

CHAPTER II

FINANCING OF SSI BY THE NATIONALISED COMMERCIAL BANKS AS A WHOLE

2.1 Growth of Banking in India:

Significant structural changes had begun to reorganise the Indian banking system just after independence of the country. During the intermediate period of independence and the nationalisation of 14 major commercial banks, one of the features of Indian banking system was that it consisted of innumerable small banks with insignificant contribution to total banking business. With the direct intervention of the Reserve Bank of India, the merger of economically non-viable small units with others, the number of small scheduled banks had been reduced drastically to 24 in June, 1969 as against 66 in 1951. The number of non-scheduled banks also declined from 481 to 14 only during this period (Table 2.1). This process of structural reorganisation is well conceived from the fact that the total number of banks had been reduced to 87 in June 1969 from 566 in 1951. But the dimension of banking operation during this period had been increased manifold as the number of bank offices increased almost in geometrical progression from 4151 in 1951 to 8254 in 1969 and 15,362 in 1973.

The process of integration, expansion, and reorganisation of banking system which was started after 1951 gained momentum after nationalisation and the total number of bank offices increased to 52,721 in 1985. As a result, the population per office which was 64 thousand in 1969, came down to 13 thousand in 1985. All these had been done, of-course, not in isolation of banking business. While the total amount of deposit and credit in 1969 were Rs. 4,644 crores and Rs. 3,599 crores respectively, those accounted to Rs. 85,867 crores and Rs. 56,325 crores respectively in

Table 2.1

Growth of Commercial Banks of India

	1951	1969	1970	1975	1980
No. of Commercial Banks					
i) Scheduled	105	73	73	79	162
ii) Non-scheduled	481	14	13	8	3

Source: Statistical Tables Relating to Banks in India,
R.B.I., 1976 & 1981.

Table 2.2

Some Important Indicators of Progress of Commercial Banking

	1969	1970	1975	1980	1985
1. No of Offices	8262	10131	18730	34131	52721
a) In India					
b) Population per office (per thousand)	64	53	32	16	13
2. Deposits of Scheduled Commercial Bank (Rs. in crores)	4646	5275	12545	36995	85867
3. Credit (Rs. in crores)	3599	4213	8955	24737	56325
4. Credit/Deposit Ratio (%)	77.5	79.9	71.4		
5. Per Capita Credit (Rs.)	68	78	150	451	823
6. Per Capita Deposit (Rs.)	88	98	210	675	1255

Source: Statistical Tables Relating to Banks in India,
R.B.I., 1976 & 1981.

1985. Thus both per-capita deposit and credit multiplied significantly (almost 14 times), from Rs. 88 and Rs 68 to Rs. 1255 and Rs. 823 respectively (Table 2.2).

2.2 Growth of Commercial Banks and SSI:

Along with the growth of overall banking operation, the amount of advances to SSI also increased after nationalisation. The total credit extended by scheduled commercial banks (SCB) to SSI in 1970 amounted to Rs. 394 crores showing an increase of nearly 50 percent over the level of a year ago. SCB credit to SSI formed 9.9 PC of their total advance in March 1970, the corresponding figure of March 1967 being 6.6 PC. Thereafter, it increased to 12.3 PC in 1980 and 13.1 PC in 1985. Increase of number of units became all the more remarkable and it increased to almost 16 lakhs in 1985 from merely 81 thousand in 1970 (Table 2.3).

Thus, in terms of volume of credit as well as number of accounts, an impressive progress is observed in SSI sector. It appears to be even more impressive if, after nationalisation, the relative share of SSI as against large and medium-scale industry (LMSI) is analysed.

Prior to nationalisation, two most important sectors of economy SSI and agriculture were deprived of getting proper bank assistance. In March 1968, LMSI enjoyed 60.6 percent of total SCB's credit, whereas SSI and agriculture just managed to get only 6.9 and 2.2 percent respectively. That some of the social objectives of nationalisation started being implemented is atleast evident from the percentage of share of those

Table 2.3

Advances By Scheduled Commercial Banks to SSI (December)

Particulars	1967	1969	1970	1975	1980	1985
1. No. of Units	N.A.	49731	81725	269301	680731	1594688
2. Limits in	313.8	508.3	749.3	1913.6	3384.8	N.A.
3. SSI Advances (crores)	177.9	261.7	393.9	1147.4	2632.8	7395.7
4. Total Advances (crores)	2693.0	3397.5	3975.1	11678.3	21311.6	56325.9
5. Percentage of SSI credit to total credit	6.6	7.7	9.9	9.8	12.3	13.1

Source: Statistical Tables Relating to Banks in India, R.B.I.

sectors in 1970 - 48.8 by LMSI, 11.0 by SSI and 9.4 by agriculture. This trend of declining share of LMSI continued as we observed, the share of this sector was 44.1 PC in 1975, 36.1 PC in 1980 and 26.5 PC in 1985 of the total credit. On the other hand, the SSI's share increased over time : 12.4 PC in 1975, marginally declined to 11.9 PC in 1980 and finally increased to 14.8 PC in 1985. Similar or more accelerating increment is observed in agriculture during this period. (Table 2.4)

However, percentage share of non-public sector banks (NPSB) to total outstanding balance of SSI also increased after 1970. Contribution of NPSB in total SSI finance was only Rs. 10.7 crores (2.3 PC) and it increased more than seven times to Rs. 77.5 crores (6.9 PC) in five years i.e; in 1975. During this period, though advances of public sector banks to SSI expanded almost two and half times (Rs. 458.3 crores in 1970 to Rs. 1040.5 crores in 1975) but percentage of contribution to total credit dropped from 97.7 PC in 1970 to 93.1 PC in 1975. Thereafter, both the public sector banks and NPSB's relative contribution remained unaltered. (Table 2.5)

The evaluation of performances of SCB as given above was primarily based on aggregate data. Most of the studies by different agencies like R.B.I or persons had been done on aggregate data and therefore, observations basically reflect the result of macro-aggregative analysis.

Table 2.4

Sectoral Classification of Scheduled Commercial Banks' Advances
(Rs. in crores)

Sector	1969	1970	1975	1980	1985
I. Industry					
a) Large & Medium Industry	1857 (60.6)	2080 (48.8)	3974 (44.1)	7702 (36.1)	13249 (26.5)
b) SSI*	211 (6.9)	469 (11.0)	1118 (12.4)	2534 (11.9)	7410 (14.8)
II. Agriculture & Allied Activities	67 (2.2)	400 (9.4)	976 (10.8)	3152 (14.8)	8820 (7.7)
III. Internal Trade	588 (19.2)	722 (16.9)	1485 (16.5)	4741 (22.2)	11687 (23.4)
IV. Services			539 (6.0)	471 (2.2)	3209 (6.4)
V. Personal Loans			320 (3.5)	699 (3.3)	
VI. Others (including Trans. Operators)	341 (11.1)	589 (13.8)	599 (6.6)	2010 (9.4)	5620 (11.2)
TOTAL	3064	4260	9011	21311	49995

Source: Statistical Tables Relating to Banks in India, R.B.I.

* Excluding credit to Industrial Estate as shown in the Table
Occupationwise classification of outstanding credit of scheduled Commercial Banks of the respective years

Table 2.5

Advances to SSI by Public Sector Banks vis-a-vis
Non-Public Sector Banks

	1970	1975	1980	1985
1. SBI & its associates	196.6 (41.9)	408.7 (36.5)	1295.1 (36.5)	2607.4 (33.0)
2. 14 Nationalised Banks	261.8 (55.8)	631.8 (56.5)	1892.1 (53.3)	3759.1 (47.5)
3. 6 Nationalised Banks in 1980			203.2 (5.7)	1104.2 (14.0)
PUBLIC SECTOR TOTAL	458.3 (97.7)	1040.5 (93.1)	3390.4 (95.5)	7470.7 (94.5)
4. Non-Public Sector Banks	10.7 (2.3)	77.5 (6.9)	161.7 (4.5)	436.9 (5.5)
TOTAL	469.0	1118.0	3552.1	7907.0

Source: Statistical Tables Relating to Banks in India, R.B.I.

2.3 Approach of the study and its objective:

The evaluation of bank finances to the SSI may be undertaken from two different angles. This is due to the fact that SSI maintains its dual identity in Indian context. First, it is a member of the broad industrial sector, like any other country, along with LMSI, Second, it is a member of the priority sector along with agriculture and road transport etc. So, the evaluation of nationalised bank finances to SSI would be different in context depending on how we treat the SSI - either as a member of priority sectors or as a member of broad industrial sector.

When the SSI is treated as a member of broad industrial sector, the analysis then primarily reflects the comparative position of different components of industrial sector in getting financial requirements as and when required during the period of sustenance or expansion. This analysis reveals the trend and magnitude of bank finances to SSI, Medium and Large industries respectively.

But when the SSI is treated as a member of priority sector, the analysis then emphasises the evaluation of magnitude and trend of finances to SSI as against other members of the priority sector. It then shows how far the public sector banks' attitude towards providing financial assistance to SSI as visualised at the time of nationalisation, has undergone changes over time.

In our analysis of bank finances to the SSI since 1970, we treat SSI as a member of the priority sector only and thus accept the second course of analysis.

The objectives of our study in this chapter would be:

i. to determine the weightage paid by all the nationalised commercial banks as a whole to the SSI in distributing priority sector advances in each year during the period of our analysis, and

ii. to understand the direction of change of the weightages over the period of the analysis.

The objective of this study here is suggested by the fact that banks*, not only individually but also as a whole, were expected to cater to the needs of the SSI in the post-nationalisation era. This analysis, thus, will show how far the nationalised banks (as a whole) satisfied such expectations.

In our analysis we do not consider the demand for bank finance by the SSI, but only evaluate the supply of bank finances to the SSI. This we do on the assumption that there is sufficient demand for bank finance by the SSI and the supply of finance should match the demand. In the previous chapter, we cited different reports, observations of study groups etc to establish this assumption. Moreover, this assumption stems from the fact that in the proclamation of nationalisation, the banks were expected to meet the 'Credit Gap' in the priority sector.

With this assumption and objective in view, we study the bank wise (cross section) data on advances to SSI vis-a-vis total priority

* Banks, here-in-after, would stand for nationalised commercial banks unless otherwise stated.

sector advances for the period of seventeen years- 1970 to 1986.

2.4 Methodology:

In our study we hold that

$$S_j = f(P_j)$$

and through OLS Regression, we obtain

$$\hat{S}_j = \hat{a}_j + \hat{b}_j \cdot P_j$$

where P = Priority sector advances by the nationalised banks as a whole,

S = Advances to the SSI by the banks as a whole,

j = Particular year,

$\hat{\alpha}$ = Simple Regression constant,

$\hat{\beta}$ = Simple Regression Co-efficient

$$= d\hat{S}_j / dP_j$$

Here, $\hat{\beta}_j$ represents the change in the advances to the SSI owing to a marginal change in priority sector advances by the nationalised banks as a whole in any particular year (j). This $\hat{\beta}_j$ represents how much goes to the SSI for an increase of rupee one in total advances of the banks as a whole to the priority sector. Relative importance of each sector to the banks as a whole is determined by its share in the marginal increase in total advances of the priority sectors. That is why $\hat{\beta}_j$ is supposed here to be the weightage paid to the SSI by the banks as a whole in any particular year j .

So, $\hat{\beta}_j > \hat{\beta}_{j-1}$ seems to imply that the amount allocated to the SSI by the banks as a whole in any year j was greater than that in the just

preceding year (j-1) when there was a marginal increase in the total priority sector advances. Whether $\hat{\beta}_j$ and $\hat{\beta}_k$ differ significantly would be tested through 't-test' where $j = k$ and $j, k = 1970, 1971, \dots$

The 't-test' will be performed with

$$H_0 \text{-----} \hat{\beta}_j = \hat{\beta}_r$$

against, $H_A \text{-----} \hat{\beta}_j = \hat{\beta}_r$ when $j = r$

Actually, in the t-test we will have,

$$H_A \text{-----} \text{either } \hat{\beta}_j > \hat{\beta}_r \text{ or } \hat{\beta}_j < \hat{\beta}_r$$

The actual form of H_A would be suggested by the numerical values of $\hat{\beta}_j$ and $\hat{\beta}_r$ obtained through OLS. Thus the 't-test' would be 'One-Tail-Test'.

Again, t-test performed with

$$H_0 \text{-----} \hat{\beta}_j = \hat{\beta}_{j-1}$$

$$\text{against } H_A \text{-----} \hat{\beta}_j = \hat{\beta}_{j-1}$$

would indicate whether the weightage paid in any year was significantly different (at 5% level) from that paid in the just preceding year.

2.5 Analysis of the Regression:

The results of the Regression are presented in Table 2.6

From the column 5 and 7, showing R^2 and F values respectively, it is observed that regressions are good-fit. Again, column 8, showing DW values, suggests that regressions are free from auto-correlation. In column 2, giving $\hat{\alpha}_j$ values, we observe that values are not significant through S.E tests. But though S.E tests, $\hat{\beta}_j$ values, given in column 3, are found to be

Table 2.6
Results of Regression

Years	Regression Constant	Regression Coefficients	R ²	r	F	D.W.
1970	-106.619 (149.173)	0.526 (0.029)	0.929	0.964	303.30962	2.363
1971	-17.317 (107.780)	0.548 (0.020)	0.963	0.981	664.99172	2.292
1972	-109.926 (135.981)	0.561 (0.023)	0.953	0.976	555.34550	2.403
1973	-114.475 (186.131)	0.564 (0.023)	0.954	0.976	543.63547	2.232
1974	-127.812 (269.227)	0.547 (0.028)	0.931	0.964	350.84950	2.073
1975	-190.663 (298.372)	0.504 (0.026)	0.932	0.965	360.74706	2.123
1976	-281.660 (372.580)	0.492 (0.026)	0.925	0.962	337.04150	2.028
1977	-421.000 (457.722)	0.491 (0.026)	0.922	0.960	320.48642	2.014
1978	-423.274 (522.650)	0.474 (0.024)	0.929	0.963	367.45716	2.031
1979	-583.539 (653.672)	0.463 (0.024)	0.925	0.962	348.47467	1.958
1980	-559.236 (784.552)	0.446 (0.024)	0.915	0.957	315.75142	2.015
1981	-577.866 (875.227)	0.343 (0.021)	0.896	0.947	252.05214	2.174
1982	-974.649 (1218.383)	0.431 (0.026)	0.949	0.901	265.92287	2.090
1983	-1201.203 (1411.267)	0.432 (0.024)	0.909	0.953	289.84059	2.052
1984	-1371.319 (2021.930)	0.431 (0.029)	0.874	0.935	202.39145	1.744
1985	-1733.821 (2052.063)	0.441 (0.025)	0.908	0.952	286.21850	1.955
1986	-1643.764 (2333.475)	0.440 (0.025)	0.910	0.954	294.45459	1.968

significant.

Since, the $\hat{\alpha}_j^A$ values are not significant, so the regression lines may be considered as passing through the origin. Thus it suggests that these lines would differ among themselves not in their intercepts but in their slopes only. Therefore, we confine our analysis in the comparison of $\hat{\beta}_j^A$ values ($j=1970,1971,\dots,1986$) only. For this we perform t-test as suggested in the methodology.

Results of the tests are given in the Table 2.7 as a triangular matrix which would enable us to compare whether the estimated relationship between SSI advances in any year (j) differs significantly from any other year (k).

From the column 3 of the Table 2.6 and Table 2.7 we observe that all values of 't' are non-significant both at 5 per cent and 1 per cent level. It implies that

$$\hat{\beta}_i^A = \hat{\beta}_j^A$$

$$i > j$$

$$i=1979,1971,\dots,1986 \quad ; \quad j = 1979,1971,\dots,1986$$

Results seem to imply that weightage paid to the SSI in distribution of priority sector advances by the nationalised commercial banks as a whole in any year during the period of study, 1970 to 1986, was not statistically different from that in any other year. Therefore, we could say that the level of weightage in 1970 was retained without any statistically significant changes throughout the subsequent years upto 1986.

Table-2.7
t-matrix

Year	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
1970		-.602 (48)	-.903 (48)	-.889 (49)	-.404 (49)	.385 (49)	.509 (50)	.446 (50)	.576 (51)	.567 (52)	.592 (52)	.520 (52)	.467 (52)	.397 (52)	.286 (52)	.250 (52)	.223 (52)
1971	--	--	-.401 (50)	-.442 (51)	.005 (51)	.903 (51)	.966 (52)	.837 (52)	.945 (53)	.883 (53)	.870 (53)	.738 (53)	.663 (53)	.566 (53)	.405 (53)	.363 (53)	.327 (53)
1972	--	--	--	-.083 (51)	.312 (51)	1.293 (51)	1.346 (52)	1.179 (52)	1.298 (53)	1.192 (53)	1.154 (53)	.969 (53)	.871 (53)	.745 (53)	.534 (53)	.483 (53)	.429 (53)
1973	--	--	--	--	.417 (52)	1.538 (52)	1.659 (53)	1.490 (53)	1.655 (54)	1.550 (55)	1.510 (55)	1.277 (55)	1.150 (55)	.988 (55)	.710 (55)	.644 (55)	.572 (55)
1974	--	--	--	--	--	1.081 (52)	1.313 (53)	1.221 (53)	1.472 (54)	1.443 (55)	1.470 (55)	1.283 (55)	1.161 (55)	.999 (55)	.723 (55)	.649 (55)	.578 (55)
1975	--	--	--	--	--	--	.326 (53)	.325 (53)	.695 (54)	.815 (55)	.988 (55)	.953 (55)	.868 (55)	.744 (55)	.543 (55)	.460 (55)	.414 (55)
1976	--	--	--	--	--	--	--	.021 (54)	.453 (55)	.452 (56)	.918 (56)	.959 (56)	.883 (56)	.760 (56)	.562 (56)	.461 (56)	.418 (56)
1977	--	--	--	--	--	--	--	--	.449 (55)	.679 (56)	.992 (56)	1.069 (56)	.992 (56)	.860 (56)	.643 (56)	.528 (56)	.479 (56)
1978	--	--	--	--	--	--	--	--	--	.294 (57)	.719 (57)	.928 (57)	.878 (57)	.765 (57)	.585 (57)	.444 (57)	.411 (57)
1979	--	--	--	--	--	--	--	--	--	--	.474 (58)	.780 (58)	.755 (58)	.663 (58)	.523 (58)	.359 (58)	.341 (58)
1980	--	--	--	--	--	--	--	--	--	--	--	.385 (58)	.390 (58)	.331 (58)	.282 (58)	.093 (58)	.106 (58)
1981	--	--	--	--	--	--	--	--	--	--	--	--	.020 (58)	.021 (58)	.007 (58)	-.215 (58)	-.173 (58)
1982	--	--	--	--	--	--	--	--	--	--	--	--	--	-.043 (58)	.009 (58)	-.247 (58)	-.204 (58)
1983	--	--	--	--	--	--	--	--	--	--	--	--	--	--	.024 (58)	-.228 (58)	-.187 (58)
1984	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	-.251 (58)	-.216 (58)
1985	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	.033 (58)
1986	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

Figures in brackets indicate degrees of Freedom.

It seems to indicate that change in preference of making provision of advances to SSI as one of the sectors under priority in distributing total sector advances among different sectors of priority was not statistically significant after nationalisation.

The whole analysis is, however, completely macro-aggregative as we considered all nationalised banks together. It may hide, by virtue of aggregation of data, many dynamic changes which might have been brought in if individual bank's data were considered.

Another reason may be that all bank's followed the governmental policy of making provision for priority sector as a percentage of total bank advances out of which SSI got a share at a constant proportion. Minor variation from this policy by a particular bank could be compensated by another, varied in opposite direction, when aggregate data were taken.

In view of these possibilities, we take up the study of statewise (cross-section) data on SSI advances vis-a-vis priority sector advances by the individual banks in our next chapter.