas and undertake non-conventional business." The Agriculture Finance Corporation Ltd was set during this time to provide guidance and to suggest projects in the agriculture sector for extending financial assistance by the commercial banks. Attempt was also made to provide remittance facilities to rural centres and lending to sugar factories. But all these attempts to improve lending to agriculture sector did not add up to more than a fraction of the total credit and RBI was compelled to lay down targets for lending to specified sectors. This led to the emergence of priority sector lending, which is discussed in detail in this chapter.

4.2 Evolution and Emergence of Priority Sector Lending

The concept of priority sector had its origin dating back to 1967 when the then Dy. Prime Minister and Finance Minister Shri. Morarji Desai said in

Lok Sabha that there has been public concern that several priority sectors such as agriculture, small scale industries and exports were not receiving their due share of bank credit (Anand, 1994). The term ‘priority sector’ indicates those activities that have national importance and have been assigned priority for development. Initially the priority sector was defined to include agriculture, small-scale industries and exports. During 1967-68, in order to support priority sector lending, RBI considered the increase in bank’s advances to such priority sectors namely agriculture, SSI and export eligible for refinance from them at a concessive rate apart from considering increments in such advances as liquid assets of banks for the purpose of computation of bank’s liquidity ratio.

The second meeting of the National Credit Council held in July 1968, defined priority sector to include only agriculture and small-scale industry. While stipulating targets for agriculture and industry, the Finance Minister specifically stated, “the importance of priority sector should not make as unmindful of the requirements of other important sectors. When we remove credit gaps, which undoubtedly exist in the priority sectors, we should not in the process create credit gaps in other areas. The legitimate needs of our large and medium industries have to be met. This is true not only of industry but also of trade and many other tertiary activities” (Morarji Desai, 1968). Suggestions’ regarding target setting was done in a meeting of the representatives of major banks with the Governor of RBI, in October 1968. Accordingly Governor L.K.Jha proposed the banks to allocate 15 percent and 31 percent respectively of their deposits (after providing for statutory liquidity requirements) to agriculture and small-scale industries. The introduction of Credit Guarantee Scheme as recommended by the working group under the chairmanship of Shri.S.S.Shiralkar in 1969 also supported bank lending to the priority sector (Srinivasan, 1995). The different committees on priority sector lending is given in Appendix (4.1)

A major shift in commercial banks lending policy towards priority sector took plakhe with the nationalisation of the 14 major commercial banks in 1969. The preamble to the Bank Nationalisation Act, 1970 clearly emphasized that the banking system has to function in alignment with national priorities and objectives. According to Vasant Desai (1976), the task of nationalised banks was to restore vitality to the rural economy, built up the future prosperity of the common man and reinforce both agricultural and rural industry. One of the objectives of nationalisation was to ensure that no viable productive endeavour should falter for lack of credit, either big or small. Nationalisation of banks, therefore, aimed at reshaping the credit policies and directing credit to the hitherto neglected sectors. These objectives could be realized through the extension of banking facilities to unbanked areas, mobilisation of deposits and allocation of credit according to the priorities of socio-economic development.

4.3 Components of Priority Sector

The concept of priority sector lending was evolved to ensure continuous assistance from the banking system to the vital sectors of the economy according to national priorities. The description of priority sectors and its advances was formalised in 1972 on the basis of the report submitted by the Informal Study Group on Statistics Relating to Priority Sectors, constituted by the Reserve Bank. The definition accepted on the basis of the Study Group's recommendations, included different segments like agriculture – direct and indirect, small-scale industries, industrial estates, small road and water transport operators, retail trade, small business, professionals and self-employed persons and education. Even though exports were considered part of priority sector, this sector had not been included for the purpose of lending targets to be achieved by the banks, except the export credit extended to small scale industries. The rationale for the exclusion was that while bank assistance to the neglected sectors comprising agriculture, small scale industry and other small borrowers had a distinct social bias, exports, though a national priority area for promoting growth, had been traditionally the preserve of the more affluent urban based sections. But in view of the contribution of export to foreign exchange earnings, it has been enjoying credit at concessional interest.

The components of priority sector set by the Informal Study Group on Staitstics Relating to Priority Sectors in 1972 remained virtually unchanged till mid nineties, except for the addition of housing loans, consumption loans and lending to state sponsored organisations for scheduled castes/scheduled tribes / Weaker sections and considering setting up of industrial estates within the small scale industries. Export credit has been included as a category of priority sector from 1992, but only for foreign banks. Funds provided to RRBs and advances to software industries commenced to be a part of priority sector from 1998 and advances to self-help groups (SHGs) / NGOs / microcredit, advances to food and agro-based processing sector and investment in venture capital became part of priority sector from 1999. During 2005 leasing and hire purchase financing and loans to urban poor indebted to non-institutional lenders were included in the advances to priority sector. Later developments show that allocation to funds provided to RRBs was not made after 2004 and no investment is made in venture capital after 2006. Thus the components of priority sector were enlarged to include agriculture – direct and indirect, small scale industries and other activities or borrowers like small road and water transport operators, retail trade, small business, professionals and self-employed persons, education, housing, consumption, state sponsored organisations for scheduled castes/scheduled tribes, weaker sections, advances to software industries, advances to self-help groups (SHGs) / NGOs, microcredit, advances to food and agro-based processing sector, leasing and hire purchase financing and loans to urban poor indebted to non-institutional lenders etc as on June 2006.

The scope and extent of priority sector lending has undergone a significant change in the post-reform period with several new areas and sectors being brought under its purview. A drastic change in the priority sector lending seem to have happened with the setting up of an Internal Working Group under the chairmanship of shri.C.S.Murthy by RBI to examine the need for continuance of priority sector lending prescriptions, review the existing policy, targets and sub-targets and to recommend changes, required in this regard. Based on the Draft Technical Paper submitted by the Internal Working Group, and on the feedback received from banks, financial institutions, public and the Indian Banks' Association (IBA), it was decided to include only those sectors as part of the priority sector, that impact large sections of the population, the weaker sections and the sectors which are employment-intensive such as agriculture, and tiny and small enterprises. Presently the broad categories of priority sector include agriculture (direct and indirect), small enterprises (direct and indirect), retail trade, micro credit, state sponsored organisations for scheduled castes/scheduled tribes, education, housing, weaker sections and export credit of foreign banks. The different components coming under priority sector during 1972, the year of formalising priority sector advances, 1991 the year of economic reforms, and years after 2000 which represent the changes in the new century is analyzed in detail in (Table No.4.1).

Detailed classification of priority sector with the list of items in different segments is given in the following section. For better learning and understanding it is classified under three heads – The Priority Sector Lending in the Pre-Reform Period, The Priority Sector Lending in the Post-Reform Period and the Recent Developments in Priority Secctor Lending.

Table 4.1 Different Components within the Priority Sector (1972-2007)

1972	1991	2001	2006	2007
Agriculture (Direct and Indirect)	Agriculture (Direct and Indirect)	Agriculture (Direct and Indirect)	Agriculture (Direct and Indirect)	Agriculture (Direct and Indirect)
Small Scale Industries	Small Scale Industries	Small Scale Industries	Small Scale Industries	Small Enterprises (Direct and Indirect)
Industrial Estates	Small Road and Water Transport Operators	Small Road and Water Transport Operators	Small Road and Water Transport Operators	Retail Trade
Road and Water Transport Operators	Retail Trade	Retail Trade	Retail Trade	Micro Credit
Retail Trade	Small Business	Small Business	Small Business	State Sponsored Organisations for Scheduled Castes/Scheduled Tribes
Small Business	Professionals and Self-Employed Persons	Professionals and Self-Employed Persons	Professionals and Self-Employed Persons	Education
Professionals and Self-Employed Persons	Education	Education	Education	Housing
Education	Housing	Housing	Housing	Weaker Sections
	Consumption	Consumption	Consumption	Export credit of foreign banks
	State Sponsored Organisations for Scheduled Castes/Scheduled Tribes	State Sponsored Organisations for Scheduled Castes/Scheduled Tribes	State Sponsored Organisations for Scheduled Castes/Scheduled Tribes	
	Weaker section	Funds provided to RRBs	Software Industry	
		Software Industry	Micro Credit	
		Micro Credit	Food and Agro-Based Processing Sector	
		Food and Agro-Based Processing Sector	leasing and hire purchase financing	
		Weaker Section	Weaker Section	
		Venture Capital	loans to urban poor indebted to non-institutional lenders	
		Export credit of foreign banks	Export credit of foreign banks	

Source: Master Circulars on priority sector lending, RBI

4.3.1 Priority Sector Lending in the Pre-Reform Period

The priority sector lending in the pre-reform period analyse the changes that happened in priority sector lending upto 1991.

4.3.1.1 Components Within Priority Sector in the Pre-Reform Period:

The list of items under the different components of priority sector during the pre-reform period includes the following:

1. Agriculture – (Direct and Indirect Finance)

(a) The direct finance to farmer's for agricultural purposes include short-term loans for raising crops, i.e., crop loans.

(b) Advances up to Rs.5, 000 to farmers against pledge/hypothecation of agricultural produce for a period not exceeding three months, where the farmers were given crop loans for raising the produce and medium and long term loans provided directly to farmers for financing production and development needs.

(c) Avances for purchase of agricultural implements and machinery, purchase of trucks, bullock carts and other transport equipments, purchase of plough animals.

(d) Development of irrigation through construction of shallow and deep tube wells, tanks etc, purchase of drilling units, constructing, deepening and cleaning of surface wells, boring of wells, electrification of wells, purchase of oil engines and installation of electric motor pumps, construction of lift irrigation project, installation of sprinkler irrigation system.

(e) Reclamation and land development schemes like bunding of farm lands, leveling of land, terracing, conversion of dry paddy lands into wet irrigable paddy lands, development of farm drainage, reclamation of soil lands and prevention of salinity, reclamation of ravine lands, purchase of bulldozers etc.

(f) Construction of farm buildings like bullock sheds, implement sheds, farm stores etc.

(g) Construction and running of storage facilities like ware house, godowns, silos and cold storages.

(h) Production and processing of hybrid seeds of crops.

(i) Payment of irrigation charges like charges for hired water from wells, tube wells and canal water, maintenance and upkeep of oil engines and electric motors, payment of labour charges, electricity charges, marketing charges, service charges to custom service units, payment of development cess etc.

(j) Short-term loans to non-traditional plantations and horticulture and for allied activities like dairy, fishery, piggery, poultry, bee-keeping etc.

(k) Medium and long term loans for all plantations, horticulture, forestry and allied activities like dairying and animal husbandry, fisheries, poultry, piggery etc in all their aspects and development and maintenance of stud farms, sericulture etc.

Direct agriculture lending target was increased from 16 percent of net bank credit (NBC) in 1987 to 17 percent of (NBC) in 1989 and to 18 percent of (NBC) in 1990.

Indirect finance on the other hand include credit for financing the distribution of fertilizers, pesticides, seeds etc, loan to electricity boards for reimbursing the expenditure already incurred by them for providing low tension connections from step down point to individual farmers for energizing their wells, loans to farmers through Primary Agricultural Credit Societies (PACS), Farmers Service Society (FSS), and Large Size Adivasi Multi-Purpose Societies (LAMPS), finance for hire purchase schemes for distribution of agricultural machinery and implements, loans for construction and running of storage facilities in the production areas, advances to custom service units managed by individuals, institutions or organizations who maintain a fleet of tractors, bulldozers, well boring equipment, threshers, combines etc and undertake work from farmers on contract basis, loans to Co-operative marketing societies and Co-operative banks for relending to Co-operative marketing societies; provided a certificate from the State Co-operative Bank in favour of such loan is produced and loans to Agro-Industries Corporations, loans to State Sponsored Agricultural Credit Corporations, advances to the Agricultural Finance Corporation and advances to State-Sponsored Corporations for onward lending to weaker sections etc.

2. Small Scale Industry (SSI)

Small-scale industrial units are those engaged in the manufacture, processing and preservation of goods and whose investment in plant and machinery (original cost) does not exceed Rs.35 lakhs. This includes units engaged in mining or quarrying, servicing and repairing of machinery and ancillary units with investment in plant and machinery (original cost) not exceeding Rs.45 lakhs.

Indirect finance in the small scale industrial sector include credit to agencies provided in assisting the decentralized sector in the supply of inputs and marketing of outputs of artisans, village and cottage industries, loans for setting up of industrial estates and credit to government sponsored organizations which provide funds to the weaker sections in the priority sector.

3. Other Priority Sector (OPS)

The Other Priority Sector lending category includes the following components:

(i) Small Road and Water Transport Operators (SRWTO)

This include advances to small road and water transport operators owning a fleet of vehicles not exceeding six vehicles including the one proposed to be financed.

(ii) Retail Trade

Advances not exceeding Rs.25,000 (other than those dealing in essential commodities – fair price shops and consumer co-operative stores) to private retail traders with turn over not exceeding Rs.4 lakh.

(iii) Small Business

Small business include individuals and firms managing business enterprise established mainly for the purpose of providing any service other than professional services whose original cost price of the equipment used for the purpose of business does not exceed Rs.2 lakhs with working capital limit of Rs.1 lakh or less and who are eligible for DICGC cover. Advances for acquisition, construction, renovation of houseboats and other tourist accommodation is also included.

(iv) Professional and Self-Employed Persons

Loans to professional and self-employed persons include loans for the purpose of purchasing equipment, acquiring, repairing and renovating existing equipment and business premises, for purchasing tools and working capital requirements to medical practitioners (including dentists), chartered accountants or to a person trained in any other art or craft; who holds either a degree or diploma from any institution established, aided or recognized by the government or to a person who is considered by the bank as technically qualified or skilled in the field in which he is employed. The term also includes firms and joint ventures of professional and self-employed persons. This category includes all advances granted by the bank under special schemes introduced for the purpose. Only those professionals and self-employed persons whose borrowing (limits) do not exceed Rs.2 lakhs, of which Rs.1 lakhs for working capital and who are eligible for DICGC cover are included here.

(v) Education

Educational loans include loans and advances granted to individuals for educational purposes and all advances granted by banks under special schemes for this purpose and do not include loans granted to institutions.

(vi) Housing

Direct finance to housing include loans up to Rs.5,000/- for construction of houses granted to scheduled castes/scheduled tribes and the weaker sections of the society irrespective of DICGC coverage and indirect finance include assistance given to any governmental agency for the purpose of constructing houses exclusively for the benefit of scheduled castes/scheduled tribes and low income groups and where loan component does not exceed Rs.5,000/- per unit. Assistance to any governmental agency for slum clearance and rehabilitation of slum dwellers subject to loan component below Rs.5,000/-also to be considered under the indirect finance to housing.

(vii) Consumption

Pure consumption loans granted under the consumption credit scheme is included in this item.

(viii) Lending to State Sponsored Organizations for Scheduled Castes/Scheduled Tribes

Advances sanctioned to state sponsored organizations for scheduled castes/scheduled tribes for the specific purpose of purchase and supply of inputs and the marketing of the outputs of the beneficiaries of these organizations to be considered as priority sector.

(ix) Weaker Sections

A sub-target of 10 percent of net bank credit was allocated to the weaker sections and the definition of weaker section were to include small and marginal farmers with holding of 5 acres or less and persons engaged in allied activities with borrowal limits up to Rs.10,000, landless labourers, tenant farmers and share croppers, artisans, village and cottage industries, beneficiaries of IRDP, SC/ST people and beneficiaries of differential rate of interest scheme i.e., SC/ST engaged in agriculture and allied activities, persons engaged in cottage industries and other small business activities, indigent student decisions of going for higher education and physically handicapped persons for pursuing gainful occupations.

The pre-reform period thus include eleven main components within the total priority sector lending.

4.3.1.2 Targets/Sub-Targets Within Priority Sector in the Pre-Reform Period

Although initially there was no specific target fixed in respect of priority sector lending, in November 1974 the banks were advised to raise the share of these sectors in their aggregate advances to the level of 331/3 percent by March, 1979. In November, 1978, the private sector banks were also advised to lend a minimum of 331/3 percent of their total advances to the priority sectors by the end of March 1980. At a meeting of the Union Finance Minister with the Chief Executive Officers of public sector banks in 1980, it was decided that banks should aim at raising the proportion of their advances to priority sector to

40 percent by March 1985. Subsequently on the basis of the recommendations of the Working Group on the Modalities of Implementation of Priority Sector Lending and the Twenty Point Economic Programme By Banks (Chairman : Dr.K.S.Krishnaswamy) all commercial banks were advised to achieve the target of priority sector lending at 40 percent of net bank advances by 1985. Sub-targets were also specified for lending to agriculture and the weaker sections within the priority sector.

Regarding agricultural lending it was suggested that as agriculture occupies an important position in the economy, at least 40 per cent of priority sector lending or 16 percent of net bank credit should be extended to the agricultural sector.

The need for identifying weaker section within the priority sector was felt in order to ensure a fair proportion of credit allocation. The working Group recommended that the advances to the small/marginal farmer and agricultural labourers, collectively called ‘weaker section’, should have a share of 50 percent in direct farm credit.

Further refinements in the sub-targets were introduced in 1982. A Working Group on the Role of Banks in Implementation of New 20 Point Programme under the chairmanship of Shri.A.Ghosh. was set up in June 17, 1982. The objective of the group was to review the existing targets and sub-targets of priority sector lending with reference to the needs of the weaker sections and target groups under poverty alleviation programmes and the new 20 point programme. The Ghosh working group suggested that in the case of agricultural advances indirect farm lending should be segregated from direct finance for the purpose of the target. Agricultural credit to be 16% of net bank credit to be achieved by March 1987 and further to 17% set for 1989 and again to 18 percent of net bank credit to be realized by March 1990. Regarding advances to weaker sections it was decided that it should account for 10 percent of net credit or 25 percent of priority sector lending by March 1985.

Foreign banks were advised to undertake priority sector lending up to 10 percent of total bank credit by March 1989, to be raised to 12% by March 2, 1990 and further to 15 percent by March 1992.

The target set for different components within priority sector is as given in Table 4.2 below.

Table 4.2 Priority sector Lending Targets in the Pre-Reform Period

	Domestic Commercial Banks	Foreign Banks
Total Priority Sector Credit	$33^{1/3}$ percent of total advances by March 1979 40 percent of net bank credit by March 1985	10 percent of total credit by march 1989,12 percent by March 1990 and 15 percent by March 1992.
Agricultural Credit	16 percent of net bank credit by March1987 17 percent of net bank credit by March 1989 18 percent of net bank credit by March 1990	–
Weaker Section Credit	10 percent of net bank credit by March 1985	–
DRI Scheme	1 percent	–

Source: Economic and Political Weekly, October 12, 2002, P.4240.

4.3.2 Priority Sector Lending In The Post-Reform Period

Priority sector lending in the post-reform period deals with the changes in priority sector lending after 1991 upto 2007. New components were included in the priority sector and revisions were made in the existing categories during the post-reform period. Modifications and additions made in the different segments of priority sector lending during the different years after 1991 is as given below:

4.3.2.1 Components Within Priority Sector in the Pre-Reform Period

The changes or additions made within the different components of priority sector during different years in the pre-reform period include:

1. Agriculture

In this segment the following changes were made in the post-reform period. The sub-target of 18 percent in respect of agricultural lending made inclusive of indirect finance to agriculture. However, indirect finance to agriculture not to exceed 25 percent of total agriculture advances for the purpose of computing performance under the sub-target. Advances to farmers against pledge hypothecation of agricultural produce (produce marketing loans) under priority sector enhanced from Rs.5, 000 to Rs.25, 000 and duration increased from three months to six months. Average limit for traditional plantations increased from 5 acres to 25 acres for the purpose of reckoning short-term advances to cultivators under priority sector (October, 1993).

Advances to farmers for acquisitions of jeeps, pick-up vans, mini buses etc reckoned as agricultural advances under priority sector (March 1994). Advances up to Rs.5 lakh granted for financing distribution of inputs for allied activities (to agriculture) such as cattle feed, poultry feed etc reckoned as indirect agricultural advances (May, 1994).

Deposits by banks in Rural Infrastructural Development Fund (RIDF) treated as indirect finance to agriculture under the priority sector (April, 1995). Advances upto Rs.1 lakh to farmers against pledge, hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding six months, where the farmers were given crop loans for raising the produce, provided the borrowers draw credit from one bank (September, 1995).

Bank loans to commission agents/Arthias for meeting their working capital requirements on account of credit extended to farmers for supply of inputs reckoned under priority sector as indirect finance to agriculture (March, 1996). Finance extended to dealers in drip irrigation/sprinkler irrigation system/agricultural machinery up to a ceiling of Rs.10 lakh per dealer treated as priority sector lending (indirect finance to agriculture). The dealer should be located in rural/semi-urban areas and dealing exclusively in such items or maintaining separate and distinct records in respect of such items (June 1996). All short-term advances to traditional plantations irrespective of the size of holdings treated as direct agricultural advances under priority sector (August, 1996). Amounts deposited by private sector banks with NABARD on account of shortfall in priority sector lending at March 1996, treated as indirect finance to agriculture (December, 1996).

Loans to state electricity boards for Systems Improvement Scheme under Special Projects Agriculture (SI – SPA) reckoned as indirect finance to agriculture under the priority sector (May, 1997).

Investment in special bonds issued by REC for financing the system improvement programme under the Special Projects Agriculture (SI – SPA) treated as priority sector lending (January, 1998).

Loans up to Rs. 15 lakhs granted for financing distribution of inputs for the allied activities such as cattle feed, poultry feed etc. Bank finance to agriculture through NBFCs treated as priority sector lending (April, 2000).

Direct finance to be granted for transport of agricultural inputs and farm products, purchase and installation of turbine pumps, construction of field channels (open as well as underground), purchase of generator sets for energizing of pumpsets used for agricultural purposes and for setting bio-gas plants. Subscription to bonds issued by NABARD with the objective of financing exclusively agriculture and allied activities to be considered as indirect finance to agriculture and fifty percent of refinance to be granted by the sponsor banks to RRBs (August, 2001).

Advances upto Rs.5 lakhs to farmers against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months, where the farmers were given crop loans. Financing of small and marginal farmers for purchase of land for agricultural purposes, financing setting up of agriclinics and agribusiness centres by agriculture graduates to be included in the direct finance to agriculture category. Ceiling of Rs.10 lakh per dealer in drip-irrigation/sprinkler irrigation system/agricultural machinery to be raised to Rs.20 lakh per dealer. Loans granted for financing distribution of inputs for the allied activities, such as cattle feed, poultry feed to be raised to Rs.25.lakhs from the previous limit of Rs.15 lakhs (November, 2002).

Investment by banks in securitized assets to be considered as direct or indirect advances to agriculture (July, 2004).

Advances up to Rs.10 lakhs to farmers instead of the previous Rs.5 lakhs against pledge/hypothecation of agricultural produce (including ware house receipts) for the same period of 12 months to be reckoned as direct finance to agriculture. Under indirect finance to agriculture loans up to Rs.40 lakhs to be granted for financing distribution of inputs for the allied activities such as cattle feed, poultry feed etc instead of the previous limit of Rs.25 lakhs. Investment made by banks in the bonds issued by REC on or after April 1, 2005 shall not be eligible for classification under priority sector lending and such investments which have already been made by banks up to March 31, 2005 would cease to be eligible for classification under priority sector lending with effect from April 1, 2006 and the investment made by banks in bonds issued by NABARD, shall not be eligible for classification under priority sector lending with effect from April 1, 2007. Finance extended to dealers in drip irrigation/ sprinkler irrigation system/ agricultural machinery to be raised to Rs.30 lakh per dealer from the previous ceiling of Rs.20 lakh per dealer (July, 2005).

Investment by banks in special bonds issued by NABARD with the objective of financing exclusively agriculture/allied activities, subject to conditions like (i) The issue of bonds should be accompanied by a declaration

from the issuing institution that the proceeds would be utilized for financing of borrowers under the priority sector and no refinance would be availed of against such loans to the ultimate borrowers from any other agency,(ii) The rate of interest and maturity period of bonds may be settled by banks with NABARD and the quantum of investment in bonds should be shown separately under the appropriate sub-head in the priority sector returns submitted to RBI,
(iii) Investment by banks in securitized assets which represent direct and indirect advances to agriculture provided securitized assets are originated by banks and financial institutions and (iv) Fifty percent of the credit outstanding under loans for general purposes under general credit cards (GCC) to be reckoned as indirect finance to agriculture (July, 2006).

2. Small Scale Industry (SSI)

Changes in the SSI sector include the introduction of the Sub-target of 10 percent for foreign banks (April, 1993). Revised definition of SSI adopted for the purpose of reckoning bank advances under priority sector credit to Rs.60 lakh and for ancillary units up to Rs.75 lakh. 40 percent of SSI advances for ‘tiny’ sector and for cottage, khadi and village industries (KVI), tiny industries with investment in plant and machinery up to Rs.5 lakh and other SSI units availing credit limit up to Rs.5 lakh (October, 1993).

Term loans/line of credit to SFCs/SIDCs to the extent granted to/for SSIs treated as priority sector lending (November, 1994).

All advances to KVI sector, irrespective of their size of operation and location made eligible for inclusion under the sub-target of 40 percent of SSI

(September, 1995). Funds provided to SIDBI by way of rediscounting of SSI bills (which were originally discounted by commercial banks and rediscounted by SIDBI) treated as priority sector advances (January, 1995).

Funds provided by banks to State Financial Corporations (SFCs) by way of rediscounting of bills of SSIs earlier discounted by the SFCs made eligible for inclusion under priority sector as indirect finance to SSIs. (November, 1996). Amounts deposited by private banks with SIDBI on account of shortfall in priority sector lending at March 1996 treated as indirect finance to SSI under priority sector during the currency of deposits. Deposits placed by foreign banks with SIDBI on account of shortfall in priority sector lending target/sub-targets treated as indirect finance to SSI under the priority sector during the currency of the deposits (December, 1996).

Revised the definition of SSI for priority sector to Rs.3 crores. 40 percent of SSI advances for units with investment up to Rs.5 lakh, 20 percent of SSI advances to units with investment between Rs.5 lakh and Rs.25 lakh and remaining 40 percent of SSI advances for units with investment of Rs.25 lakh to Rs.3 crore (January, 1998).

Finance to HUDCO (loans or investments in special bonds) and NBFCs and other intermediaries for onlending to the tiny sector of industry included in priority sector (March 1999)

In the case of ancillary units also the investment in plant and machinery (original cost) should not exceed Rs.1 crore to be classified under small scale industry. Ceiling for investment in plant and machinery in SSI units for priority sector brought down from Rs.3 crore to Rs.1 crore (February, 2000).

During 2001 the following changes were made in the components of priority sector:

(i) Indirect finance to SSI to include advances to handloom co-operatives, credit provided by banks to KVIC by consortium of banks for lending to viable khadi and village industrial units, subscription to bonds floated by SIDBI, SFCs,SIDCs and NSIC exclusively for financing SSI units and subscription to bonds issued by NABARD with the objective of financing exclusively non-farm sector.

(ii) The status of 'Tiny Enterprises' is given to all small scale units whose investment in plant and machinery is up to Rs.25 lakhs, irrespective of the location of unit. Industry related service and business enterprises with investment up to Rs.10 lakhs in fixed assets, excluding land and building is included in the Small Scale Service and Business Enterprises (SSSBEs) sector. For computation of value of fixed assets, the original price paid by the original owner is considered irrespective of the price paid by subsequent owners.

(iii)All advances to KVI sector irrespective of their size of operations, location and investment in plant and machinery to be covered under priority sector advances and also to be eligible for consideration under the sub-target (60 percent) of the SSI segment within the priority sector.

(iv) Manufacture of common salt through any process including manual operation (involving solar evaporation) may be considered as an industrial activity and credit provided by banks to units engaged in the manufacture of common salt which satisfy the norms of SSI unit may be classified under advances to SSI.

(v) All small scale industrial units with original cost of plant and machinery not exceeding Rs.1 crore and engaged in ship breaking/dismantling activity to be considered as small scale industrial undertaking and bank advances to such units reckoned as priority sector advances.

(vi) Bank loans to buy tea factories to be reckoned as priority sector lending to small scale industry, provided the investment in plant and machinery (original cost) does not exceed the prescribed limits.

During 2002 the investment limit of Rs.1 crore for classification as SSI has been enhanced to Rs.5 crore in respect of certain specified items under hosiery and hand tools by the Government of India. Later Drugs and pharmaceuticals, stationery items and sports goods were also included in 2005. Water mills (Gharat) has been recognized as an industrial activity eligible for registration as small scale industry (November, 2002)

Investment made by banks in securitized assets to be treated as direct lending to the SSI sector provided the securitized loans are originated by banks and financial institutions and the pooled assets represent direct loans to SSI sector. Investment made by banks in the bonds floated by SIDBI, SFCS, SIDCS and NSIC exclusively for financing SSI units on or after April 1, 2005 is not eligible for classification under priority sector lending. Term finance/loans in the form of lines of credit made available to state Industrial

Development Corporation/ State Finance Corporations for financing SSIs will be treated as priority sector lending subject to the conditions that the SFC/SIDC to monitor the position.

3.Other Priority Sector (OPS)

The changes made in the Other Priority Sector lending category includes the following

(i) Small Road and Water Transport Operators (SRWTO)

Definition of small road and water transport operators revised to include ten vehicles from the previous six vehicles including the one to be financed (October, 1997). Bank Credit to eligible NBFCs for onlending to SRWTOs satisfying priority sector norms treated as priority sector lending (July 1998). Finance to NBFCs for onlending to SRWTO for purchase of vehicles other than trucks also made eligible for inclusion under priority sector (February, 1997). Advances to NBFCs for onlending to truck operators and SRWTOs other than truck operators satisfying the eligibility criteria and the portfolio purchases (purchases of hire purchase receivables) from NBFCs made after 31st July 1998 to be included under priority sector lending, provided the portfolio purchases relate to SRWTOs satisfying priority sector norms (August, 2001).

(ii) Retail Trade

Advances not exceeding Rs. 2 lakhs to private retail traders/ other than those dealing in essential commodities fair price shops and consumer co-operative stores (March, 1994). This ceiling increased to not exceeding Rs. 5 lakhs in November 1998 and to not exceeding Rs.10 lakhs in November, 2002.

Advances to retail traders in fertilizers form part of indirect finance to agriculture and those to retail traders of mineral oils form part of small business. Advances granted to retail traders dealing in essential commodities (fair price shops) and consumer co-operative stores is also included in priority sector (August 2001).

(iii) Small Business

Scope of 'small business' under priority sector expanded to include business enterprises with original cost price of equipment used for the purpose of business up to Rs.10 lakhs and working capital limit of Rs.5 lakhs or less (March, 1994).

Distribution of mineral oils, advances to judicial stamp vendors and lottery ticket agents also to be classified under this category (August, 2001). Scope of 'small business' under priority sector expanded to include business enterprises with original cost price of equipment used for the business up to Rs.20 lakhs and banks are given the freedom to fix individual limits for working capital depending on the requirements of different activities (November, 2002).

(iv) Professional and Self-Employed Persons

Advances up to Rs.5 lakhs of which not more than Rs.1 lakh for working capital in the case of professional and self-employed persons and a higher ceiling of Rs.10 lakh with sub-ceiling of Rs.2 lakh for working capital in the case of medical practitioners setting up practice in semi-urban and rural areas and advance granted to a qualified medical practitioner for purchase of one motor vehicle within the revised ceiling to be reckoned under priority sector credit (May, 1994)

Advances to accredited journalists and cameraman who are freelancers, i.e., not employed by a particular newspaper/magazine for acquisition of equipment by such borrowers for their professional use, credits for the purpose of purchasing equipment, acquisition of premises (strictly for business) and tools to practicing company secretaries who are not in the regular employment of any employer, financial assistance for running 'Health Centre' by an individual who is not a doctor, but has received some formal training about the use of various instruments of physical exercises, advances for setting up beauty parlours where the borrower holds qualification in the particular profession and undertakes the activity as the sole means of living/earning his/her livelihood to be included under priority sector lending. Preference may be given by banks to financing professionals like doctors, who are carrying on their profession in rural or semi-urban areas. Advances granted by banks to professional and self-employed persons for acquiring personal computers for their professional use and for the firms and joint ventures of such profession and self-employed persons may also be classified in this category. However, home computers should not be treated on par with personal computers and are not included in priority sector lending.

Advances granted for purchase of one motor vehicle to professional and self-employed persons other than qualified medical practitioners is not included under priority sector (August, 2001).

Advances up to Rs.10 lakh of which not more than Rs.2 lakh for working capital, a higher ceiling of Rs.15 lakh with sub-ceiling of Rs.3 lakhs for working capital in the case of medical practitioners setting up practice in semi-urban and rural areas. (November,2002).

(v)Education

Educational loans to include loans and advances granted to individuals for educational purposes upto Rs.7.5 lakhs for studies in India and Rs.15 lakh for studies abroad. (July, 2004)

(vi)Housing

Loans upto Rs.2 lakh for construction of houses and loans upto Rs.25, 000 for repairs of damaged houses granted to all categories of borrowers. Housing loans by banks to their own employees is not reckoned under priority sector. Indirect finance for housing made inclusive of assistance to non-governmental agencies approved by NHB for the purpose of refinance. Assistance given to any governmental agency for the purpose of constructing houses and for slum clearance and rehabilitation of slum dwellers when loan component does not exceed Rs.2 lakh per housing unit to be considered under priority sector (March-April 1994)

Ceiling of Housing under priority sector increased to Rs.3 lakh and loans for repairs to damaged houses increased upto Rs.50, 000 (February, 1997).Advances granted under the special rural housing scheme of NHB included under priority sector (July, 1997). Ceiling of housing finance under priority sector increased to Rs.5 lakh for both direct and indirect finance (October 1997).

Loans up to Rs.5 lakhs in rural/semi-urban areas and upto Rs.10 lakhs in Urban and metropolitan areas for construction of houses by individuals, excluding loans granted by banks to their own employees, loans up to Rs.50,000 given for repairs to the damaged houses of individuals, and loans granted by banks upto Rs.5 lakhs to individuals desirous of acquiring or constructing new dwelling units and upto Rs.50,000 for upgradation or major repairs to the existing units in rural areas under special rural Housing Scheme of NHB to be considered as direct finance to priority sector.

Indirect finance under housing include assistance given to governmental agencies for construction of houses or for slum clearance and rehabilitation of slum dwellers, subject to a ceiling of Rs.5 lakhs of loan amount per housing unit and the assistance given to non-governmental agencies approved by the NHB for the purpose of refinance for reconstruction of houses or for slum clearance and rehabilitation of slum dwellers, subject to the same ceiling amount of Rs.5 lakhs per housing unit. All the investment in bonds issued by NHB/HUDCO exclusively for financing of housing, irrespective of the loans size per dwelling unit, will also be reckoned as indirect finance to housing under priority sector (August, 2001).

Loans given for repairs to the damaged houses of individuals increases upto Rs.1 lakh in rural and semi-urban areas and to Rs.2 lakh in urban areas (November, 2002). Loans upto Rs.10 lakh to be given for construction of houses by individuals in rural and semi urban areas along with the urban and metropolitan areas, excluding loans granted by banks to their own employees (July, 2004). The above ceiling was further raised to Rs.15 lakh in 2005.

Investment by banks in the mortgage backed securities considered as direct housing finance. The investment made by banks in the bonds issued by NHB/HUDCO on or after April 1, 2005 not to be considered as priority sector lending and investments which have already been made upto March 31, 2005 to be considered as priority sector lending only till April 1, 2006 (July, 2005).

(vii) Consumption

Pure consumption loans granted to the weaker sections of the community under the Consumption Credit Scheme to be included in this item (July, 2004).

(viii) State Sponsored Organizations for Scheduled Castes/Scheduled Tribes

No change was made in this category during the post-reform period.

(ix) Weaker Section:

Advances by banks to SHGs under NABARD's pilot project treated as advances to 'weaker sections' under priority sector. Scope of weaker sections expanded to include beneficiaries under the Scheme of Liberation and Rehabilitation of Scavengers (SLRS) (June 1995).

Bank loans to SHGs/NGOs for onlending to SHGs treated as lending to weaker sections under the priority sector (April, 1996).

Beneficiaries of Swarnjayanti Gram Swarojgar Yojana (SGSY) and Swarna Jayanti Shahari Rojgar Yojana (SJSRY) to be considered as weaker sections and individual borrowal limits of artisans, village and cottage industries increased to Rs.25,000 from R.10,000 in the pre-reform period (August, 2001)

Individual credit limit to artisans, village and cottage industries increased to Rs.50, 000 (November, 2001)

Loans to distressed urban poor to prepay their debt to non-institutional lenders, against appropriate collateral or group security, subject to the guidelines of the Boards of Directors of banks to be included under weaker sections (July, 2005).

(x) Funds Provided to RRBs

Net amount of funds provided to RRBs by sponsor banks for the purpose of on-lending treated as priority sector advances (May, 1994).

Fifty percent of funds given to RRBs may be treated as indirect agricultural lending and 40 percent of the fund to be treated as advances to weaker sections (August, 2001). Allocation of funds to RRBs was not made after 2004.

(xi) Software Industry

Loans to software industry with credit limit upto Rs.1 crore from the banking system treated as priority sector lending (October, 1998).

(xii) Micro Credit

Micro Credit by banks either directly or through any intermediary treated as priority sector lending (February, 2000).

(xiii) Food and Agro-based Processing Sector

Advances to food and agro-based processing industries like fruit and vegetable processing industry, food grain milling industry, dairy products, processing of poultry, eggs and meat products, fish processing, bread, oilseeds, meals (edible) breakfast foods, biscuits, confectionary including cocoa processing and chocolate, malt extract, protein isolate, high protein food, weaning food and extruded, other ready to eat food products, aerated water/soft drinks and other processed foods, special packaging for food processing industries, technical assistance and advice to food processing industry etc treated as priority sector (January, 1999). With regard to the size of the units within this sector, it is clarified that food and agro based processing units of small and medium size with investment in plant and machinery up to Rs.5 crore would be included under priority sector lending.

(xiv) Venture Capital

Investment in venture capital will be eligible for inclusion in priority sector, subject to the condition that the venture capital funds/companies are registered with SEBI. (August, 2001)

Fresh investment made by banks on or after July 1, 2005 is not eligible for classification under priority sector lending and the investments which have already been made by banks up to June 30, 2005 shall not be eligible for classification under priority sector lending with effect from April 1, 2006.

(xv) Export Credit

During the pre-reform period though export credit was considered as a part of priority sector it was not included for the purpose of lending targets to be achieved by the banks. Export Credit to SSI was included under SSI and concessional interest was considered for export credit. Export credit began to be considered as a separate category of priority sector from 1992, but only for foreign banks.

Sub target of 10 percent of credit to export for foreign banks was fixed and shortfall was to be deposited with SIDBI for one year at an interest rate of 10 percent per annum (April 1993). This interest rate was later reduced to 8% per annum in (Sep, 1994). Export credit sub-target under the priority sector for foreign banks increased to 12 percent to be achieved by March 1997 (November, 1996). This sub-target of 12 percent of the net bank credit is continued till present.

(xvi) Leasing and Hire Purchase

Para-banking activities such as leasing and hire purchase financing undertaken departmentally by banks will be classified as priority sector advances, provided the ultimate beneficiary satisfies the criteria laid down by RBI for treating such advances as advances to priority sector (July, 2005)

(xvii) Loans to Urban Poor Indebted to Non-Institutional Lenders

Loans to distressed urban poor to prepay their debt to non-institutional lenders, against appropriate collateral or group security, subject to the guidelines to be approved by the Boards of Directors of banks would be eligible for classification under priority sector. Urban poor include those families in the urban areas who are below the poverty line. Such loans are classified under weaker sections within the priority sector and reported in the returns being submitted to the bank, under a separate sub-head, 'loans to urban poor indebted to non-institutional lenders' under the broad head 'Other Priority Sector' (July, 2005).

4.3.2.2 Targets/Sub-Targets Within Priority Sector in the Post-Reform Period

The overall target of priority sector lending at 40 percent of net bank credit continued unchanged during the post-reform period. The sub-target of 18 percent in respect of agricultural lending made inclusive of indirect finance to agriculture and indirect finance to agriculture not to exceed 25 percent of total agricultural advances for the purpose of computing performance under the sub-target (October, 1993).

With a view to reducing the disparity between the domestic banks and the foreign banks operating in India in regard to priority sector obligations, the minimum lending to priority sector by the foreign banks was fixed at 32% of the net bank credit. A sub-target of 10 percent towards small-scale industry and export was introduced for foreign banks in April 1993. Later the export credit sub-target was increased to 12 percent to be achieved by March 1997, whereas the sub-target to small-scale industry is continued at 10 percent.

No change was made under the sub-target for weaker sections. Within the overall main target of 40 percent of net bank credit 1 percent of previous year's net bank credit is given under the Differential Rate of Interest (DRI) scheme.

Targets for the different priority sectors during the post-reform period is given in Table 4.3

Table 4.3 Priority sector Lending Targets in the Post-Reform Period

	Domestic Commercial Banks	Foreign Banks
Total Priority Sector Credit	40 percent of net bank credit	32 percent of net banks credit
Agricultural Credit	18 percent of net bank credit	No target
Weaker Section Credit	10 percent of net bank credit	No target
DRI Scheme	1 percent of previous years net bank credit	No target
Export Credit		12 percent of net bank credit
SSI Credit		10 percent of net bank credit

Source: Economic and Political Weekly, October 12, 2002, P. 4240

4.3.3 Recent Developments in Priority Sector Lending – (2007-08)

The recent developments in priority sector lending explain the changes in priority sector lending that happened after March 2007. On the basis of the recommendations made in September 2005 by the Internal Working Group under the chairmanship of Shri.C.S. Murthy set up by the Reserve Bank to examine, review and recommend changes, if any, in the existing policy on priority sector lending including the segments constituting the priority sector targets and sub-targets and the comments/suggestions received theron from banks, financial institutions, public and the Indian Banks' Association (IBA), it was decided to include only those sectors as part of the priority sector, that impact large sections of the population, the weaker sections and the sectors which are employment intensive such as agriculture, small enterprises, retail trade, micro credit, state sponsored organizations for scheduled castes/scheduled tribes, education, housing, weaker sections and export credit. The changes in the list of items included under each component is as discussed below:

4.3.3.1 Components within the Priority Sector (2007-08)

Changes were made in the number of components within the priority sector after March 2007 as per the recommendation of the internal working group under the chairmanship of Shri.C.S.Murthy and the total number of components was reduced to nine from seventeen. The small-scale industries were to be known as small enterprises and it included some of the previous components like small road and water transport operators, small business, professional and self-employed persons and all other service enterprises. The changes made within each components is discussed in detail in the following section:

1. Agriculture (Direct and Indirect Finance)

No specific or significant change is made in this segment of priority sector other than linking the target of 18% of net bank credit to 18% of adjusted net bank credit (ANBC).

2. Small Enterprises - (Direct and Indirect Finance)

Direct finance in the small enterprises sector includes credit to manufacturing enterprises, service enterprises and khadi and village industries sector.

The manufacturing enterprises include Small (Manufacturing) Enterprises engaged in the manufacture, production, processing or presentation of goods and whose investment in plant and machinery does not exceed Rs.5 crore and Micro (Manufacturing) Enterprises.

The service enterprises include small, micro and small and micro (service) enterprises. The small (service enterprises are those enterprises engaged in providing rendering of services and whose investment in equipment (original cost excluding land and building and furniture fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006) does not exceed Rs.2 crore. The micro (service) enterprises are engaged in providing/rendering of services and whose investment in equipment does not exceed Rs.10 lakh and the small and micro (service) enterprises include small road and water transport operators, small business, professional and self-employed persons and all other service enterprises.

The khadi and Village Industries (KVI) sector includes all advances granted to units in the KVI sector, irrespective of their size of operations, location and amount of original investment in plant and machinery. Such advances will be eligible for consideration under the sub-target (60 percent) of the small enterprises segment within the priority sector.

Indirect finance to small enterprises sector include credit to persons involved in assisting the decentralized sector in the supply of inputs to and marketing of outputs of artisans, village and cottage industries, advances to co-operatives of producers in the decentralized sector viz, artisans, village and cottage industries, investments by NABARD with the objective of financing exclusively non-farm sector classified as indirect finance to small enterprises. The deposits placed with SIDBI by foreign banks and loans granted by banks to NBFCs for onlending to small-and micro enterprises (manufacturing as well as service) also classified as indirect finance to small enterprises sector.

3.Other Priority Sector (OPS)

The changes in the other priority sector after March 2007 mainly include the changes in the number of components, which is anlaysed in detail below:

(i) Retail Trade

Advances granted to private retail traders with credit limit not exceeding Rs.20 lakh and advances granted to retail traders dealing in essential commodities (fair price shops), consumer co-operative stores is included under this category.

(ii) Micro Credit

Micro Credit includes loans of very small amount not exceeding Rs.50,000 per borrower provided by bnks either directly or indirectly through a SHG/JLG mechanism or to NBFC/MFI for onlending up to Rs.50,000 per borrower and loans to poor indebted distressed persons (other than farmers) to prepay their debt to non-institutional lenders against appropriate collateral or group security to be eligible for classification under priority sector.

(iii) State Sponsored Organisations for Scheduled Castes/Scheduled Tribes

Advances sanctioned to state sponsored organizations for scheduled castes/scheduled tribes for the specific purpose of purchase and supply of inputs to and/or the marketing of the outputs of the beneficiaries of these organizations.

(iv) Education

Educational loans granted by banks to individuals and to Non-Banking Financial Companies (NBFCs) for educational purposes up to Rs.10 lakh for studies in India and Rs.20 lakh for studies abroad.

(v) Housing

Loans up to Rs.20 lakh, irrespective of location, to individuals for purchase/construction of a dwelling unit per family, excluding loans granted by banks to their own employees. Assistance given to any governmental agency for construction of dwelling units or for slum clearance and rehabilitation of slum dwellers, subject to a ceiling of Rs.5 lakh of loan amount per dwelling unit to be considered as priority sector lending.

(vi) Weaker Sections

In states where one of the minority communities notified is in fact in majoprity then loans will be granted only fot the othr notified minorities. States/Union Territories where such a situation prevails include Jammu and Kashmir, Punjab, Sikkim, Mizoram, Nagaland and Lakshadweep.

(vii) Export Credit

Export credit form part of priority sector for foreign banks only.

4.3.3.2 Targets/Sub-Targets Within Priority Sector (2007-08)

Currently the targets and sub-targets are linked to Adjusted Net Bank Credit (ANBC), which is Net Bank Credit (NBC) plus investments made by banks in Non-SLR bonds held in HTM Category or credit equivalent amount of Off-Balance Sheet Exposures (OBE), whichever is higher, as on March 31 of the previous year. The outstanding Foreign Currency Non-Resident Accounts

(Banks) FCNR (B) and Non-Resident Non-Repatriable (NRNR) deposits balances will no longer be deducted for computation of ANBC for priority sector lending purposes. Investments made by banks in the recapitalization bonds floated by Government of India will not be taken into account for the purpose. Existing investments as on April 30, 2007 made by banks in non-SLR bonds held in HTM category will not be taken into account for calculation of ANBC, up to March 31, 2010. However, fresh investments by banks in non-SLR bonds held in HTM category will be taken into account for the purpose. Deposits placed by banks with NABARD/SIDBI, as the case may be in lieu of non-achievement of priority sector lending targets/sub-targets will not be treated as investment in non-SLR bonds held under HTM category. For the purpose of calculation of credit equivalent of off-balance sheet exposures, the banks were to use current exposure method and inter-bank exposures were not to be taken into account for the purpose of priority sector lending targets/sub-targets.

Total priority sector target for domestic commercial banks to be 40 percent of Adjusted Net Bank Credit (ANBC) and for foreign banks 32 percent of ANBC or credit equivalent amount of off-balance sheet exposure, whichever is higher. In the case of domestic commercial banks agricultural advances to be 18 percent of ANBC and advances to weaker sections to be 10 percent of ANBC or credit equivalent amount of off-balance sheet exposure, whichever is higher. One percent of total advances outstanding as at end of the previous year to be considered under Differential Rate of Interest (DRI) Scheme.

Out of the 32 percent of ANBC target set for foreign banks, 10 percent of ANBC to be allocated for small enterprise and 12 percent of ANBC towards export credit.

The table 4.4 explains the targets and sub-targets set under priority sector lending for domestic and foreign banks as on mid 2007.

Table 4.4 Targets/Sub-Targets under Priority Sector (2007-08)

	Domestic Commercial Banks	Foreign Banks
Total Priority Sector Credit	40 percent of Adjusted Net Bank Credit (ANBC) or credit equivalent amount of off-balance sheet exposure, whichever is higher.	32 percent of ANBC or credit equivalent amount of off-banlance sheet exposure, whichever is higher.
Total Agricultural Advances	18 percent of ANBC or credit equivalent amount of off-balance sheeet exposure, whichever is higher. Of this, indirect lending in excess of 4.5% of ANBC or credit equivalent amount of off-balance sheet exposure, whicheve is higher, will not be reckoned for computing performance under 18 percent target. However, all agricultural advances under the categories 'direct' and 'indirect' will be reckoned in computing performance under the overall priority sector target of 40 percent of ANBC or credit equivalent amount off-balance sheet exposure, whichever is higher.	No Target
Small Enterprise Advances	Advances to small enterprise sector will be reckoned in computing performance under the overall priority sector target of 40 percent of ANBC or credit equivalent amount of off-balance sheet exposure, whichever is higher.	10 percent of ANBC or credit equivalent amount of off-balance sheet exposure, whichever is higher.
Micro Enterprises within Small Enterprises Sector	60 percent of small enterprise advances should go to the micro enterprises. Out of this 60 percent, 40 percent of total advances to small enterprises sector should go to micro (manufacturing) enterprises having investment in plant and machinery upto Rs.5 lakh and micro (service) enterprises having investment in equipment up to Rs.2 lakh; 20 percent of total advances to small enterprises with investment in plant and machinery between Rs.5 lakh and Rs.25 lakh and micro (service) enterprises with investment in equipment above Rs.2 lakh and upto Rs.10 lakh.	Target same as for domesic banks.
Export Credit	Export credit is not a part of priority sector for domestic commercial banks.	12 percent of ANBC or credit equivalent amount of off-balance sheet exposure, whichever is higher.
Advances to Weaker Sections	10 percent of ANBC or credit equivalent amount of off-balance sheet exposure, whichever is higher.	No Target

	Domestic Commercial Banks	Foreign Banks
Small Enterprise Advances	1 percent of total advances outstanding as at the end of the previous year. It should be ensured that not less than 40 percent of the total advances granted under DRI scheme go to scheduled castes/scheduled tribes. At least two third of DRI advances to be granted through rural and semi-urban branches.	No Target

Source: Master Circular - Lending to Priority Sector, RBI, July 2, 2007.

Non-achievement of priority sector targets and sub-targets will be considered while granting regulatory clearances, approvals for various purposes as a penalty for not achieving the targets. The domestic banks having a shortfall in lending to stipulated priority sector target/sub-targets is advised to deposit the shortfall amount with the Rural Infrastructure Development Fund (RIDF) and the shortfalls made by foreign banks to be corrected by depositing the shortfall amount with the Small Industries Development Bank of India (SIDBI).

The setting of the lending targets for priority sectors has had a very positive impact on the channelising of credit to hitherto neglected sectors of the economy. Even though the target has been allowed to remain untouched the priority sector definition had been widened over the years. Various efforts have been made not only to broaden the norms of priority sector lending but also to monitor their performance. As a result, the percentage of credit channeled to priority sectors of the economy has been increasing steadily. This change in the trend and growth of priority sector lending is discussed in detail in the following section.

4.4 Priority Sector Lending by Scheduled Commercial Banks

The share of priority sector advances in the net bank credit of scheduled commercial banks show a steep and continuous increase between 1969 and 2005. Detail analysis show that it has increased from 14.9% in 1969 to 21.6% in 1971, to about 34.3% in 1981 and further to 40.9% in 1986, but decreased to about 39.5% in 1990, to 33.1% in 2001 and increased slightly to 35.3% in 2006 and again declined to 34.3% in 2007. The changes in the trend and progress of scheduled commercial banks lending to priority sector is given in detail in the table below.

Table 4.5 Advances to Priority Sectors by Scheduled Commercial Banks

(Amount in Rs.Crore)

Year	Agriculture Advance	SSI Advance	Other Priority Sector Advance	Total Priority Sector Advance	Total Priority Sector Advance as % of NBC
1969	188	286	31	505	14.9
1971	382	500	144	1,026	21.6
1976	1,042	1,188	543	2,773	25.3
1981	3,584	3,229	1,691	8,504	34.3
1986	9,071	7,808	4,705	21,584	40.9
1991	17,221	17,336	8,991	43,548	39.5
1992	18,767	18,422	9,193	46,382	37.1
1993	19,963	20,026	9,843	49,832	35.1
1994	21,208	22,617	10,055	53,880	35.3
1995	23,980	27,612	12,549	64,141	33.2
1996	27,044	31,884	14,401	73,329	32.1
1997	30,874	34,113	17,001	81,988	33.3
1998	34,869	43,508	21,130	99,507	33.5
1999	39,634	48,483	26,494	114,611	33.8
2000	44,381	51,813	35,653	131,847	33.1
2001	51,922	56,002	46,490	154,414	33.1
2002	60,761	57,199	57,299	175,259	32.8
2003	73,518	60,394	77,697	211,609	31.7
2004	90,541	65,855	107,438	263,834	34.5
2005	122,370	76,114	147,143	345,627	35.6
2006	172,292	90,239	247,379	509,910	35.3
2007	230,180	116,908	285,559	632,647	34.3

Source: Report on Trend and Progress of Banking In India, RBI - Various Issues.
Note: Figures upto 1985 is as on December and for 1990-05 is as on March

The above table also reveals that the 40% target for priority sector lending to be attained by 1985 was attained by scheduled commercial banks only during 1986.The percentage share of priority sector lending to the different sectors within the priority sector by scheduled commercial banks is given in the table below.

Table 4.6 Percentage Share of Priority Sector Lending of Scheduled Commercial Banks to Different Sectors

Year	Agriculture Advance	SSI Advance	Other Priority Sector Advance	Total
1969	37.23	56.63	6.14	100.00
1971	37.23	48.73	14.04	100.00
1976	37.58	42.84	19.58	100.00
1981	42.14	37.97	19.88	100.00
1986	42.03	36.17	21.80	100.00
1991	39.54	39.81	20.65	100.00
1992	40.46	39.72	19.82	100.00
1993	40.06	40.19	19.75	100.00
1994	39.36	41.98	18.66	100.00
1995	37.39	43.05	19.56	100.00
1996	36.88	43.48	19.64	100.00
1997	37.66	41.61	20.74	100.00
1998	35.04	43.72	21.23	100.00
1999	34.58	42.30	23.12	100.00
2000	33.66	39.30	27.04	100.00
2001	33.63	36.27	30.11	100.00
2002	34.67	32.64	32.69	100.00
2003	34.74	28.54	36.72	100.00
2004	34.32	24.96	40.72	100.00
2005	35.41	22.02	42.57	100.00
2006	33.79	17.70	48.51	100.00
2007	36.38	18.48	45.14	100.00

Source: Report on Trend and Progress of Banking In India, RBI - Various Issues.

From the above table it is clear that among the different components the share to small-scale industries is greater than the share to agriculture and other priority sectors before 1981. A marked shift in favour of lending to agriculture is clear after 1981 till the nineties. After the economic reforms introduced in 1991 it is again the SSI sector that is receiving the major share of priority sector advance followed by agriculture and then SSI. During the new decade it is the other priority sector, which is gaining importance. After 2002 it is the other priority sector that is receiving the major share followed by agriculture and then the SSI sector.

4.5 Bank-Group Wise Credit to Priority Sector

Advances to priority sector by the bank groups like public, private and foreign banks after the economic reforms in 1991 is analyzed in detail in the following section.

4.5.1 Priority Sector Lending by Public Sector Banks:

The public sector banks comprising of the state bank group and the nationalised banks have been contributing significantly towards priority sector lending.

Table 4.7 Advances to Priority Sector By Public Sector Banks

(Amount in Rs.Crore)

Year	Agriculture	% to NBC	SSI	% to NBC	Other Priority Sector	% to NBC	Total Priority Sector Advance	% to NBC
1991	16,870	15.7	17,541	15.6	8,625	8.0	42,311	39.3
1992	18,311	16.1	19,212	16.9	8,839	7.8	44,692	39.3
1993	19,934	15.2	19,143	14.6	9,236	7.0	48,384	36.8
1994	20,930	15.1	21,516	15.5	10,497	7.6	52,944	38.2
1995	23,327	14.1	25,666	15.5	11,807	7.1	60,802	36.8
1996	26,302	13.6	29,602	15.3	13,700	7.1	69,606	35.9
1997	30,305	15.4	31,568	16.0	16,844	8.5	78,719	39.9
1998	33,142	14.2	37,896	16.2	18,929	8.1	90,737	38.8
1999	37,631	14.2	42,611	16.0	24,020	9.0	104,094	39.2
2000	45,296	14.3	46,087	14.6	30,817	9.7	127,478	40.3
2001	53,571	15.7	48,452	14.2	40,791	12.0	149,116	43.7
2002	58,142	14.8	54,330	13.8	53,785	13.6	171,483	43.5
2003	73,507	15.4	52,987	11.1	71,448	15.0	203,097	42.5
2004	84,436	15.1	58,310	10.4	96,171	17.1	244,454	43.6
2005	112,475	15.7	67,634	9.4	124,370	17.3	310,729	43.3
2006	106,681	15.5	55,319	8.1	114,627	16.7	281,322	41.0
2007	141,672	16.0	71,617	8.1	136,284	15.3	354,411	39.9

Source: Statistical Tables Relating to Banks in India, RBI – Various Issues

In the case of public sector banks the 18% target set for priority sector advances was not attained by the public sector banks in the entire study period but could maintain the 40 percent target after 1999. The share of lending towards SSI remained higher followed by agriculture and then the other priority sectors till 2000 except during 1993 and after 2001 till 2004 the highest share is allocated towards agriculture and after 2004 it is towards the other priority sector category.

4.5.2 Priority Sector Lending by Private Sector Banks:

The private sector banks also could not attain the 18 percent of net bank credit target towards agriculture during the entire study period. The 40 percent target was attained continuously after 2001. The share of SSI remained prominent followed by other priority sector category and then agriculture till 2001. After 2002 there was a complete turn over in the allocation in favour of the other priority sectors followed by agriculture and lastly by SSI.

Table 4.8 Advances to Priority Sector by Private Sector Banks

(Amount in Rs.Crore)

Year	Agriculture	% to NBC	SSI	% to NBC	Other Priority Sector	% to NBC	Total Priority Sector Advance	% to NBC
1991	462	9.3	766	15.4	494	10.0	1,722	34.7
1992	511	7.2	1,252	17.6	594	8.4	2,357	33.2
1993	553	7.1	1,298	16.6	622	7.9	2,473	31.6
1994	773	6.8	1,780	15.7	924	8.0	3,477	30.5
1995	816	6.0	2,150	15.9	1,098	8.1	4,064	30.0
1996	1,233	6.7	3,482	18.8	1,568	8.5	6,283	34.0
1997	1,953	9.1	4,754	22.2	2,125	9.9	8,832	41.2
1998	2,746	9.7	5,848	20.6	3,020	10.6	11,614	40.9
1999	3,257	9.5	6,451	18.9	4,447	13.0	14,155	41.4
2000	4,239	9.1	7,313	15.7	6,467	13.9	18,019	38.7
2001	5,384	9.5	8,158	14.5	7,998	14.2	21,550	38.2
2002	8,022	12.8	8,613	13.7	9,074	14.4	25,709	40.9
2003	11,873	14.4	6,857	8.3	17,602	21.3	36,705	44.4
2004	17,652	15.7	7,897	7.0	25,834	23.0	52,861	47.0
2005	21,636	13.5	8,592	5.4	38,797	24.2	69,886	43.6
2006	36,712	14.7	10,421	4.2	57,777	23.2	106,586	42.8
2007@	52,056	15.5	13,063	3.9	76,925	22.8	143,768	42.7

Source: Statistical Tables Relating to Banks in India, RBI – Various Issues

4.5.3 Priority Sector Lending by Foreign Banks:

The foreign banks contribution to priority sector is mainly to the export segment and small-scale industries. The foreign banks attained the overall target of 32% and sub-target of 10% and 12% set to SSI and export sector during the study period except during 2003, as the SSI credit was 1% short of prescribed target. The lending trend to these components during 1996 and 2006 is as given in the table below.

Table 4.9 Advances to Priority Sector by Foreign Banks

(Amount in Rs.Crore)

Year	Export Credit	% to NBC	SSI	% to NBC	Priority Sector Advance	% to NBC
1996	4,112	29.0	1,519	11.0	5,417	39.0
1997	4,474	27.5	1,836	11.3	6,139	37.7
1998	4,950	24.5	2,084	10.3	6,940	34.3
1999	5,678	25.4	2,460	11.0	8,270	37.0
2000	6,372	23.0	2,871	10.4	9,699	35.0
2001	6,863	19.7	3,716	10.7	11,835	34.0
2002	6,948	17.6	4,561	11.6	13,414	34.0
2003	8,195	18.7	3,809	8.7	14,848	33.9
2004	9,809	18.7	5,438	10.4	18,276	34.8
2005	12,339	18.3	6,907	10.2	23,843	35.3
2006	17,326	19.6	8,430	9.5	30,439	34.4
2007@	20,714	18.3	11,648	10.3	37,835	33.4

Source: Statistical Tables Relating to Banks in India, RBI – Various Issues

The percentage share of lending towards export credit has declined from 29% in 1996 to 18% in 2007 while that of SSI declined only slightly from 11% to 10% during the same period.

From the above analysis it becomes clear that among the bank groups the public and private sector banks make every effort to maintain the priority sector target of 40% of NBC set by the Reserve Bank of India and foreign banks also endeavor to maintain the priority sector target of 32% during the entire study period.

4.6 Priority Sector Lending By State Bank Group:

The state bank group's share towards lending to the SSI sector is greater than the other two sectors in the early nineties but later the emphasis shift in favour of agriculture and finally recently towards the other priority sector category.

4.10 Percentage Share of Priority Sector Advance of the State Bank Group to Different Sectors

(Percentage)

Year	Agriculture	SSI	Other Priority Sector
1991	39.3	43.5	17.1
1992	41.3	42.7	16.0
1993	42.0	42.7	15.3
1994	40.7	42.4	16.9
1995	40.2	43.9	15.9
1996	38.8	44.7	16.5
1997	38.3	42.7	19.0
1998	36.5	44.7	18.8
1999	36.4	43.7	19.9
2000	39.8	38.9	21.1
2001	38.9	33.7	22.2
2002	32.5	37.5	27.6
2003	36.8	27.9	33.1
2004	33.5	24.9	39.9
2005	34.5	22.8	40.0
2006	37.1	21.2	38.8
2007[@]	38.0	19.8	38.8

Source: Statistical Tables Relating to Banks in India, RBI– Various Issues

4.7 Priority Sector Lending By Nationalised Banks:

Priority sector lending trend of nationalised banks clearly show that initially during the early part of nineties till 2003 the agriculture sector advance is given preference followed by SSI and then the other priority sector. After 2003 the other priority sector category started getting more preference followed by the agriculture sector and lastly the small-scale industries sector.

4.11 Percentage share of Priority sector advances of Nationalised Banks

(Percentage)

Year	Agriculture	SSI	Other Priority Sector
1991	40.2	37.7	22.1
1992	40.8	37.4	21.8
1993	40.8	38.1	21.1
1994	38.9	39.7	21.4
1995	37.4	41.3	21.3
1996	37.3	41.4	21.4
1997	38.6	38.7	22.7
1998	36.5	40.2	21.9
1999	36.0	39.4	24.8
2000	33.2	34.7	25.8
2001	34.3	31.8	30.2
2002	34.6	28.7	33.3
2003	35.9	25.2	36.2
2004	35.0	23.4	39.1
2005	37.0	21.3	40.0
2006	37.9	19.7	40.7
2007[@]	40.0	20.2	38.5

Source: Statistical Tables Relating to Banks in India, RBI– Various Issues

4.8 Region-wise analysis of priority sector lending

Table 4.12 Percentage Share of Different Regions in Total Priority Sector Lending:

(Percentage)

Year	Northern Region	North Eastern Region	Western Region	Central Region	Western Region	Southern Region	Total
1996	18.6	1.5	10.9	14.0	21.2	33.8	100.0
1997	18.3	1.6	11.0	13.3	21.4	34.5	100.0
1998	19.5	1.4	10.2	13.1	22.3	33.4	100.0
1999	20.3	1.3	9.8	12.6	23.3	32.7	100.0
2000	20.2	1.1	9.0	13.4	26.0	30.3	100.0
2001	21.2	1.0	8.8	11.5	28.1	29.4	100.0
2002	21.7	1.0	8.8	12.5	26.1	29.9	100.0
2003	21.7	0.8	9.0	11.9	26.0	30.6	100.0
2004	20.5	1.1	9.2	11.9	24.8	32.5	100.0
2005	22.1	1.1	9.3	12.3	23.6	31.7	100.0
2006	21.8	0.9	9.5	12.0	23.5	32.3	100.0

Source: Statistical Tables Relating to Banks in India, RBI– Various Issues

The region-wise analysis show that it is the southern region which contribute more to priority sector lending followed by western region, then by the northern region, central region, western region and lastly by the north-eastern region.

4.9 Priority Sector Lending in Southern Region:

The southern region comprise of four major states like Tamilnadu, Andhra Pradesh, Karnataka and Kerala.The percentage share of each of these southern states to total priority sector advances is given in the table below.

Table 4.13 Percentage Share of Different States in Total Priority Sector Advances - Southern Region

(Percentage)

	Andhra Pradesh	Karnataka	Kerala	Tamil Nadu
1996	25.9	22.0	14.6	37.1
1997	25.3	23.4	15.8	37.0
1998	27.7	24.5	14.8	36.6
1999	26.4	25.7	14.7	35.5
2000	26.6	23.2	14.7	35.1
2001	27.1	24.0	14.1	34.5
2002	27.1	24.5	14.2	33.8
2003	27.0	25.9	14.1	32.6
2004	25.3	26.7	14.3	33.4
2005	26.6	26.1	14.0	32.6
2006	27.1	24.9	15.1	32.5

Source: Statistical Tables Relating to Banks in India, RBI– Various Issues

Among the southern states the share of Tamilnadu towards total priority sector lending is the highest followed by Andhra Pradesh, Karnataka and Kerala.

Table 4.14 Percentage Share of Advances to the Different Components of Priority Sector in Southern Region

	Agriculture	SSI	OPS	Total
1996	42.4	38.4	19.2	100.0
1997	42.7	37.2	20.1	100.0
1998	41.2	38.2	20.6	100.0
1999	41.0	37.0	22.0	100.0
2000	36.1	34.8	29.1	100.0
2001	36.8	32.1	31.1	100.0
2002	34.5	30.2	35.3	100.0
2003	34.9	23.5	41.7	100.0
2004	33.3	20.0	46.7	100.0
2005	36.3	18.6	45.2	100.0
2006	38.6	16.1	45.3	100.0

Source: Statistical Tables Relating to Banks in India, RBI– Various Issues

The percentage share of advances specified to agriculture is higher than the share to OPS and SSI sector till 2002 and from 2002 the focus shifted in favour of the other priority sector followed by agriculture advances and lastly by SSI. Lending to SSI sector show a steep decline, while lending to OPS show a steep increase between 1996 and 2006.

4.10 Priority Sector Lending in Kerala:

The lending pattern towards priority sector in the state of Kerala is similar to the lending pattern of the entire southern region, where agriculture is receiveing the major share followed by the other priority sector and finally the SSI sector between 1996 and 2002 and after 2002 the share towards the other priority sector is increasing followed by the advances to agriculture and lastly towards the SSI sector.

Table 4.15 Percentage Share of Advances to the Different Components of Priority Sector in Kerala

	Agriculture	SSI	OPS	Total
1996	45.4	23.8	30.8	100.0
1997	42.4	22.0	35.6	100.0
1998	51.1	20.2	28.7	100.0
1999	42.7	20.2	37.1	100.0
2000	42.3	18.1	39.6	100.0
2001	43.5	18.9	37.6	100.0
2002	34.1	20.4	45.5	100.0
2003	30.7	21.3	48.1	100.0
2004	34.0	12.6	53.3	100.0
2005	33.6	6.6	59.8	100.0
2006	39.3	11.7	49.0	100.0
2007	42.9	11.6	45.5	100.0

Source: State Level Bankers' Committee Report, Kerala – Various Issues

The rate of increase or decrease in the percentage share is not very sharp in the case of lending to agriculture and other priority sector during the years considered while the share of SSI advances declined from 24% in 1996 to 12% in 2007.

4.10 Conclusion:

The above chapter on priority sector lending tries to explain and analyze the evolution and emergence of priority sector lending from the time it was formalized till 2007 (Annexure 4.1). The change in targets/sub- targets and the different components within priority sector lending is studied in detail by classifying their progress in the pre-reform period and post-reform period. Since major changes have been made in calculating priority sector lending during the financial year 2007-08, the recent change is studied under a separate heading – Recent Developments. Statistical analysis of the progress of scheduled commercial banks and public sector banks in detail from the time of nationalization and bank group-wise lending to priority sector after 1991 is done to understand the share of each group towards lending to priority sector. Region wise analysis is undertaken to know the regional importance of priority sector lending and finds that southern region contriburte more and the north-east region the least in lending to the priority sector. The detailed analysis of priority sector advances in the southern region show that among the four major southern states Tamilnadu contributes the major share and lowest share is in Kerala. The last part of the chapter analyses the priority sector lending pattern in Kerala. The statistics show that the concept of priority sector lending which emerged after 19th July 1969 as a major directed credit programme to the hitherto neglected sectors of the economy have made a very positive impact on the channelising of credit and the progress of the economy.

References:

Anand.S, 'Priority Sector Lending – It is a dynamic phenomenon', Indian Banking Today & Tomorrow, January 1994, Vol.19, No.1, PP 10-17.

Gadgil Study Group – Report of the Study Group of National Credit Council on the Organisational Framework for the Implementation of Social Objectives under the Chairmanship of Prof.D.R.Gadgil, Para 108, PP. 37-38, October 1969.

Karkal, G.L; 'Perspectives in Indian Banking', Popular Prakashan, Bombay, 1977, P.17.

Patel.K.V and Shete.N.B; Priority Sector Lending by Commercial Banks in India, Prajnan, Vol.XIII, No.1 (Jan-March 1984), P.151

Report of the working Group – Priority Sector Lending and the 20 – Point Economic Programme – Role of Banks, (Chairman : K.S.Krishnaswamy), April 1980, PP 17-18.

Report of the Working Group on the Role of Banks in Implementation of New 20 – Point Programme (Chairman : A.Ghosh), 1982, P. 81.

Report of the Working Group on the Role of Banks in Implementation of New 20 Point Programme under the Chairmanship of Shri.A.Ghosh (mimeograph) June 17, 1982, (PP 51-54, 64-66,81)

Shri. Morarji Desai, Speech at the inaugural meeting of the National Credit Council, July 1968.

Srinivasan.R, 'Priority Sector Lending – A Study of Indian Experience' Himalaya Publishing House, Bombay, 1995, PP 45.

Vasant Desai; 'Role of Banks in Economic Growth', Economic Affairs, Vol.21, No.8, Aug 1976, P.229.

Chapter-5
Indian Overseas Bank – An Overview

5.1 Genesis and Growth of Indian Overseas Bank (IOB)

The Indian Overseas bank (IOB was founded on 10th February, 1937 by Shri.M.Ct.M.Chidambaram Chettiyar, a pioneer in many fields-Banking, Insurance and Industry with the main objective of specializing in foreign exchange business and overseas banking. “The Indian Overseas Bank had been started with the two-fold purpose of affording first class banking facilities in South India on modern lines in cooperation with their compeers and secondly, to explore to the fullest extent the great need for business activity overseas.” (The Hindu, 1937). The Growth of Indian Overseas Bank is studied under two heads-the pre independence period and the post independence period which is discussed in detail in the upcoming section.

5.1.1 Pre-Independence Period (1937-1947)

The Indian Overseas Bank (IOB) have the unique distinction of commencing business in India and overseas on the inaugural day (10th February 1937) in three branches simultaneously- at Karaikudi and Chennai in India and Rangoon in Burma (presently Myanmar) followed by a branch in Penang in July 1937 thereby befitting the description of the name of the bank. In 1938 more branches were opened around Chettinad apart from one in Kualalumpur.

Within a decade the bank established its presence in Singapore, Colombo, Ipoh, Malacca, Hong Kong and Bangkok. In Bangkok, Indian Overseas Bank was the only ‘foreign bank’ permitted to operate. In India, as a policy the bank was against opening branches in ‘overbanked’ centres and tried to spread the new branches across the country in small cities, towns and villages.

5.1.2 Post-Independence Period (1947-2007)

The Post-Independence period is divided into two- the pre form period and the post reform period. The important events during these periods is discussed in the following section.

5.1.2.1 Pre-Reform Period (1947-1991)

During the pre-reform period Indian Overseas Bank expanded its activities and enlarged its banking operations.“The bank had to face the stormy consequences of World War II that saw the Japanese occupation of Malaya, Singapore and Burma resulting in the communication with its overseas branches being cut”. (Director,s Report, 1947). At the dawn of independence Indian Overseas Bank had thirty-eight branches in India and seven branches abroad. Deposits stood at Rs.6.64 crores and advances at 3.23 crores. Indian Overseas Bank was the first bank to venture in to consumer credit by introducing the popular personal loan scheme during the early 1950’s. As early as in 1957, the bank established a training centre that later grew in to a staff college at Chennai, with nine training centres all over the country.

As early as in the 1960's, the bank has been attending to the needs of small industry and agriculture and also gave importance to mechanization for improving customer service. In February 1963, the Government of Burma issued an order nationalizing all its banks including Indian Overseas Bank. In 1964, the bank made a beginning in computerization especially in the areas of inter branch reconciliation and provident fund accounts by acquiring mainframe computer called the Unit Recorder Machine. The bank established an exclusive head office building in 1964 and during the inauguration of that building, the then Chairman of the bank M.Ct.Muthiah (1964), stated "this building symbolizes our past performance, our present confidence and our optimism of the future". The building had a drive-in-counter with television facilities, the first of its kind in India. This decade also saw the organic expansion of the bank. During the year 1963-64, the bank took over the assets and liabilities of the Coimbatore Standard Bank Ltd, Coimbatore, The Nanjinad Bank Ltd., Nagarkoil, The Coimbatore Vasundhara Bank Ltd, Coimbatore, and The Kulitali Bank, Thiruchirapalli. The Sreenivasa Perumal Bank, Coimbatore was merged with Indian Overseas Bank in 1967 and the Venkateshwara Bank in 1968. In 1968, a full-fledged department to cater exclusively to the needs of agriculture sector was set up. Indian Overseas Bank was nationalised in 1969, to become one of the youngest among the fourteen banks nationalised on 19th July 1969. The main object and business of the bank as laid down in the banking companies (Acquisition and Transfer of Undertakings) Act 1970 is “to provide for the acquisition and transfer of the undertakings of certain banking companies, having regard to their size, resources, coverage and organization, in order to control the heights of the economy and to meet progressively and serve better the needs of the development of the economy in conformity with national policy and objectives and for matters connected therewith or incidental there to”

During 1970’s. social banking received major thrust and rapid growth was witnessed in the bank’s deposits, advances, branches etc. In May 1973, following the nationalization of banks in India, the Malaysian Government merged the Indian banks- Indian Overseas Bank and United Commercial Bank to form the United Asian Bank Berhad as the policy of the Malasian government did not allow government banks of other countries to function in ther country. For similar reason, the Thailand Government formed the Bharat Overseas Bank (BhoB) in 1973, to take over the Bangkok branch of IOB, jointly with six private banks, viz., Bank of Rajasthan, Karnataka Bank, South Indian Bank, Vysya Bank, Karur Vysya Bank and Federal Bank. To implement the official language Act, 1963 an official language department (OLD), was established in 1974. In 1977, Indian Overseas Bank opened its branch in Seoul and in 1979, opened a Foreign Currency Banking Unit in the free trade zone in Colombo.

Indian Overseas Bank has sponsored three Regional Rural Banks namely, Puri Gramya Bank, established on 25th February 1976, with its head office at Pipli, Orissa, Pandyan Grama Bank, established on March 1977, having its head office at Virudhunagar and the Dhankanal Gramya Bank set up on 12th August, 1981, with head office at Dhankanal in Orissa. The bank also promoted a wholly owned subsidiary in the name of IOB Properties Ptc Ltd in Singapore, which was incorporated on 15th April 1983. The bank also made rapid progress in computerization with accent on in house development of software. The Bank set up a separate computer policy and planning department (CPPD), to implement the programme of computerization, to develop software packages on its own and to impart training to staff members in this field. By December, 1986, the deposits of the bank reached a level of over Rs.4,000 crores. The branch network crossed four-digit mark and stood at 1097. The bank celebrated its Golden Jubilee and 18 years between government takeover in 1987. In 1990, the Bank of Tamilnadu was amalgamated with Indian Overseas Bank, thereby increasing the capital strength, deposits, advances, staff strength, branches etc of the bank.

5.1.2.2 Post-Reform Period (1991 and after)

In the early 1990s when the financial and banking reforms were initiated, the bank had crossed many milestones and grown from strength to strength by expanding the branch network, enhancing and diversifying business, raising capital from the market and launching a series of new products and services.

Indian Overseas Bank has specialized branches to cater to the exclusive needs – commercial and industrial credit, industrial finance, small scale industries, high tech agriculture and foreign exchange. Sakthi IOB Chidambaram Chettiyar Memorial Trust was formed by the management of the Bank Officers Association, and the workmen union in 1995, to empower downtrodden women by enabling them to have access to vational training. The Agriculture Business Consultancy Services (ABCS), launched by the bank in 1996 has been making steady progress in offering consultancy services for high tech agricultural projects with a special thrust on projects for waste land development, dry land horticulture, herbal/medicinal plants cultivation, food processing and setting up of the storages. The banks own website and first ownsite ATM was installed at the Mahim branch in Mumbai during 1997. The bank also first introduced Any Bank Branching (ABB), in 1998. The bank got the autonomous status during 1997-98. The bank has Lead Bank responsibility in twelve districts in Tamil Nadu State and one district in Kerala State.

Indian Overseas Bank has the distinction of being the first bank in banking industry to obtain ISO 9001 certification for its computer policy and planning department from Det Norske Veritas (DNV), Netherlands, in September, 1999. This certification coveres design, development, implementation and maintenance of software developed in-house procurement and supply of hardware and execution of turn key projects. Indian Overseas Bank started Speedy Transfer And Realisation Services (STAR) services in December, 1999 for speedy realization of outstation cheques and also started tapping the potential of internet by enabling Any Branch Banking (ABB) card holders in Delhi to pay their telephone bills by just logging on to MTNL website and by authorizing the Bank to debit towards the telephone bills. The mobile banking was introduced in 2000. The information systems security policy for the bank has been formulated and is being implemented in order to rightsize the manpower; the bank introduced the Voluntary Retirement Scheme (VRS), in the year 2000. Institute for Development and Research in Banking Technology (IDRBT), conferred the Best Award under Banking Technology to Indian Overseas Bank in 2001 for the innovative use of banking application on Indian Financial Network (INFINET).

The bank made a successful debut in raising capital from the public during the financial year 2000-01, despite a subdued capital market. The issue opened on 25th September, 2000 for raising Rs.111.20 crore and was over subscribed by 1.87 times. The issue closed on 29th September 2000 and the allotment was made in October 2000. The Bank was the first among the nationalised banks to approach the market with a second public issue. The bank approached the public for the second time on September, 2003 to raise share capital with a premium of Rs.14 per share aggregating to Rs.240 crores. The issue was successful with oversubscription by 6.14 times. Consequent to the public issue, the share of the government in the bank's capital came down to 61.25%. The shares of the bank have been listed on the Madras Stock Exchange (Regional), Stock Exchange at Mumbai and the National Stock Exchange of India Ltd.

During the year 2004 the Bank opened a limited purpose branch in Singapore and an extension couner in Sri Lanka. IOB Properties Ptc Ltd, the Bank's subsidiary in Singapore was merged with the Singapore branch during the same year.

The bank introduced core banking facility during the year 2005 by implementing its home -grown core banking solution "IOB CROWN" (Centralised Resources Over Wide area Network).

During 2006 the bank was awarded the most prestigious international credit rating "BB+" by Standard and Poor's the most reputed global rating agency and IInd rank in profitability and fourth in overall performance among all banks in India by Business World.

In 2007, Indian Overseas Bank bought over other shareholders to become the sole owner of Bharat Overseas Bank (BhOB). In consequence, the Bangkok branch was reborn as Indian Overseas Bank from April 2007. As at end March 2007 the total number of branches of Indian Overseas Bank in India stood at 1,781 and six full fledged branches in overseas. The bank has two representative offices-one in Guangzhou, China and another in Kuala Lumpur, Malaysia, two remittance centers in Singapore and an extension counter in Sri Lanka. The bank has obtained approval from RBI to open a representative office in Vietnam and the Bank is in the process of obtaining license from the State Bank of Vietnam. The process of obtaining necessary approval for opening a branch office in New Zealand is underway. The bank also plans a representative office in U.A.E. At the end of 2007 all branches of the bank remain computerized with core banking solution in more than 400 branches. Over 900 branches in 350 centers offer Any Branch Banking (ABB). The Bank has nearly 350 ATMs of its own apart from tie-up with 1800 ATMs of other banks. The first offsite ATM was set up at Kamakshi Hospital, Chennai in 2007. International Debit Visa Cards and International Credit VISA Cards have been recently launched. Internet banking is available to answer customer queries, transfer funds and keep track of depository accounts. Other facilities provided by the bank include-Multicity Cheque facility in all networked branches, Depository Services at nearly 40 branches, Online Tax Accounting System for IT collection and online payment of Excise Duty, Custom Duty and Service Tax, Forex remittance facilities including Fast track services for US based NRIs and Real Time Gross Settlement for instant funds transfer.

The overall supervision and control of the Bank's functions rests with the Board of Directors which consists of the Chairman and the Managing Director (CMD) and Executive Director (ED) both appointed by the Government of India. Other directors, represent the Government, Reserve Bank of India, shareholders, empolyees and officers of the bank. The day-to-day affairs of the Bank are managed by the CMD, the ED, the banks General Managers and Deputy General Managers who are assisted by a team of competent professionals. The Bank has a management structure comprising Head Office, the Regional Offices and the branches, covering major geographical areas.

The vision of the bank is to emerge as the most competitive bank in the industry. Today at 71, the bank is vibrant and versatile. It is in the Big League of banks which have crossed Rs. 1000 crores in net profit with strong fundamentals and a supportive staff. It its well poised for sustained and diversified growth in the future in the tradition set up by its illustrious founder.

5.2 Performance of Indian Overseas Bank

The performance of Indian Overseas Bank has been analysed by considering the trend in the growth of parameters like Capital, reserves and surplus, deposits, advances borrowings, investments profit, the number of branches and staff strength. The growth of each of these parameters growth during the past sixteen years is analysed in detail in the following section.

5.2.1 Capital

During the study period 1991-92 to 2006-07 the paid up capital of the bank increased from 370 crores to 545 crores and an authorized capital of 1500 crores was added after 2001. The total capital of the bank increased from 370 crores of rupees in 1992 to Rs.2045 crores of rupees in 2007 which account to a six fold increase in sixteen years.

Table 5.1 Capital Growth of Indian Overseas Bank

(Amount in Rs.Crore)

Year	Paid-up Capital	Authorised Capital
1992	370	–
1993	370	–
1994	1075	–
1995	1334	–
1996	1334	–
1997	334	–
1998	334	–
1999	334	–
2000	334	–
2001	445	1500
2002	445	1500
2003	445	1500
2004	545	1500
2005	545	1500
2006	545	1500
2007	545	1500

Source: Annual Report, Indian Overseas Bank – Various Issues.

5.2.2 Reserves and Surplus

The Reserves and surplus of the bank increased from Rs.41 crores in 1992 to Rs.3446 crores in 2007.

Table 5.2 Growth of Reserves and Surplus of Indian Overseas Bank

(Amount in Rs.Crore)

Year	Statutory Reserves	Capital Reserves	Revenue and other Reserves	Total Reserves and Surplus
1992	25	–	17	41
1993	25	0	17	42
1994	25	190	17	232
1995	25	184	17	226
1996	25	182	17	224
1997	28	191	17	309
1998	50	196	91	370
1999	67	176	123	407
2000	79	173	164	455
2001	114	171	203	497
2002	174	248	212	634
2003	298	248	212	884
2004	427	151	337	993
2005	623	252	414	2221
2006	858	289	1346	2953
2007	1161	338	1807	3446

Source: Annual Report, Indian Overseas Bank – Various Issues.

5.2.3 Deposits

The deposits can be classified as demand deposits, savings deposits and term deposits. The growth of deposits of the bank is as given in the table below:

Table 5.3 Growth of Deposits of Indian Overseas Bank

(Amount in Rs.Crore)

Year	Demand Deposits	Savings Bank Deposits	Term Deposits	Total Deposits
1992	903	1,477	5,471	7,851
1993	1,058	1,598	6,850	9,507
1994	1,503	1,908	7,394	10,805
1995	2,055	2,329	8,303	12,687
1996	2,039	2,768	9,781	14,589
1997	2,339	3,214	10,419	15,973
1998	2,468	4,626	12,235	19,329
1999	2,830	4,331	14,753	21,914
2000	2,608	5,212	16,498	24,318
2001	2,720	5,931	18,763	27,414
2002	2,659	6,878	22,272	31,808
2003	3,636	8,163	24,899	36,699
2004	4,185	10,072	27,226	41,483
2005	5,011	12,191	27,039	44,241
2006	5,700	14,468	30,361	50,529
2007	6,815	17,145	44,780	68,740

Source: Annual Report, Indian Overseas Bank – Various Issues.

The demand deposits increased by eight times, the savings bank deposits by twelve times and term deposits by eight times between 1992 and 2007.

5.2.4 Advances

Advances of the bank can be broadly classified into three – the bills purchased and discounted, cash credits/overdrafts and loans repayable on demand and term loans. The bills purchased and discounted increased by five times, cash credits, overdrafts and loans repayable on demand increased by more than five times and term loans by thirty two times, during the period 1991-2007. Total advances increased from 5,159 crores to 47,060 crores a nine fold increase during the same period.

Table 5.4 Growth of Advances of Indian Overseas Bank

(Amount in Rs.Crore)

Year	Bills Purchased And Discounted	Cash Credits, Overdrafts & Loans	Term Loans	Advances
1992	572	3,792	795	5,159
1993	604	3,841	928	5,374
1994	549	4,253	538	5,340
1995	783	5,132	713	6,628
1996	834	5,741	929	7,504
1997	919	5,320	1,015	7,254
1998	1,016	6,379	1,272	8,667
1999	1,066	6,921	2,131	10,117
2000	1,160	7,766	2,648	11,573
2001	976	8,699	3,420	13,096
2002	999	9,502	4,662	15,162
2003	1,321	10,021	6,105	17,447
2004	1,482	10,044	8,769	20,295
2005	1,525	12,088	11,592	25,205
2006	2,142	15,889	16,725	34,756
2007	2,941	18,809	25,310	47,060

Source: Annual Report, Indian Overseas Bank – Various Issues.

The share of total reserves, deposits and advances during 1991-2007 is analysed in the table below and represented with the help of a pie diagram.

Table 5.5 Share of Reserves, Deposits and Advances (1991-2007)

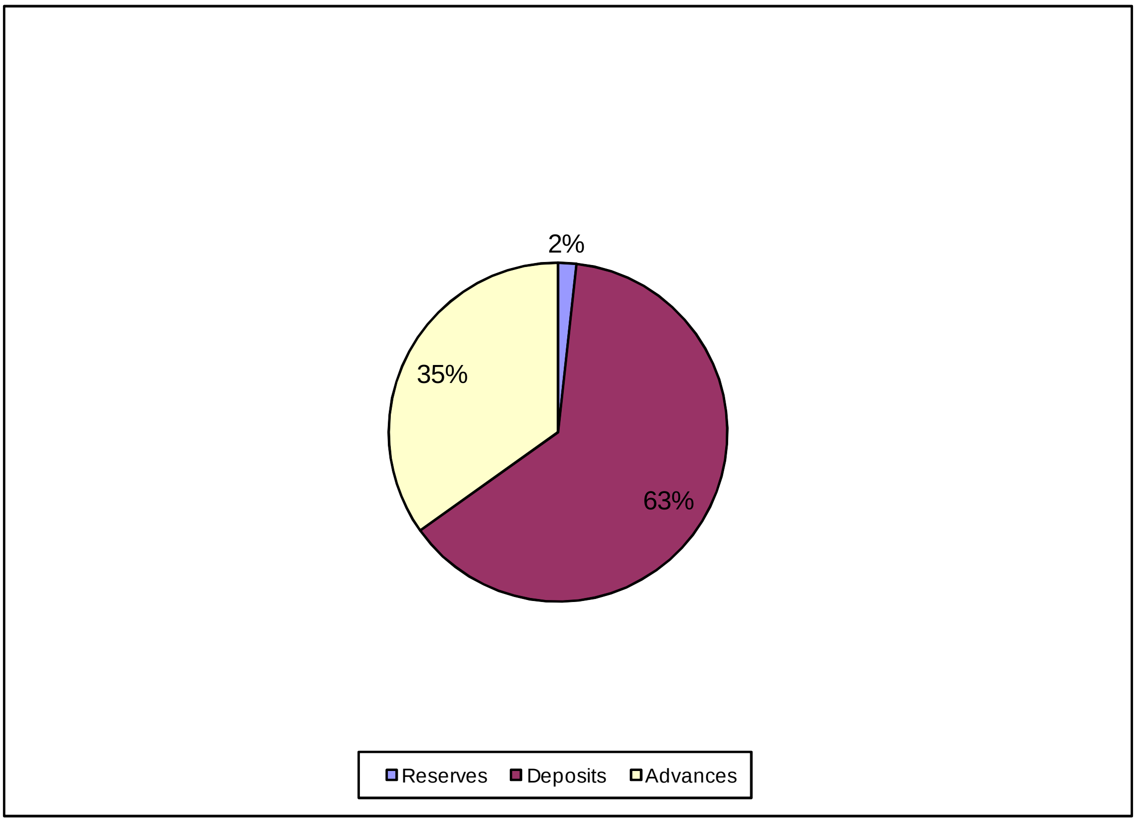
(Amount in Rs.Crore)

	Amount	Degree	Percentage
Reserves	11987	6	2
Deposits	437886	228	63
Advances	240639	125	35
Total	690513	360	100

Source: Annual Report, Indian Overseas Bank – Various Issues.

From the above table it is clear that out of total reserves, deposits and advances, the major share is constituted by deposits; 63 percent, followed by advances; 35 percent. The reserves add up to only 2 percent of the total reserves, deposits and advances. This can be represented using a pie diagram as given below:

Graph 5.1 Percentage share of Reserves, Deposits and Advances of Indian Overseas Bank



5.2.5 Borrowings

Borrowings include the borrowings from India i.e., the borrowings from Reserve Bank of India, banks, other institutions and agencies and the borrowings outside India.

Table 5.6 Borrowings of Indian Overseas Bank

(Amount in Rs.Crore)

Year	Total Borrowings
1992	558
1993	174
1994	292
1995	764
1996	1,076
1997	333
1998	356
1999	445
2000	297
2001	146
2002	151
2003	356
2004	729
2005	591
2006	737
2007	2,896

Source: Annual Report, Indian Overseas Bank – Various Issues.

The total borrowings of the bank increased five fold from 558 crores in 1992 to 2896 crores in 2007.

5.2.6 Investments

Investments include investments in India and investments outside India. Investments by IOB in India comprise government securities, shares, debentures, bonds, joint ventures, Unit Trust of India (UTI), mutual funds, commercial paper etc and the investments made outside India comprise government securities, subsidiaries/joint ventures, shares, bonds, debundures, certificate of deposit, commercial paper etc.

Table 5.7 Investments made by Indian Overseas Bank

(Amount in Rs.Crore)

Year	Investments In India	Investments Outside India	Total Investments
1992	2,642	122	2,764
1993	2,947	112	3,059
1994	4,696	74	4,770
1995	5,180	156	5,336
1996	5,878	204	6,082
1997	6,422	170	6,593
1998	7,191	191	7,382
1999	8,151	165	8,316
2000	10,079	172	10,250
2001	11,495	276	11,771
2002	14,737	332	15,069
2003	18,166	437	18,603
2004	19,771	400	20,172
2005	18,606	409	19,015
2006	18,616	336	18,952
2007	23,418	556	23,974

Source: Annual Report, Indian Overseas Bank – Various Issues.

The total investments made by the bank increased from 2,764 crores in 1991 to 23,974 in 2007. The investment made in India stood at 2,642 crores in 1991 and outside India it was 122 crores. This increased to 23418 crores and 556 respectively in 2007, bringing about nine times increase in investment in India and 4.5 times increase in investment abroad.

5.2.7 Profit

Profit comprises both gross profit and net profit. There had been an increase in profit of the bank due to business expansion both in terms of quantity and quality in the period under review.

Table 5.8 Profit of Indian Overseas Bank

(Rs.Crore)

Year	Net Profit
1992	9
1993	-753
1994	-351
1995	10
1996	3
1997	105
1998	113
1999	55
2000	40
2001	116
2002	230
2003	416
2004	513
2005	651
2006	783
2007	1,008

Source: Annual Report, Indian Overseas Bank – Various Issues.

Net profit of the bank has increased from 9 crores in 1992 to 1008 crores in 2007. The bank experienced negative profits during 1993 and 1994. The net profit of the bank nearly doubled within one year from 116 crores in 2001 to 230 in 2002 and later on started increasing steadily till 2007.

5.2.8 Branches

The Indian Overseas bank has both domestic and foreign branches from the first day of inception. The growth trend in the number of branches is given in the table below.

Table 5.9 Branches of Indian Overseas Bank

(Actual number)

Year	Branches in India	Branches Abroad	Total
1992	1,296	6	1,302
1995	1,344	6	1,350
1996	1,354	6	1,360
1997	1,365	6	1,371
1998	1,380	6	1,386
1999	1,412	6	1,418
2000	1,419	6	1,425
2001	1,435	6	1,441
2002	1,447	6	1,453
2003	1,433	6	1,439
2004	1,462	6	1,468
2005	1,496	5	1,501
2006	1,513	5	1,518
2007	1,781	6	1,789

Source: Annual Report, Indian Overseas Bank – Various Issues.

The number of branches in India increased from 1296 in 1992 to 1781 in 2007. The number of foreign branches which remained as six between 1992-2003 declined to five during 2005 and 2006, as one of the branches in Sri Lanka was closed. Again in 2007 the number of Indian Overseas Bank branches outside India reached six as the Bharat Overseas Bank (BhOB) was taken over by Indian Overseas Bank, which led to the rebirth of the banks presence in Bangkok. The total number of branches of Indian Overseas Bank increased by 487 branches in sixteen years.

5.2.9 Staff Strength

The bank has accorded high importance to the human resource development and allied functions in order to upgrade the knowledge and skill of its employees at every level in the context of emerging realties.

Table 5.10 Total Number of Employees of Indian Overseas Bank

(Actual numbers)

Year	No. of Employees
1992	28,912
1993	29,083
1994	28,842
1995	29,184
1996	28,488
1997	28,644
1998	28,347
1999	28,335
2000	28,213
2001	26,010
2002	24,674
2003	24,458
2004	24,382
2005	24,366
2006	24,178
2007	23,861

Source: Annual Report, Indian Overseas Bank – Various Issues.

The total staff strength of the bank is declining during the period 1992-2007 as shown in the table above. The staff strength of Indian Overseas Bank has declined from 28,912 in 1992 to 23,861 in 2007 i.e., a decrease of more than 5,051 employees in a time span of sixteen years. The introduction of voluntary retirement scheme in 2000 led to a rapid decline of more than 2000 staff in 2001 and this declining trend continued till 2007. During 2007-08 there was an increase in the number of employees due to the merger of Bharat Overseas Bank (BhoB) with Indian Overseas Bank and the addition of its 964 staff with that of Indian Overseas Bank.

5.3 Credit Programmes of IOB

Finance of any enterprise is what blood is to human body. The banker is one important source of this vital input and therefore assumes a great role in the success of any business enterprise. This section analyse the types of credit facilities and the types of loans of the Indian Overseas Bank.

5.3.1 Types of Credit Facilities

Credit facilities extended by the bank to borrowers can be either fund based or non-fund based.

The fund based credit facilities include bills facility, cash credit and term loans. The bills facility is sanctioned to meet the post sales requirement of the borrower. Here the finance is extended on a bill-to-bill basis. The cash credit facility is in the form of a running account with a limit upto which the account could be overdrawn. The credit extended under this facility is revolving in nature and sanctioned for working capital purpose against the security of stocks/book debts etc and term loans are given for a specific repayment period and under stipulated schedule of repayments.

The non-fund based facilities include the letter of credit and letter of guarantee given to borrowers as a supporting facility from their bankers. Lending is an integral part of banking and is fraught with risks. Necessary techniques, tools and methods should be applied to remove the risks. Credit administration, should be taken care of and timeliness of credit and adequacy of credit should be maintained. From the banks point of view, an ideal advance is one granted to a ‘reliable’ customer, for an approved purpose in which the customer has adequate experience/ necessary qualification for proper use of the amount and repayment of the advance within a reasonable period. The different types of loans and advances of Indian Overseas Bank is analysed in detail in the following section.

5.3.2 Types of loans and advances

As per the loan policy of Indian Overseas Bank in 2006 the types of loans of the bank include the loans for building up of assets in the form of working capital, term loan or demand loan and short term loans towards working capital and to meet temporary liquidity requirements. “Line of Credit” for three years to exporters having satisfactory track record., loans for project financing, foreign currency loans for acquiring capital goods for periods up to three years as post import finance, lending to the real estate comprising of developers and commercial property, land and building developers, developers of industrial estate, contractors for construction of buildings for schools/trusts/housing boards/etc., building contractors engaged in construction other than infrastructure construction, advance for subscribing to the initial public offerings/subsequent offerings of reputed corporates and for subscribing to shares under Employees Stock Option (ESOP), finance for acquisition of reputed brand names by customers, industrial advances, project financing, miscellaneous cash credit to encourage trade credit to those who cannot submit financial statements, loans against life policies and non-life policies of companies licensed under IRDA, finance to Non Banking Financial Companies (NBFCs), advances against National Savings Certificate (NSC), Kisan Vikas Patra (KVP) and Indira Vikas Patra (IVP), advances against units of mutual funds, advances to hire purchase concerns, advances to staff members and the priority sector advance which include the direct and indirect finance to agriculture, advances to small scale industries and advances to other priority sectors.

5.3.2.1 Special Credit Schemes

(a) Akshay scheme for granting loan against policies of Life Insurance Corporation of India and Private life insurance companies approved by IRDA.

(b) Personal loan scheme to salaried class for purchase of consumer durables like TV, Refrigerators etc.

(c) Clean loan scheme for employees of government and reputed public sector and private sector companies.

(d) Insta fund for easy credit to high net worth corporates

(e) Housing loan schemes like “Subha Gruha”, home improvement scheme, home décor scheme, home loan to NRI, home loan to close relatives od NRI, credit cum subsidy scheme for rural housing 1999 and special rural housing scheme (NHB).

(f) Direct finance and indirect finance to agriculture through different schemes like kisan credit card for uninterrupted credit to agriculturists, IOB-Kisan

Green Card Scheme, scheme for purchase of land for agricultural purposes, joint liability groups of tenant farmers agri clinic, IOB agri bike scheme etc.

(g) Scheme for women customers like IOB Roshini for purchase of LPG connection, gas stove and accessories, IOB Alankar scheme for purchase of jewels, IOB shishu vihar yojana for setting up crèche day care, health care etc.

(h) Easy Trade Finance and Retail Gem Scheme for advances to retail traders. Laghu Udhyami Credit Card (LUCC) for credit to small traders.

(i) Education loan scheme like “Vidyajyoti with Suraksha” for higher education.

(j) Pensioner’s loan scheme for central/state/government/defence pensioners and pensioners of Public Sector Undertakings (PSU), Malaysian government and the ex-IOBians.

(k) Swarojgar credit card to meet working capital needs of fishermen, rikshaw owners, self employed persons, small artisans, handloom weavers, service sector, micro entrepreneurs, SHGs etc.

(l) Loans for buying vehicles under the scheme “Pushpaka”, to self-employed professionals, individuals in employment, business etc.

(m) Loans to meet social and personal financial commitments of salaried professionals, self-employed and business men under the scheme Sahayika.

(n) Advance against rent receivables under the scheme liquid rent.

(o) Loans to encourse tourism (both domestic and foreign travel, medical treatment employment abroad) under Shubha Yatra Scheme.

(p) IOB general credit card scheme to provide hassle free credit to the banks customers in rural and semi urban areas without insistence on security purpose or end use verification.

(q) Loans under scheme for distressed urban poor to enable the distressed urban poor to repay their debt to non institutional lender and to bring them in to formal financial system.

(r) Loans to artisans through IOB's Artisan Credit Card Scheme and IOB tools for purchase of power tools and

(s) Loans to health sector to set up new hospitals, nursing homes under the Sangeevini scheme.

5.4 Conclusion

The chapter on Indian Overseas bank gives a brief picture of the growth of the bank in the pre independence period and post independence period. The pre independence period is again classified in to pre reform and post reform periods. The second part of the chapter tries to analyse the growth of the bank especially after introducing the economic reforms in the country, i.e., from 1992-2007 by considering few growth parameters like capital, reserves and surplus, deposits, advances, borrowings, investments, profit, number of branches, and staff strength of the bank. The bank has a sound base in terms of its capital and reserves and the growth parameters like advances, borrowings, investments, profit and branches has increased over the years. A decline is seen only in one growth parameter i.e., the number of employees or the staff strength of the bank. The type of credit facilities and types of loans of the bank is explained in the final part of the chapter. The bank has introduced a variety of credit schemes to benefit the different sections of the society. The role of the Indian overseas bank in lending towards the priority sectors is discussed in detail in the next chapter.

References:

The Hindu, Vol.LXI, No 36., Madras, Friday February 12, 1937

Directors Report, IOB Chennai, 9th April 1947

M.Ct.Muthiah, "Speech of the Chairman at the annual General Meeting of the shareholders of IOB held on IOB 70 years- Tuesday March, 31, 1964

Prospectus- Indian Oversea Bank 2003

Annual Reports Indian Overseas Bank Various Issues

Handbook on Priority Sector Advances, IOB, Lead Bank Department, Chennai.

Ramachandran I Programme on Priority Credit, level I IOB, Staff College, Chennai 2008

G. Prahladhan., Credit Programme – Level I, IOB staff colleges, 2006.

CHAPTER 6

PRIORITY SECTOR LENDING BY INDIAN OVERSEAS BANK - AN ANALYSIS

The Indian Overseas Bank strictly follows the RBI guidelines in lending towards priority sector. The priority sector lending by Indian Overseas Bank is analysed in detail in the following section.

6.1 Guidelines

As per the credit programme or the loan policy of IOB (2006), the bank cater to the priority sector advances keeping in view the following guidelines.

Achievement of set parameters under the priority sector advances with all the sub targets to be given top priority and 40% of Net Bank Credit (NBC), to be allocated to priority sector lending. 18% of the total credit to be given to both direct and indirect agricultural advances of which the direct advances should not exceed 25% of total agricultural advances. 10% of the total credit or 25% of priority sector credit to go to weaker sections. Differential Rate of Interest (DRI) advances to constitute at least 1% of total credit outstanding at the end of previous year. 3% of incremental deposits to be allotted for house advances, 5% of net bank credit to be given to women entrepreneurs.

The Self Help Group concept has to be given importance as a successful mode of inculcating the habit of savings among the rural masses, reducing poverty and increasing self-employment. The Export Demand Bills Factoring and Export Usance Bills Factoring scheme to be encouraged. The bank, being a member of the Credit Guarantee Fund Trust for small industries has to extend need based working capital limits to SSI units without insisting on collateral securities as well as third party guarantees, under Credit Guarantee Fund Scheme for small industries upto a credit limit of Rs.25 lakhs. Credit to tiny and small industries upto a limit of Rs. 5 lakhs to be considered on merits without insisting collateral security. The credit linked subsidy scheme for technology upgradation implemented for the benefit of SSI units under Technology Upgradation Fund (TUF) scheme has to be continued.

In respect to agriculture credit the bank aim to increase its exposure in respect of cold storages, horticulture, waste land development etc., within the overall target of 18%. The investment wise target for SSI subsectors is 40% for investment in plant and machinery, up to Rs. 5 lakhs, 20% for investment in plant and machinery upto 5 lakhs to 25 lakhs, and 40% for investment in plant and machinery above Rs. 25 lakhs. The composite loan limit for providing working capital and term loan through single window to be increased from Rs.25 lakhs to Rs. 50 lakhs. As suggested by the Naik Committee, the SSI units with working capital credit limits upto Rs. 5 Crores is to be assessed by the turnover method. The bank being a member of the Credit Guarantee Fund Trust for Small Industries (CGTSI) scheme covers SSI advances with credit limit upto Rs.25 Lakhs, provided no collateral security/ or third party guarantee is obtained. The credit programme has to follow strictly the R.V.Gupta committee recommendations for improving agricultural advances and continue the Kapur committee recommendations for uninterrupted and easy finance to SSI borrowers. The margin money scheme of KVIC for deployment of credit in rural areas and the targets fixed under various government schemes like SGSY, SGSRY, PMRY, SLRS, KVIC-MMA, CCSSRH, and RWHS etc to be achieved.

Guidelines on processing of applications are strictly followed by the bank. Processes like completion of application forms, issue of acknowledgement of loan applications, disposal of applications; rejection of proposals (except in respect to SC/ST) and registering of rejected proposals is strictly followed by the bank.

With a view to providing farmers wider choice, agricultural loans are to be given in cash, which will facilitate dealer choice to borrowers and foster an environment of trust. The repayment schedule is fixed by taking into account the sustenance requirements, surplus generating capacity, the break-even point, the life of the asset, etc., and not in an “ad hoc” manner. The rates of interest on various categories of priority sector advances is as per the RBI directives issued from time to time. No penal interest is charged by the bank for loans under priority sector upto Rs.25,000. The issue of charging penal interests for reasons such as default in repayment, non-submission of financial statements etc is done by the Board of the bank which is governed by the principles of transparency, fairness and due regard to the difficulties of the customers. No service charge/inspection charge is levied on priority sector loans upto Rs.25,000. The bank may waive insurance of assets financed by bank credit under all categories of priority sector advances upto and inclusive of Rs.10,000 and SSI advance upto Rs. 25,000, however insurance of vehicle or machinery or other equipment/assets which is compulsory under the provisions of any law should not be waived even if the relative credit facility does not exceed Rs.10,000 or Rs.25,000 as the case may be. Guidelines on taking the photographs of the borrowers without delaying the loan disbursements, giving discretionary power to branch managers to sanction proposals from weaker sections without referring to any higher authority and maintaining a strong machinery to look into the complaints of the borrowers is considered by the bank.

6.2 Priority Sector Lending by Indian Overseas Bank

The priority sector lending by Indian overseas bank during 1992 to 2007 is represented in table 6.1.

The total priority sector advances of IOB increased from Rs.1284 crores in 1992 to Rs. 17,290 crores in 2007, which account to a thirteen times increase. The 18 percent target fixed for agricultural advance was attained after 1995 and the 40 percent target fixed by the RBI towards lending to total priority sector was maintained during the years 1992-2007.

Table 6.1 Advances to Priority Sectors by Indian Overseas Bank

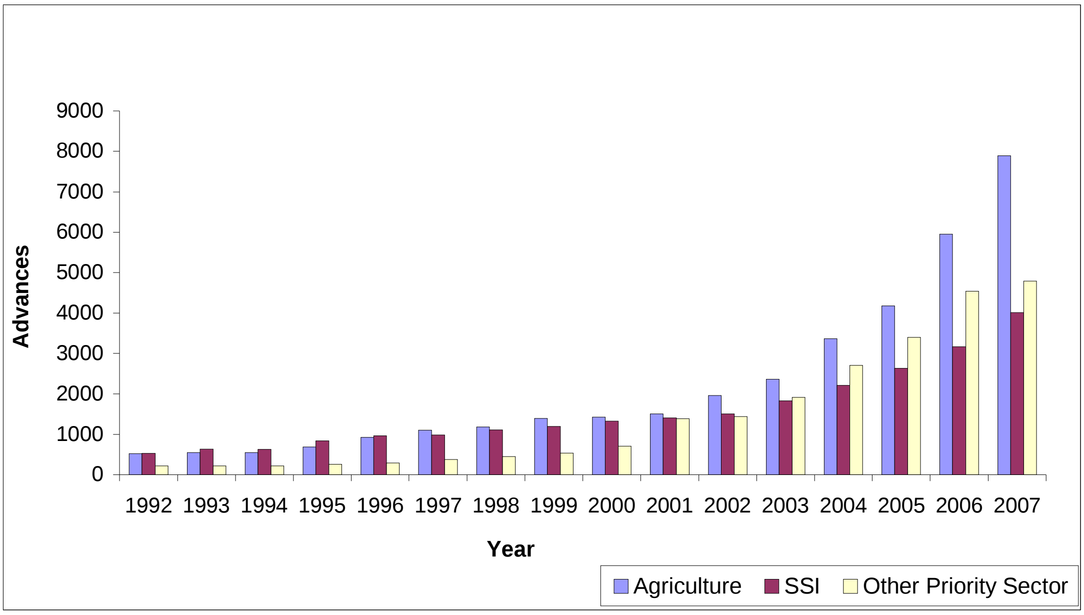
(Amount in Rs.Crore)

Year	Agriculture	% to NBC	SSI	% to NBC	Other Priority Sector	% to NBC	Total Priority Sector Advance	% to NBC
1992	525	17.3	533	17.6	225	7.4	1284	42.4
1993	546	15.5	631	17.9	223	6.3	1402	39.7
1994	544	15.7	623	18	220	6.3	1388	40
1995	685	15.3	841	18.8	262	5.8	1789	39.9
1996	924	18.5	967	19.3	293	5.9	2185	43.7
1997	1098	21.1	978	18.8	377	7.2	2455	47.1
1998	1181	19.1	1110	18	452	7.3	2757	44.6
1999	1390	18.7	1198	16.1	535	7.2	3110	41.8
2000	1426	18.2	1330	17	708	9.1	3484	44.5
2001	1503	17.6	1408	16.5	1385	16.2	4326	50.7
2002	1966	18.4	1503	14.1	1444	13.5	4947	46.3
2003	2367	16.2	1826	12.5	1918	13.1	6184	42.3
2004	3367	18.5	2209	12.2	2708	14.9	8436	46.4
2005	4179	18.1	2635	11.4	3397	14.7	10450	45.3
2006	5954	18.1	3167	9.6	4543	13.8	14114	42.9
2007	7890	18.7	4010	9.5	4790	11.3	17290	40.9

Source: Annual Report, Indian Overseas Bank – Various Issues.

The priority sector lending by Indian Overses Bank in the post-reform period is represented in the graph below:

Graph 6.1 Graphical Representation of Priority Sector Lending of Indian Overseas Bank:



The graphical representation of priority sector advances of the bank clearly illustrate that till 1996 it is the SSI sector that received more advances followed by agriculture and then the other priority sector category. After 1996 the agriculture sector was given more importance followed by SSI and then the other priority sector category till 2002. During 2001 and 2002 there is no much difference in lending to the SSI and the other priority sector. From 2003 it is again the agriculture sector that is given higher priority followed by the other priority sector category and then the small-scale industry sector and the general trend of priority sector lending of the bank is increasing.

Table 6.2 Percentage share of Priority Sectors Lending to Different Sectors – Indian Overseas Bank

(Amount in Rs.Crore)

Year	Agriculture	SSI	Other Priority Sector
1992	40.9	41.5	17.5
1993	38.9	45.0	15.9
1994	39.2	44.9	15.9
1995	38.3	47.0	14.6
1996	42.3	44.3	13.4
1997	44.7	39.8	15.4
1998	42.8	40.3	16.4
1999	44.7	38.5	17.2
2000	40.9	38.2	20.3
2001	34.7	32.5	32.0
2002	39.7	30.4	29.2
2003	38.3	29.5	31.0
2004	39.9	26.2	32.1
2005	40.0	25.2	32.5
2006	42.2	22.4	32.2
2007	45.6	23.2	27.7

Source: Annual Report, Indian Overseas Bank – Various Issues.

The highest share is towards the SSI sector till 1996 and then towards agriculture till 2007.The rate of increase is highest in the case of other priority sector lending and lowest rate of increase is for agriculture. The advances to SSI sector show a decline from 42% in 1992 to 23% in 2007.

6.2.1 Advances to Agriculture by Indian Overseas Bank:

Advances to agriculture sector by the bank increased from 525 crores of rupees to 7890 crores of rupees between 1992 and 2007 which account to a 15 fold increase.

Table 6.3 Advances to Agriculture Sector by Indian Overseas Bank

(Amount in Rs.Crore)

Year	Agriculture	CAGR (%)
1992	525	
1993	546	4.00
1994	544	-0.37
1995	685	25.92
1996	924	34.89
1997	1098	18.83
1998	1181	7.56
1999	1390	17.70
2000	1426	2.59
2001	1503	5.40
2002	1966	30.81
2003	2367	20.40
2004	3367	42.25
2005	4179	24.12
2006	5954	42.47
2007	7890	32.52

Source: Annual Report, Indian Overseas Bank – Various Issues.

The compound annual growth rate of agriculture advances was the highest in 2006 and the lowest in 1993 and was negative during 1994.

6.2.2 Advances to Small Scale Industries (SSI) by Indian Overseas Bank:

Advances to SSI sector increased from 533 crores of rupees to 4010 crores of rupees between 1992 and 2007 which account to a 7.5 times increase.

Table 6.4 Advances to Small Scale Industries Sector by Indian Overseas Bank

(Amount in Rs.Crore)

Year	SSI	CAGR (%)
1992	533	
1993	631	18.39
1994	623	-1.27
1995	841	34.99
1996	967	14.98
1997	978	1.14
1998	1110	13.50
1999	1198	7.93
2000	1330	11.02
2001	1408	5.86
2002	1503	6.75
2003	1826	21.49
2004	2209	20.97
2005	2635	19.28
2006	3167	20.19
2007	4010	26.62

Source: Annual Report, Indian Overseas Bank – Various Issues.

The compound annual growth rate of SSI advances was the highest in 1995 and the lowest in 1997 and turned negative during 1994.

6.2.3 Advances to Other Priority Sector (OPS) by Indian Overseas Bank:

Advances to other priority sector increased from 225 crores of rupees to 4790 crores of rupees between 1992 and 2007 which account to a 21 fold increase.

Table 6.5 Advances to Other Priority Sector by Indian Overseas Bank

(Amount in Rs.Crore)

Year	OPS	CAGR%
1992	225	
1993	223	-0.89
1994	220	-1.35
1995	262	19.09
1996	293	11.83
1997	377	28.67
1998	452	19.89
1999	535	18.36
2000	708	32.34
2001	1385	95.62
2002	1444	4.26
2003	1918	32.83
2004	2708	41.19
2005	3397	25.44
2006	4543	33.74
2007	4790	5.44

Source: Annual Report, Indian Overseas Bank – Various Issues.

The compound annual growth rate of SSI advances was the highest in 2001 and the lowest in 2002 and was negative during 1993 and 1994.

6.2.4 Advances to Total Priority Sector by Indian Overseas Bank:

Advances to total priority sector increased from 1284 crores of rupees to 17290 crores of rupees between 1992 and 2007 which account to a 13 fold increase.

Table 6.6 Advances to Total Priority Sector by Indian Overseas Bank

(Amount in Rs.Crore)

Year	Total Priority Sector	CAGR
1992	1284	
1993	1402	9.19
1994	1388	-1.00
1995	1789	28.89
1996	2185	22.14
1997	2455	12.36
1998	2757	12.30
1999	3110	12.80
2000	3484	12.03
2001	4326	24.17
2002	4947	14.36
2003	6184	25.01
2004	8436	36.42
2005	10450	23.87
2006	14114	35.06
2007	17290	22.50

Source: Annual Report, Indian Overseas Bank – Various Issues.

The compound annual growth rate of total priority sector advances was the highest in 2004 and the lowest in 1993 and was negative during 1994.

6.3 Priority Sector Lending By Indian Overseas Bank In Kerala

The priority sector lending by the bank in one state is analysed to generalise the national trend in lending towards priority sector. The analysis takes into account the trend of growth in one state, the Kerala state which provides the lowest share towards priority sector advances in the southern region.

Table 6.7 Percentage Share of Advances to Different Priority Sectors By Indian Overseas Bank in Kerala

(percent)

Year	Agriculture	SSI	Other Priority Sector	Total Priority Sector Advance
2000-01	56.2	4.9	39	100
2001-02	40.7	26.5	32.8	100
2002-03	40.4	19.9	39.7	100
2003-04	55.8	7.8	36.4	100
2004-05	52.6	9.6	37.7	100
2005-06	64.3	9	26.7	100
2006-07	57	14.6	28.4	100

Source: State Level Bankers' Committee Report, Kerala – Various Issues

In Kerala during the present decade the major share of priority sector lending of the bank is given towards agriculture followed by the other priority sector and lastly by the SSI sector. The state level trend is the same as the national level trend in lending to priority sector especially after 2001-02 which is in favour of other priority sector followed by agriculture and then SSI. The lowest share of advances is given to SSI as the state is backward in industrial development.

6.4 Analysis and Interpretations

The analysis of the growth of priority sector lending and the performance of various financial agencies is being done in this section in two parts – The first part tries to analyse the general trend of priority sector lending by the nationalised banks and the Indian Overseas Bank in particular. The second part makes an attempt to compare the performance of various financial agencies within the public sector banks group in lending towards priority sector using the Kruskal-Wallis Test.

6.4.1 General Trend Analysis

Lending towards agriculture is analysed using the three yearly moving average method and the advances to SSI, OPS and total priority sector is analysed using the exponential method.

6.4.1.1 General Trend Analysis of Priority Sector Lending by Nationalised Banks

The general trend analysis in lending towards priority sector lending by nationalised banks is done in the case of the three main segments/components within the priority sector i.e., agriculture, small-scale industry and other priority sector and also for the total priority sector lending.

Table 6.8 Advance to Agriculture by Nationalised Banks

Year	Actual Value	Three Yearly Moving Average
1992	11926	
1993	12923	12755
1994	13417	13748
1995	14905	15113
1996	17018	17201
1997	19680	19481
1998	21744	21942
1999	24403	24581
2000	27596	28387
2001	33163	33398
2002	39436	40774
2003	49724	49203
2004	58450	62451
2005	79179	81437
2006	106681	109177
2007	141672	

Table 6.9 Advance to Small Scale Industries Sector by Nationalised Banks

Year	Actual Value	Trend Value
1992	10932	11280
1993	12089	12622
1994	13689	14124
1995	16479	15805
1996	18888	17685
1997	19712	19790
1998	23944	22145
1999	26713	24780
2000	28771	27729
2001	30761	31029
2002	32749	34721
2003	34953	38853
2004	39014	43476
2005	45634	48650
2006	55319	54439
2007	71617	60917

Table 6.10 Advances to Other Priority Sector by Nationalised Banks

Year	Actual Value	Trend Value
1992	6358	4511
1993	6679	5611
1994	7369	6981
1995	8485	8684
1996	9748	10803
1997	11558	13438
1998	13062	16717
1999	16787	20797
2000	21429	25871
2001	29164	32183
2002	37919	40036
2003	50114	49805
2004	65156	61957
2005	85756	77075
2006	114627	95881
2007	136284	119276

Table 6.11 Total Priority Sector Advances of Nationalised Banks

Year	Actual Value	Trend Value
1992	29218	28147
1993	31693	32510
1994	34476	37549
1995	39869	43369
1996	45655	50092
1997	50951	57856
1998	59520	66824
1999	67743	77181
2000	82999	89144
2001	96670	102962
2002	113944	118921
2003	138549	137353
2004	166819	158643
2005	214239	183233
2006	281322	211634
2007	354411	244437

The general trend analysis of the priority sector lending of nationalized banks using the three yearly moving average method and the exponential method clearly show that the general tendency of the data is increasing in the case of agriculture, small-scale industries and the other priority sector category.

6.4.1.2 General Trend Analysis of Priority Sector Lending by Indian Overseas Bank:

The general trend of Indian Overseas Bank in lending towards Agriculture, SSI and other priority sector is analysed in the following tables.

Table 6.12 Advance to Agriculture by Indian Overseas Bank

Year	Actual Value	Three Yearly Moving Average
1992	525	
1993	546	538
1994	544	592
1995	685	718
1996	924	902
1997	1098	1068
1998	1181	1223
1999	1390	1332
2000	1426	1440
2001	1503	1632
2002	1966	1945
2003	2367	2567
2004	3367	3304
2005	4179	4500
2006	5954	6008
2007	7890	

Table 6.13 Advance to Small Scale Industries Sector by Indian Overseas Bank

Year	Actual Value	Trend Value
1992	533	527
1993	631	596
1994	623	673
1995	841	761
1996	967	860
1997	978	971
1998	1110	1098
1999	1198	1240
2000	1330	1402
2001	1408	1584
2002	1503	1790
2003	1826	2022
2004	2209	2285
2005	2635	2583
2006	3167	2918
2007	4010	3298

Table 6.14 Advance to Other Priority Sector by Indian Overseas Bank

Year	Actual Value	Trend Value

1992	225	141
1993	223	179
1994	220	226
1995	262	286
1996	293	362
1997	377	457
1998	452	578
1999	535	732
2000	708	926
2001	1385	1171
2002	1444	1481
2003	1918	1874
2004	2708	2371
2005	3397	2999
2006	4543	3793
2007	4790	4799

Table 6.15 Total Priority Sector Advances of Indian Overseas Bank

Year	Actual Value	Trend Value
1992	1284	1046
1993	1402	1244
1994	1388	1479
1995	1789	1758
1996	2185	2090
1997	2455	2485
1998	2757	2955
1999	3110	3514
2000	3484	4178
2001	4326	4967
2002	4947	5906
2003	6184	7022
2004	8436	8349
2005	10450	9927
2006	14114	11804
2007	17290	14034

The general trend analysis of the priority sector lending of Indian Overseas Bank using the three yearly moving average method and the exponential method clearly show that the general tendency of the data is increasing in the case of agriculture, small-scale industries and the other priority sector category.

6.4.2 Kruskal-Wallis Test

The Kruskal-Wallis test is applied to compare the performance of Indian Overseas Bank in priority sector lending with that of other public sector banks. The Kruskal-Wallis test Statistic which is based on the sum of ranks for each of the sample is computed using the following formula.

$$\frac{12}{nT(nT+1)} \sum_{i=1}^{k} \frac{R_i^2}{n_i} \; 3\,(nT+1)$$

Where,

K - number of population groups

ni – number of items in sample i

nT – Σni - total number of items in all samples

Ri – sum of ranks for sample i

The kruskal-Wallis test is used when K≥3. In the present study 'K' or the number of population group is equal to 3, which includes the Indian Overseas Bank, Other Nationalised Banks and the State Bank Group. n_i or the number of items in sample is equal to 16 and nT or Σni is equal to 48. The ranks are assigned after calculating the performance score. The performance score is the percentage of achievement amount to allocation amount (Annexure 6.1). The achievement amount is the actual financing made towards the priority sector and the allocation amount is the accepted share towards priority sector lending on the basis of the policy of the Reserve Bank of India. The lowest performance score is assigned the rank 1 and the second lowest the rank 2 and the highest performance score is assigned the rank 48. Tied performance scores are assigned average rank values. After computing the W Value (Annexure 6.2) it is compared with the table value of χ^2 with (K-1) degrees of freedom to check the level of significance.

The study is based on the following null hypotheses that there is no significant difference in the performance of various financial agencies in lending to the total priority sector. Kruskal-Wallis test has shown that under the null hypothesis if the populations are identical, the sampling distribution of 'W' can be approximated by a chi-square distribution with K-1 degrees of freedom. This approximation is accepted when the sample sizes are greater than or equal to five. The chi-square distribution table shows that with K-1=2 degrees of freedom, the chi-square value at 5 percent level of significance is χ^2= 5.9 and at 1 percent level of significance the value is χ^2= 9.2.

The calculated value of 'W', the table values of (χ^2), and the level of significance are as given in the table below.

Table 6.16 Performance of Different Financial Agencies in Lending to Priority Sector

	W	χ^2	Result

5% level of Significance	29.72	5.9	Significant
1% level of Significance	29.72	9.2	Significant

The calculated value of 'W' is greater than the table value of chi-square at 5% as well as 1% level of significance and hence the hypothesis that there is no significant difference in the performance of various financial agenies in lending towards priority sector is rejected. The result of the Kruskal-Wallis Test thus reveals that the there is a significant difference in the performance of various financial agencies in lending to the total priority sector. The performance of Indian Overseas Bank is good and that of State Bank Group is poor in lending to total priority sector, since the performance score or ratings are highest for IOB, followed by other nationalized banks and then the State Bank Group.

6.5 Findings and Conclusion:

The major findings of the study can be grouped under the following paragraphs:

(a) The study finds that total priority sector advances of nationalized banks and Indian Overseas Bank is increasing as per the general trend analysis though in fact it is just maintaining the 40% target without making much progress during the post-reform period.

(b) The region wise analysis of priority sector advances show that the southern region of the country contributes more towards priority sector lending followed by the western region. The lowest share is by the north-eastern region.

(c) Among the southern states it is Tamilnadu which provide the highest priority sector advances followed by Andhra Pradesh, Karnataka and lastly by Kerala.

(d) In the case of nationalized banks the focus of lending which was on agriculture in the early nineties gradually shifted towards SSI in the beginning of this decade and finally towards the other priority sector from 2003. This increasing trend towards lending to the other priority sector category is true in the case of the state bank group as well as the private sector banks.

(e) . There is a clear increase in the lending to the other priority sector category in the case of public sector and private sector banks especially after 2002 which is due to the inclusion of more components within the other priority sector category.

(f) The shift in focus towards lending to the other priority sector category in the new decade is also seen in the lending pattern followed by the state of Kerala and by the Indian Overseas Bank in that State.

(g) The priority sector lending of nationalized banks towards agriculture increased from Rs.11926 crores in 1992 to 141672 crores in 2007, which account for a twelve fold increase. Advances to SSI increased from Rs.10932 crores in 1992 to Rs.71617 crores in 2007 accounting to seven times increase and advances to other priority sector increased to Rs.136284 crores in 2007 from Rs.6358 crores in 1992 a twenty two times increase in sixteen years. Thus the rate of increase is highest in the other priority sector category followed by agriculture and then SSI.

(h) The overall analysis of priority sector lending of Indian Overseas Bank during the post reform period show that agriculture lending increased from Rs.525crore to Rs.7890 crores, accounting a fifteen fold increase. Advances to SSI increased from Rs.533 crores to Rs.4010 crores an eight fold increase and the advances to other priority sector increased from Rs.225 crores in 1992 to Rs.4790 crores in 2007, a twenty one times increase. The rate of increase is highest in the case of the other priority sector category followed by agriculture and then SSI.

(i) The Indian Overseas Bank has maintained the 40% target of net bank credit during the entire study period and also the 18% target for agriculture lending in the years after 1995.

(j) The percentage share to different sectors within the priority sector of the bank show that the share towards SSI was greater than the share to the other two sectors till 1996 and from 1997 it is the agriculture, which is receiving the highest share. The low interest rates on agricultural advances, lack of proper monitoring of the utilization of agriculture advances, the greater chance of loan waivering under agricultural advances etc, could be considered as the major reasons for this increase of agricultural advances.

(k) The Kruskal-Wallis test used in the study to analyse the performance of financial agencies finds that there is a significant difference in the performance of various financial agencies within the public sector i.e., the State Bank Group, IOB, and Other Nationalised Banks in lending to priority sector and the performance of Indian Overseas Bank is good and that of State Bank Group is poor while comparing the performance scores of each bank group.

The study comes to the conclusion that priority sector lending which is a key sector determining the growth and progress of an economy has to be given due importance by the economic planners of the country while making policy decisions for the sustained development of the economy

6.6 Conclusion

The analysis chapter gives a detailed category wise growth analysis of priority sector lending of the bank during the years after the economic reforms. The analysis finds that Indian Overseas Bank (IOB), concentrate currently on lending to agriculture followed by other priority sector and then the small scale industry sector and the general trend in priority sector lending is that of increasing though it is just mainitaing the 40% target. The trend analysis on priority sector lending towards agriculture is done using the three yearly moving average method and towards the other sectors using the exponential method. The Kruskal-Wallis test is used to compare the performance of the bank with that of other nationalised banks and the state bank group in lending towards priority sector during 1992 to 2007 and finds that there is a significant difference in the performance of different financial institutions within the public sector banks category in priority sector lending.

References:

The Hindu, Vol.LXI, No 36., Madras, Friday February 12, 1937

Directors Report, IOB Chennai, 9th April 1947

M.Ct.Muthiah, "Speech of the Chairman at the annual General Meeting of the shareholders of IOB held on IOB 70 years- Tuesday March, 31, 1964

Prospectus- Indian Oversea Bank 2003

Annual Reports Indian Overseas Bank Various Issues

Handbook on Priority Sector Advances, IOB, Lead Bank Department, Chennai.

Ramachandran I Programme on Priority Credit, level I IOB, Staff College, Chennai 2008

G. Prahladhan., Credit Programme – Level I, IOB staff colleges, 2006.

Chapter 7

Summary and Conclusion

7.1 Summary and conclusion of the Study

Banking system is one of the many institutions that impinge the growth and development of any economy and banks are considered as the most important of all the financial intermediaries in the financial system of the country.Lending or the credit system of the banks facilitates the transfer of purchasing power from those who have surplus to those who are in need. The present study deals with the priority sector lending of nationalized banks and consider the analysis of the performance of Indian Overseas Bank as a sample. The Present chapter mainly deals with the summary of the chapters.

The present study is presented in seven chapters. The first chapter deals with the significance, area, period, objectives, methodology, limitations as well as the chapterisation of the study.

Individuals as well as several organizations have extensively researched issues related to banking. A number of committees appointed by the government of India and the reserve bank have also studied the banking problems in the country. Though not exhaustive the second chapter makes an attempt to review some of the important studies with particular focus on priority sector lending. From the review of the available literature it is clear that with the possible exception of few, no serious research efforts have been made towards a study on priority sector lending by nationalised banks.

A close study of the history of banking development in India is being done in the third chapter. The history of banking development is broadly analysed under two headings – the pre-independence period and the post-independence period. The history of organized banking in India reveals that it has moved through five separate and distinct stages. The first being the period of births and deaths of banks lasted up to 1950s. The decades of 1950's and 1960's provided real foundation for Indian banking system and are considered as the foundation stage. During this stage efforts were directed at laying a proper foundation for a sound banking system in the country. The third is the expansion stage, which saw the development of necessary legislative framework for facilitating and re-organizing the banking system. The fourth stage covering the period from 1985 to1991 is considered as the consolidation stage. In this period efforts were made to address the weaknesses and defects occurred due to the speedy expansion in the previous stage. The fifth stage is the period of reforms that commenced after 1991, aim at shaping the banking system of the country to the best international standards. The study of banking in India thus reveals that it is changing according to the needs of the society and is making fast progress to meet the growing needs of the economy.

The economic reforms that followed after 1991 brought drastic changes in the Indian banking industry. The basic objective of the reforms was to promote a diversified, efficient and competitive financial system, with the ultimate objective of improving the allocative efficiency of resources, through operational flexibility, improved financial viability and institutional strengthening. The philosophy of financial sector reforms aimed at mitigating risks in the financial system, efficient allocation of resources to the real sector, opening of external sector and developing a globally competitive financial system. The economic reform has brought drastic changes in the Indian banking sector and has developed the Indian banking system to the best of international standards by following the Basel guidelines.

The fourth chapter on priority sector lending gives a clear picture of the evolution and emergence of priority sector lending and the changes in the targets and sub-targets and components within the priority sector during the pre-reform and post-reform period. Since major changes have been made in calculating priority sector lending during 2007-08, the recent change is studied under a separate heading – Recent Developments in priority sector lending (2007-08). Statistical analysis of the progress of scheduled commercial banks and public sector banks in particular in priority sector lending from the time of nationalization and bank group-wise lending to priority sector after 1991 is done to understand the share of each group towards lending to priority sector. The statistics show that the concept of priority sector lending which emerged after 19th July 1969 as a major directed credit programme to the hitherto neglected sectors of the economy have made a very positive impact on the channelising of credit and the progress of the economy.

Priority sector advances of the nationalized banks and the state bank group is analysed in detail in the concluding part of the chapter and the region wise analysis is made to know the comparative share of different regions of the country in priority sector lending and finally the development and growth of soputhern region is analysed in detail.

The fifth chapter gives an overview of the bank under study – the Indian overseas bank. The chapter on Indian Overseas bank gives a brief picture of the growth of the bank in the pre independence period and post independence period. The post independence period is again classified in to pre reform and post reform periods. The second part of the chapter tries to analyse the growth of the bank especially after introducing the economic reforms in the country, i.e., from 1992-2007 by considering few growth parameters like capital, reserves and surplus, deposits, advances, borrowings, investments, profit, number of branches, and staff strength of the bank. The bank has a sound base in terms of its capital and reserves and the growth parameters like advances, borrowings, investments, profit and branches has increased over the years. A decline is seen only in one growth parameter i.e., the number of employees or the staff strength of the bank. The type of credit facilities and types of loans of the bank is explained in the final part of the chapter.

The sixth chapter analyse the priority sector lending of Indian Overseas Bank in detail and also compares the performance of the bank with that of the other public sector banks. The analysis chapter gives a detailed category wise growth analysis of priority sector lending of the bank during the years after the economic reforms. The analysis finds that Indian Overseas Bank (IOB), concentrate currently on lending to agriculture followed by other priority sector and then the small scale industry sector and the general trend in priority sector lending is that of increasing though it is just mainitaing the 40% target. The trend analysis on priority sector lending towards agriculture is done using the three yearly moving average method and towards the other sectors using the exponential method. The Kruskal-Wallis test is used to compare the performance of the bank with that of other nationalised banks and the state bank group in lending towards priority sector during 1992 to 2007 and finds that performance differ significantly among the different financial institutions within the public sector banks category in lending to the priority sector.

The study finds that that though the total priority sector advances of nationalized banks and Indian Overseas Bank is increasing it is not making much headway from the 40% target fixed by RBI during the post-reform period. Region wise analysis show that the highest contribution towards priority sector is done by the southern states though the share of Kerala is the lowest among the southern states. Another major finding of the study is that the recent trend in priority sector lending is one of increase in the share of lending to the other priority sector, which is mainly due to incluysion of more and more components with the other priority sector category especially after 2002. The rate of increase is also high in the case of the other priority sector when compared to the rate of increase in SSI and agriculture sector.

The study also finds that there is a significant difference in the performance of the different public sector banks in lending to the priority sector.

In the case of nationalised banks the study finds that the nationalized banks lending to the agriculture sector is higher than the lending to the other two major priority sectors in the early nineties. The focus later shifted in favour of SSI by mid nineties and finally moved in favour of the other priority sectors in the present century.

In the case of Indian Overseas bank the study finds that the bank has maintained the 40% target during the entire period after 1991 and the 18% target for agriculture lending in the years after 1995. The percentage share to different sectors within the priority sector of the bank show that the share towards SSI was greater than the share to the other two sectors till 1996 and from 1997 it is the agriculture sector, which receives the highest share. The low interest rates on agricultural advances, lack of proper monitoring of the utilization of agriculture advances, the greater chance of loan waivering under agricultural advances etc, could be considered as the major reasons for this increase of agricultural advances.

The study comes to the conclusion that priority sector lending which is a key sector determining the growth and progress of an economy has to be given due importance by the economic planners of the country while making policy decisions and lending towards agriculture, small-scale industry and the other priority sector should be increased over the years rather than merely maintaning the targets so as to bring about a sustained and continuous progress of these sectors as well as that of the entire economy.

Annexure: 3.1

List of banks Nationalised on 1955 and 1959

1. State Bank of India (1955)

Associates of SBI (7) – (1959)

2. State Bank of Bikaner and Jaipur
3. State Bank of Hyderabad
4. State Bank of Indore
5. State Bank of Mysore
6. State Bank of Patiala
7. State Bank of Saurashtra
8. State Bank of Travancore

Annexure: 3.2

List of Banks Nationalised on 19th July, 1969

1 Allahabad Bank
2 Bank of Baroda
3 Bank of India
4 Bank of Maharashtra
5 Canara Bank
6 Central Bank of India
7 Dena Bank
8 Indian Bank
9 Indian Overseas Bank
10 Punjab National Bank
11 Syndicate Bank
12 Union Bank of India
13 United Bank of India
14 United Commercial Bank

Annexure: 3.3

List of Banks Nationalised on 15th April, 1980

1. Andhra Bank
2. Corporation Bank
3. New Bank of India
4. Oriental Bank of Commerce
5. Punjab and Sindh Bank
6. Vijaya Bank

Annexure: 3.4
Bank Nationalised In 2005

IDBI Ltd

Annexure: 3.5
Phases of Nationalization of Banks in India:
1. 1949 - Nationalisation of Reserve Bank of India
2. 1955 - Nationalisation of the State Bank of India
3. 1959 - Nationalisation of the subsidiaries of the State Bank of India
4. 1969 - Nationalisation of 14 major commercial banks
5. 1980 - Nationalisation of six more commercial banks
5. 2005 - Nationalisation of IDBI Ltd.

Annexure 3.6

Reforms in the Banking Sector

I Prudential Measures
(A) Phased implementation of international best practices
(B) Measures to strengthen risk management.

II Measures Enhancing Role of Market Forces
(A) Interest Rate Regulation
(B) Reduced Pre-emption
(C) Enhanced transparency and disclosures.

III Competition Enhancing Measures
(A) Operational autonomy and disinvestment of public ownership in public sector banks
(B) Transparent entry norms for private and foreign banks
(C) Permission for FDI and portfolio investment in banking.

IV Supervisory Measures

(A) Setting up an autonomous body for supervision
(B) Restructuring of on-site supervision
(C) Introduction of off-site surveillance
(D) Recasting norms on external auditors, internal control, corporate governance
(E) Monitoring systematically important financial institutions.

V Institutional and Legal Measures

(A) Strengthening of credit information and creditor's right
(B) Measures to improve recovery/restructuring environment
(C) Improved framework for payments and settlement

IV Technology Related Measures

(A) Dedicated communication backbone for banks
(B) Introduction of Products through this network.

Annexure 3.7

Bank Mergers/Amalgamation and Acquisition (1991-2006)

Year	Name of the Merging Entity	Name of the Merged Entity
1992	Bank of Karad	Bank of India
1993	New Bank of India	Punjab National Bank
	BCCI (Mumbai)	State Bank of India
1996	Kasinath Seth Bank	State Bank of India
1997	Bari Doab Bank	Oriental Bank of Commerce
	Punjab Co-operative Bank	Oriental Bank of Commerce
1998	20th Century Finance	Centurion Bank
1999	Bareilly Corportion Bank	Bank of Baroda
	Sikkim Bank	Union Bank of India
2000	Times Bank	HDFC Bank
2001	Bank of Madura	ICICI Bank
	Sakura Bank	Sumitomo Bank]
	Morgan Guarantee Trust	Chase Manhattan Bank
2002	ICICI	ICICI Bank
	Benaras State Bank Ltd	Bank of Baroda
	Standard Chartered Grindlays Bank Ltd	Standard Chartered Bank
2003	The Nedungadi Bank Ltd	Punjab National Bank
2004	Global Trust Bank	Oriental Bank of Commerce
2005	IDBI	IDBI Ltd
	Centurion Bank and Bank of Punjab	Centurion Bank of Punjab
2006	United Western Bank	IDBI Ltd
	Sangli Bank	ICICI Bank

Annexure 3.8

List of Private Sector Banks as on 31st March, 2007

(A) Old Private Sector Banks (18):

1. Bank of Rajasthan
2. Bharat Overseas Bank
3. Catholic Syrian Bank
4. City Union Bank
5. Dhanalakshmi Bank
6. Federal Bank
7. ING Vysya Bank
8. Jammu & Kashmir Bank
9. Karnataka Bank
10. Karur Vysya Bank
11. Lakshmi Vilas Bank
12. Lord Krishna Bank
13. Nainital Bank
14. Ratnakar Bank
15. Sangli Bank
16. SBI Commercial & International Bank
17. South Indian Bank
18. Tamilnad Mercantile Bank

(B) New Private Sector Banks (8)

19. Axis Bank
20. Centurion Bank of Punjab
21. Development Credit Bank
22. Kotak Mahindra Bank
23. Indusind Bank
24. HDFC Bank
25. ICICI Bank
26. Yes Bank Ltd

Annexure: 3.9

List of Foreign Banks as on 31st March 2007

1. ABN Amro Bank
2. Abu Dhabi Commercial Bank
3. American Express Bank
4. Antwerp Diamond Bank
5. Arab Bangladesh Bank
6. Bank Internasional Indonesia
7. Bank of America
8. Bank of Bahrain & Kuwait
9. Bank of Ceylon
10. Bank of Nova Scotia
11. Bank of Tokyo Mitsubishi UFJ
12. Barclays Bank
13. BNP Paribas
14. Calyon Bank
15. Chinatrust Commercial Bank
16. Citibank
17. DBS Bank
18. Deutsche Bank
19. Hongkong And Shanghai Banking Corpn.
20. JP Morgan Chase Bank
21. Krung Thai Bank
22. Mashreq Bank
23. Mizuho Corporate Bank
24. Oman International Bank
25. Shinhan Bank
26. Societe Generale
27. Sonali Bank
28. Standard Chartered Bank
29. State Bank of Mauritius

Annexure: 3.10

List of Regional Rural Banks as on 31st March, 2007

1. Andhra Pradesh Grameena Vikas Bank
2. Andhra Pragathi Grameena Bank
3. Arunachal Pradesh Rural Bank
4. Aryavrat Gramin Bank
5. Assam Gramin Vikash Bank
6. Aurangabad Jalna Gramin Bank
7. Baitarani Gramya Bank
8. Ballia Kshetriya Gramin Bank
9. Bangiya Gramin Vikash Bank
10. Baroda Eastern Uttar Pradesh Gramin Bank
11. Baroda Gujarat Gramin Bank
12. Baroda Rajasthan Gramin Bank
13. Baroda Western Uttar Pradesh Gramin Bank
14. Bihar Kshetriya Gramin Bank
15. Cauvery Kalpatharu Grameena Bank
16. Chaitanya Godavari Grameena Bank
17. Chambal-Gwalior Kshetriya Gramin Bank
18. Chhatisgarh Gramin Bank
19. Chickmagalur-Kodagu Grameena Bank
20. Deccan Gramin Bank
21. Dena Gujarat Gramin Bank
22. Devipatan Kshetriya Gramin Bank
23. Dhenkanal Gramya Bank
24. Durg Rajnandgaon Gramin Bank
25. Ellaquai Dehati Bank
26. Etawah Kshetriya Gramin Bank
27. Faridkot-Bathinda Kshetriya Gramin Bank
28. Gurgaon Gramin Bank
29. Hadoti Kshetriya Gramin Bank
30. Haryana Gramin Bank
31. Himachal Gramin Bank
32. Jaipur Thar Gramin Bank
33. Jammu Rural Bank
34. Jhabua-Dhar Kshetriya Gramin Bank
35. Jharkhand Gramin Bank
36. Kalinga Gramya Bank
37. Kamraz Rural Bank
38. Karnataka Vikas Grameena Bank
39. Kashi Gomti Samyut Gramin Bank
40. Kisan Gramin Bank,Budaun
41. Kosi Kshetriya Gramin Bank
42. Krishna Grameena Bank
43. Kshetriya Kisan Gramin Bank, Mainpuri
44. Langpi Dehangi Rural Bank

45. Lucknow Kshetriya Gramin Bank
46. Madhya Bharat Gramin Bank
47. Madhya Bihar Gramin Bank
48. Mahakaushal Kshetriya Gramin Bank
49. Malwa Gramin Bank
50. Manipur Rural Bank
51. Marathwada Gramin Bank
52. Marwar Ganganagar Bikaner Gramin Bank
53. Meghalaya Rural Bank
54. Mewar Aanchalik Gramin Bank
55. Mizoram Rural Bank
56. Nagaland Rural Bank
57. Nainital Almora Kshetriya Gramin Bank
58. Narmada Malwa Gramin Bank
59. North Malabar Gramin Bank
60. Pallavan Grama Bank
61. Pandyan Grama Bank
62. Parvatiya Gramin Bank
63. Paschim Banga Gramin Bank
64. Pragathi Gramin Bank
65. Prathama Bank
66. Punjab Gramin Bank
67. Puri Gramya Bank
68. Purvanchal Gramin Bank
69. Rajasthan Gramin Bank
70. Rani Lakshmi Bai Kshetriya Gramin Bank
71. Ratlam Mandsaur Kshetriya Gramin Bank
72. Ratnagiri Sindhudurg Gramin Bank
73. Rewa-Sidhi Gramin Bank
74. Rushikulya Gramya Bank
75. Samastipur Kshetriya Gramin Bank
76. Saptagiri Grameena Bank
77. Satpura Kshetriya Gramin Bank
78. Saurashtra Gramin Bank
79. Sharda Gramin Bank
80. Shreyas Gramin Bank
81. Solapur Gramin Bank
82. South Malabar Gramin Bank
83. Surguja Kshetriya Gramin Bank
84. Thane Gramin Bank
85. Tripura Gramin Bank
86. Triveni Kshetriya Gramin Bank
87. Utkal Gramya Bank
88. Uttar Banga Kshetriya Gramin Bank
89. Uttar Bihar Kshetriya Gramin Bank
90. Uttar Pradesh Gramin Bank

91. Uttaranchal Gramin Bank
92. Vananchal Gramin Bank
93. Vidharbha Kshetriya Gramin Bank
94. Vidisha-Bhopal Kshetriya Gramin Bank
95. Visveshvaraya Grameena Bank
96. Wainganga Kshetriya Gramin Bank

Annexure: 3.11

Chronological Development of Banking in India

I Pre-Independence Period

1770	Bank of Hindustan
1785	The Bengal Bank
1786	The General Bank of India
1809	Bank of Bengal
1840	Bank of Bombay
1843	Bank of Madras
1865	Allahabad Bank, The Alliance Bank of Simla
1881	The Oudh Commercial Bank
1894	Punjab National Bank
1901	The People's Bank of India
1906	Bank of India and Canara Bank
1907	The Indian Bank of Madras
1908	Bank of Baroda
1911	Central Bank of India
1913-1917	Failure of banks due to World War I
1921	Imperial Bank of India
1935	Reserve Bank of India
1939-45	Boom period for Indian banks due to World War II
1947	Partition of the country and crisis in the banking system

II Post-Independence Period

(A) Pre-Reform Period

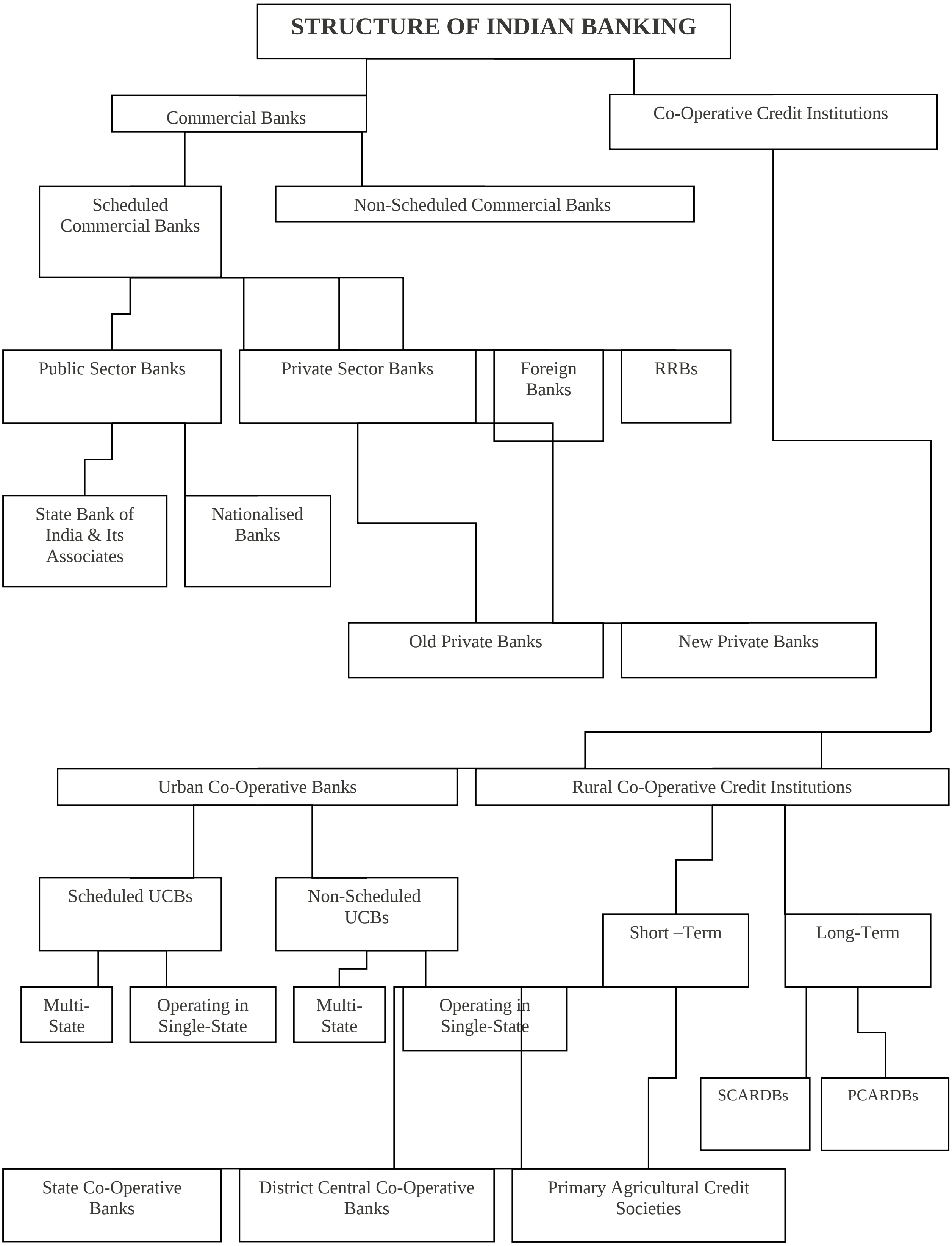
1949	Nationalisation of the Reserve Bank of India and enactment of the Banking Regulation Act
1951	State Finance Corporation (SFCs)
1955	Nationalisation of the State Bank of India, Industrial Credit and Investment Corporation of India Ltd (ICICI)
1959	Nationalisation of the subsidiaries of the State Bank of India.
1964	Unit Trust of India (UTI), Industrial Development Bank of India (IDBI),

Export Credit Guarantee Corporation (ECGC)
1967 Social Control over banks, Agricultural Finance Corporation
1968 National Credit Council
1969 Nationalisation of 14 major commercial banks with deposits over Rs.50 crores, Lead Bank Scheme
1972 Differential Rate of Interest Scheme
1975 Regional Rural Banks (RRBs)
1978 Deposit Insurance and Credit Guarantee Corporation
1980 Nationalisation of 6 banks with deposits over Rs.200 Crores
1982 National Bank for Agriculture and Rural Development (NABARD), Export Import Bank (EXIM Bank)
1988 National Housing Bank (NHB)
1989 Service Area Approach
1990 Small Industries Development Bank of India (SIDBI)

(B) Post-Reform Period

1991 Narasimham Committee Report I
1992 Basel I norms adopted by banks
1996 Institute for Development and Research in Banking Technology (IDRBT)
1998 Narasimham Committee Report II
2002 Clearing Corporation of India Ltd (CCIL)
2005 Nationalisation of IDBI Ltd
Board for Regulation and Supervision of Payment and Settlement Systems (BPSS)

Chart 3.1 Structure of Indian Banking



SCARDs – State Co-Operative Agriculture and Rural Development Banks, UCBs – Urban Co-Operative Banks, PCARDBs – Primary Co-Operative Agriculture and Rural Development Banks.

Annexure 4.1

Committees on Priority Sector Lending:

4.1.1 Gadgill Commiittee (1969)

Gadgil Committee also called Committee on the Organisational Framework for the Implementation of Social Objectives appointed by the RBI under the Chairmanship of Prof. D.R.Gadgil recommend for an appropriate organizational framework for the implementation of social objectives and to find out the adequacy of institutional credit to neglected sections of the society and made the following recommendations

1. To make bank finance available for sectors like agriculture, SSI, retail trade and small borrowers.
2. Commercial banks should be assigned particular districts “where they should act as pace setters for providing integrated banking facilities”.
3. Plans for development of banking and credit in each district should be formulated and be implemented.
4. Subsidy should not be mixed up with banking business.

4.1.2 Banking Commission (1972)

In 1972 the Government of India appointed a banking commission under the Chairmanship of Sri.R.G.Sariya and the commission put forward the following recommendations:

1. A rural bank should cater to the full credit needs of all medium ande small cultivators and should serve a compact area of 5,000-20,000 population.
2. Defined the role of a branch in rural area.
3. Supported the idea of “lead bank” concept.

4.1.3 Krishnaswamy Committee (1980)

Krishnaswamy Committee otherwise known as "Working Group on the modalities of Priority Sector Lending and Twenty Point Economic Programme" appointed in 1980 by RBI under the Chairmanship of Shri K.S.Krishnaswamy, Deputy Governor of RBI, made the following recommendations.

1. Introduction of the concept of "Weaker Sections" within the priority sectors.
2. Advances to agricultural sector should be minimum 16% of the total advance by 1985.
3. Proposed weaker section in agriculture should be (a) small farmers/agricultural labourers, and (b) persons borrowing for allied activities upto Rs.10, 000/- (Since changed)
4. Borrowers availing SSI finance upto a limit of Rs.25,000/- should be treated as weaker sections advance and to these weaker sections should be 12.5% of total finance to the SSI by 1985.
5. District Credit Council (DCC) at district level and State Level Credit Council (SLCC) at state level should review banks performance on priority sector lending.
6. Private banks should also achieve by 1985 the 40% norm for priority sector.
7. State Govt. must identify weaker sections, must provide infrastructural facilities and assistance for recovering the overdue loans.

4.1.4 Craficard (1981)

The committee to Review the Arrangements for Institutional Credit for Agriculture known as the Sivaraman Committee submitted its report in 1981 with the following recommendations.

1. Recommendations for setting up NABARD.

2. Household/family should remain as the basic unit for poverty alleviation programmes.
3. Banking in rural sector should have a development orientation.
4. Credit should be tied up with the development programme and supported by backward and forward linkages.
5. RRBs should confine themselves to the “weaker sections only.

4.1.5 P.D. Ojha Committee (1988)

P.D.Ojha Committee also called “The Committee to examine certain operational aspects of Rural Lending” was set up in 1988 under the Chairmanship of Shri P.D.Ojha, the Deputy Governor of RBI at the time put forward the following recommendations:

1. Banks should follow Service Area Approach in Lending.
2. Rural and Semi-urban branches of commercial banks and branches of RBI should be allocated approximately 15 to 20 villages for meeting their entire credit needs.
3. The service area for each branch should be identified by a committee convened by the Lead Bank Officer of the District, with Lead Bank Officer of RBI as Chairman.
4. The Criteria for allocation of command area should be: (1) Each branch to be given atleast 15-20 villages. (2) The villages should not be far from the branch (3) There should be a continuity of villages and (4) the branch should have financed majority of people in that village.
5. After identification and allocation of its service area, the branch should (i) Survey the command area for assessing the potential for lending (ii) select/identify the potential beneficiaries (iii) prepare a Credit Plan by aggregating all village credit plans, and (v) monitor the programme in the implementation of the plans.

6. The service area plans of all branches in a block will be aggregated to get the Block plan and all Block plans in a district will make the District Credit Plan.
7. Block Level Bankers Committee (BLBC) should be constituted in each block to coordinate between credit agencies and block officials and to monitor progress of Block Credit Plan.

The following achievements were made by implementing the above recommendations:

1. Bottom up planning in formulation of District Credit Plans.
2. Dovetailing Credit Plans with development plans of Government
3. Removal of dual financing in rural areas and stream lining the credit discipline in rural areas.
4. Coordination between banking sector and developmental departments.
5. Planned credit activity with forward and backward linkages.

4.1.6 Khusro Committee (1991)

Khusro Committee set up in 1991 was known as "Committee to Review the Agricultural Credit Systems in India". This committee formed in a year when an era of liberation started in India following the trend all over the world made the following important recommendations:

1. RRBs should be merged with sponser banks, as they have not become vibrant rural lending structures.
2. Subsidy for IRDP should be back ended; and it should be adjusted towards the last installment of the loan.
3. There should be autonomy of credit system at all levels even for state's social programmes.
4. State Government should formulate long-term effective policies for recovery of agricultural loans.

5. DRI Scheme needs not to be continued.
6. The Comprehensive Crop Insurance Scheme should cover all crops in all areas and for all borrowers. Crop Insurance should be administered by a separate Crop Insurance Corporation instead of GIC.
7. A National Co-operative Bank of India should be set up to work as the apex bank for co-operative lending.
8. There should be no concession in interest rates except for lending to weaker sections.
9. The targets for financing weaker sections should be within limits which the cross subsidization permits so that the viability of banks is not adversely affected.
10. Overdues must be brought down to minimum level. The demand should be shown as Current demand and Arrear demand.
11. The following changes in loan policy should be introduced.
    (a) Shifting the due date for rabi-crops from 30th June to 31st August.
    (b) Introduction of cash credit system of lending in appropriate cases.
    (c) Disbursement of cash instead of kind.
    (d) Extension of three months in repayment period of crop loan in deserving cases for allowing farmers to get better price for their produce.

4.1.7 Narasimham Committee (1991)

Appointed in 1991, this committee is also known as “The Committee of Financial System”. This committee which was headed by Sri.M.Narasimham was asked to review the financial system in the light of introduction of liberalization process in the economy. In its report submitted in November 1991, this committee made many significant recommendations covering the entire financial set up.Given below are some of its recommendations on priority sector lending.

1. Priority sector credit targets should be reduced to 10% of aggregate credit.

2. Priority sector should be redefined to include only SF,MF, tiny/village/cottage industries/rural artisans and other weaker sections.
3. Concessional Interest to the redefined priority sector should be stopped after a review after three years.
4. Local Area Banks may be formed.
5. Each Public Sector Bank should form a Rural Banking Subsidiary to take over all rural branches.
6. RRBs should be permitted to do all types of banking business.

4.1.8. Naik Committee (1991)

"The Committee to Examine the Adequecy of Institutional Credit to SSI Sector related Aspects" or the Naik Committee was appointed by RBI in 1991 under the Chairmanship of Shri P.R.Naik, the then Deputy Governor of RBI. The committee made the following recommendations:

1. Fixation of working capital limits of SSI units should be done based on project turnover. For limits upto Rs. 50 lakhs (minimum working capital requirement of the unit to be computed at 25% of the projected turnover. Borrower should bring margin to the extent of 5% of the projected turnover and the balance 20% should be financed by bank. (Limit is increased to Rs. 5 crores).
2. The projected turnover should be assessed by referring to IT/ST assessment orders and also to the turnover in the account. The borrower should route entire sale proceeds through the account.

4.1.9. D.R.Mehta Committee (1994)

D.R.Mehta Committee also called "The Expert Committee on Integrated Rural Development Programme". appointed by RBI was headed by Shri D.R.Mehta, Deputy Governor of RBI. The committee submitted its report in 1994 with the following recommendations:

1. Introduction of Back-end subsidy in IRDP

2. Repayment period of IRDP loans should be minimum five years. Group loans for various activities should be encouraged. (Introduced).
3. No mortage should be taken for all types of loans under IRDP if the loan amount does not exceed Rs.25,000/-. Collateral security should be insisted for loans upto Rs.50,000/-
4. NGO,SHGs may be associated with the implementation of IRDP.
5. Cash disbursements under IRDP may be extended throughout the country.
6. Supplementary dose of assistance may be given to those IRDP beneficiaries who have not crossed poverty line.
7. Recovery performance must be improved by implementing measures like: (i) Appoitment by Governmentr Special Recovery Officers, (ii) Enactment by Government Model Acts as recommended by Talwar Commottee, (iii) The Governments should declare loan waivers. (iv) DRDA, VO And SHG to help banks in recovery, (v) Banks may be permitted to appoint "Utilisation-Reporter-Cum-Recovery Facilitators" on commission basis.

4.1.10 Gupta Committee (1997)

In December 1997, RBI set up a one-man High Level Committee on Agriculture Credit under Shri. R.V.Gupta. Important recommendations of the committee are the following.

1. Banks should be given free hand for fixing the interest rate on agricultural loans even below Rs.2 lakhs.
2. Banks should introduce annual composite cash credit limits for all agricultural borrowing families.
3. Farmers should be given liquid saving product with an attractive return in built into the loan product.
4. IN order to provide farmers with wider choice and to eliminate undesirable practices, banks may disburse all agricultural loans in cash.

However, banks may continue the practice of obtaining receipt from borrowers.

5. The routine and compulsive requirement of obtaining no due certificate from banks by borrowers should be dispensed with. The lending bankers should be left with the discretion regarding obtaining of no due certificate and should satisfy themselves regarding status of the borrower before granting any loan.
6. For agricultural loans above Rs.10,000/- banks should be given discretion for stipulating the margin requirement.
7. Banks should ensure that the value of security is commensurate with size of loan.
8. Introoduction of Model set of Documents for financing of SHGs
9. CMD of banks to pay surprise visit to their rural branches which would send appropriate signals to field level staff.. At least one such visit should be made every month.
10. Visit of internal Inspectors to few service area villages.

4.1.11 V.S.Vyas Committee (2004)

RBI appointed an Advisory Committee on “Flow of Credit to Agriculture and Related Activities from the Banking System” with Prof. V.S.Vyas as the Chairman, proposed the following recommendations:

1. Loans to storage units (including cold storage units) which are designed to store agricultural produce irrespective of their location would be treated as indirect agricultural finance under priority sector.
2. Investment by banks in securitized assets representing direct/indirect lending to agriculture would be treated as direct/indirect lending to agriculture under priority sector.
3. Banks may waive margin/security requirement for agricultural loans upto 50,000 and in case of loans to agri business and agri clinics for loans upto 5 lakhs.

4. Micro Finance Institutions (MFIs) would not be permitted to accept deposits from public unless they comply regulatory framework of the RBI.

Internal Working Group (2005)

On the basis of the recommendations made in September 2005 by the Internal Working Group under the chairmanship of Shri.C.S. Murthy set up by the Reserve Bank to examine, review and recommend changes, if any, in the existing policy on priority sector lending including the segments constituting the priority sector targets and sub-targets and the comments/suggestions received theron from banks, financial institutions, public and the Indian Banks' Association (IBA), it was decided to include only those sectors as part of the priority sector, that impact large sections of the population, the weaker sections and the sectors which are employment intensive such as agriculture, small enterprises, retail trade, micro credit, state sponsored organizations for scheduled castes/scheduled tribes, education, housing, weaker sections and export credit. The targets and sub-targets were linked to Adjusted Net Bank Credit (ANBC).

4.1.13 Prof. A Vaidyanathan Committee (2006)

Appointed by the Government of India, this committee was asked to propose an action plan for reviving the short-term rural cooperative structure. As per its recommendations the Government of India has approved a revival package for short-term cooperative credit structure.

4.1.14 Prof.S.S.Johl Working Group (2006)

RBI constituted a working group under the chairmanship of Prof.S.S.Johl to suggest measures for assisting distressed farmers. The groups should also recommend measures for provision of financial counseling services to them and also introduction of a specific Credit Guarantee Scheme for their benefit in case of distress. This group submitted its interim report in October 2006.

In the light of the recommendations of the Group, RBI has permitted that banks, with approval of their boards, may formulate a transparent policy for providing OTS facility to those farmers whose accounts have been rescheduled/restructured due to natural calamities as also those who have defaulted on account of circumstances beyond their control.

4.1.15 S.C. Gupta Working Group (2006)

RBI has constituted a Technical Group (Chairman: Shri S.C.Gupta) to review the efficacy of the existing legislative framework governing money lending and its enforcement machinery in different States in the interest of rural households.

4.1.16 Dr. K.G. Karmakar Committee (2006)

In September 2006 RBI has set up a 'Task Force on Empowering Boards of Regional Rural Banks for improving their Operational Efficiency' with Dr. K.G. Karmakar as its Chairman. The group will suggest the functional areas where the boards of RRBs need to be given more powers so as to enhance the efficiency of the RRBs.

Annexure 4.2

Evolution of Priority Sector Lending

1967	Coining of the term priority sector
1968	Priority sector to include only agriculture and small scale industry
1969	Emphasis on priority sector lending by nationalization of 14 major banks.
1972	Concessionality in interest rate for priority sector lending introduced through DRI
1974	Priority sector lending to reach 1/3rd of the outstanding bank credit by March 1979 for public sector banks.

1977	Export credit excluded from priority sector credit (Except to SSI advances of foreign banks)
1978	Priority sector lending to reach 1/3rd of the outstanding credit by March 1980 in Indian private sector banks.
1980	Six more banks nationalised and stress on priority sector lending increased. Proportion of priority sector credit to be raised to 40 percent of outstanding bank credit by March 1985. Concept of 'Weaker Section' introduced with sub target of 10% of net bank credit
1982	Broadening of the concept of priority sector by including pure consumption loan and housing loan. Redefined retail trade and small business. Direct agricultural credit to be 15% by March 1985.
1983	Direct agricultural credit to be raised to minimum of 16% by March 1987.
1987	Direct agricultural credit to be raised to minimum of 17% by March 1989 and to be further raised to minimum of 18% by March 1990.
1989	Foreign banks also advised to undertake priority sector lending.10% of total credit by March 1989 to be raised to 12% by March 1990 and further to 15% by March 1992.
1990	Interest rate linked with 'size of loan' doing away with concessionality on other counts except DRI and export loans.
1993	Foreign banks to undertake priority sector lending upto 32% of their credit including their export credit.
1994	Funds provided to RRBs is included
1997	Export credit sub target for foreign banks increased to 12%
1998	Software industry also included under priority sector.
1999	Food and agro based industry to be part of priority sector.
2000	Micro credit considered as priority sector.

2001	Venture capital to be part of priority sector.
2005	Leasing and hire purchase financing and loans to urban poor indebted to non-institutional lenders considered as priority sector.
2007	Total priority sector target for domestic banks to be 40% of Adjusted Net Bank Credit (ANBC) and 32% of ANBC for foreign banks or credit equivalent amount of off-Balance sheet exposure, whichever is higher.

Annexure 6.1

Allocation/Achievement and performance score in Priority Sector Lending of State Bank Group, Indian Overseas Bank and Other Nationalised Banks After 1991.

State Bank Group			
Year	**Allocation Amount**	**Achievement Amount**	**Performance Score**
1992	16251	15473	95
1993	19878	16690	84
1994	19778	18468	93
1995	23007	20932	91
1996	30216	23950	79
1997	29159	27767	95
1998	33541	31217	93
1999	37046	36351	98
2000	44589	44478	100
2001	48897	52446	107
2002	50915	57539	113
2003	65263	64548	99
2004	77194	77635	101
2005	100064	96491	96
2006	132183	128469	97
2007	171886	166770	97
IOB			
1992	1211	1284	106
1993	1412	1402	99
1994	1387	1388	100
1995	1793	1789	100
1996	2002	2185	109
1997	2086	2455	118
1998	2472	2757	112
1999	2978	3110	104
2000	3128	3484	111
2001	3412	4326	127
2002	4276	4947	116
2003	5852	6184	106
2004	7265	8436	116
2005	9236	10450	113
2006	13164	14114	107
2007	16911	17290	102

Other Nationalised Banks			
Year	Allocation Amount	Achievement Amount	Performance Score
1992	28012	27934	100
1993	31305	30291	97
1994	34293	33088	96
1995	41350	38080	92
1996	45368	43470	96
1997	47629	48496	102
1998	57528	56763	99
1999	66198	64633	98
2000	78853	79515	101
2001	84208	92344	110
2002	102436	108997	106
2003	120006	132365	110
2004	139868	158383	113
2005	177988	203789	114
2006	261429	267208	102
2007	338285	337121	100

Annexure 6.2

Calculation of 'W' Value for Performance Scores of Various Financial Agencies in Lending To Total Priority Sector:

Year	SBI Group	Rank	IOB	Rank	Other Nationalised Banks	Rank
1992	95	7.5	106	32	100	22
1993	84	2	99	18	97	13
1994	93	4.5	100	22	96	10
1995	91	3	100	22	92	4
1996	79	1	109	36	96	10
1997	95	7.5	118	47	102	28
1998	93	4.5	112	40	99	18
1999	98	15.5	104	30	98	15.5
2000	100	22	111	39	101	25.5
2001	107	34.5	127	48	110	37.5
2002	113	42	116	45.5	106	32
2003	99	18	106	32	110	37.5
2004	101	25.5	116	45.5	113	42
2005	96	10	113	42	114	44
2006	97	13	107	34.5	102	28
2007	97	13	102	28	100	22
Sum of Ranks		**223.5**		**561.5**		**389**
	n_1=16		n_2=16		n_3=16	

W =29.72

BIBLIOGRRAPHY

Books:

Ahluwalia.M.S: ‘India’s Economic Reforms’ in R.Cassen and V.Joshi (eds) ‘India: The future of economic Reforms’, Oxford University, Press, India, 1995.

Anbumani,V, and Niranjana,S, ‘Social Objectives and Priority Sector Lending’s’, Banking and Financial Sector Reforms in India, Deep and Deep Publications Pvt. Ltd. New Delhi, Pub: 2002, (pp 231-245)

Anbumani,V, and Niranjana,S, ‘Social Objectives and Priority Sector Lending’s’, Banking and Financial Sector Reforms in India, Deep and Deep Publications Pvt. Ltd. New Delhi, Pub: 2002, (pp 231-245)

Bhatia, B.S., and Chowla, A.S, ‘Indian Banking Towards 21st Century’, Deep and Deep Publication, 1994, New Delhi -27.

Chawla.A.S: ‘Nationalisation and growth of Indian Banking’, Deep and Deep Publications New Delhi, 1987, (PP 9-39)

Crowther Geoffrey: ‘An Outline of Money’ (Revised Edition, 1959), P.22.

Das, Hem Chandra Lal, ‘Priority Sector Lending’s By Public Sector Banks Under Financial Sector Reforms in India’, Deep and Deep Publications Pvt. Ltd. New Delhi, Pub: 2002, (pp 246-263)

Das, Uday Kumar Lal, ‘Development of The Priority Sector in India’, Banking Reforms and Lead Bank Scheme, Deep and Deep Publications Pvt. Ltd. New Delhi, Pub: 2002,(pp 129-161)

Das, Uday Kumar Lal, ‘Performance Evaluation of The Lead Bank Scheme in India’, Deep and Deep Publications Pvt. Ltd. New Delhi, Pub: 2002, (pp 162-197)

Debashish Sathya Swaroop and Mishra Bishnupriya: “Indian Banking System – Development Performance and Services’, Mahanmaya Publishing House, New Delhi, 2005, PP 41-44

Eli Shapiro: ‘Money and Banking’ Holt, Rinehart & Wington, Inc, Newyork, 1968, P.76.

Husain; Dr.Farhat, Public Sector Commercial Banking in India, Deep and Deep Publications, 1978, New Delhi, P.44

Jha,Tara Kant, ‘Priority Sector Lendings : A Case Study in Mithila Region in Madhubani (Bihar)’, op.cit, (pp 264-281)

Jha,Tara Kant, ‘Priority Sector Lendings : A Case Study in Mithila Region in Madhubani (Bihar)’, Deep and Deep Publications Pvt. Ltd. New Delhi, Pub: 2002, (pp 264-281)

Kaptan.S.S and Choubey.N.S: ‘Indian Banking in Electronic Era’, Sarup and Sons, New Delhi, P.4

Karkal, G.L; ‘Perspectives in Indian Banking’, Popular Prakashan, Bombay, 1977, P.17.

Mago.R.C: ‘A Treatise on Practical Banking’, National Publishing House, New Delhi, 1972, P.7.

Mani,K.P, and Jose,P,Chacko, ‘Performance of Commercial Banks in Kerala – An Autopsy’, op.cit, (pp 445-456)

Mani,K.P, and Jose,P,Chacko, ‘Performance of Commercial Banks in Kerala – An Autopsy’, Deep and Deep Publications Pvt. Ltd. New Delhi, Pub: 2002, (pp 445-456)

Narasimham.M, “50 years of central banking – Governors speak” (p-214),

Nigam. B.M.L: Banking and Economic Growth, Vora and Co.Publishers, Delhi (1967)., p.37.

Panandikar.S.G: ‘Banking in India’, Orient Longman, 1975 P.2

Quoted in M.C.Vaish:’Modern Banking, RBSA Publishers Jaipur, 1984, P.192.

Raman.A: ‘Central Banking in India’, Bookland Private Ltd, Calcutta, 1968, P.96.

Rao,Srinivasa,K,‘Public Sector Banks In India And The Productivity Question’ – Ashish Publishing House, New Delhi, 1989, (pp 12-17)

Rao.S.R.K: ‘The Indian Money Market’, Chaitanya Publishing House, Allahabad, 1959, P.61.

Sarda,D.P, ‘Handbook on Lending To Priority sector (A Practical Guide)’ – Fourth Revised Edition 1998, (pp 11-16)

Savakar.D.S: ‘Joint Stock Banking in India’, Popular Book Depot, Bombay, 1938, P.10

Sharma,Harish C: ‘Growth of Banking in a Developing Economy’, Sahitya Bhavan, Agra 1969, PP 47-48.

Sharma.A.G: ‘State in Relation to Commercial Banking in India’, 1968, P.135.

Sharma.B.P: ‘The Role of Commercial Banks in India’s Developing Economy’, S.Chand & Co (Pvt) Ltd, Ram Nagar, New Delhi, 1974, PP 15-60

Simha.S.L.N: ‘Reform of the Indian Banking System’, Institute for Financial Management and Research,Orient Longman Ltd, Madras, 1973, PP 33-34.

Sinha.H: ‘Early European Banking in India, With Some Reflections On Present Conditions’, Macmillan & Co. Ltd, London, 1927, P.165.

Srinivasan,R, ‘Priority Sector Lending – A Study of Indian Experience’, Himalaya Publishing House, Bombay, 1995 (pp 11-51)

The Banking Regulation Act, 1949 (Act No.10 of 1949) Delhi Law House, 1987, P 3.

Journals:

Ammannaya,K.K,Dr., ‘Indian Banking: 2010”, IBA Bulletin, Jan, 2004, (pp 156-160)

Anand,S, ’Priority Sector Lending – It is a dynamic phenomenon’, Indian Banking Today & Tomorrow, vol.19, No.1, January 1994, (pp 10-17)

Anand.S, 'Priority Sector Lending – It is a dynamic phenomenon', Indian Banking Today & Tomorrow, January 1994, Vol.19, No.1, PP 10-17.

Banerjea Bhaskar, "Public Sector Banks: Need for Renewal", ISTD Review, Vol.5, No.4, July-Aug 1975. (pp 41-46)

Banerjee Abhijit and Duflo, Esther, 'What Do Banks (Not) Do?' H.T.Parekh Finance Forum, Economic and Political Weekly, Sep 18, 2004, (pp 4212-4213)

Bansal,S.N, Dr., and Agarwal,V.K, Dr., "Why World Bank is Against Priority Sector Lending?, Kurukshetra, Vol.39, No.12, September 1991 (pp 28-32)

Baslas,Deepti and Bansal,Anand,Dr., Banking Sector Reforms: Towards A New Face of Indian Banking, ICWAI, The Management Accountant, Vol.36, No.5, May 2001, (pp 348-351)

Bedback Hrushikesh, "Cost of Credit Acquisition and Delay – The Major Factors of Institutional Finance to Priority Sector", The Indian Journal of Commerce, Part 2 & 3, Vol. XXXVII, No. 139,140, April-June, July-Sep 1984, (pp 61-74)

Bhalerao Asha, "Sectoral Inequality in the Distribution of Outstanding Credit of Commercial Banks in India", Banking Finance, Vol.II, No.6, June 1989, (PP 12-13)

Bhat Narayana M, 'Nationalised Banks: Declining Profitability and Cost Controls', The Indian Journal of Commerce, Vol.XXVII, Part IV, No. 101, Dec 1974, (pp 25-30)

Bilgrami Arthar Raza.S, "Bank Nationalisation And The Income Expansion of the Neglected Sectors With Special Reference To Agriculture", The Indian Economic Journal.vol.25, No.2, 1977-78, (pp 170-172)

Bishnoi, T.R, "Policy Constraints And Banks' Profitability: Impact of Priority Sector Credit" – International Journal Of Development Banking, 9(1), No.1,Jan 1991, (pp 39-46)

Chakrabarti,Rajesh, and Chawla,Gaurav, "Bank Efficiency in India Since the Reforms – An Assessment", Money &Finance, July- Dec 2005, (pp 31-48)

Chakravarty S.Kalyan, "Towards A Better Management of Public Sector Banks – A Subsystemic Change Approach", ISTD Review, Vol.5, No.4, July-Aug 1975. (pp 26-29)

Chatterjee,Sandip,Dr., 'Productivity of Nationalised Banks: A Measurement Linking Profitability', IBA Bulletin, February 1998, (pp 39-41)

Commerce, Commerce Economic Bureau, Banking – A survey, July 31, 1982(p-46)

Das, M.R, 'An Objective Method for Ranking Nationalised Banks', Prajnan, Vol.XXXI,No.2, 2002-03, (pp 111-136)

Division of Banking Studies Department Of Statistical Analysis And Computer Services, "Disbursal Of Priority Sector Advances of Commercial

Banks To Scheduled Castes And Scheduled Tribes – A Review” – Reserve Bank Of India Bulletin, February 1990, (pp 65-81)

Gayathri, K, “Credit Delivery in Rural Karnataka – A case Study of Chickmangalur District”, Journal of Rural Development, Vol.12, No.3, May 1993, (pp 301-317)

Ghosh, D.N, ‘Bank Profitability and Priority Sector Lending – From Populism To Impressionism”, Economic and Politicalweekly, Vol.XXVII, No.8, February 22, 1992, (pp 387-388)

Godse,V.T, “CAMEL for evaluating performance of banks”, IBA Bulletin, August 1996, (pp 8-11)

Gupta.K.R & Prasad.S, “Management of Credit by Indian Banks”, The Indian Journal of Commerce, Vol.XXXI, Part IV, No.117, Dec 1978, (pp-65-73)

Jagirdar, Brinda, “Need For Redefining Priority Sector Components” – SBI Monthly Review, May 1991, Vol.XXX, No.5, (pp 244-255)

Jayachandra,K, and Vasu,M.S, ’Management of Non-Performing Assets in Public Sector Banks, Southern Economist, Vol.42, No.11, Oct 1, 2003, (pp 9-12)

Joshi,Pant,Deepali,Dr., ‘Rural Credit’, Yojana, Jan 2002, (pp 38-44)

Kamesam,Vepa, ‘Indian Economy – Financial Sector Reforms and Role of RBI’, Reserve Bank of India Bulletin, April 2002, (p 1615)

Kamesam,Vepa, ‘Winning Strategies in Small and Medium Enterprises Finance’, Reserve Bank of India Bulletin, March 2002, (pp 151-155)

Killawala, Alpana, Credit Information Review - 273, Reserve Bank of India, April 2002, (pp 1-8)

Krishnamurthy,K.V, "Human Resources Development in the Indian Public Sector Banks", IBA Bulletin Special Issue, March 2003, (pp 37-39)

Kumar,S.Rajitha, and Sarngadharan,M, 'Credit Deployment In Kerala By Commercial Banks', Southern Economist, Vol.42, No.4, June 15, 2003, (pp 3-5)

Kumaraswamy,M.R,Prof, 'Effectiveness or otherwise of Priority Sector Financing to vulnerable Peasant Farmers in the Midst of Widening Poverty Gap – Case Studies', Journal Of Financial Management And Analysis, Vol.11, No.1, Jan-June 1998, (pp 70-85)

Kusum W.Ketkar, Athanasios G.Noulas and Man Mohan Agarwal, "Liberalisation and efficiency of the Indian Banking Sector", Indian Journal of Economics & Business, Vol.3, No.2, 2004, (pp 269-287)

Manjappa,H.D, Cost-Benefit Analysis of Priority Sector Lending in India: An Empirical Study, Finance India, Vol.XI, No.2, June 1997, (pp 313-323)

Murali, S, and Sadasivan, B, 'Indian Banking Industry – A Paradigm Shift', ICWAI, The Management Accountant, Vol.36, No.5, May 2001, ICWAI, The Management Accountant, Vol.36, No.5, May 2001, (pp 338-341)

Murali.S and Sadasivan.B: 'Indian Banking Industry – A Paradigm Shift', ICWAI, The Management Accountant, Vol.36, No.5, May 2001, P.339

Nagarajan,N, 'Bench-Marking Indian Banks: 2002-03', IBA Bulletin, October 2003, (pp 38-43)

Nagarajan,V, and Manju.S, "Financial Sector Reform And Banking Sector Performance In India : A Study On Technical Efficiency Of Commercial Banks Between Pre And Post Reform Period", Asian Economic Review, Vol.4 5, No.2, August 2003 Issue, (pp 230- 236)

Nair, M.V, 'Public Sector Banks – Overcoming Barriers to Relationship Formation', IBA Bulletin, February 2003.

Narayana, D, "Directed Credit Programmes _ A Critique of Narasimham Committee Report", Economic And Political Weekly,vol.27, No.6, February 8, 1992, (pp 255-258)

Pagaria,M.L, and Yadhav, Ram Jass, Dr., 'Viability Study of Loss Making Rural Branches', ICWAI, The Management Accountant, Vol.36, No.5, May 2001, (pp 327-330)

Pantulu Kamaraju, 'The Impact of Bank Nationalisation on Indian Economy – A Balance Sheet of Achievements and Failures', The Indian Journal of Commerce, Vol.XXVI, Part-I, No.94,March1973,(pp37-47)

Patel, K.V, and Kaveri,V.S, 'Strategies for Recovery of Non-Performing advances in Priority Sector', National Institute of Bank Management, Pune, January 1997, (pp 1-34)

Patel, S.G, “Role of Commercial Banks’ Lending To Priority Sector In Gujarat – An Evaluation”, Finance India, Vol.X, No.2, June 1996, (pp 389-393)

Patel.K.V and Shete.N.B; Priority Sector Lending by Commercial Banks in India, Prajnan, Vol.XIII, No.1 (Jan-March 1984), P.151

Prasad, Bhagawati, ‘Report on the Nationalisation of Banks – In Retrospect’, 19-20 July, IIMS, Bareilly, The Indian Economic Journal, No.2, Vol.47, Oct-Dec 1999-2000, (pp 143-144)

Pushpangathan,G, ‘A Study on the Quality of Customer Service in Public Sector Banks in Kerala’, Finance India, Vol.XX, No.1, March 2006 (pp-209-211)

Raja, J, ‘Banking Industry – SWOT Analysis’, ICWAI, The Management Accountant, Vol.36, No.5, May 2001, (pp 365-366)

Rajagopal,S,”Reforms in Indian Banking – Retrospect and Prospect”, IBA Bulletin, Special Issue, January 1996, (p 38)

Raju, David,V.J, “An Enquiry Into Nature And Extend of Rehabilitation of Weaker Sections in Non-Farm Activities”, Journal of Rural Development, Vol.2, No.6, Nov 1992, (pp 873-878)

Rakesh Mohan: ‘Globalisation: The Role of Institution Building in the Financial Sector – The Indian Case’, Reserve Bank of India Bulletin, February, 2004, PP 118-119

Ram Mohan,T.T, and Ray, Subhash, ‘Comparing Performance of Public and Private Sector Banks – A revenue Maximisation Efficiency

Approach', Economic and Political Weekly, March 20, 2004, (pp 1271-1276)

Ram Prasad, Bandi, 'Bank Performance', Banking Finance, Vol.XIII, No.6, June 2000, (pp 26-27)

Ramakrishnan,V.M, "Contemporary Banking – Strategic Imperatives For Public Sector Banks", Banking Finance, Vol. XII, No.9, September 1999, (pp 3-5)

Raman. A and Simha.S.L.N, "Credit Planning – Objectives and Techniques", IFMR, Madras 1976 (pp 26-33)

Ramasastri.A.S and Achamma Samuel: 'Banking Sector Developments in India, 1980-2005: What the Annual Accounts Speak?' Reserve Bank of India, Occassional papers, Vol.27, No. 1 and 2, Summer and Monsoon 2006. (PP 177-205).

Rao,Srinivasa,K,'Public Sector Banks In India And The Productivity Question' – Ashish Publishing House, New Delhi, 1989, (pp 12-17)

Ravi,R, "Advantages for the Disadvantaged in the Priority Sector", Indian Banking Today & Tomorrow, Vol.18, No.8, August 1993 (pp 1-4)

Ravola, K.S, Dr.,Nigi,R.S,Dr., and Nigi, J.S., "Role of Commercial Banks In The Development of Priority Sectors", Indian Banking Today And Tomorrow, November 1989, (pp 14-16)

Reddy,Y.V, 'The Outlook for Indian Economy – An Update', Reserve Bank of India Bulletin, Feb.2004, (pp 179-184)

Rengarajan, V, “Profitability Of Banking operations – A Rethinking on Priority Sector Advances With A Reference To Bank Profitability” – Indian Overseas Bank Monthly News Review, March 1991, Vol.V, No.3, (pp 1-24)

Rengaswamy,V, and Ramnath,R.L, ‘Performance of Financial Agencies in the Priority Sector Lending Under the Service Area Approach in Madurai District’, Prajnan, Vol.XXIX, No.1, April-June 2000, (pp 79-87)

Rengaswamy,V, and Subbiah,A, Analysis of Performance of Financial Agencies in Priority Sector Lending Under the Lead Bank Scheme in Kamarajar District by Using Kruskal-Wallis Test, Prajnan, Vol.XXVI,No.1, 1997-98 (pp 65-73)

Roy, Mohua, ‘A Review of Bank Lending to Priority and Retail Sectors’,Economic and Political Weekly, March 18, 2006, (pp 1035-1040)

Saha,Gurudas, ‘Financials of Indian Banking Industry and the competitive Viability of the public Sector banks’, ICWAI, The Management Accountant, Vol.36, No.5, May 2001, (pp 373-384)

Samuel,Stephen,D, “Need for Radical Change in Priority Sector Lending Method”, Southern Economist, March 1, 1987 (pp11- 12).

Sankaranayanan,V and Venugopal,D, ‘Interest Rates On Priority Sector Lending’, Indian Overseas Bank Monthly News Review, July-Sep 1992, Vol.V, No.7 (pp 221-26)

Sarker, P.C, and Das, A, 'An Approach to Evaluate The Relative Performance of Public Sector Banks In India', Indian Journal of Applied Economics, Vol.8, No.4, 1999, (pp 137-158)

Schumpeter. Joseph.A, Cited in A.C.Shah; Banking For Economic Growth, Journal of Indian Institute of Bankers, Vol.45, No.1 (Jan-Mar., 1974) P.33

Selvaraj,Upaulthus,M, 'Twenty Fivy Years of Nationalisation', Indian Banking Today & Tomorrow, Vol.20, No.3, March 1995, (pp 1-5)

Shankar,K, "Revamping Nationalised Banks", Indian Banking Today And Tomorrow – November 1991, (pp 4-6)

Shetty,S.L, 'Distributional Issues in Bank Credit – Multi-Pronged Strategy for Correcting Past Neglect' Economic and Political Weekly, July 17, 2004, (pp 3265-3269)

Siddaiah,T, "A Diagnostic Study of Overdues In Commercial Banks", Banking Finance, Vol.II, No.8, August 1989, (pp 3-6)

Siddiqui,Badruzzama,Dr., 'Priority Sector Lending – Some Major Issues', Kurukshetra, August 2002, (pp 14-18)

Simha.S.L.N:'Bank Nationalisation',Financial Express,April 28, 1980

Singh, Pratap, Ravi, 'A Study in to Deposit Mobilisation and lending Policies of the Nationalised Commercial Banks in India', Finance India, Vol.VIII, No.4, Dec.1994, (pp 1025-1028)

Singh, Rajendra, 'Role of State Governments in Recovery of Bank Loans', Banking Finance, Vol. III, No.3, March 1990, (pp 12-13)

Sinha,R.K, 'PSBs Need to Tone-up Credit Risk Management', Vinimaya, Vol.XXVI, No.1, 2005-06, (pp 25-38)

Sivasankar,P.R, and Ekambaram,K, 'Role of Public Sector Banks In the Development of Small Scale Sector in India', Banking Finance, Vol.XIX, No.5, May 2006, (pp 5-8)

Soundarapandian,M,Dr., 'Issues In Rural Credit System', Kurukshetra, Sep 2001, (pp 25-29)

Subbiah,A, and Nananeethakrishnan,K, 'Financing SSIs By Commercial Banks : A Case Study', op.cit, (pp 6-8)

Sundaram,Satya,I,Dr., "Priority Sector Lending – Some issues", Indian Banking Today and Tomorrow, December 1991, (pp 15-17)

Swarup,Santi,K, "Globalisation and Challenges to Indian Public Sector Banks", Banking Finance, Vol.XV, No.11, Nov 2002, (pp 13-16)

Thingalaya,N.K,Dr., Pigmy Economic Review – Syndicate Bank, Vol.36, No.1, August 1990.

Thomas, Zacharias, 'Performance Effectiveness of Nationalised Banks: A Case Study of Syndicate Bank', Finance India, Vol.XIV, No. 1, March, 2000, (pp 187-192)

Vasant Desai; 'Role of Banks in Economic Growth', Economic Affairs, Vol.21, No.8, Aug 1976, P.229.

Veerashekerappa, "priority Sector Lending – A Case Study", Southern Economist, Vol.31, No.21, March 1, 1993, (pp13-16)

Vijayakumar, A., and Venkatachalam, A, Dr., “Profitability of Indian Public Sector Banks In Eighties”, Indian Banking Today and Tomorrow, Vol.18, No.1, January 1993 (pp 10-13)

Vijayulu,S, Sakunthala,B, and Ramachandra,B, ‘NPAs: A Challenge To Public Sector Banks’, Banking Finance, Vol.XV, No.3, March 2002, (pp 10-13)

Yadav, Ravinder, ‘Rural Credit’, Banking Finance, Vol.XIV, No.12, December 2001, (pp 26-27)

Reports:

Annual Reports Indian Overseas Bank Various Issues

Banking Commission Report, Government of India, 1972, P.39.

Bhide, L.Y, – ‘Perspectives of Bank Credit during Seventh Five Year Plan’ – Union Bank of India, Seminar on Bank Credit during the Seventh Five Year Plan,(March 17-19, 1986) Proceedings and Papers. Bankers Training College, Reserve Bank of India, Veer Savarkar Marg, Dadar, Mumbai. (pp 178-179)

Capoor, Jagdish, Deputy Governor, RBI, ‘Developmental Issues in Micro Credit’ - Address at the Asia Pacific Region Micro Credit Summit Meeting of Councils at New Delhi on February 03, 2001, (pp 1-5)

Damodar,B.S. ‘Priority Sector Lending During Seventh Plan – Syndicate Bank, Seminar on Bank Credit during the Seventh Five Year Plan,(March 17-19, 1986) Proceedings and Papers. Bankers Training College, Reserve Bank of India, Veer Savarkar Marg, Dadar, Mumbai. (pp 176-177)

Directors Report, IOB Chennai, 9th April 1947

Dutta, K.K, 'Quantum of Credit Needs Management and Procedural Considerations Relating to Financing of Priority Sector during Seventh Five Year Plan' – RBI, Seminar on Bank Credit during the Seventh Five Year Plan,(March 17-19, 1986) Proceedings and Papers. Bankers Training College, Reserve Bank of India, Veer Savarkar Marg, Dadar, Mumbai. (pp 164-167)

G. Prahladhan., Credit Programme – Level I, IOB staff colleges, 2006.

Gadgil Study Group – Report of the Study Group of National Credit Council on the Organisational Framework for the Implementation of Social Objectives under the Chairmanship of Prof.D.R.Gadgil, Para 108, PP. 37-38, October 1969.

Gadgil Study Group of the National Credit Council, Organizational Framework for Implementation of Social Objectives, RBI, Bombay, 1969, P.36.

Handbook on Priority Sector Advances, IOB, Lead Bank Department, Chennai.

Hegde,K.J,'Special Problems Relating To Demand For Credit From Export Sector ' –Seminar on Bank Credit during the Seventh Five Year Plan,(March 17-19, 1986) Proceedings and Papers. Bankers Training College, Reserve Bank of India, Veer Savarkar Marg, Dadar, Mumbai. op.cit,(pp 115-117)

Institute Of Finance, Government of Tamilnadu, Report – 1986-87.

Jagannathan.L, “Perspectives On Bank Credit During The Seventh Five Year Plan”. Canara Bank. Seminar on Bank Credit during the Seventh Five Year Plan,(March 17-19, 1986) Proceedings and Papers. Bankers Training College, Reserve Bank of India, Veer Savarkar Marg, Dadar, Mumbai. (pp 34-40)

Jeromi,P.D, ‘Bank Credit in Kerala – An Analysis of Trends and Issues”, Economic Development in India, Vol.71, Academic Foundation, New Delhi, Sep.2003, (pp 59-93)

Joseph, K.X, ‘Priority Sector Lending In Kerala – An Empirical Study’, 2004 (pp 1-9)

Khader, S.S.A, ‘Priority Sector Lendings In The Seventh Five Year Plan’ – State Bank Of Mysore, Seminar on Bank Credit during the Seventh Five Year Plan,(March 17-19, 1986) Proceedings and Papers. Bankers Training College, Reserve Bank of India, Veer Savarkar Marg, Dadar, Mumbai. (pp 160-163)

M.Ct.Muthiah, “Speech of the Chairman at the annual General Meeting of the shareholders of IOB held on IOB 70 years- Tuesday March, 31, 1964

Ojha.P.D.Dr., “Credit Needs of the Public Sector”, Seminar on Bank Credit during the Seventh Five Year Plan,(March 17-19, 1986) Proceedings and Papers. Bankers Training College, Reserve Bank of India, Veer Savarkar Marg, Dadar, Mumbai. (pp 11-15)

Prospectus- Indian Oversea Bank 2003

Rakesh Mohan: 'India's Financial Sector Reforms:Fostering Growth While Containing Risk, Address delivered at Yale University on December 3, 2007.

Ramachandran, I Programme on Priority Credit, level I IOB, Staff College, Chennai 2008

Ramachandran,V.K, and Swaminathan,Madura, "Does Informal Credit Provide Security?" Rural Banking Policy In India, International Labour Office, Geneva, Oct.2001, (pp 1-28)

Reddy.Y.V: 'Monetary and Financial Sector Reforms in India : A Central Bankers Perspecive', UBSPD.

Reddy.Y.V: 'Reforming India's Financial Sector : Changing Dimensions and Emerging Issues', Address at the International Centre for Monetary and Banking Studies, on May 9, 2006, Geneva.

Report of the Banking Commission: Government of India, 1972.

Report of the Committee to Review Arrangements for Institutional Crerdit for Agriculture and Rural Development: Reserve Bank of India, Bombay, 1981,P.84.

Report of the working Group – Priority Sector Lending and the 20 – Point Economic Programme – Role of Banks, (Chairman : K.S.Krishnaswamy), April 1980, PP 17-18.

Report of the Working Group on the Role of Banks in Implementation of New 20 – Point Programme (Chairman : A.Ghosh), 1982, P. 81.

Report of the Working Group on the Role of Banks in Implementation of New 20 Point Programme under the Chairmanship of Shri.A.Ghosh (mimeograph) June 17, 1982, (PP 51-54, 64-66,81)

Research and Statistical Department, ‘Financial Reform in Asian Economics – A Special Paper’, The Bank Of Japan, No.189, May 1990.

Reserve Bank of India, Annual Report, 1979-80, PP. 28-29

Shri. Morarji Desai, Speech at the inaugural meeting of the National Credit Council, July 1968.

Shyamala Gopinath: ‘Special Features of Financial Sector Reforms in India’, Inaugural address delivered at the 18th Annual National Conference of Forex Association of India on April 6, 2007 at Bangkok.

Sridharan,T.R, ‘Nationalised Banks – Issues in the Second Phase of Reforms’, Indian Banking Second Phase of Reforms-Issues & Imperatives, Proceedings of the Bank Economists’ Conference 1997, (pp 69-73)

Subadha, S, “ An Evaluation Of The Nationalised Commercial Banks Credit To the Weaker Sections Of The Population In Chengalpattu District of Tamilnadu” – CReNIEO, Madras, Sep,1990.

Vyas,V.S,Prof, ‘Report of the Advisory Committee on Flow of Credit to Agriculture’ May 18, 2004, (pp 1-31)

Williamson.J and Mahar.M: ‘A Survey of Financial Liberalisation’, Princeton Essays in International Finance, November 1998, Princeton, New Jersey.

Articles:

Beckhart,B.H: 'Banking Systems', The Times of India Press, Bombay, 1967, P.411.

Chari, N.S.T and Chaudry Raghunath, "Nationalised Banks Comparative Performance",The Economic Times, June 18, 1980, p-5

Kahlon.A.S, "Banking Services and Performance"; The Economic Times, September 18, 1982.

Majumdar,Sourav, and Shetty,Sudhir, 'IDBI For Changes in Priority Sector Norms', The Indian Express, 28 Dec,2004, (pp 1-2)

Masthan,D, and Rao,Jagga, 'Capital Adequacy Norms: Risks for Urban Co-op Banks', The Hindu Business Line, Tuesday, May 14, 2002, (pp 1-3)

Prasad, Ajit, 'Micro Credit to be part of Bank's Priority Sector Lending', 25 February, 2000, Press Release:1999/2000/1141.

The Hindu, Vol.LXI, No 36., Madras, Friday February 12, 1937.

Venugopal, Dharmalingam, '34th Anniversary of Bank Nationalisation PSBs : A Complete Makeover' Business Line, July 19,2003, (pp 28-30)

Thesis Work:

Karunakaran. D: 'The Role of Lead Banking in Rural Development of South Arcot District with Special Referene to Vanur Taluk', 2001, University of Madras, PP (10-15).

Kurien,Jacob, ‘Non-Repayment of Institutional Loans and Viability of Social Banking – A Case Study of Priority Sector Beneficiaries in Chengalpettu M.G.R.District, Tamilnadu’, May 1996, (pp 1-50)