# CHAPTER I

# INTRODUCTION

### 1.1.1 Undrderveloped Economy and Industrialisation:

Economic development of underdeveloped countries primarily depends on the extent of industrialisation. Comparison of the structures of the developed and underdeveloped countries reveals the reasons of disparities in per capita income between them. The developed countries are generally industrial economies while the production in the case of underdeveloped countries is predominantly based on agriculture. It is generally accepted that there is a positive correlation between the per capita income and the share of manufacturing output, provided a country does not get an advantage of exporting abundant fortunate natural resources. Excepting petroleum exporting countries of Middle-East, the share of agriculture is higher in GDP of all under-developed or developing countries and their per capita income is lower. The high percentage of the labour force engaged in agriculture and the large percentage contribution of agriculture to national income indicate the concentration in primary production.

The composition of demand for goods and services is no longer like that of the era of mercantilism and therefore ,there is no scope for the growth of the economy through trade in primary commodities. Higher per capita income of the population of advanced countries have created demand for newer goods and services, production of which depends primarily on the use of newer and newer synthesised materials. During the process of synthesis and at the level of end products the higher technology and scientific know-how are essential requirements. Along with this, loss of importance of primary products in the economy like the earlier century, the under-developed countries are facing hurdles in their development process due to the gap in the growth rate of exports. Exports from the developed countries increased at the rate of 6.2 % per annum while the volume of exports from the under-developed countries expanded at the rate of 3.6 % per annum[1]. This causes the deficit in balance of payments of the countries which ultimately results in 'unfavourable' terms of trade with developed countries. Since the under-developed countries are basically exporters of primary commodities and importers of industrial goods, this unfavourable 'terms of trade' gives the additional advantages and benefits to developed nations.

Moreover, these under-developed countries have the disadvantages on two further accounts. First, main sector of the economy, agriculture, has the tendency of diminishing returns and second, although these countries are already densely populated, the growth rate of population is very high . This situation is instrumental in creating the 'trap of poverty'. Therefore, the fundamental pre-condition for development and for breaking the 'vicious circle' is to involve the population in high productivity occupation from low productivity in which they are engaged in at present[*]. It requires huge investable capital which in turn depends on

---

* Leibenstein (1957), Mazumdar (1957), Ezekiel (1960) and Wonnacott (1962) showed that with the rise in income,productivity itself rose,other parameters remaining constant. Argument is that the marginal disutility from work is less at higher income since work may be less tiring when a person is well fed. Also to see a discussion on the marginal disutility of effort with income Sen (1966) may be consulted.

the process of capital accumulation of the economy. Unless the economy can fully exploit the scope of both the internal and external economies which is higher in industrial sector than any other, economic surplus can not be generated*. Sustaining the growth of the economy, this economic surplus in the hands of the industrial producers for further investment is a pre-condition. Only a self-sustaining economy can ensure the rapid rate of increase in income and employment if continuous high levels of investment is guaranteed[2]. What is desirable for maintaining the continuous investment is a substantial amount of savings which the industrial sector can provide due to relatively high marginal propensity to save.

In case of India also " it is generally recognized that an important part of the answer to India's problems of development lies in achieving a rate of growth in national income substantially higher than what has been achieved over the past decades. It would follow as a natural corollary from this that a much higher level of savings has to be generated by the economy if the required level of investment is to materialise in a non-inflationary way"[3].

There are different views on the developing process like classical, neo-classical, Marxian, Schumpeterian, Keynesian and

---

* Following remark of Prof. S.Chakraborty (1988) is worth mentioning here: "A growing market will make it possible to exploit the economies of scale which tend to bring down costs. However, if the market structure is not competitive, then prices need not come down and the macro-aspect of the process of increasing returns regarding which Allyn Young had written so perceptively nearly fifty years ago would not come into play".

post-keynesian etc., but almost all economic theorists agree that a developing economy induces a large amount of investment[4]. Once the process of industrialisation has been initiated , it brings the changes in different aspects of the society including the quality of lifestyle. It creates, what is called in Keynesian parlance, "effective demand" for newer goods and services which in turn creates an environment conducive to innovation of consumption goods provided the real income of the population increases. Total employment in the system is the function of 'effective demand' resulting from the spending of income.

In order to sustain an increase in employment,as per Keyensian concept[5], there must be an increase in real investment of the size sufficient to fill the gap between income and the consumption demand out of that income*.As higher income and higher productivity attracts labour from agriculture to industry, it helps to arrest the tendency of diminishing returns in agriculture. Industrialisation, thus, acts as an instrument both for providing diversified market essential at higher stages of economic development and of making the economy able to absorb excess labour.

1.1.2. Policy of Industrialisation:

Importance of industrialisation in a less developed economy like India, therefore, is acknowledged by all but the question of proper pattern of industrialisation is still a debatable issue. Some economists argue that

---

* On the point of the process of capital accumulation, the Marxian view, though like the classical description, differs in the context that Marx described the accumulation process to be much more destructive and disharmonious than either the classical or the neo-classical economists.

industrial infrastructure can only be generated in the country through the setting up and development of large industry and thereby directly entering into Hoffmann's[6] third stage of industrialisation like the Soviet Union[7]. State participation in the process of industrialisation was viewed as a means of transition towards socialism[8] and some thought that though it would not bring socialism but it was the only 'progressive' role that the state should play[9]. Another group of Economists suggested that India having surplus of labour power, should follow the Japanese pattern where there was a dichotomy in industrial structure with predominance of small scale industry (SSI).

With the illusive slogan of 'Socialism' since independence and the term 'Socialist' being incorporated in the preamble of the constitution, the role of state in the process of industrialisation created much confusion among the planners. This confusion , perhaps , induced to conclude that ' there is quite clearly a possibility or even perhaps a probability that in India ... there will be neither much evolution nor revolution '.[10]

Ever since the initiation process of planned economic development by government to overcome the economic legacy of British rule and the stagnation of the nation's economy which was caught in a 'vicious circle of poverty' and was distinct by the character of the lowest per capita consumption and income levels among all the countries of the world – the role of SSI was considered important in achieving the objective of planning.Second Five Year Plan formulated four principal objectives,such as

a) a sizable increase in national income so as to raise the level of living in the country;

b) rapid industrialisation with particular emphasis on the development of basic and heavy industries;

c) a large expansion of employment opportunities; and

d) reduction of inequalities in income and health and more even distribution of economic power[11].

The importance of SSI goes on record by the plan document that SSIs offer some distinct advantages in relation to some of the problems that need solutions. They provide immediate large scale employment, they offer a method of ensuring a more equitable distribution of the national income and they facilitate an effective mobilization of resources of capital and skill which might otherwise remain unutilized. The need to promote ,modernize and recognize these industries is paramount[12]. Industrial Policy Resolution, 1956, categorically stated the special role of SSI towards the development of economy as it was stated by the Policy Resolution of 1948. A new political party came into power with a different political philosophy in 1977 but the Industrial Policy Statement, 1977 of the new government came, as expected , with the emphasis on the development of small scale sector. It declared, " The main thrust of the new industrial policy will be on effective promotion of cottage and small industries". Due to change of the ruling group again in 1980, it was imperative on the part of the government to declare Industrial Policy Statement,1980 to reaffirm and endorse the Industrial Policy Statement 1956. This new policy reinforced the faith on small scale industry by revising the definition of small units.*

1.2 Small Scale Industries in India - Definition and Charcteristics:

Right from the beginning of the planning, considering the socio-economic condition of India, the planners gave much importance to the growth and survival of the small scale industry. The Mohalonobis[13] model, which inspired the Second Five Year Plan and made the stage ready for India's heavy industry, tried to give a theoretical justification for the continued importance given to small scale sector: it would provide an elastic supply of consumer goods needed to support workings in the large scale sector.

This division of 'large' and 'small', of course, is not a static concept, at least so far Indian policy is concerned. At one time, the government categorised small scale industrial undertakings into two groups: those using power but employing less than fifty persons, and those not using power but employing less than hundred persons. In terms of capital investment small scale industries had a capital investment less than five lakhs. Both the criteria, i.e., number of persons and amount of investment, underwent changes over time. It is often difficult to realise the economic rationality or scientific basis, if any, of these definitions. Because of this, many suggest to consider the character of organisation and management

---

* So far the policy matter is concerned, other than emphatic expressions of vocabulary , whatever declared in the Industrial Policy Statement,1977,basically there is hardly any difference with 1948 excepting the expansion of the list of items to 807 from 180.

as an ideal basis for classification. Generally, it helps to understand the predominant nature of the small scale industry. But problem is that the large scale industry essentially requires the impersonal organisation and management but impersonal organisation and management does not necessarily mean large scale industry. Therefore, this criterion also appears as inappropriate.

However, we may here cite the amount of investment in fixed capital to define the small scale industry declared by the government at different point of time. At one time, SSIs were defined as undertakings with a fixed capital investment of less than Rs. 7.5 lakhs and ancillaries with a fixed capital investment of Rs. 10 lakhs. In 1975, the limit was revised to Rs.10 lakhs for small scale enterprises and Rs.15 lakhs in case of ancillaries. After that, under the Industrial Policy statement of 1980, this limit was further raised to Rs. 15 lakhs in case of small scale units and Rs. 20 lakhs in case of ancillary units. In March 1985, again this limit of Rs. 20 lakhs was revised and raised to Rs.35 lakhs and for ancillary units it was fixed at Rs.45 lakhs. On May 1990, when the government announced the New Industrial Policy Statement, the investment ceiling in plant and machinery for SSI was raised to Rs. 60 lakhs and for ancillary units to Rs. 75 lakhs. In 1993, government raised this limit to Rs. 1 crore.

A few more points are needed to be made out here to comprehend extensively the other dimensions of SSI in India. There are some distinctive characters of traditional small industries as compared to modern small industries. Where modern small industries produce relatively simple items as well as sophisticated products like television set, personal computer, micro-processor based control system, electrical equipments (and spare parts) such as stabilizer, regulator, fan, bulb etc and other engineering products as ancillaries to large scale industries, traditional small scale industries confine to khadi & handloom products, handicrafts, sericulture, coir & cane items. Traditional small industries are still labour intensive but modern small industries often are capital intensive and are making use of cost effective sophisticated machineries, equipments and processing systems.

During 1979-80, 133 lakhs workers in traditional small industries i.e., 56 percent of total employed, produced 13 percent of total output amounting to Rs. 4,420 crores. In the same year, only 33 percent of workers employed in modern small industries produced 74 percent of output of Rs. 24,885 crores. Therefore, in that year, average labour output ratio was roughly Rs. 3,330 in traditional small industries and Rs. 31,900 in modern small scale industries*. Thus the average product of labour is ten times higher in modern small scale industry.

Other than this difference of labour productivity, majority of traditional small industries are situated in rural areas and provide only subsidiary and part time employment to agriculture labours and artisans. Sometimes these workers are seasonal. Another distinction of traditional

*Compiled from the Seventh Plan: A Summmery (Planning Commission) in Dutta Sundaram (1991) small industries is that the production is carried on by agricultural labourers and artisans who are largely living below the poverty line. Labour productivity in modern industries being much greater than traditional industries can provide better source of living. Hence, if the justification of expansion of small sector may be probed in the realm of employment opportunity together with the alleviation of rural poverty, it is the modern small sector which deserves attention due to it's comparatively better economic viability along with its employment potentiality.

Gandhi once described these traditional small industries 'as the panacea for the growing pauperism of India'[13]. Gandhians, therefore, in Indian polity wanted to expand traditional industries. A series of boards had been established in about 1950 to deal with these traditional industries. The visit and report of a Ford Foundation Team in 1954 paved the way to established Small Scale Industries Board (SSIB) to encourage those industrial enterprises that were too small to be regulated under the Industrial Development Board and did not fall under any traditional industry boards. The SSIB thus was assigned to deal with small units producing modern products, which Mahalanobis referred as 'small and household'.

## 1.3 Importance of Small Scale Industry in Indian Economy :

The small scale industries claim special attention for the indepth study of their problems and prospects in view of the significant role they play in the Indian economy. On the basis of the history and the present state of economy in the industrial countries, a World Bank study[15] said 'India is trying to swim against the tide of history'. But static efficiency of the economy favours small units as it maximises national output given the means of production and their products. Specially in developing countries, SSIs are favoured on the argument that their allocative efficiency is supposedly higher from a social point of view because the social cost of labour and capital are more in proportion with the economic conditions than the large enterprise.

Two most discussed arguments of dynamic efficiency are, first, that small firms are comparatively more innovative and second, 'that they constitute a seed-bed or nursery which is an essential part of the forest or farms whose component trees are decaying as well as growing'[16]. Freeman[17] showed that innovative performance of small firms was high. Acs and Audretsch[18] observed that the innovative activity of small firms made an important contribution distinct from that of large firms. In case of U.S.A., small units are two to three times as innovative on large firms[19]. Of course in case of developing countries, the innovation argument is not that much of relevance as in the case of developed countries. The small firms of a developed country cannot be compared with small scale industry of an underdeveloped country with respect to continuous ( or one-time) investment in R&D.

In case of India, Sandesara[20] analysed CMI data of 10 of the 29 industries of each year from 1953 to 1958. He calculated rank correlations between size groups and various attributes namely capital intensity, labour and capital productivities, and wages. Both wage levels and labour productivity were found perfectly associated with size. As expected, capital productivity were found negatively related with capital intensity but at the same time he reported positive correlation with firm's size which indicated the evidence of both higher capital and higher labour productivities in the larger sizes. Sandesera's conclusions were very negative for a policy of promoting small units.

But Mehta[21] pointed out the following possible reasons for these unexpected and discouraging results reported by Sandesera:

First, due to excess capacity resulting from unfavourable policies in the 1950s, specifically, so far as supply of raw material was concerned, figures were absurdly high in CMI data;

second, a considerable number of sick firms with skeleton staff were present in the smallest size group of large industry in the sample, and

third, the presence of new firms with capital installed but as yet little employment. Mehta himself calculated on the basis of ASI data of 1960 to 1963 and concluded favourably for small enterprises. But his conclusion deserved to be scrutinized carefully due to high level of aggregation of data and he did not attempt to derive and compare total factor productivities.

World Bank study[22] on the average data for 1974-1977, taking all industries together, however, found expected behavioural pattern of the capital, labour and value added ratios as with Mehta's comparison. Lower profitability in large Indian industries was confirmed over the ASI data by Shetty[23]. (Lower profitability in large enterprises had also been observed in Japan and Malaysia by Jajima[24]).

In labour-abundant economy like India, the Industrial Policy Resolution of 1956 emphasised the role of small scale industries on four arguments; namely, 'Employment Argument', 'Equity Argument', 'Latent Resource Argument' and 'Decentralisation Argument'[25]. On the perspective of Indian economic condition with poverty, extremely heterogeneous development entangled with highly inequal distribution of wealth and income, millions of unemployed and shortage of capital - the need of emphasis on the SSI by the government reflected in the Policy Resolution,1956 does not seem contrary to the objective that India wanted to achieve. Arguments against those four reasons of the Planning Commission expressed by Dhar and Lydall[26] seems plausible more as a generalised economic theory in the perspective of developed country. Instead, argumentation of Venkataraman[28], Mahalanobis[29] and Karve Committee(1955)[27] appears sound and appropriate in Indian economic and social condition. If the structural limitations do not create any obstacle for conversion of savings into 'productive investment', even then the introduction of more 'productive technologies' will not simply be possible because of 'limitations on the speed of capital accumulation' due to 'low capacity to save'. There is 'justification for concentrating on factors promoting savings or productive accumulation'[30]. The small scale sector with lower gestation lags and capital intensity is capable of generating more employment at lower capital cost, particularly in those areas where economies of scale are not that substantial[31]. Need and significance of SSI in India thus remains.

## 1.4 Financial Problems, Banks and SSI:

In spite of the significant role of small scale industries in the Indian economy, these small scale industries are facing such problems which deter the growth and development of this sector. Some of these are, i) lack of adequate provision of credit and finance, ii) inequitable allocation system for raw materials, iii) inability to take costly marketing measures etc. The most important of these is the problem of finance. The financial weakness of the small scale industries is such that they can not sustain for a very long time during the time of unfavourable business situation. Both the internal resources and surpluses of small scale industries are so marginal that during the business strain, if they are not supported financially with reasonable cost , they can not survive. This situation leads to uncertainty and instability of the existence and profitability of the small scale industries. Instable profitability and uncertainty make the existence of a unit riskier and that prevents banks from suppling finance at the time of actual requirement. That is why the study of the World Bank prescribed for India that 'banks should be permitted to charge higher rates for loans to the small, since they are both more risky and more costly to process'[32]. It is true that the share of small scale as against total advance to industry raised from about 6 percent in 1967 to nearly 26 percent in 1987 [33]. But the need and demand of finance in small scale is much greater. This is evident from the fact that, under the R.B.I. Credit Guarantee Scheme, out of 18,700 applications for SSI aggregating to Rs.59 crores, only 11,408 applicants received credit amounting to Rs.12.5 crores only[34]. The Banking Commission in 1972 pointed out:

"The paucity of funds experienced by the units has been revealed not only by the fact that more than one half of the units, which were unsuccessful in obtaining institutional credit, had applied for loans, but also the fact that ... 47.7 percent of the total were desirous of borrowing from these institutions."[35] This was only the rediscovery of the truth which was revealed by the study team of the Ford Foundation in 1954[36], James J. McCrory[37] in 1956 and James J. Berna [38] in 1960. Thus from the early days of independence to early nineties, the 'paucity of funds' of the small scale sector remains a vital problem.

The nature of requirements of credit of the small scale enterprises are both short-term and long-term. In the absence of access to capital market for long term credit, the small units solely depends on institutional finance. The facilities of credit to small scale through different schemes of government and financial institutions have been increased over the years, yet artisans, craftsmen and other entrepreneurs living in villages find it difficult to get finances from the financial institutions. Those who belong to poorer section of the population do not even approach for credit. If these latent demands of credit for the small scale units were considered the actual total demand would have been much greater.

The small scale industries can obtain loans at present, either directly or through various schemes from the following institutions, such as, a. Industrial Co-operatives, b. National Small Industries Corporation, c. The State Bank of India and d. The Commercial Banks.

Industrial Cooperatives which provide funds to SSI, depend upon Central Co-operative Banks and ultimately upon State Co-operative Banks. The National Small Industries Corporation was set up in 1955, completely subscribed to the Government of India, for the purpose of assisting financing, protecting and promoting SSI in India. The SBI, in consultation with the RBI, took the initiative of setting up a pilot scheme for coordinated provision of credit to SSI. The scheme was meant to coordinate effectively the activities of the Co-operative Credit Organization, Commercial Banks and state financial corporations with the purpose of providing adequate finance to small industries. The pilot scheme which was experimented in nine centres now extended to all places where the SBI has its branch.

The main source of finance for any sector is the commercial banks. The role of commercial banks in financing SSI was not worth mentioning before nationalisation of fourteen commercial banks. One of the most important reasons for nationalisation, as officially stated by the government, was the concern for small scale industries. Nationalisation brings a revolutionary change in the banking system and practice in India. An equitable distribution of credit among various classes of borrowers became the central issue of nationalisation debate. The complaint against the private bank management was that the large scale industry often owned and governed by the same management of banks, had almost monopolised bank credit so that a very little went to 'small units'.

Under this context it was perceived* that the importance of banking system as an intermediary for channeling the savings of the community and its pivotal role in the economy made it necessary, particularly in the context of overall shortage of resources, that the policies and practices of banks are directed to the attainment of basic economic and social objectives, such as, adequate economic growth, wider diffusion of economic power and channeling of available resources with due regard to priority sector[39]. The deficiencies of the commercial banking system have been discussed widely in the context of these objectives.

There have been complaints that the bulk of bank advances tend to be directed to the large and medium-scale industries and big and established business houses, while the priority sectors$, such as

---

* Perception of the issue differs as nationalisation of banks was considered as a virulent decision to some segments of the interest groups and created much debate at that time. Thus the literature on the banking situation on pre-nationalisation period is enormous. To name a very few for objective analysis of that period which goes in line with the government perception-Bhatia(1978), Basu(1979), Khan(1978), Dutta(1973), etc. and for a different view, the book from BISR may be cited.

$ The concept of priority sector may be traced to 1967 when social control on bank was imposed. National Credit Council, in 1968, includes agriculture , SSI, Exports and after nationalisation it also includes Road & water Transport, Retail Trade, Small Business, Professionals, Self Employment & Education.

agriculture, small scale industries and exports have not been receiving their due share[40].

These complaints from different sections compelled the government to introduce a new scheme of 'Social Control'[$] which, of course, did not last longer than one and half years. The major instrument conceived for this purpose, the National Credit Council[#] at the all India level appointed two study groups chaired by Professor D.R.Gadgil and V.T.Dehijia respectively. First committee was to go into the problems of credit gaps and second to look into the problems of credit need of the large scale industry. Dehijia committee revealed and emphatically argued[41] that the credit needs of the large scale considerably inflated and banks did not follow any uniform procedure to determine the credit limits. The group suggested some measures to release and utilise a portion of investable funds of the banks, which otherwise advanced in holding unnecessary inventory of large scale, to cater the needs of small scale industry.

After a very short period of 'Social Control', government decided to nationalise banks for direct control and on July 19, 1969 banks having deposits over Rs.50 crores were nationalised[42]. Nationalisation was

---

$ The main features of the scheme of 'social control' over banks outlined by the then Finance Minister's statement on 14th, December, 1967. Finance Minister introduced the Banking Laws (Amendment ) Bill, 1967, on 23rd December, 1967 and the bill became law in 1968.

# Establishment of NCC and its objectives were laid down in the Resolution No-F.4/43/BC/67, dated 22nd Dec. 1967, Ministry of Finance, Department of Economic Affairs. See Annexure-III, Trend & Progress of Banking in India, 1967.

intended to 'accelerate the achievements' of the objectives of social control. First two objectives were: the removal of control by a few and provisions of adequate credit for agriculture and small scale industries[43].The objects and reasons were officially stated in the "Banking Companies Aquisition and Transfer of Undertaking Acts".

On the basis of the government's statements, it appears that concern for the priority was an important and serious cause for nationalisation. So, it may reasonably be expected that the nationalised commercial banks would pay more attention to the needs of the priority sector in the post nationalisation era. They were expected to be more committed to care for the special problems and needs of these sectors. They would try to remove the bottlenecks on the way of providing more finance to these sectors.

Again it is further observed that among all the components of priority sectors small scale industries draw special attentions of the government. It is, therefore, reasonable to anticipate that nationalised commercial banks should feel more deeply the needs and problems of the SSI. The nationalised banks were not only asked to provide more finance to the established SSIs but they were also desired to give fillip to the new entrepreneurs.

But, the non-implementation of the cherished policies would frustrate the whole purpose of the nationalisation. Nationalisation, whatever revolutionary event it may appear, would be a non-event if banking policies and practices remained unchanged. On the other hand, if it brought effective changes in banking structure. policies and practices, it would have a revolutionary significance. So evaluation of nationalised commercial bank finances of the priority sector and to its components seems to be necessary for understanding how far the nationalised commercial banks could meet the expectation.

1.5 Brief Survey of Literature :

Evaluation of nationalised commercial banks' finance to the priority sector and its components in the post nationalisation period has been done by R.B.I., various commissions and private researchers. Several official reports and some private research funding are now available. But most of these research findings reveal the nature of findings of SSI by the scheduled commercial banks in general (which include among others the nationalised commercial banks, The State Bank of India and its subsidiaries) in different years since 1969. No separate evaluation of nationalised banks' finances to the SSI was prepared by the R.B.I. Generally a hopeful comment about the performances of the scheduled commercial banks in financing to the SSI and the reconciliation with the objectives of nationalisation is perceptible in these evaluations.

Almost every year the R.B.I. publishes the percentage of credit to different priority sectors to total credit. One can get brief discussions on performances of scheduled commercial banks on the basis of percentage of decrease or increase in advances without any detailed economic analysis in the R.B.I. Bulletin every year.

Adarkar[44], perhaps, was the first man who tried to evaluate the performance of the nationalised banks. This non-quantitative evaluation identified branch expansion, deposit mobilisation and extension of credit to hitherto neglected sectors as major achievements of nationalisation. Rangaswammy[45] observed impressive role of public sector banks in providing additional finances to the SSI during 1969 to 1975. When Rangarajan[46] reported that a very little of this additional credit had gone to the aid of persons of limited means, and though some reduction in regional disparities had been brought about, the differences existing among states were wide. Kabra[47] and Kabra & Rao[48] critically analyzed basically the policy aspect of public sector banks in general.

First report with a picture of not so elusive performance in advancing priority sector came out in 1977[49]. Agarwal[50] pointed out urban orientation as a reason for neglecting SSI in spite of impressive progress of banking systems. Agarwal[51] both qualitatively and quantitatively assessed the cost of social obligations discharged by banks and Jha[52] studied the question of regional development through lead bank scheme as a case study in Koshi Division of North Bihar. Important findings of Jha was that the gap still existed between credit demand and credit supply. The major empirical work done by NCAER was with a sample of 80 branches which observed the continuing importance of large scale industry in the non-priority sector[53]. This report was submitted on March,1978.

Recent literatures of nineties on the performance of nationalised banks primarily focussed on the question of rationality of priority sector concept, credit target for this sector and concessional rate of interest etc. These literatures analysed and studied the observations and recommendations of the Khusro Committee(1975), the Sukhomoy Committee(1985) and the Narashimham Committee(19..). Narayana[54], Rao[55], Ghosh[56], Sau[57], Basu[58], Kakawani[59] etc studied the overall performance of the nationalised banks and how the priority sector lending affect the banks performance. While the Sukhomoy Chakraborty Committe was in the favour of continuation of the existing concessional interest rates for target groups under priority sector and the Khusro Committee recommended to restrict the concessional rates into two categories only, the Narashimham Committee recommended to phase out these directed credit programmes and declared that small industry and agriculture had reached a point where they did no longer require the preferential treatment. This declaration of the Narashimham Committee had been challenged by many experts. Thus, the focus on the seminal theme of recent studies have changed from the achievement of nationalised banks in fulfiling the target of societal obligations to effects of priority sector lending on bank performance.

### 1.6 Study Rationale:

Most of the studies cited above are very informative and readily understandable without doubt but many important and relevant issues have been kept out of the purview of such analysis. Again, these studies have generated many more questions than answer in this respect. Some of these questions need appropriate attention in view of the fact that these questions bear important social implications along with their economic significance.After a period of more than twenty five years since nationalisation, proper evaluation of SSI credit cannot be expected as simple as providing information about quantitative changes only in the volume of SSI credit only over time and drawing inference on the basis of some ratio-proportion analysis.

Normally it is expected that the demand for bank advances depends on the level of national income. In case of India , it is found by an empirical econometric study that one percent rise in national income seems to lead to about 1.4 percent increase in the demand for bank advances[60]. From 1976 to 1984, bank credit to priority sector steadily increased from 24.2 percent to 35.8 percent and in case of SSI it increased from 10.5 percent to 13.0 percent. This expansion in bank credit to priority sector as well as SSI was substantially higher with respect to their contribution to the growth of national income. This is of course in accordance with the policy direction of the government to achieve the target of 33.33 percent of net bank credit set for March,1979 and subsequently raised to 40.0 percent supposed to be reached by 1985. This fact clearly reveals the government intention and emphasis on achieving the objectives of nationalisation . But how far have these objectives been achieved ? As for example, any one can raise the question that 'does this larger amount to SSI indicate the homogeneous development of all regions or improvement of backward areas ?' Most of the existing literature in this area dealt with the bank expansion with respect to number of branches opened, increase in absolute volume of deposits and advances over the years after nationalisation, number of staff employed over the years etc. This is very natural that if we observe the change in absolute value of any macro-economic parameter over last twenty five years, we would find manyfold increase.Similarly in the case of any of the above mentioned parameters of nationalised commercial banks, the change in absolute value itself does not suggest anything meaningful automatically. From these absolute values of indicators some scholars found 'tremendous progress ' of the nationalised commercial banks . But almost the same type of progress is also evident in some aspects of private sector banks.[61] Then how can nationalisation be justified?

Thus an appropriate study in this respect may fairly be expected to be designed to provide answers to some of the important questions like :

i. What extent of priority (weightage ) has been given to the SSI by the nationalised commercial banks as a whole in the matter of distribution of priority sector advances over time ?

ii. Is the extent of this weightage increasing/decreasing or constant over time ?

iii. Did all the banks accord the same extent of weightage to the SSI in distributing credit ? If not, what are the relative positions of different nationalised commercial banks in this respect?

iv. Did the individual banks maintain the same extent of weightage (priority ) to the SSI over time ? If not what is the dynamic nature of weightages given to SSI-financing by individual nationalised commercial banks ?

v. What were the relative positions of the SSI vis-a-vis other members of the priority sectors over time in enjoying priority in case of bank advances ?

vi. How equitably has the SSI credit been distributed over time ?

vii. Is there any sign of concentration ? If any, has it registered a decline over time or not ?

viii. Is there any regional disparity i.e., concentration of credit in a particular region ?

ix. If so, what are the factors behind this concentration ?

A consistent study seems to be necessary to deal with these issues in order to provide an intimate evaluation of the varied features of the SSI financing. The present study is an attempt in this direction and has been designed to address these issues.

### 1.7 Methodology :

The study involves the use of econometric and statistical methods for the processing of data. Relations among variables concerned will be estimated with the OLS method of Regression. The study does not involve estimation of any 'Simulteneous Equation System '.So there exists no problem of the 'identification' of structural parameters. However, the estimation of relations will be followed up with due consideration for the associated single equation problem like 'Auto-correlation' and ' Multicollinearity '. Due care will be given to the identification of these problems and in the event of their presence, appropriate alternative methods of estimation will be adopted. Durbin-Watson (DW) Statistics will be furnished with each estimated equation.

The goodness of fit will be a major concern in case of estimation of equations. With this end in view , $R^2$ value for each estimated equation will be furnished and it will be further supplemented with the results of F-tests.The statistical significance of the estimated parameters , like Regressions Constants and Co-efficients , will be determined through Standard Error Tests and t-Tests. Standard Errors and t-values for the estimated parameter will also be incorporated into the presentation of the estimated equations.

Lorenz Curve method will be adopted for the analysis of concentration in credit distribution. Gini Co-efficient will be measured to indicate the extent of concentration. In case of the absence of Lorenz dominence as represented by intersecting Lorenz curves , the Squared CO-efficients of Variations and Atkinson Index will be used along with the Gini Co-efficient in order to provide better understanding of the nature of concentration. We will also apply relevant methods of Multivariate Analysis.

1.8 Sources of Data :

We will use data from the following sources:-

i. The Reserve Bank of India Bulletins, for different years,

ii. The Banking Commission, 1976,

iii. Statistical Tables Relating to Banks in India, R.B.I. (for different year of the period of study).

1.9 Plan of the Study :

Chapter II : Financing of SSI by the Nationalised Commercial Banks as a Whole.

In this chapter we seek to evaluate the financing of the SSI by the nationalised Commercial banks as a whole and obtain an idea about the nature of weightage paid to the SSI by these banks (as a whole ) in the matter of distribution of priority sector advancés during this period. In order to decide upon the actual performance of the banks in this respect, as a whole, we take up the study of state-wise data on SSI advances vis-a-vis priority sector advances over the years.

Chapter III : Financing of SSI by Individual Nationalised Commercial Banks.

In this chapter we would concentrate our attention on the individual nationalised commercial banks and study the nature of advances made by each individual bank to the SSI out of their priority sector advances. The econometric analysis is expected to give us an idea about 'how the size of the bank' is related with the 'weightage' given to SSI. This pattern of weightage of any individual bank, therefore, may also help us to understand effect of pririty sector advancing on the overall performance of the bank.

Chapter IV :Concentration of SSI Credit in Different regions:

We seek to study, in this chaptr, whetherregional biasness of SSI credit distribution persists after nationalisation. At the time of nationalisation the complaint was that there had been concentration of bank credit among a few borrowers and in particular areas. The study in this chapter has been directed to address the issues of concentration of the SSI credit among the borrowers of different regions. Region here means the 'Regional administration' concept used by banks.

Chapter V :Statewise Concentration of SSI Credit :

The study in chapter-v is but an extention of the study of the nature of concentration of SSI credit is undertaken in chapter-iv. That regional study is macro-aggregative and requires to be supplemented by the study to identify the nature of relative concentration in different states..

Chapter VI :Factors Influencing the Concentration of Credit:

We attempt here to investigate into the factors behind the observed pattern of concentration ( if any ) at regional level and state level. The economic reasons will be sorted out. The study also seeks to investigate if any regional bias is responsible for such concentration and to what extent.

Chapter VII :Conclusion:

*References :*

1.Nurkse,R. Problems of Capital Formation in Underdeveloped Countries. New York,Oxford university Press, 1952.

2. Paranjape,H.K. India's Strategy for Industrial Growth -An Appraisal. Pune, Gokhale Institute of Politics & Economics, 1974. p 344.

3. Youngson,A.J. The Disaggretion of Investment in the Study of Economic Growth.*Economic Journal*.v.65(262). p 236-243.

4. Chakraborty,S. Foundation Day Lecture at the Administrative Staff College of India, Hydrabad. *In* (Madhva,C.D. *ed*. Some Problems of India's Economic Policy. New Delhi, Tata McGraw Hill,1983.)

5. Keynes,M.J. General Theory of Employment interest and money. London,Macmillan, 1961.

6. Hoffmann,W.G. Growth of Industrial Economies.Oxford, 1958.

7. Dutta,Sundaram, Indian Economy. New Delhi,S.Chand,1991. p.505.

8. Paranjape,H.K. Socialism or_State Capitalism. *Economic and Political Weekly*. v.8(4,5 & 6)Annual number, Feb,1973. p 319-24.

9. Ulyaovsky,R.and Pavlov,V.Asian Dilemma; the essence of social in the transitional period. Moscow, Progress,1975.

10. Myrdal,G. Challenge of World Poverty: A World Antipoverty Program in Outline.London,Allan Lane,1970.

11. India. *Planning Commission*. Second Five Year Plan Document. Chapter II.

12. *ibid*.

13. Mohalanobis,P.C. The Approach to Operational Research to Planning in India. Bombay, Asia Publishing House, 1963.

14. Gandhi,M.K. An Autobiography. Ahemedabad, Navajivan, 1940. p 360.

15. Mazumdar,L. Small Manufacturing Enterprises - A comparative Study of India and other Economics: A World Bank Research Publication.London,Oxford University Press, 1987. p 17

16. Marshall,A. Principles of Economics. London,Macmillan. 1920 Chapter 13.

17. Freeman,C. The Economics of Industrial Innovation. London Penguin,1974.

18. Acs,J.,Zoltan and Andretsch,D.B. Innovation and Small Firms. Messachuatts,MIT Press,1990. p 59.

19. United States of America. *President*. Small Business Administration, 1984. The State of Small Business: A Report. Washington D.C. March 1984.

20. Sandesara,J.C.Scale and Technology in Indian Industry.*Oxford Bulletins of Economics and Statistics*. 1966.

21. Mehta,B.R. Size and capital intensity in Indian Industry. *Oxford Bulletin*. v.31(3) 1969.

22. *Op. Cit.* Mazumder,L (1987) p.115

23. Shetty,S.L. Industrial Growth and Structure.*Economic and Political Weekly*. v.27(14),Oct. 2 & 9, 1982. p 1610-18 and 1661-1668.

24. Mafityahu, H. 'Profitabelity and Size of Firm: Some Further Evidence'*Review of Economics and Statistices*, No.-51,February, 1969,p.104-107.

25. *Op. Cit.* Dutta Sundram (1991) p.47.

26. Dhar and Lydall. The Role of Small Enterprises in Indian Economic Development.Bombay,Asia Publishing,1961.

27.India. Report of the Village and Small-scale Industries Committee,1955. (Karve Committee).

28 Myrdal,G. Asian Drama: An Enquary into the Poverty of Nation. v.2. London,Allan Lane,1972.

29. *Ibid*.

30. Chakraborty,S. Development Planning:the Indian Experience. London,Oxford University Press,1988. p 8.

31. Industrial Development Bank of India.*New Delhi*.Annual Report 1975-1976.New Delhi. p 67.

32. *Op. Cit.* Mazumder,L.(1987). p.315.

33. Reserve Bank of India Bulletin.*Bombay*.1967 and 1987(Dec).

34. Reserve Bank of India Bulletin. *Bombay*.Report on Currency and Finance. 1984-85.

35. Reserve Bank of India Bulletin.*Bombay*. Technical Studies prepared for the Banking Commission (1972),v.1. p 557.

36. India.*Ministry of Industry*. Development of Small Scale Industries in India; Report of the International Perspective Planning Team.New Delhi,1963.

37. McCrory,James T. Small Industry in a North Indian Town: Case Studies in Latent Industrial Potential.New Delhi,Ministry of Commerce and Industry. 1956.

38. Berna,J.J.Industrial Enterpreneurship in Madras State.Bombay, Asia Publishing.1960.

39. Reserve Bank of India Bulletin. *Bombay*.Report on Trend & Progress of Banking in India. May 1968. p 642.

40. *Ibid.* p 642

41. Reserve Bank of India Bulletin.*Bombay*. Nov. 1969. p 1792-8.

42. India. *Prime Minister's Address* (A.I.R.), on 19th.July,1969.

43. Banking Laws (Amendment) Bill, 1967 introduced in the *Lok Sabha*, India. on 23rd.Dec. 1967.

44. Adarkar,B.N. Commercial Banks in India:After Nationalisation. Bombay,A.D.Shroff Memorial Trust, 1971.

45.Rangaswami,B. Performance of Public Sector Banks. *Reserve Bank of India Bulletin*.v.27,1973. p 1288.

46. Rangarajan,C. Banking Development since nationalisation and reduction in disparities. *Sankhya*. v.36(Series-C) July and December 1974, p 417-440.

47. Kabra,K.N. Credit Policy of Public Sector Banks.Delhi,Peoples Publishing House. 1974.

48. Kabra,K.N.and Rao,S.R. Public Sector Banking. Delhi, Peoples Publishing House, 1970.

49. Advances to Priority Sector-SSI Receives a Back Seat. *Industrial Times*. v.19(8).April 1977. p 22.

50. Agarwal,B.P. Commercial Banking in India :After Nationalisation. Classical Publishing Company, 1982.

51.Agarwal,H.N. A Potrait of Nationalised Banks.Delhi,Inter India Publication,1979.

52. Jha,M.K. Lead Bank Scheme and Regional Development. Delhi, D & D Publication, 1988.

53. National Council of Applied Economic Research.*New Delhi*.Operations of Credit Policy of Nationalised Bank since 1969. Planning Commission.1978.

54. Narayana,D. Directed Credit Programme- A Critique of Narashimham Committe Report. *Economic and Political Weekly*. v.27(6)Feb. 1992. p 255-58.

55. Rao,H. Rural Society and Agricultural Development in course of Industrialisation : Case of India. *Economic and Political Weekly*. v.26(11 & 12), Annual Number 1991.

56. Ghosh, D.N. Bank Profitibility and Priority sector Lending- From Populism to Impressionism. *Economic and Political Weekly*. v.27(8) 1992. p 387-88.

57. Sau,R. Financial programming for Stabilisation. *Economic and Political Weekly*. v.27(10 & 11) 1992.

58. Basu,K. Bad Advice.*Economic and Political Weekly*. v.27(10 and 11),7 & 14 March, 1992.

59. Kakwani,N.& Subbarao,K. Rural proverty and its alleviation in India. *Economic and Political Weekly*. v.27(18), 1992. 2 May 1992. p 971-72.

60. Khusru, A.M & Siddharthan,N.S. An Econometric Model of Banking in India,Institute of Economic Growth, Delhi,1971.

61. Birla Institute of Scintific Research. Banks since Nationalisation. Bombay,Allied Publishers,1981.